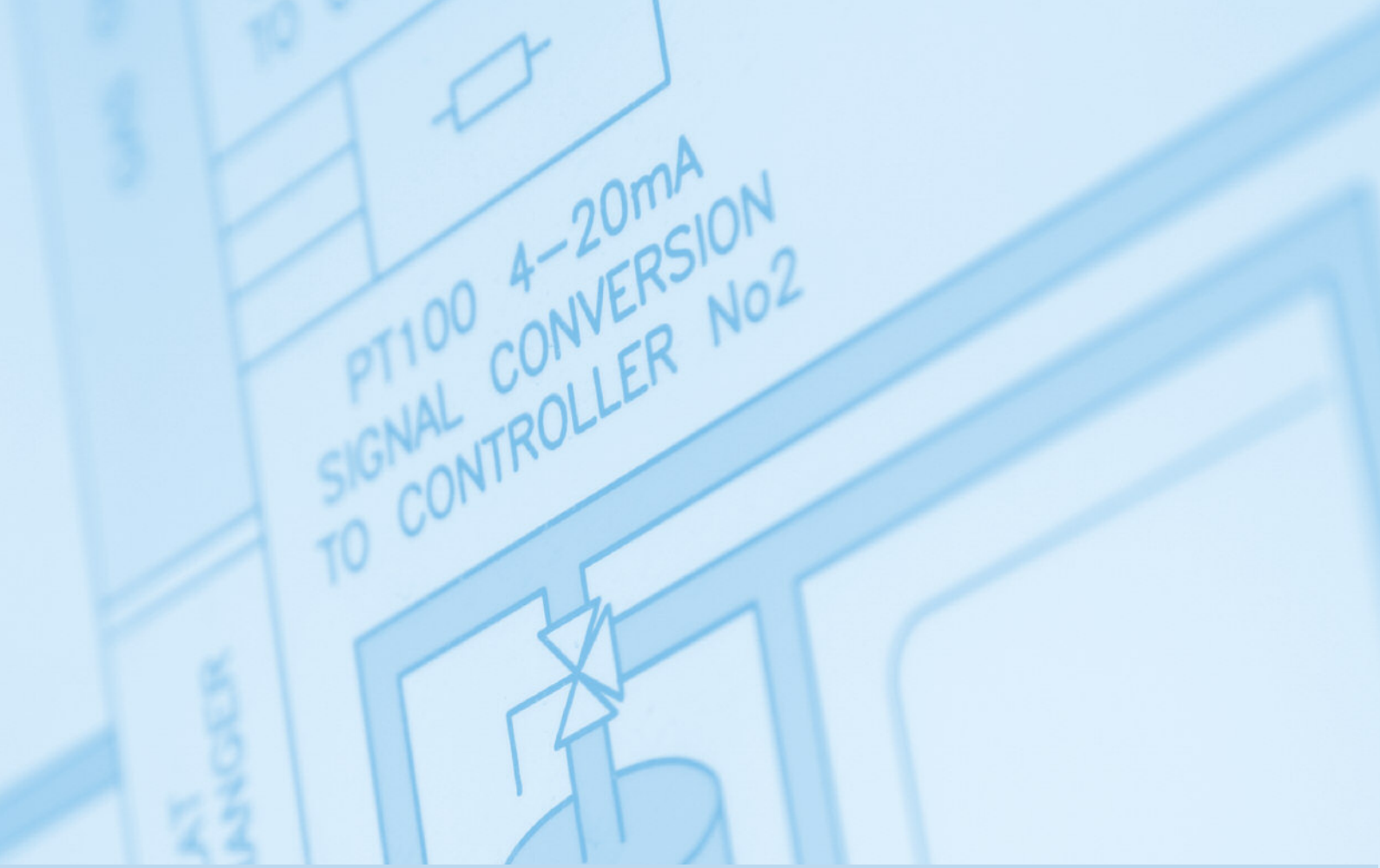
mutualenergy

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

Annual report and accounts 2010



Northern Ireland Authority for Utility Regulation site visit to Moyle, September 2009.

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Moyle Interconnector site, Islandmagee.

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Mutual Energy
Chairman's statement

> *Our business model continues to comprise low cost of capital, no dividend payments and a focus on operational efficiencies. This has once again made a significant contribution to reducing the cost of energy for consumers in Northern Ireland this year.*

Peter Warry
Chairman

I am pleased to present a strong set of accounts for the Mutual Energy Group of companies for 2009/10. Due to the group's robust financing arrangements the current economic environment has not affected the group and it has maintained a solid balance sheet and delivered a profit in the year.

Name change

The group saw many changes in the year, with the most noticeable being the change of name from Northern Ireland Energy Holdings to Mutual Energy on 9th November 2009. This change was made in order to better convey our purpose and key objective as a company limited by guarantee (also known as a 'mutual'). Our business model continues to comprise low cost of capital, no dividend payments and a focus on operational efficiencies. This has once again made a significant contribution to reducing the cost of energy for consumers in Northern Ireland this year.

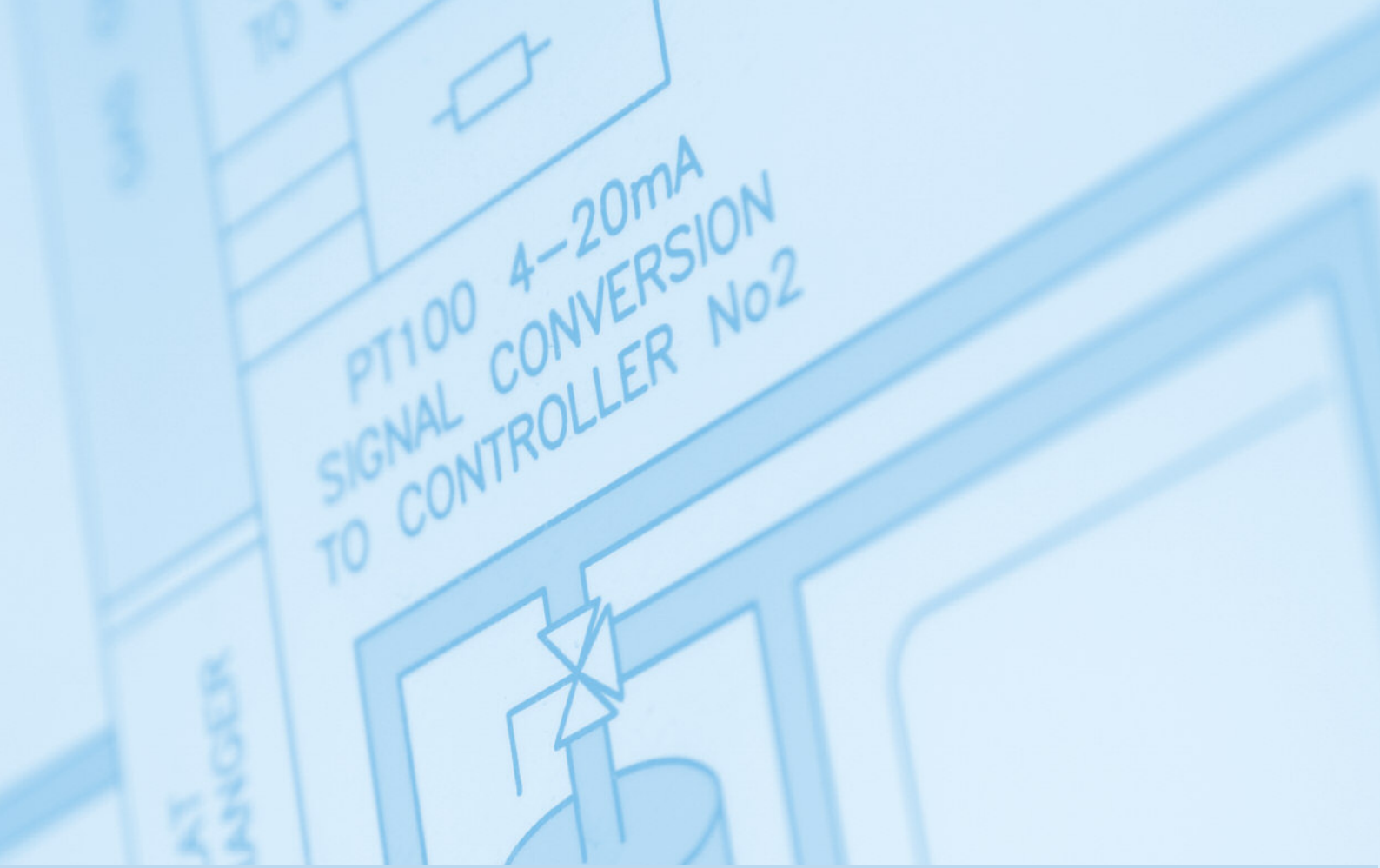
Safety

Safety is at the very heart of our activities and continues to be at the top of the Board's agenda. One of the fundamental requirements of our stakeholders is the safe operation of our assets with very high levels of availability. In this respect the continued excellent performance is a credit to both the management and staff of our companies and those of our key partnership contractors in SONI, ESBI, Siemens, Bord Gáis Eireann and Scotia Gas Networks. All of the gas used in Northern Ireland was supplied through Premier Transmission and Belfast Gas Transmission pipelines which were fully available all year. For periods during the year, security of electricity supply throughout Ireland depended on the availability of the Moyle Interconnector. The Board will continue to strive to maintain these high standards.

Costs to the customer

We continue to measure our success by the savings we make for the energy consumers of Northern Ireland. We still fully expect to deliver the cost of capital savings of some £81m (net present value) calculated at the inception of our three transactions to date. For the seventh successive year Moyle was able to make a further significant contribution to lower electricity prices in Northern Ireland in 2010-11 by avoiding any cash call on consumers. This was achieved by setting aside £12.9m from its accumulated reserves at the end of the year. In addition the Group's operating companies were again able to make further contributions to lower energy prices in Northern Ireland by reducing operating costs. The gas transmission businesses produced operational cost savings, against forecast, of £2m.

The group continues to take a long term view in respect of the use of reserves to minimise costs to the consumer, aiming to do so as evenly as possible over the term of its debt. Moyle invested £10m in "loan notes" which will produce returns from 2013 to 2016, when its bond repayments will have increased. The European Renewable Energy Fund is well established now with final commitments of €213m, including €15m committed by Mutual Energy. Other investors include the European Investment Bank. The fund has a full pipeline of projects across Europe



Minister for Enterprise, Trade & Investment, Arlene Foster, MLA with Peter Warry, Mutual Energy Chairman on a site visit to Knocknagoney, March 2009.

and across technologies with approximately 37% of the final commitments already invested in projects. We expect this fund to produce attractive returns in the medium term and allow the group to continue providing its services to customers at a lower cost than any other utility in Northern Ireland.

Future prospects

The Single Electricity Market or SEM, introduced in 2007, is now well established. Whilst this initially provided good revenues for Moyle, in the current and prior year, auctions for future years have, as expected, realised lower returns. This is a trend which is likely to continue unless changes to market rules are introduced. Under the SEM our interconnector provides capacity and security to the whole island but this benefit is not reflected in the income the market permits us, thereby greatly increasing the likelihood of cash calls on Northern Ireland consumers, costs which should be borne by all the consumers in Ireland. The regulatory authorities have now initiated a workstream to try to improve interconnector effectiveness and Moyle is participating fully by promoting the need for an availability related capacity payment to interconnector users in a similar way that it is paid to generators.

Work has continued throughout the year on a joint regulatory initiative known as the Common Arrangements for Gas or "CAG". Regulators north and south have produced conclusions papers for consideration by their respective governments; we await the outcome of these deliberations. We are broadly supportive of the strategic objectives of this initiative and will work to ensure that any benefit which might accrue will be fairly shared with Northern Ireland consumers.

During the year Moyle Energy Investments Limited purchased a 35% share in Islandmagee Storage Limited; a joint venture with Infrastrata UK Limited for the purpose of developing a gas storage facility under Larne Lough. A planning application for the £250 million project was submitted on 23 March 2010 and Infrastrata UK Limited will be providing 100% of the development capital for the facility. The proposed natural gas storage facility could store 500 million cubic metres in Permian salt beds almost a mile beneath Larne Lough and, when constructed, will have the capacity to store enough natural gas to meet Northern Ireland's peak demand for more than 60 days. This project has the prospect of enhancing security of supply, producing more stable gas prices and improving the utilisation of existing infrastructure. This will bring significant benefits for energy users in Northern Ireland as well as encouraging companies to seek to invest here in the future. The success of the project is in part dependent on tariffs being agreed that reflect the benefit that such gas storage would bring to Northern Ireland's security of supply.

Board and management restructuring

During the year Executive Director William Cargo, Managing Director of Premier Transmission and Belfast Gas Transmission decided to retire with effect from 31 March 2010. This provided the opportunity to align the gas and electricity businesses under a unified management structure with Paddy Larkin being appointed Chief Executive and Gerard McIlroy appointed Finance Director effective from 1 January 2010. The Board believes this new structure will allow the company to manage even more efficiently.

The Board would like to record its thanks for the significant contribution that Bill Cargo made to the business. We will also sadly be bidding farewell to Felicity Huston, the last of the founding directors, who retires at the AGM. Felicity has given seven years of stalwart service to the company and I have particularly valued her loyal support and commitment during my chairmanship.

On 1 April 2010 Stephen Kirkpatrick (CEO, Corbo Properties and formerly CEO, Bank of Ireland Northern Ireland) was appointed as non-executive director, completing our complement of non-executive directors Stephen's banking expertise will enhance the board's capability to deliver for consumers and I am delighted to welcome Stephen.

Members

As a group dedicated to the long term interests of the energy consumers of Northern Ireland, we remain committed to the highest standards of corporate governance. We believe that the arrangements for the supervision of the conduct of the group's business have been successful in providing solid corporate governance. We are grateful to our members for their support and for their challenge to the board and its executive management. I met many of the members recently at our members' information day, where we had an opportunity to discuss the performance of the group and reaffirm our priorities for the future. I look forward to continuing to work closely with the members into the future in furthering the interests of the energy consumers of Northern Ireland.

I would like to thank my colleagues on the board, our members, the executives and staff and our contracting partners for their significant contribution to the ongoing business of our group. I look forward to working with all of them in realising our goals for the future and continuing to deliver value to all our stakeholders.

Mutual Energy

Operating and financial review

Business Description

Mutual Energy (known as Northern Ireland Energy Holdings until November 2009) was formed as a holding company in August 2005 to own and operate energy infrastructure in the long-term interest of the energy consumers of Northern Ireland. The group is involved in both gas and electricity. The group's electricity business is centred on the Moyle Interconnector Financing plc group of companies, of which the principal subsidiary is Moyle Interconnector Limited (MIL). The group's gas business comprises the Premier Transmission Financing plc group of companies and the Belfast Gas Transmission Financing plc group of companies, of which the principal subsidiaries are Premier Transmission Limited (PTL) and Belfast Gas Transmission Limited (BGTL). The group's structure is set out below:

Mutual Energy Chief Executive Paddy Larkin and Chairman Peter Warry.

Group Structure

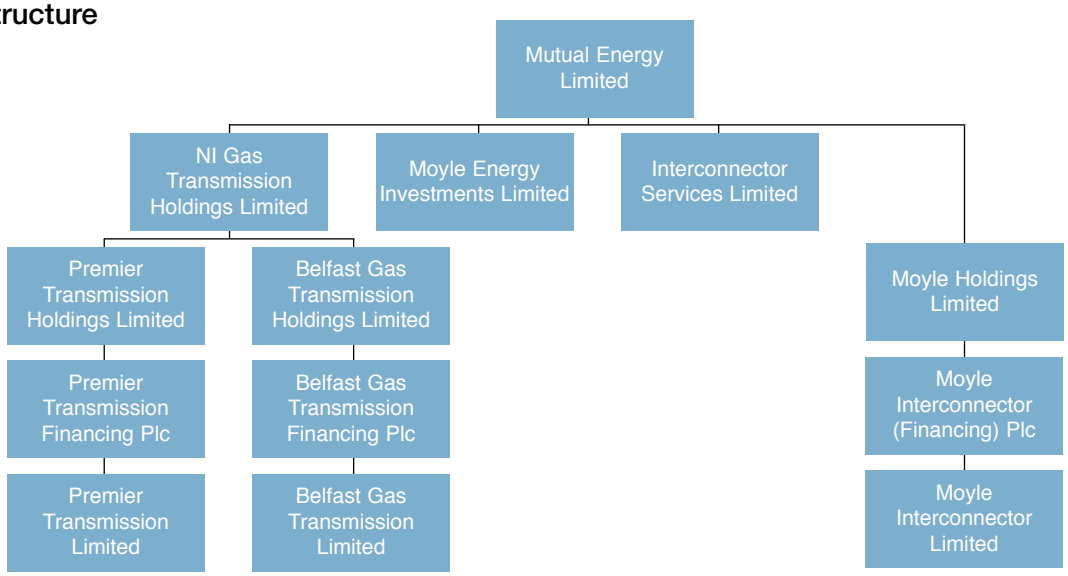


Table of key acquisitions

Asset	Acquired	Associated bond issuance	Term	Real rate
Moyle Interconnector, 500 megawatt DC link Scotland to Northern Ireland	April 2003	£135m	30 year	2.94%
Premier Transmission, Scotland to Northern Ireland gas pipeline	March 2005	£107m	25 year	2.46%
Belfast Gas Transmission, gas pipeline Islandmagee to Belfast	March 2008	£109m	40 year	2.21%

Strategic objectives

The principal activity of the group is the ownership and operation of Northern Ireland's energy links within Northern Ireland and with Great Britain.

- The Moyle Interconnector provides 500 MW of electricity transmission capacity between Northern Ireland and Scotland. It is owned by Moyle Interconnector and debt-financed through a 30 year bond.
- The Scotland to Northern Ireland Pipeline (SNIP) is a 24 inch diameter gas transmission pipeline which transports all the natural gas used in Northern Ireland, from Scotland to Ballylumford. It is owned by Premier Transmission Limited and debt-financed through a 25 year bond.
- Belfast Gas Transmission's pipeline is a 24 inch diameter gas transmission pipeline which transports natural gas from Ballylumford to Belfast. It is debt-financed through a 40 year bond.

Mutual Energy is a company limited by guarantee with no shareholders, commonly known as a "mutual". The group's principal stakeholders are the energy consumers of Northern Ireland and the financiers of its debt-financed subsidiaries. The strategic objectives of the group are:

- to provide a safe, reliable and efficient transmission service to the electricity and gas systems of Northern Ireland and in particular to the traders in electricity between the markets of Ireland and Great Britain and to the shippers of gas to Northern Ireland;
- to own and operate assets where we can benefit consumers through a reduced cost of capital and improved operating efficiencies;
- to operate through an outsource model to minimise costs and overheads;
- to only acquire stable energy assets;
- to return all surpluses generated to the generality of Northern Ireland consumers as evenly as possible over the life of the assets;
- to seek to minimise energy price increases and fluctuations as far as possible; and
- to build up reserves to smooth future cash flows and, where appropriate, to provide capital for future investments.

"Cost of capital: Mutual Energy's average cost of capital is 2.57% real, by far the lowest of any utility in Northern Ireland."

The quality of the service provided to our customers through our main businesses is determined by the performance of our assets in delivering high availability electricity and gas transmission to electricity traders and gas shippers and to the electricity and gas systems of Northern Ireland. To date under the mutualised regime very high levels of availability have been achieved on both the Moyle Interconnector and gas transmission assets.

The principal risks and uncertainties faced by the group are discussed in the Internal Control and Risk Management section of the Corporate Governance Statement.

Gas business

The group's gas business' principal revenues are earned by its two operating companies, Premier Transmission Limited and Belfast Gas Transmission Limited. Premier Transmission Limited and Belfast Gas Transmission Limited receive their revenue from the postalised gas transmission system of Northern Ireland (the "POT") and earn revenue for the POT through capacity and commodity sales to gas shippers.

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

Electricity business

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

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

Moyle provides a physical capability of transporting 500 megawatts in either direction between Scotland and Northern Ireland. Moyle's connection agreements limit the trading capacity to 450 megawatts into Northern Ireland and 80 megawatts into Scotland. All of this capacity is made available to market traders.

Additionally the Interconnector provides a facility for the transmission system operators at either end to rely on each other for system support, balancing and reserve.

Ancillary businesses

Mutual Energy's subsidiary company Interconnector Services (NI) Limited provides services to the operational assets of the group where savings can be achieved by combining the provision of those services. Primarily this subsidiary is used to contract for the subsea surveys of the group's marine assets and to contract for security services for the group's sites.

Moyle Energy Investments Limited, another subsidiary, is used as a vehicle to maximise the return on group funds. It was set up to facilitate the investment in the European Renewable Energy Fund.

External market environment

Gas business

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

Gas volumes transported in our pipeline system decreased by 6% from the previous year due to 9% less gas being used in Northern Ireland for power generation. This decline in power generation gas usage was a consequence of lower electricity demand and a shift in power supply to generators in the Republic of Ireland and imports across the Moyle interconnector.

The fall in the power generation demand was partially offset by a 6% increase in gas demand in the non power (distribution) sector compared to the previous year. Gas prices have remained depressed during 2009 primarily due to lower demand caused by the global recession and the commissioning of additional gas supply infrastructure in GB. Conversely oil prices have been steadily climbing from their most recent autumn 2008 low. This differential in price has encouraged new customers to connect to the network. This, combined with an unusually cold winter, has increased demand on the distribution network.

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

EU "Second and Third Packages"

Regulation (EC) No 1775/2005 of the European Parliament concerning conditions for access to the natural gas transmission networks requires Transmission System Operators (TSOs) to make available cross border tariff arrangements, additional capacity products (namely short term capacity products) and real time operational information. Provision of such products will require changes to operational IT systems and network code development. This work has not previously been progressed following instruction from NIAUR as they anticipated that the requirements would be addressed by the Common Arrangements for Gas project. Action on this is now pressing.

Similarly Directive 2009/73/EC of the European Parliament and of the Council concerning common rules for the internal market in natural gas is also on the road to implementation. The Directive is a part of an energy liberalisation package that represents a further major step towards the creation of a fully competitive, liberalised internal market in natural gas in the European Community. Whilst the Directive imposes many different requirements it is the requirements relating to unbundling of the ownership of gas transmission which will impact ourselves and to a greater extent BGE.

The first round of consultation has concluded, with submission by 1 February 2010, where we sought to convince the authorities that our transmission operations are fully unbundled. The second stage will be a consultation on the implementation of all aspects of the Directive (including transmission unbundling). It will take place in Autumn 2010. The transmission unbundling requirements must be effective by 3 March 2012, with certification by NIAUR to demonstrate compliance by March 2011.

Electricity business

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

In Ireland the market ("SEM") is a gross mandatory pool where all generation taken is paid the half hourly marginal price. Generators, by licence, are obliged to bid only their marginal costs and a separate capacity payment is paid for generation capacity made available. Most participants own both generation and demand and are consequently hedged against the volatility of the market.

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

Power prices in both markets have fallen in line with the drop in wholesale gas and coal prices from the summer 2008 highs. Recession in both markets has caused a significant drop in demand for electricity. The BETTA market price, by design, is more sensitive to changes in demand than the SEM price. Consequently during 2009/10 reasonable arbitrage has existed between the market prices favouring flows into the SEM and as a result demand for Moyle capacity and electricity transfer across Moyle has been high. This has been a significant change from 2008/09 when prices actually favoured flows into GB.

Significant fossil fuelled (gas) and renewable generation is under development in the island of Ireland and the island appears to be on track to meet 40% of generation from renewables by 2020. This is at a time when the strong demand growth in the Republic of Ireland has reversed. ESB's 420MW combined cycle gas turbine ("CCGT") and BGE's 445MW CCGT, both in Cork are due to be fully commissioned in early 2010. 405MW of open cycle gas turbine plant and 100MW of waste to energy plant is also due for connection over next four years. ESB divested 1014MW of old generation plant to Endesa, the Spanish utility, in 2008. Endesa have indicated that they intend to keep the plant operational to end of winter 2011/12 and they intend to repower the sites with new gas fired generation. A number of other developers have announced their intention to build new CCGT plant. Scottish and Southern Energy (SSE) established themselves in the Irish market and indeed have stated their intention to enter the domestic market. SSE has applied for generation licences both North and South. Approximately 2GW of wind generation is also expected to be built over the next 5 years. If the planned level of generation is built then prices are likely to fall significantly in a market which uses system marginal price to set prices. The regulatory authorities are currently modelling such a position with a view to introducing changes to the market structure. Without changes it is difficult to see how all the new fossil fired plant will be able to achieve a sustainable level of income. However there may be export opportunities for the renewable generation and indeed CCGT generation, which may help interconnector businesses.

EU energy legislation continues apace and the third package of reform has made its way through the legislative process. Support for renewables, opening and integrating markets and unbundling continue to be priorities. Legal requirements are set for interconnectors between member states. Moyle does not fall into this category, however in many aspects it already operates in line with the requirements of the legislation.

EirGrid is progressing the East West interconnector and it is expected to be completed by 2013. This new interconnector will offer the same service as Moyle and access arrangements will have to be compatible to allow for competition. EirGrid's Interconnector is expected to cost €600m, significantly more than Moyle. It will be linked to a point on the GB system that favours exports to GB rather than imports (compared to Moyle).

Other interconnectors between GB and Ireland and between Ireland and France are also under consideration however there are no firm plans for construction as yet.

A planning application has also been submitted for a second interconnector between Northern Ireland and the Republic of Ireland which is due in 2012. Due to the SEM this interconnector will become part of the island of Ireland transmission network and not operate as an interconnector between two markets. However its construction will mean that Northern Ireland can physically rely more on RoI for security of supply which will lessen the dependence on existing Northern Ireland supplies such as Moyle.

While Moyle is technically capable of transferring 500MW in either direction it is currently limited by its connection agreements to 450MW import to Northern Ireland and 80MW export to Scotland. Moyle must pay a fixed annual fee (TNUoS) for this 80MW export capability to National Grid of circa £0.9m. Over the coming years and due to increasing wind generation on the island, we expect increased demand for export capacity and discussions are ongoing with stakeholders on the benefits, timing and costs of accessing increased export capacity from National Grid.

Generation on the island of Ireland is dominated by ESB, Viridian and their subsidiaries, through either direct ownership of power stations or long term contracts for other generators' output. Private equity firm Arcapita continues to own Viridian. In the prior year Arcapita offered to sell the non-regulated Viridian businesses but after a lengthy process the sale was cancelled. In Q2 2010 Viridian announced that it was negotiating the sale of its Transmission and Distribution business to ESB.

To accommodate significant planned wind generation in the GB and Ireland markets major investment will be required in the transmission systems. The transmission system investment and charges for its use are the subject of ongoing consideration in both markets.

Finance Director, Gerard McIlroy, Chairman, Peter Warry and Chief Executive, Paddy Larkin at the Members' Day at Islandmagee, May 2010.

Future developments

Gas business

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

The two Regulatory Authorities, the Northern Ireland Authority for Utility Regulation in Northern Ireland and the Commission for Energy Regulation ("CER") in the Republic of Ireland, have prepared a "conclusions paper" recommending a single Transmission System Operator and single Network Code. This is being considered by their respective governments.

Regardless of whether this is implemented the Republic of Ireland and Northern Ireland are legally obliged to have in place a mechanism to allow shippers to trade gas across the South North pipeline. Key decisions on single system operation and a combined network code will need to be taken in the next few years and could change our business significantly. We will work to ensure there is no increased risk to our creditors, that all pipeline owners will have a similar status within any new arrangements, that costs do not increase for consumers in Northern Ireland and that the benefits of our mutual business model are not eroded.

"In order to improve security of supply and increase the flexibility of gas supply in an energy market with high levels of wind generation, Mutual Energy has been closely involved in a project to develop a 500 million cubic metres natural gas salt cavity storage facility"

Following a request by Premier Transmission and the Northern Ireland Authorities, the UK government has written to the Republic of Ireland government to exercise an option in the Irish Sea Interconnector Agreement, allowing Northern Ireland an increase in capacity on fair commercial terms from 2012. The impact of the exercise of this option would be to increase the maximum volume of gas that Premier Transmission and Belfast Gas Transmission could transport through the existing pipeline system. We are currently awaiting RoI proposals for fair commercial terms however developments in CAG may impact on the need for such ring fenced additional capacity.

Security of Supply is a fundamental government concern, driven by the increasing reliance on gas as a source of both electricity and domestic fuel in Ireland. Diversification into liquefied natural gas, gas storage and oil and gas exploration are being encouraged politically, to mitigate against the inevitable increasing dependence on natural gas.

New local sources of gas supply could reduce the gas flowed from GB. The gas network in Northern Ireland continues to grow with BGE's development of markets along the route of their pipelines. All of Northern Ireland's gas is still supplied by the Premier Transmission Pipeline System (our two gas businesses, "PTPS") and that system is more than capable of meeting demand assuming organic growth for the foreseeable future. A new large customer such as a power station would mean that additional supply capacity would be required. This could be provided by the South North pipeline, accessing additional capacity in the Moffat to Twynholm line for SNIP or from gas storage if it goes ahead.

In order to improve security of supply and increase the flexibility of gas supply in an energy market with high levels of wind generation, Mutual Energy has been closely involved in a project to develop a 500 million cubic metres natural gas salt cavity storage facility beneath Larne Lough. A planning application for the project was submitted by Islandmagee Storage Limited (ISML) on 23 March 2010. ISML is a joint venture between Infrastrata UK Limited (65% shareholder) and Moyle Energy Investments Limited (35% shareholder). Objectives for the coming year are to achieve full planning consent, and agree licence terms, tariff arrangements, and to develop a full shareholder agreement.

Electricity business

Scottish wind generation

Two large wind farms in Scotland are planned to connect to the transmission line feeding the Moyle interconnector by October 2010. The actual connection process involves outages on the line, which will also disconnect the interconnector. Currently Moyle is the only party connected to the transmission line and, at the time of construction, agreed that its point of common coupling to the national grid would be the remote end of the line. When the wind farms connect this point of common coupling will move closer to the interconnector to at least the point of connection of the wind farms. The point of common coupling is the point at which Moyle must comply with the requirements of the grid code regarding power quality. It is more difficult for Moyle to comply when it is connected via a shorter transmission line to its common coupling point. To attain compliance Moyle intends to fit static var compensation equipment at its Auchencrosh convertor station.

New generation in Ireland

Over the next few years a number of external developments are likely to impact on the Moyle business. New more efficient gas fired generating plant is being commissioned on the island of Ireland along with significant levels of wind generation. The result should be to lower the average system marginal price in Ireland. Consequently this is likely to erode the average arbitrage value with GB prices and reduce the revenue Moyle can

earn from selling its capacity. Reducing arbitrage coupled with increasing bond repayments and a new interconnector means that over the next few years Moyle is not expected to cover its cashflow requirements through capacity sales and therefore shortfall collections from Northern Ireland electricity customers are more likely. In order to mitigate the position Moyle will continue to work with the regulatory authorities to ensure that the full value of interconnection is accessible by the market, and that Moyle can obtain a share of that value.

Security of supply services and capacity payments
Increasing levels of wind generation are likely to mean that interconnection will play a much greater role in security of supply by providing back up supplies when wind power falls and exporting power when an excess of wind generation exists. Under the existing SEM market rules interconnector users are prevented from changing their transfer amounts after gate closure (20 to 44 hours ahead of real time). Any trades after gate closure are between the system operators and tend not to be competitively priced compared to market prices. Moyle has argued for some time that such a position actually prevents the market from availing of the full benefits of interconnection. Moyle believes that interconnector users should be permitted to offer to provide power after gate closure in a similar way to generators and in doing so should be paid capacity payments in a similar way to generators (for capacity offered and not power provided). The SEM regulatory authorities are interested in improving the use of interconnectors within the market and have initiated a number of work streams with fixed deliverables and timeframes to improve the situation. The work streams include a review of the capacity payment mechanism, introducing intraday trading for interconnectors, introducing further granularity in the capacity products offered on interconnectors, improving the liquidity of the SEM day ahead market for contracts for differences and examining options to more closely integrate the SEM with neighbouring markets.

East West Interconnector
EirGrid, under direction from the Republic of Ireland's regulator "CER", is developing a 500 megawatt high voltage direct current interconnector between Ireland and Wales to be operational in 2013. The interconnector will provide a broadly equivalent service to that of Moyle and will have to comply with EU legislation regarding interconnectors. Moyle believes that at that point there is likely to be an oversupply of interconnector capacity, particularly as limited arbitrage is expected between BETTA and SEM. Moyle's revenues from capacity auctions are expected to suffer as a result and market forces will dictate that Moyle's capacity would be offered on similar terms to the new interconnector.

Existing and potentially future EU congestion management principles for interconnectors will be applied to the East West Interconnector and Moyle will be under increasing pressure to adopt such principles. The principles do not address the provision of an adequate revenue stream to Interconnector owners but assume that its "costs" are covered through a socialised charge on all users. At that time Moyle expects that it will have to rely more on a revenue stream from its CAIRt process than from its capacity sales.

Investments

European Renewable Energy Fund
In line with its policy of maximising long term value to the energy consumers of Northern Ireland through the most appropriate balance of short-, medium- and long-term uses of its available funds, the Group continues to explore the investment opportunities open to it. In 2007 the Group became a founding investor for the European Renewable Energy Fund with a €15 million commitment. The fund closed on 31 March 2010 at a fund size of €213m.

The fund is expected to provide a safe and reasonable return on some of the monies which were rebated to Moyle on the introduction of BETTA in GB, provide renewable power generation to assist in reducing climate change and provide the possibility of assisting investment in renewable power generation in Ireland. The fund is operated on an arms-length basis by the fund manager Platina Finance Ltd. Following the closure of the fund, the commitment period continues for five to seven years, during which time the money will be invested in renewable energy projects. This will be followed by a five to seven year maturing period, during which time the investments will be sold / financed / wound up. Winding up must be before 31 December 2022. The fund targets an 8% return per annum.

The fund is currently constructing an 82 megawatt wind farm in Cyprus, has acquired a 52 megawatt operational wind generator in France and a 5.5 megawatt share of an operational solar photovoltaic plant in Tenerife. The fund benefits from a healthy pipeline of further projects under development and acquisition opportunities.

Forward-looking statements
The Chairman's Statement and Operating and Financial Review 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.

Performance during the Year

Environment and Safety

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

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

Moyle safety rules have been developed from those of Northern Ireland Electricity, ESB International and Siemens to achieve safety from the system in carrying out its maintenance activities.

The gas businesses use significant quantities of gas for heating the gas transiting through their pipelines prior to pressure reduction. The group measures the quantities used and sets targets to reduce these. An improvement implemented in November 2009 on the pre heat gas process at Twynholm, made in conjunction with Bord Gáis who own the site, has meant there has been no pre heat gas usage over the recent winter period. This will be monitored going forward to quantify the cost savings for Northern Ireland gas consumers.

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

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.

Operating Company Performance

Revenue and Profitability – Electricity business

Moyle capacity was sold to electricity traders throughout 2009/10 in annual and monthly auctions. The capacity products offered resulted in contracted capacity being satisfactory in volume terms, at 100% (east-west) (2009: 76%) and 42% (west-east) (2009: 80%) of available transmission capacity. Long term capacity auctions in the calendar year of 2009 realised some £10.5m sales revenue for 2009/10 and future years. This compares with the long term capacity auctions in the 2008 calendar year, which realised £3.5m for 2008/9 and future years. Additional revenue was earned from capacity sales to the system operators in Ireland, both for system reserve and for inter-system trading between Northern Ireland and Great Britain. The overall effect was that annual revenue, at £18m, showed a decrease on 2009 (£20.5m).

The directors consider that the performance of the Moyle group is shown by its earnings before interest, taxation, depreciation and amortisation (EBITDA) of £13.6m (2009: £15.1m). The group made an operating profit of £9.9m (2009: £11.5m).

Revenue and Profitability – Gas business

Premier Transmission Financing

Under Premier Transmission Limited's licence, the company's revenue is regulated so as to match the Premier Transmission group's debt service costs and operating expenditure in cash terms, with an annual reconciliation of actual to forecast being agreed with the Northern Ireland Utility Regulator at the end of each gas year (1st October). In the 2009 reconciliation Premier Transmission produced a saving of some £2.0m against forecast. Following discussions with the Northern Ireland Utility Regulator, Premier Transmission Limited was entitled to retain £126k of this saving, to be applied for the benefit of consumers at a later date.

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

The directors consider that the performance of the Premier Transmission group is shown by its earnings before interest, taxation, depreciation and amortisation (EBITDA) of £6.6m (2009: £8.3m). Premier Transmission Limited made an operating profit of £3.2m. (2009: £4.8m).

Belfast Gas Transmission Financing

As with Premier Transmission, Belfast Gas Transmission Limited's licence also matches the company's revenue to its debt service costs and operating expenditure in cash terms, with an annual reconciliation at the end of each gas year (1st October). In the 2009 reconciliation, Belfast Gas' costs were broadly in line with forecast.

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

The directors consider that the performance of the Belfast Gas Transmission business is shown by its earnings before interest, taxation, depreciation and amortisation (EBITDA) of £3.2m (2009: £3.2m).

Operational Performance - Electricity Business

In the year to 31 March 2010 Moyle achieved 96.5% availability. 3.14% of the unavailability was due a scheduled outage by Scottish Power to connect wind farms to the line supplying Moyle in Scotland. Underlying Moyle availability was similar to that achieved in year ending 31 March 2009 (99.5% availability). The technical adviser's availability prediction was 97.9%. A total of 16 forced outage events occurred during the year, accounting for 0.36% unavailability. Of these, six events occurred on 30th-31st March 2010 when a severe ice storm hit the Northern Ireland system and caused voltage dips. As the NI system was in a state of fluctuating voltage, safety protocols ensured the Moyle Interconnector tripped to protect the equipment.

During the year approximately 2.3 terrawatthours (0.8TWh 2008/09) of power was imported across Moyle into Northern Ireland with 0.005 terrawatthours (0.2TWh 2008/09) physically exported.

The submarine and underground cable system again performed without incident. The necessary bi-annual converter station maintenance was carried out during the Scottish Power line outage in October 2009 so that the overall downtime was minimised. The opportunity was also taken to bring forward and carry out circuit breaker maintenance at the Scotland converter station and thereby improve downtime in future years.

Further remedial work programmes on the converter station equipment have been carried out during the year and are planned for 2010. These are aimed at eliminating the small number of defects that became evident during the early years of operation, so that the current excellent availability is expected to continue into the future.

The availability of the Moyle assets in the year to 31 March 2010 was once again essential to the security of electricity supply in Ireland. For periods, the adequacy of the electricity systems throughout Ireland depended on the generation capacity delivered to them by the Moyle Interconnector from the electricity system of Great Britain. In March 2010 Moyle recorded its highest ever level of imports in a single month with 247.6GWh of power being imported to Ireland. This exceeded the previous highest ever monthly transfer of 234.6GWh which was recorded in January 2010.

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

Operational Performance – Gas Business

The booked capacity on the SNIP rose from 7.58 mscm in the first 6 months of the 2009/10 financial year to 7.63 mscm for the second 6 month period. This was in response to growth in the distribution sector outside of the Greater Belfast area. A total volume of 16,579 GWhs flowed through the SNIP in the 2009/10 financial year, down 6% on the previous year's figure of 17,602GWhs.

Although the annual demand decreased, the island of Ireland experienced an all time peak day of gas usage on 7th January 2010, with Northern Ireland demand being 6.7 mscm (74,731 MWhs), which is 88% of the total current booked capacity on the pipeline. This was due to the extremely cold weather and the high dispatch of the two Northern Ireland power stations on the same day.

There have been no incidents or lost time injuries associated with gas business operations and the gas transmission system was available for 100% of the time for the year ending 31 March 2010.

The programme of works for the period focused on the resilience of our systems, particularly pre-heating, and some improvement work to the Belfast Gas pipeline corridors. At Ballylumford a review of the design of waterbath heaters was undertaken with the intention of reducing call outs.

To demonstrate continued fitness for purpose the pressure in our entire pipeline system was raised to reaffirm its Maximum Permitted Operating Pressure (MPOP) which is recommended every 5 years.

During the year the process to re-tender the key Maintenance and Emergency Response contract commenced with a formal invitation via the European Journal in February 2010.

National Grid, acting as the UK Network Emergency Coordinator (UK NEC), conducted a two day simulated gas supply emergency exercise called "Exercise Quartz" in October 2009. Premier Transmission Ltd and Northern Ireland Network Emergency Co-ordinator (NINEC) co-ordinated the exercise for the gas industry in Northern Ireland, as they would in the event of an actual Northern Ireland Gas Supply Emergency. The exercise simulated the load-shedding of gas at Moffat. DETI and NIAUR both attended the exercise in our offices and both parties confirmed the exercise as beneficial to their understanding of the emergency process and issues which arose. A debrief with industry was coordinated to address any issues which arose and discuss learning points.

"Surpluses and reserves: £12.9m was set aside to lower electricity prices for the coming year and £1.9m returned to gas shippers."

Consumers' Returns and Receipts and Employee Matters

As a mutual energy group working for consumers, the directors continue to consider it appropriate to report here any returns made to or receipts from the energy consumers of Northern Ireland.

Continuing the trend of the previous year, Moyle set aside £12.9m (2009: £11.9m) at year end as a further contribution from its accumulated operating surplus towards lower electricity prices in Northern Ireland in the coming year. In consequence, in 2010/11 there will again be no cash call on electricity consumers under Moyle's collection agency agreement with the System Operator for Northern Ireland ("SONI"). When the 2003 re-financing arrangements were put in place, it was anticipated that such cash calls would be required but in practice the group's performance has been such that this has not happened to date.

At the 2010 year end £1.16m was transferred to the cash reserve held in Moyle's Distributions Account from the main operating bank account to help cover the anticipated cash deficit in future years. (2009: £2.2m transferred from the Moyle's Distributions Account).

Efficiency gains achieved by the gas business through reduction in its costs are primarily returned to shippers by way of a year-end reconciliation payment. The group's success in maximising its returns to and minimising receipts from consumers is therefore reflected in the comparison between the forecast revenue requirement submitted at the start of the gas year to the Northern Ireland Utility Regulator and the actual outturn for the year. For the gas year ended 30th September 2009, the combined gas businesses actual required revenue was £18.4m, against a forecast of £20.4m. £1.9m was returned to shippers in January 2010, with £0.1m retained in the businesses.

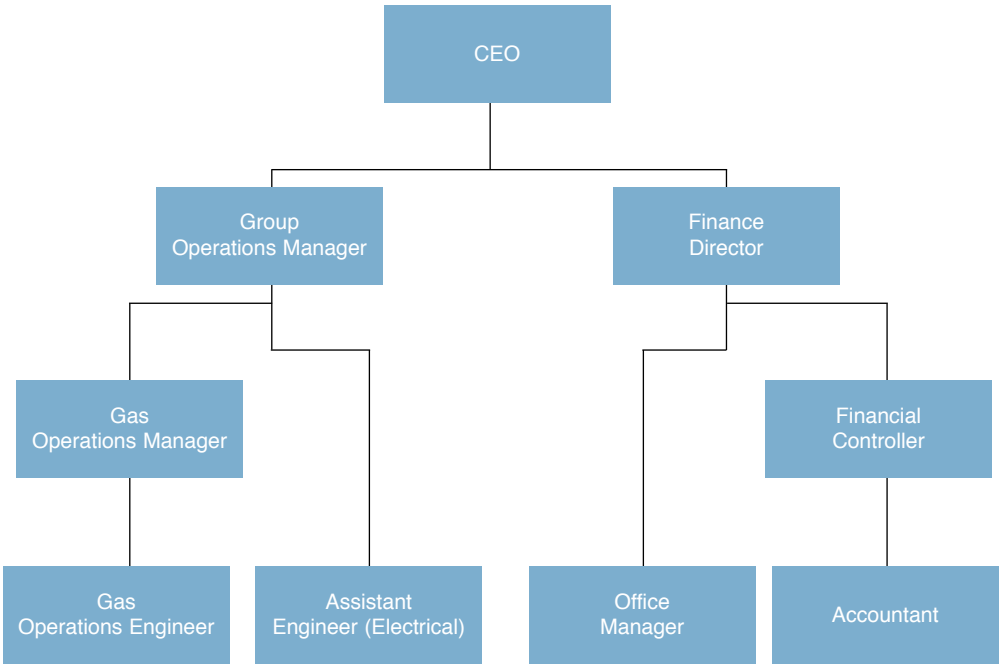
The group is committed to maintaining a high quality and committed workforce. As such the group employs a personal performance evaluation system with assessment of targets and training needs to encourage performance. Remuneration is linked to performance throughout the organisation.

On 1 January 2010 the group structure was realigned to closer co-ordinate the activities of the gas and electricity businesses and realise efficiency savings. The new structure unifies the management of the group under a single Chief Executive who, together with the Finance Director, report directly to the Board. All operations are now managed by the Group Operations Manager and both the electrical engineering and accountancy functions have been strengthened.

Mutual Energy Directors and employees at the company's launch, Parliament Buildings, November 2009.

Sample of Permian salt, similar to the deposits beneath Larne Lough which will contain the gas storage caverns.

The revised staffing structure is outlined below;



Key Performance Indicators ("KPIs")

The directors have identified five groups of KPIs chosen to reflect what is important to our stakeholders.

The group's main businesses continue to be in the operation of regulated debt-financed infrastructure assets. These businesses generate cash and are structured to meet the requirements of their financiers and to minimise costs to consumers. By their nature, they are not necessarily profitable in their early years. While the group strives towards profitability, its contribution to the energy consumers of Northern Ireland is best measured by its cash returns to, or receipts from, consumers.

Consumer financial benefit KPIs

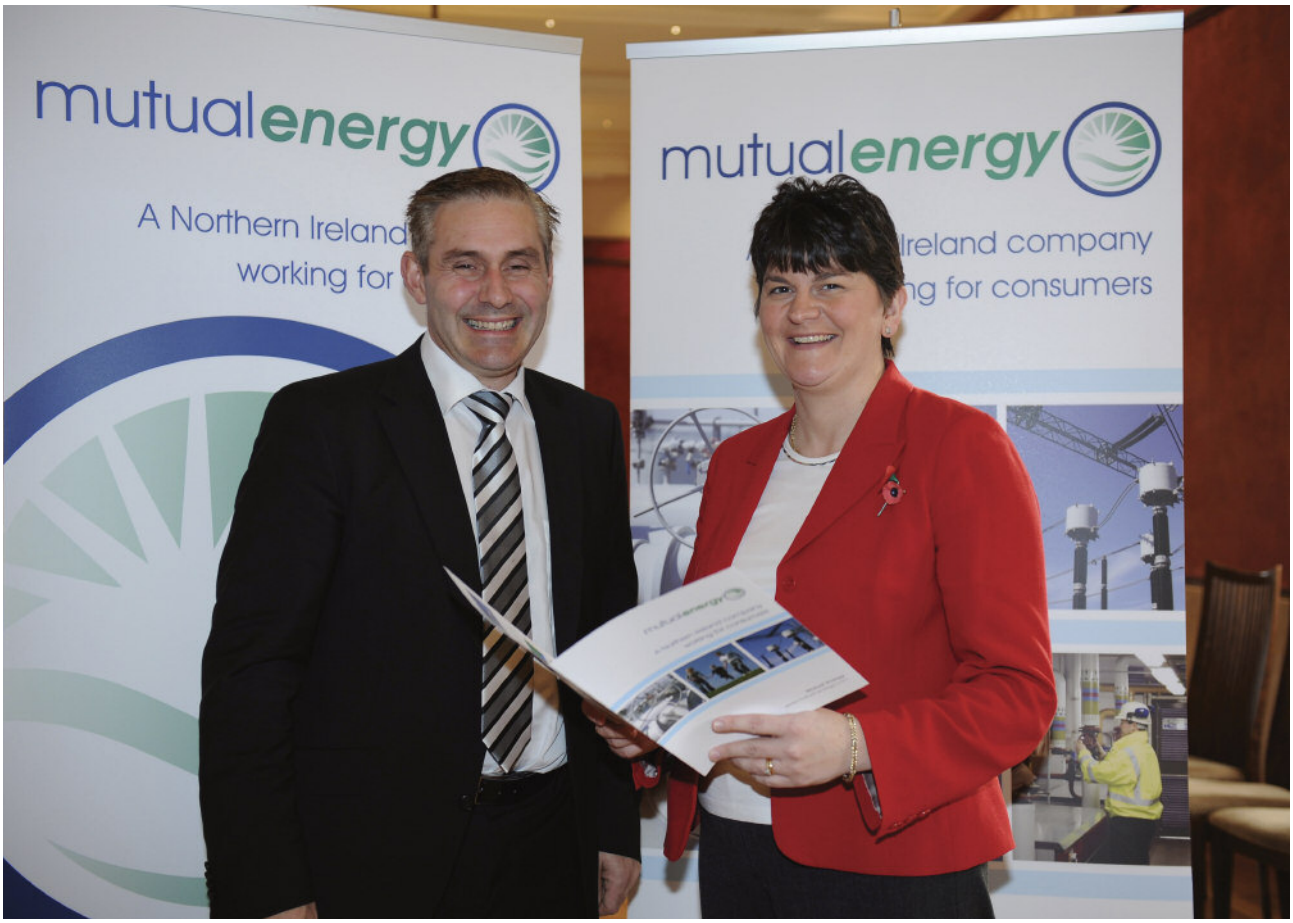
The electricity consumers of Northern Ireland underwrite any revenue shortfalls incurred by Moyle and the group's surpluses are used on their behalf. The relevant KPIs therefore measure cash:

- reinvested in the business to avoid directly charging consumers for the provision of the Moyle Interconnector asset; and
- transferred to Moyle's Distributions Account or disbursed on consumers' behalf.

The gas consumers of Northern Ireland provide Premier Transmission's required revenue through the POT. For this financial year we consider the relevant KPI to be the difference between the Forecast Required Revenue for the last gas year (ending September 2009) and the Actual Required Revenue of that gas year (consumer benefit KPIs).

Operational performance KPIs

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. As availability should be at or close to 100%, the KPI is expressed as its inverse, unavailability. Moyle measures its unavailability in accordance with the



Paddy Larkin, Chief Executive, Mutual Energy presenting a copy of the company's new corporate brochure to Minister for Enterprise, Trade & Investment, Arlene Foster, MLA at the Mutual Energy launch, November 2009.

international standard reporting protocol for the performance of High Voltage Direct Current (HVDC) links published by CIGRÉ (the international conference of electricity transmission networks), against the independent estimate of 2.1% made by the technical advisers to its financiers. As PTL provides the only supply of gas to Northern Ireland, the directors have set a target of 0% unavailability.

Financial KPIs

In addition to compliance with the respective financing covenants, the principal requirements of all financiers are the maintenance of Annual Debt Service Cover Ratios (ADSCR) of greater than 1.15 for Moyle, 1.25 for Premier Transmission and 1.20 for Belfast Gas Transmission. These calculations are based upon specific methodologies outlined in the relevant collateral deeds with the information sourced from the group's management accounts.

Corporate responsibility KPIs

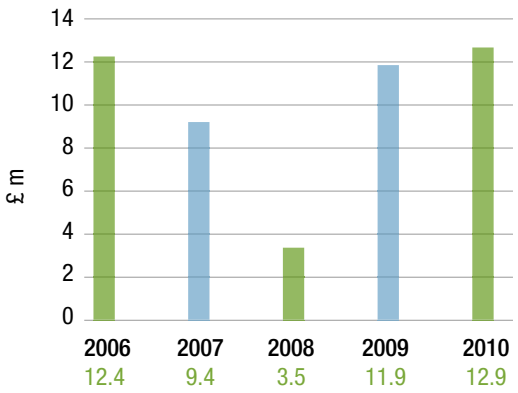
The group's contribution to society is focused on the safe and efficient operation of vital infrastructure in a cost efficient manner. Cost efficiency impacts upon the ability to return cash to customers (consumer benefit KPIs) and on the financial performance. Safe and efficient operation is measured with reference to the operational performance KPIs and the corporate responsibility KPIs. These aim to measure both the absolute performance (availability) and the environmental and safety impact of achieving this performance (corporate responsibility).

Employee KPIs

Staff welfare is monitored by reference to the KPIs in the table "Employee KPIs".

Consumer benefit KPIs

Cash reinvested to avoid charging consumers

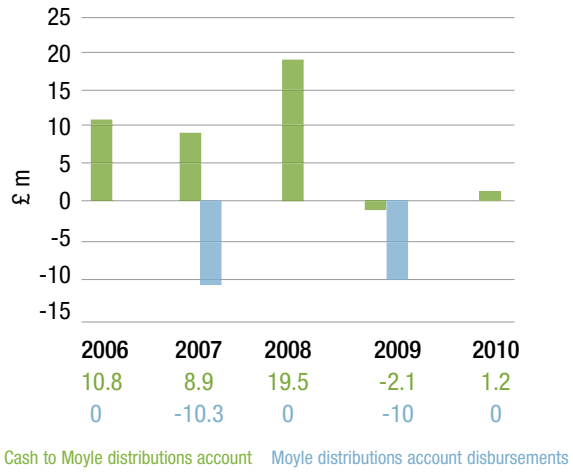


Moyle cash reinvested

The Moyle Interconnector can charge consumers for the benefit of the interconnector through their electricity bill, in a similar way that other electricity infrastructure is charged. However, as a mutual company operating for the benefit of consumers, the company has chosen to meet its forecast costs through using its cash reserves. The KPI is the cash actually transferred into the current account to avoid making a charge on consumers.

To date the Moyle business has never made a charge to consumers, always setting aside cash to avoid a charge.

Moyle distribution account movements

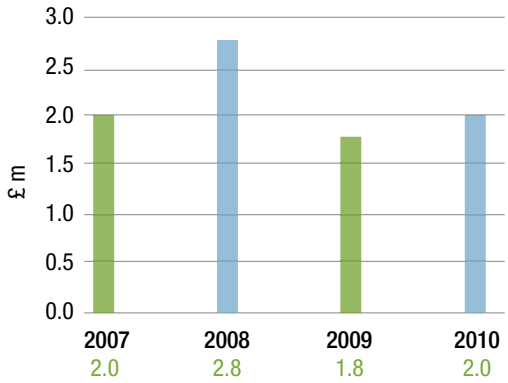


Moyle cash retained

Whereas the KPI of Moyle cash reinvested reflects the income from one year being set aside to prevent a charge in the following year, this KPI shows the cash accumulating in/or being applied from the distributions account. The benefits of these investments will return between 2013 and 2022.

The balance on the distributions account as at 31 March 2010 was £26.2m.

Gas business operational savings against forecast



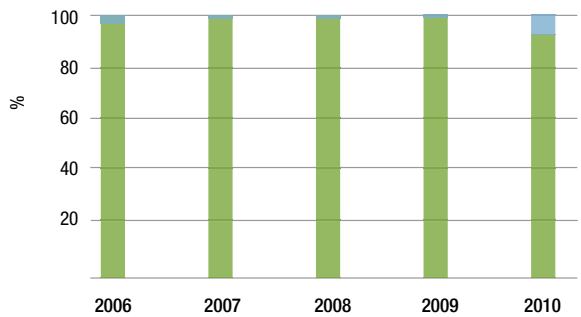
Gas operational savings

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.

This is a measure of operational efficiency.

Operational KPIs

Moyle availability



	2006	2007	2008	2009	2010
Moyle availability	98.90%	99.40%	99.50%	99.50%	96.51%
Moyle unavailability	1.10%	0.60%	0.50%	0.50%	3.49%

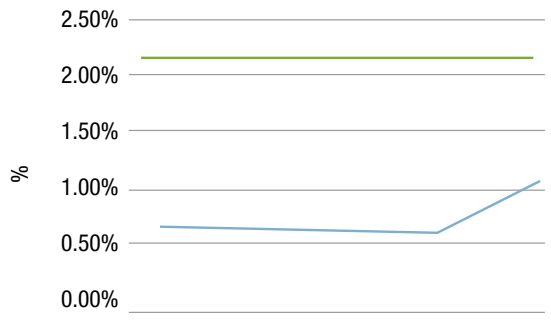
Availability

Availability is the key measure of operating performance. For the gas businesses availability has been 100% throughout the entire period of their ownership by the Mutual Energy group.

Availability in the electricity business is calculated as the number of hours unavailable x number of MW unavailable / Total plant capacity under connection agreements x 8760 hours.

The unavailability in 2010 includes 3.14% attributable to Scottish Power outages on the line supplying the interconnector.

Moyle average unavailability



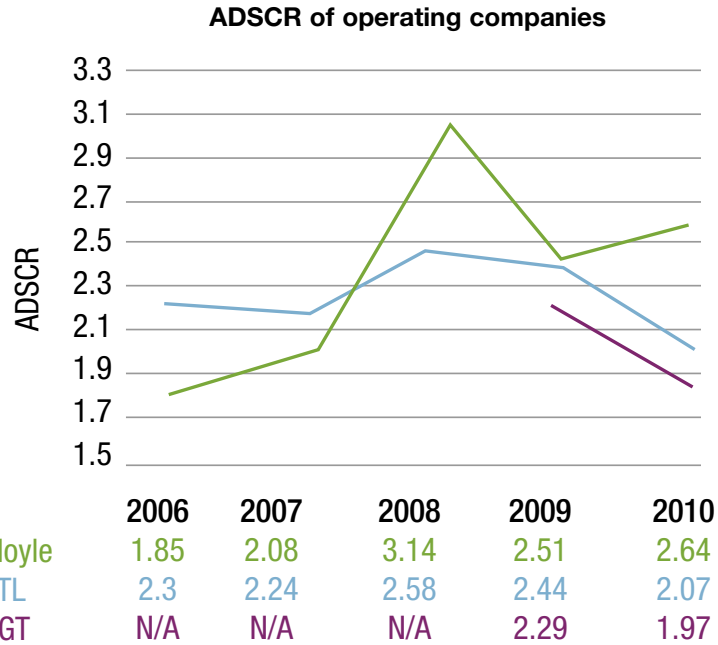
	2006	2007	2008	2009	2010
Independent estimate	2.10%	2.10%	2.10%	2.10%	2.10%
Average unavailability	0.7%	0.7%	0.6%	0.6%	1.0%

Average unavailability

Average availability KPI measures the cumulative average performance of the plant. This is compared to the long run forecast of 2.1% provided by the technical advisors to the financiers. The KPI is calculated by adding the unavailability for each year and dividing by the number of years.

The rise in 2010 is mainly a result of the outages on the Scottish Power line supplying the interconnector.

Financial Performance KPIs



Annual Debt Service Cover Ratios (ADSCR)

The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the respective financing documents.

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.

The ADSCR for both Belfast Gas Transmission and Premier Transmission will tend to average towards 2.0. Over-performance above 2.0 in the 2006 to 2009 period was driven by interest income and some operational savings retained in accordance with the licences. In the future years when this cash is released to the benefit of consumers there will be a consequential fall in the ADSCR below 2.0.

Corporate Responsibility KPIs

KPI	2010	2009
Lost time and reportable accidents	0	0
Usage of gas in operations (MWh)	4,266	5,096
Electricity consumption at convertor stations (MWh)	2,656	2,455

Employee KPIs

KPI	2010	2009
Training days per employee	2.8	1.8
Sickness absence days per employee	0.3	6.7
Cycle to work take up	66.7%	37.5%
Company pension take up	99%	92%

Financial Position and Financial Management

Revenue, Profitability and Reserves

Group revenue in the period to 31 March 2010 was £37.1m. (2009: £43.9m). Group operating profit before interest and tax was £12.7m (2009: £16.4m). After accounting for debt service, the group made an after-tax profit of £0.4m (2009: £4.1m loss).

Included within finance costs is £10.6m (2009: £22.9m) in respect of borrowing costs arising on the group's issued bonds. These borrowing costs are made up of two elements, the actual interest charge on the outstanding bonds and the amount required to restate the liability to reflect the latest applicable Retail Price Index, as those bonds are index-linked. In the period to 31 March 2010 the actual interest charge was £9.76m (2009: £10.42m), and the restatement of the outstanding amount £0.84m (2009: £12.48m). The actual interest charge is a cash amount and the restatement on the outstanding bond liability a non cash item. As the bonds are in the early part of their tenure the outstanding amounts are large and restatement to reflect the Retail Price Index movements is significant and potentially volatile. The mechanisms which are in place to generate group income are aligned to the cash requirements to cover the bonds, both interest and principal.

"Had the requirement to fair value the index-linked swaps not been required the group's reported profit for the year would have been £3.3m."

As noted last year, at the inception of the financing arrangements for the acquisition of Premier Transmission Ltd, Premier Transmission Financing plc entered into two index-linked swaps in order to hedge against index-linked revenues receivable under the licence agreement with the regulator. The rationale for this hedge was to ensure that under no circumstances would the group, and therefore by implication the gas consumers of Northern Ireland, suffer losses from a falling Retail Price Index. Even though this hedge is almost 100% effective in commercial terms, in order to adhere to International Accounting Standard 39, the hedge cannot be accounted for as an accounting hedge as it does not meet the specific conditions in the standard. Accordingly the movement of the fair value of these index-linked swaps must be reported in the income statement under finance costs.

The financial liability in respect of these index-linked swaps is £28.1m as at 31 March 2010 (2009: £24.1m). This fair value effectively represents the amount that the group would have to pay to discharge itself from the index-linked swaps; however, the group has no intention of discharging itself from its obligations as the index-linked swaps hedge against future index-linked revenues. As the hedge is almost 100% effective in commercial terms it follows that the group has in effect a financial asset of approximately £28.1m in respect of future revenues, however, this financial asset cannot be recognised under International Accounting Standard 39 and therefore there is a significant mis-match of costs and revenues in these financial statements. In the event that the Retail Price Index is expected to fall then the financial liability will reduce.

Had the requirement to fair value this financial liability not been required the group's reported profit for the year would have been £3.3m (2009: loss of £2.5m) and the directors believe that this is a fairer representation of the results for the year.

The Moyle group, Premier Transmission group and Belfast Gas Transmission group were all cash generative during the year. These groups are required to hold high levels of cash reserves as conditions of their financing arrangements. Cash reserves in Premier Transmission group amounted to £23.0m at year end, Belfast Gas Transmission £6.9m while Moyle held operating cash reserves of £53.1m, which includes the £12.9m retained to cover expected operating deficits in the current year, so as to avoid making a cash call on electricity consumers. Moyle's Distributions Account held £26.2m at year end. These funds are available for use for the benefit of electricity consumers in Northern Ireland in consultation with the Utility Regulator. £8.4m is held by the group's investment company, Moyle Energy Investments Limited, pending its drawdown by the European Renewable Energy Fund as already approved by the Utility Regulator. Total cash holdings by the group at year end amounted to £92.2m.

Debt Service and Liquidity

Under their respective financing documents, the ongoing ability of all the core regulated businesses to meet their debt service obligations is measured by the ADSCR at the level of the licence holding entity. For the year under review, the ADSCRs, calculated by comparing the actual cash flows with the debt service payments which they funded in accordance with the methodology dictated by the financing agreements, were 2.64 against a required figure of 1.15 for Moyle, 1.97 against a required figure of 1.20 for Belfast Gas and 2.07 against a required figure of 1.25 for Premier Transmission.

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

Treasury

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

In the prior year, following a competitive tender, the group purchased £10m Index Linked Bonds of Barclays Bank plc whose payment terms largely matched those of Moyle Interconnector Financing plc but with maturities between 2013 and 2016.

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

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

Interest received for the period was £2.4m (2009: £5.0m).

Resources and Relationships

The business of the group has been stable throughout the year and the directors continue to believe that the debt-financed and outsourced model is appropriate to that business. The directors consider that the management arrangements, together with the group's relationships with its professional advisers and appropriate insurance arrangements continue to be robust against management contingencies and effective in succession terms.

The group holds significant cash resources on its balance sheet. The directors continue to seek investment opportunities which will ensure that these resources will be used in ways which are in the long-term interests of the energy consumers of Northern Ireland, with a risk profile which is appropriate to the nature of the group.

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

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

In the past two years the credit rating of Financial Guaranty Insurance Company was removed by all rating agencies. In November 2009 the State of New York Insurance Department issued an order pursuant to section 1310 of New York Insurance Law, among other things, restricting Financial Guaranty Insurance Company from writing new policies or settling claims. This has not affected the running of the Premier business and the Premier group continues to work with Financial Guaranty Insurance Company and Prudential Trustee Company Limited as before.

Moyle Interconnector Ltd, Belfast Gas Transmission Ltd and Premier Transmission Ltd, the operating companies of the group, are regulated under the terms of their electricity transmission and gas conveyance licences respectively and the directions issued by the Utility Regulator under those licences. The group aims to work closely with the Utility Regulator to build a long-term

co-operative relationship in the interest of consumers and, to this end, meets regularly with the Utility Regulator at various levels.

Mutual Energy seeks to promote the use of mutualisation to reduce the cost of energy and meets regularly with politicians, relevant government departments, consumer and business groups to discuss its activities and the future application of mutualisation.

Moyle Interconnector

The operation of the Moyle Interconnector and the administration of capacity auctions are contracted to SONI under the Operating and Agency Agreement. The long term maintenance agreement for Moyle's converter stations was renewed with Siemens plc towards the end of 2006 and ESBI was re-appointed as the Moyle Maintenance Manager from April 2008; both contracts are for a period of five years.

Currently Moyle considers that it is in its best interest to use highly qualified operations and maintenance contractors rather than trying to establish its own in-house capability. This policy is consistent with the concept of mutualisation which is primarily to reduce the cost of capital within the businesses not to replicate the operations and maintenance skills of established incumbents.

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

Regular meetings are held with its customers to try to ensure that their expectations regarding the type and quantity of capacity on offer are satisfied. Moyle's customers are electricity suppliers and traders in the Irish and GB markets, such as SSE Energy Supply Ltd, Scottish Power Energy Management Ltd, Bord Gáis Eireann and Viridian Energy Supply Ltd.

"Outsourcing: Mutual Energy outsources operation and maintenance of its assets to major utility and engineering groups such as Siemens, Scotia Gas Networks, ESB International and Bord Gáis."

Premier Transmission Pipeline System

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

The two key contractors are Bord Gáis Eireann, who monitor our system from the national gas control centre in Cork and Scotia Gas Networks, who carry out routine maintenance and emergency response. They have continued to perform well during the period.

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

Belfast Gas Transmission Pipeline System

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

The Mutual Energy Board

Peter Warry (60) Chairman
Peter Warry is the chairman of a number of industrial companies. He was previously Chief Executive of Nuclear Electric and a director of British Energy. Peter acted as Senior Industrial Adviser to OFGEM for the 1999/2000 distribution price control review and has been a non-executive director of the Office of Rail Regulation. He graduated in Engineering and Economics and is a Fellow of the Royal Academy of Engineering as well as being a Fellow of the Institutions of Electrical Engineering and Mechanical Engineering.

Paddy Larkin (41) Chief Executive
Paddy Larkin was appointed Chief Executive of Mutual Energy from 1st January 2010. Since 2007, as an executive director and managing director for the Moyle Interconnector, he successfully integrated Moyle within the all island single electricity market and contributed to the ongoing development of the group with the acquisition of the Belfast gas transmission pipeline. Previously Paddy was Chief Executive Officer of Premier Power Ltd, the BG Group subsidiary which operates Ballylumford Power Station. Before that he held a number of operational and business positions in Premier Power, over a 14 year period, having joined from NIE in 1992.

Gerard McIlroy (41) Finance Director
Gerard McIlroy joined Mutual Energy in July 2006 and was appointed Finance Director for the group in January 2010. A fellow of the Institute of Chartered Accountants in Ireland, Gerard trained with Coopers and Lybrand in Belfast and has previous experience in the health, retail and energy sectors within Northern Ireland. He joined Mutual Energy after five years with the Viridian Group where he was Finance Manager with their unregulated energy supply business covering both the Northern Ireland and Republic of Ireland market.

Gerry Walsh (57) Senior Independent Director
Gerry Walsh served as Chief Executive and Member of the Board of Bord Gáis from 2000 until 2007, during which time the equity value of the company increased by 100% to €1.6 billion. He joined Bord Gáis in 1984 and held a number of senior management roles in utility operations, including General Manager, Director of Strategy and Director of New Business Development before taking over as Chief Executive. Whilst CEO he oversaw an all-island investment programme of over €1.5 billion and the setting up of a new energy company in Northern Ireland in competition with the local incumbent with an investment of €200 million. Gerry now runs Spruce Consulting Ltd, which provides strategic support to a portfolio of corporate clients.

Regina Finn (43)
Since 2006, Regina Finn has been the Chief Executive of Ofwat, the economic regulator for the water and waste water sectors in England and Wales. Prior to joining Ofwat she was a Commissioner for Energy Regulation in Dublin where she worked on the development of an all island energy market. Previously she was Head of Market Operations and Deputy Director of the Office of the Director of Telecommunications (now ComReg) in Dublin, and she has worked in the Channel Islands where she established a regulatory regime for electricity, post and telecommunications.

Felicity Huston (47)
Felicity Huston is a director of Huston and Co Tax Consultants. She is the Commissioner for Public Appointments for Northern Ireland. Previously Felicity was Chairman of the Northern Ireland Consumer Committee for Electricity and before that was Deputy Chairman and Energy Convenor of the General Consumer Council Northern Ireland, specialising in gas issues. Felicity has held a number of public appointments - including Commissioner for the House of Lords Appointments Commission until September 2008 and is a Trustee of Assisi Animal Sanctuary in Newtownards. Felicity chaired the selection process to appoint the chair and board of the Independent Parliamentary Standards Authority, set up in response to the Westminster expenses scandal, to oversee MPs' expenses and allowances.

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 2010, the group has applied the main and supporting principles of corporate governance.

The only listed securities of the group are the debt securities of Moyle Interconnector (Financing) plc, Premier Transmission Financing plc and, Belfast Gas Transmission Financing plc. As such the group is not obliged to comply with the provisions set out in Section 1 of the Combined Code on Corporate Governance (the Code) published by the Financial Reporting Council in June 2006. Instead the group uses its provisions as a guide to the extent considered appropriate to the circumstances of the group.

Statement of compliance

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

The Board

An effective board of directors leads and controls the group. The board, which met 8 times during the year, has adopted a schedule of matters reserved for its approval.

The board is responsible for:

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

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

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

A procedure is in place for directors to obtain independent professional advice in respect of their duties. All directors have access to the advice and services of the Company Secretary and the company solicitors. New directors receive induction on their appointment to the board covering the activities of the group and its key business and financial risks, the terms of reference of the board and its committees and the latest financial information about the group.

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.

Chairman Peter Warry addresses AGM, September 2009.

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
Bill Cargo	7/8				1/1
Regina Finn	6/8	3/4	3/3	2/3	
Felicity Huston	8/8	4/4		3/3	
Paddy Larkin	8/8				1/1
Damian McAteer	3/4	3/4	1/2	2/2	
Alan McClure	0/4	0/4		0/2	
Gerard McIlroy	3/3				
Gerry Walsh	8/8	4/4	3/3		1/1
Peter Warry	8/8	4/4	3/3		

During the year it was decided the group's management should be restructured in order to align the gas and electricity businesses under a unified management structure. On 1 January 2010 Paddy Larkin was appointed Chief Executive and Gerard McIlroy joined the Board as Finance Director. William Cargo resigned as executive director on 1 January 2010. Two further long-standing directors, Alan McClure and Damien McAteer, stood down at the Annual General Meeting on 29 September 2009.

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.

Gerry Walsh was previously the CEO of Bord Gáis Eireann, a company with which the group has a number of material business relationships. The Board views Gerry Walsh as an independent director as there is sufficient time elapsed between his ending service with Bord Gáis Eireann in 2007 and his appointment to Mutual Energy, and the direct dealing between the group and Gerry Walsh at his previous post would not compromise his independence.

Alan McClure held the role of Senior Independent Director from 2005 until his retirement on 29 September 2009. Gerry Walsh was appointed as the Senior Independent Director on 29 September 2009. The Senior Independent Director's responsibilities include leading the non-executive directors' annual consideration of the Chairman's performance. From time to time the non-executive directors, including the Chairman, met independently of management.

Board appointments and evaluation

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

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

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

Board committees

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

Audit Committee

The Audit Committee comprised Felicity Huston (Chairman), Regina Finn, Alan McClure and Damian McAteer. The Board is satisfied that at least one member of the Audit Committee has recent and relevant financial experience as required by the code. Stephen Kirkpatrick joined as a Board member on 1 April 2010 and has also joined the Audit Committee. Meetings were also attended, by invitation, by the external audit partner and the executive directors of Moyle Interconnector (Financing) plc and Premier Transmission Financing plc and the Group Finance Director.

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

Remuneration Committee

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

Nominations Committee

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

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

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

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

Mutual Energy board meeting, June 2010 (left to right): Felicity Huston, Paddy Larkin, Gerard McIlroy, Stephen Kirkpatrick, Gerry Walsh, Regina Finn and Peter Warry.

The committee was also charged in the year with considering the executive team requirement. On 1 January 2010, following a competitive recruitment process which attracted high calibre candidates, Paddy Larkin was appointed as Chief Executive. In addition Gerard McIlroy was appointed as Finance Director on 1 January 2010.

Risk Committee

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

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

Membership Selections Committee

The Membership Selections Committee comprises two non-executive directors, two members who are not also directors of the Company and two independents appointed by NIAUR. The non-executive directors on the Committee up to September 2009 were Alan McClure and Felicity Huston. When Alan McClure retired as Board member on 29 September 2009 his role was taken over by Gerry Walsh. Felicity Huston remained a member of the Committee throughout the year.

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

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

The Membership Selections Committee procures candidates through two routes:

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

During the year the Membership selection committee oversaw a successful membership recruitment campaign resulting in seven new members being appointed in April 2010.

Members

As Mutual Energy Limited, the holding company of the group, is a company limited by guarantee the board of directors are supervised in their leadership and control of the group by the members. During the year two members resigned from the company.

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

Members

Clarke Black	Felicity Huston	Allister Murphy
Ashley Boreland	Alasdair Locke	Niall Rafferty
Noel Brady	Damian McAteer	Noel Rice
David Brown	Alan McClure	Georges Senniger
Jim Burgess (resigned May 09)	Jim McCusker	Karen Shearer (resigned May 09)
John Campbell	Andy McCrea	Gerry Walsh
Boyd Carson	John McLean	Nuala Watkins
Bill Cherry	Colm McGarry	Peter Warry
Seamus Downey	Brendan Milligan	Noel Williams
Malcolm Emery	Gordon Millington	John Woods
Regina Finn	David Montgomery	

Bondholders

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

Internal control and risk management

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

The Board and its Committees maintain an ongoing process of identifying, evaluating and managing the significant financial, operational, compliance and general risks to the group's business. There is an ongoing process for identifying, evaluating and managing the group's significant risks which has been in place for the full year ended 31 March 2010 and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the Board and the Audit Committee. As a result of the previous year's review it was decided that a Risk Committee could further improve the process and therefore a Risk Committee was set up during the year.

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

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

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

Operational Risk

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

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

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

Emergency procedures and disaster recovery plans are maintained and tested.

Financial Risk

Risks associated with debt service liquidity and treasury management are discussed on page 25 of the Operational and Financial Review.

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

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

Specific recent and future market developments are discussed in the External Market Environment and Future Developments sections of the Operational and Financial Review.

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

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

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

Going concern

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

However, the group has always been cash generative, is forecast to remain cash positive over that 20 year period, has adequate banking facilities and has cash reserves of £92m. The forecast cash generated is adequate to meet the group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. Arrangements approved by the Northern Ireland Authority for Utility Regulation are in place to ensure sufficient cash is available to meet bond payments.

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

Gerard McIlroy
Company Secretary
23 June 2010

Remuneration Committee Report

The only listed securities of the group are the debt securities of Moyle Interconnector (Financing) plc, Belfast Gas Transmission Financing plc and Premier Transmission Financing plc. The group therefore makes the following disclosures voluntarily and they are not intended to and do not comply with the requirements of Chapter 6 of the Companies Act 2006.

Since 1 April 2009, the Remuneration Committee has been chaired by Regina Finn and comprised three other non-executive directors. The executive directors of the group companies did not attend meetings of the Remuneration Committee. The Committee are independent and save for their directors' fees have no financial interest in the group. The Remuneration Committee met three times during the year with attendance as listed in the Corporate Governance Statement. The role of the Remuneration Committee during the year was to approve and implement the remuneration policy and specifically:

- to review annually and agree the broad policy and framework for the remuneration of the executive directors;
- to agree the terms of the executive directors' service contracts and remuneration; and
- 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.

From March 2010, the remit of the committee was extended to cover all aspects of remuneration policy on a firm-wide basis, including reviewing, monitoring and making recommendations regarding the remuneration of the Chairman and senior staff.

Remuneration Policy

The group's objective for executive directors' remuneration for the year ended 31 March 2010 was that the levels of remuneration should be sufficient to attract, retain and motivate directors to deliver best value, high levels of customer service, safety and reliability in an efficient and responsible manner. The remuneration policy is based on the following principles:

Regina Finn
Chairman
Remuneration Committee

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

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

The group maintains liability insurance for the directors and officers of the group.

Directors' Remuneration

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

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

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

Table 1: Directors' remuneration

Directors	Basic salary 2009/10	Basic salary 2008/9	Benefits in kind for 2009/10	Benefits in kind for 2008/9	Performance Bonus for 2009/10	Performance Bonus for 2008/9	Total Remuneration 2009/10	Total Remuneration 2008/9	Total paid as salary 2009/10	Total paid as salary 2008/9
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Executive Directors										
William Cargo	**103**	103	**1**	1	**51**	103	**155**	207	**38**	38
Paddy Larkin	**111**	106	**1**	1	**48**	60	**160**	167	**159**	167
Gerard McIlroy*	**25**	-	-	-	**10**	-	**35**	-	**33**	-
Non-Executive Directors										
Regina Finn	**32**	14	-	-	-	-	**32**	14	**32**	14
Felicity Huston	**41**	41	-	-	-	-	**41**	41	**41**	41
Alasdair Locke	-	41	-	-	-	-	-	41	-	41
Damian McAteer	**16**	32	-	-	-	-	**16**	32	**16**	32
Alan McClure	**20**	41	-	-	-	-	**20**	41	**20**	41
Gerry Walsh	**32**	16	-	-	-	-	**32**	16	**32**	16
Peter Warry	**75**	30	-	-	-	-	**75**	30	**75**	30
Total	**455**	424	**2**	2	**109**	163	**566**	589	**446**	420

**from appointment as director on 1 January 2010 to 31 March 2010*

Remuneration in 2009/10

The following table sets out an analysis of the remuneration in 2009-10 and the previous year, including bonuses but excluding pensions, for individual directors of the group:

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

The difference between the "total remuneration" and "total paid as salary" in table 1, is salary taken as pension and benefits in kind. During the year Bill Cargo and Gerard McIlroy elected to take £65,482 and £2,097 respectively of salary by way of pension. This arrangement is known as a salary sacrifice, with the amount being taken from basic pay. The company salary sacrifice scheme allows the equivalent amount of employer's national insurance to be paid as pension to the employee rather than national insurance to HM Revenue and Customs. Bill Cargo also elected to receive the performance bonus reported in table 1 by way of pension. Pension contributions are outlined in table 2 below.

2008/9

Alasdair Locke retired as director of Mutual Energy Ltd, Moyle Interconnector (Financing) plc, Belfast Gas Transmission Financing plc and Premier Transmission Financing plc on 31 December 2008.

Peter Warry was appointed director of Mutual Energy Ltd on 23 September 2008 and was appointed as Chairman on 31 December 2008. Gerry Walsh and Regina Finn were appointed directors of Mutual Energy on 1 October 2008 and 1 November 2008 respectively.

2009/10

Alan McClure retired as director of Mutual Energy Ltd, Moyle Interconnector (Financing) plc, Belfast Gas Transmission financing plc, Premier Transmission Financing plc and all associated subsidiaries on 29 September 2009.

Damian McAteer also retired as director of Mutual Energy Ltd, Moyle Interconnector (Financing) plc, Belfast Gas Transmission financing plc, Premier Transmission Financing plc and all associated subsidiaries on 29 September 2009.

Gerard McIlroy was appointed as director of Mutual Energy Ltd, Moyle Interconnector (Financing) plc, Belfast Gas Transmission financing plc, and Premier Transmission Financing plc on 1 January 2010.

Remuneration committee report

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

Under their employee service contracts the executive directors may earn a bonus of up to 50% of basic salary, calculated on base salary before any salary sacrifice. The annual bonus is targeted at performance during the year. In 2009/10 the annual bonus scheme was split into three categories: essential targets, milestone targets and outperformance targets.

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

The Remuneration Committee has restructured the targets for 2010/11 with 25% of the performance related bonus against essential targets (including asset availability, performance and cost management) and 75% against items of strategic importance to the business (including business growth, improvements to the industry structure and future revenue streams).The strategic targets range for a period of more than one year.

All annual bonus payments are non pensionable.

Bonuses are included in table 1 based upon figures accrued. Any difference between the accrued amount and the actual is accounted for in the following year.

Pension
The group does not run its own pension scheme but instead makes defined contributions to the employees' personal pension plans. All payments to directors' pensions are made by way of defined contributions to their personal pension plans.

Employees may elect to take their bonuses by way of pension contribution.

Table 2: Pension contributions

	Company contributions to money purchase pension plan pension		Company contributions arising from salary sacrifice scheme		Contributions in lieu of bonus		Total	
	2009/10 £'000	2008/09 £'000	**2009/10 £'000**	2008/09 £'000	**2009/10 £'000**	2008/09 £'000	**2009/10 £'000**	2008/09 £'000
Paddy Larkin	**13**	11	-	-	-	-	**13**	11
William Cargo	**16**	16	**74**	73	**51**	103	**141**	192
Gerard McIlroy*	**4**	-	**2**	-	-	-	**6**	-
Totals	**33**	27	**76**	73	51	103	**160**	203

**from appointment as director on 1 January 2010 to 31 March 2010*

Risk Committee Report

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

The Committee met once during the year ended 31 March 2010 in order to determine its terms of reference. Attendance was as listed in the Corporate Governance Statement.

Role

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

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

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

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

Setting aside any requisite exceptional reporting, the Risk Committee will report to the Board in March 2011.

Gerry Walsh
Chairman, Risk Committee

Audit committee report

Audit Committee Report

The Audit Committee was in place throughout the year ended 31 March 2010 and all its members were independent in accordance with provision A.3.1 of the Combined Code.

Principal Responsibilities

The role of the audit committee is to:

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

Membership

Felicity Huston has been chairman of the Committee since 2005. She is currently a director of Huston and Co tax consultants. During the year the Committee comprised Felicity Huston (chairman), Regina Finn, Alan McClure, and Damian McAteer. Alan McClure and Damian McAteer resigned on 29th September 2009. 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. Stephen Kirkpatrick (CEO, Corbo Properties) joined the committee on 1 April 2010. Stephen is a Chartered Accountant and will be further strengthening the financial expertise of the Committee going forward. Other than the chairman, members receive no additional remuneration for their service on the Committee.

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

Felicity Huston
Chairman, Audit Committee

Activities

The Committee met three times in the year ended 31 March 2010 with attendance as listed in the Corporate Governance Statement. In accordance with its terms of reference and business and accounting developments during the year, matters considered by the Committee included:

Financial reporting

- reviewing the financial statements of the group and any significant financial reporting issues and judgements which they contain;
- reviewing and challenging where necessary: the consistency of, and any changes to accounting policies; the methods used to account for significant or unusual transactions; whether the group has followed appropriate accounting standards and made appropriate estimates and judgements; 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, where necessary, on any area within its remit where action or improvement is needed.

Internal controls and risk management systems

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

Auditors

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

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

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

Members site visit to Moyle, May 2010.

Members site visit to Moyle, May 2010.

Members

Clarke Black
Clarke is a Fellow of the Royal Agricultural Societies and has an MBA. Currently CEO of the Ulster Farmers Union, he is Director of several agricultural related companies, including the NI food promotion body, Food NI. He is a member of the DARD/DETI, Food Policy Advisory Panel and chairs the Agri Rural Forum. He has 18 years experience in the banking industry, initially with UFB Humberclyde and latterly with Northern Bank and National Irish Bank.

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

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

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

James Burgess
James has been a member of Moyle Holdings Limited since 2003. He was formerly Director of the Consumer Power Corporation, James W Burgess Surveyors and Kenlin Properties.

John Campbell
John is a Chartered Director and studied a BA Tech Electrical & Electronic Engineering with further studies in Cert Applied Economics, Dip Management Studies, Dip Marketing, MBA, MA in Human Resource Mgt, and Certified Dip in Accounting and Finance, as well as an Executive Leadership Certificate from Cornell University. John was previously UK Director of Teletech which is a Fortune 500 company, Chief Executive of Dungannon & South Tyrone Borough Council, Commercial Services Director in Translink, Group Business Development and Improvement Director at Lamont Holdings PLC, and a variety of positions in British Telecom.

John is also a Board Member of the Central Services Agency, and was a Board member of the Sports Council for Northern Ireland. He is also a lay magistrate.

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

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

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

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

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

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

Alan McClure
Alan McClure is the former President and CEO of Perfecseal Inc. and is the past Chairman of Ilex Urban Regeneration Company Limited, a public-private sector body set up by Government to oversee the social and economic regeneration of Derry City Council area. A former Chairman of the Northern Ireland Institute of Directors and President of Londonderry Chamber of Commerce, Dr McClure holds executive and non-executive roles in a number of companies across a range of disciplines in the United Kingdom. He was a Board Member of Northern Ireland Energy Holdings until 29th September 2009.

Andy McCrea
Andy McCrea began his career in 1975 with Northern Ireland Electricity, initially in the power stations, then in new power generation planning and eventually in the customer-facing Supply business. In NIE Supply, Andy worked to deliver energy efficiency schemes, renewable energy initiatives, fuel poverty solutions and environmental excellence for NIE (as the company Environmental Manager). From 2003 to January 2009 he was Director and Chief Executive of Action Renewables, set up as a joint initiative with Viridian and the Department of Enterprise, Trade and Investment. In January 2009 he joined the international consultancy company Faber Maunsell/AECOM as a Director charged with developing new business in energy and sustainability which includes renewable energy, energy efficiency, demand side management and waste solutions.

Mutual Energy
Members

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

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

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

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

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

David Montgomery
David Montgomery founded Mecom in 2000 and was the Executive Chairman until January 2009. He has since worked on a number of acquisitions in Europe to establish Mecom as one of the leading European publishing and content businesses. Prior to becoming editor of News of the World in 1985, he was Managing Director of News UK Limited, editor of the Today newspaper and a non-executive director of Satellite Television plc. Between 1992 and 1999, he was Chief Executive of Mirror Group plc, where he oversaw its substantial restructuring. He was a Board Member of Northern Ireland Energy Holdings until 31 March 2008.

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

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

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

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

Members

Karen Shearer
Karen is a Chartered Director and Fellow of the Institute of Chartered Accountants in Ireland. She is Finance Director at MSO Cleland and was previously employed by Lamont Holdings plc and Coopers & Lybrand.

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

Noel Williams
Noel Williams is the Head of the Energy Saving Trust (EST) in Northern Ireland (NI). His remit is to maximise the effectiveness of EST's programmes and oversee its long-term strategy in NI whilst addressing the damaging effects of climate change, reducing NI's greenhouse gas emissions and tackling fuel poverty. EST (NI) maintains relationships with key NI partners such as Government Departments, NIE Energy, Phoenix Natural Gas, Firmus Energy, NI Housing Executive, Housing Associations, the Oil Industry, NI Local Authorities and other stakeholders.

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

Members attending the launch of Mutual Energy in Parliament Buildings, November 2009.

Members site vist to Moyle, May 2010.

Mutual Energy

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

Annual report for the year ended
31 March 2010

mutualenergy

Mutual Energy
Directors and Advisers

Directors

Peter Warry	Chairman
Felicity Huston	
Patrick Larkin	Executive Director
Gerry Walsh	Senior Independent Director
Regina Finn	
Gerard McIlroy	Executive Director

Company secretary
Gerard McIlroy

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

Principal place of business
First Floor
The Arena Building
85 Ormeau Road
Belfast, BT7 1SH

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

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

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

Registered Number: NI 053759

The directors present their report and the audited financial statements for the year ended 31 March 2010.

The company changed its name from Northern Ireland Energy Holdings Limited to Mutual Energy Limited on 9 November 2009.

Principal activities and business review

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

The Operating and Financial Review and Corporate Governance Statement on pages 8 to 33 provide a review of the business and future development for the group and is therefore incorporated in this report by cross reference.

Results

The group's profit for the year is £436,000 (2009: loss of £4,100,000).

Directors

The directors who served the group during the year were:

Alan McClure	(Resigned 29 September 2009)
Felicity Huston	
Damian McAteer	(Resigned 29 September 2009)
Patrick Larkin	
William Cargo	(Resigned 1 January 2010)
Regina Finn	
Gerry Walsh	
Peter Warry	
Gerard McIlroy	(Appointed 1 January 2010)

Financial risk management

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

Political and charitable donations

No political or charitable donations have been made during the year (2009: £nil).

Payment of suppliers

The group's procurement policy is to source equipment, goods and services from a wide range of suppliers in accordance with commercial practices based on fairness and transparency.

The group recognises the important role that suppliers play in its business and works to ensure that payments are made to them in accordance with agreed contract terms.

The group had trade payable days of 21 days at 31 March 2010 (2009: 20 days). The group intends to continue to meet the payment terms contained in its agreements with suppliers.

Derivative financial instruments

The directors wish to draw the attention of readers to note 24 of these financial statements which explains the treatment of derivative financial instruments. During the period ended 31 March 2006 the group entered into two index-linked swaps in order to hedge against index-linked revenues receivable under the licence agreement with the regulator. The rationale for this hedge was to ensure that under no circumstances would the group, and therefore by implication the gas consumers of Northern Ireland, suffer losses from a falling Retail Price Index. Even though this hedge is almost 100% effective in commercial terms, in order to adhere to IFRS, the hedge cannot be accounted for as an accounting hedge as it does not meet the specific conditions in the relevant standard. Accordingly the movement of the fair value of these index-linked swaps is reported in the income statement under finance costs.

As the Retail Price Index is higher than was expected at the time the index-linked swaps were entered into, a financial liability arises. The financial liability in respect of these index-linked swaps is £28,092,000 as at 31 March 2010. This fair value effectively represents the amount that the group would have to pay to discharge itself from the index-linked swaps; however, the group has no intention of discharging itself from its obligations as the index-linked swaps hedge against future index-linked revenues. As the hedge is almost 100% effective in commercial terms it follows that the group has in effect a financial asset of approximately £28,092,000. in respect of future revenues, however, this financial asset can not

be recognised under IFRS and therefore there is a significant accounting mis-match of costs and revenues in these financial statements. In the event that the Retail Price Index is expected to fall then the financial liability will reduce. Had the requirement to fair value this financial liability not been required the group's reported profit for the year would have been £3,337,000 (2009: loss of £2,475,000).

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.

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

Statement of disclosure of information to auditors

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

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

Independent auditors

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

By order of the Board

Gerard McIlroy
Company secretary
23 June 2010

Independent auditors' report

to the members of Mutual Energy Limited

We have audited the group and parent company financial statements (the "financial statements") of Mutual Energy Limited for the year ended 31 March 2010 which comprise the group statement of comprehensive income, the group and parent company balance sheets, the group and parent company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 48, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2010 and of the group's profit and group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
30 June 2010

Mutual Energy

Group statement of comprehensive income

for the year ended 31 March 2010

	Notes	2010 £'000	2009 £'000
Revenue – continuing operations	2	**37,067**	43,894
Operating costs	3	**(24,329)**	(27,518)
Earnings before depreciation and amortisation of intangible assets		**23,403**	26,993
Amortisation of intangible assets		**(5,550)**	(5,550)
Depreciation (net of amortisation of government grants)		**(5,115)**	(5,067)
Operating profit		**12,738**	16,376
Finance income	5	**2,963**	5,033
Finance costs	5	**(10,596)**	(23,667)
Fair value adjustment on derivative financial instruments	5	**(4,029)**	(2,253)
Finance costs – net	5	**(11,662)**	(20,887)
Profit/(loss) before income tax		**1,076**	(4,511)
Income tax (charge)/credit	6	**(640)**	411
Profit/(loss) for the year	16	**436**	(4,100)

The notes on pages 53 to 77 are an integral part of these group financial statements.

Group and parent company balance sheets

at 31 March 2010

		Group		Company	
		2010	2009	**2010**	2009
	Notes	**£'000**	£'000	**£'000**	£'000
Assets					
Non current assets					
Property, plant and equipment	8	**232,096**	239,911	**17**	31
Intangible assets	9	**185,359**	190,909	**-**	-
Investment in subsidiary undertakings	10	**-**	-	**10,250**	10,250
Other investments	11	**3,539**	2,747	**-**	-
Trade and other receivables	12	**10,000**	10,000	**-**	-
Deferred income tax assets	18	**8,091**	7,370	**8**	6
		439,085	450,937	**10,275**	10,287
Current assets					
Trade and other receivables	12	**9,977**	8,866	**1,518**	1,159
Financial assets	13	**1,942**	-	**-**	-
Cash and cash equivalents	14	**92,200**	89,374	**543**	459
		104,119	98,240	**2,061**	1,618
Total assets		**543,204**	549,177	**12,336**	11,905
Equity					
Ordinary shares	15	**-**	-	**-**	-
Retained earnings	16	**(4,781)**	(5,217)	**(472)**	(78)
Total equity		**(4,781)**	(5,217)	**(472)**	(78)
Liabilities					
Non current liabilities					
Borrowings	17	**334,599**	343,781	**12,547**	11,846
Provisions	18	**2,536**	3,106	**-**	-
Deferred income tax liabilities	19	**78,920**	80,228	**-**	-
Government grants	20	**79,002**	81,701	**-**	-
Derivative financial instruments	24	**28,092**	24,063	**-**	-
		523,149	532,879	**12,547**	11,846
Current liabilities					
Trade and other payables	21	**10,524**	9,855	**261**	137
Income tax liabilities		**1,911**	484	**-**	-
Borrowings	17	**9,696**	8,471	**-**	-
Government grants	20	**2,705**	2,705	**-**	-
		24,836	21,515	**261**	137
Total liabilities		**547,985**	554,394	**12,808**	11,983
Total equity and liabilities		**543,204**	549,177	**12,336**	11,905

The notes on pages 53 to 77 are an integral part of these group financial statements.

The group financial statements on pages 50 to 77 were authorised for issue by the Board of Directors on 23 June 2010 and were signed on its behalf by: Patrick Larkin, **Director** Felicity Huston, **Director**

Mutual Energy

Group and parent company cash flow statements

for the year ended 31 March 2010

	Notes	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Cash flows from operating activities					
Profit before income tax and finance costs		**12,738**	16,375	**64**	105
Adjustments for:					
Depreciation of property, plant and equipment		**7,820**	7,776	**19**	20
Amortisation of government grants		**(2,699)**	(2,708)	**-**	
Amortisation of intangible assets		**5,550**	5,550	**-**	
Movement in trade and other receivables		**(1,111)**	1,354	**(359)**	(58)
Movement in trade and other payables		**669**	52	**825**	(411)
Income tax (paid)/received		**(1,242)**	(361)	**177**	-
Net cash generated from/(used in) operating activities		**21,725**	28,038	**726**	(344)
Cash flows from investing activities					
Interest received		**2,392**	5,026	**64**	471
Purchase of property, plant and equipment		**(5)**	(539)	**(5)**	(21)
Purchase of other investment		**(734)**	(607)	**-**	-
Purchase of financial assets		**2,000**	-	**-**	-
Purchase of loan notes		**-**	(10,000)	**-**	-
Acquisition of subsidiary undertaking		**-**	(1,902)	**-**	-
Net cash (used in)/generated from investing activities		**(347)**	(8,022)	**59**	450
Cash flows from financing activities					
Interest paid		**(9,760)**	(10,421)	**(701)**	-
Repayment of borrowings		**(8,792)**	(7,783)	**-**	-
Net cash used in financing activities		**(18,552)**	(18,204)	**(701)**	-
Movement in cash and cash equivalents		**2,826**	1,812	**84**	106
Cash and cash equivalents at the beginning of the year	14	**89,374**	87,562	**459**	353
Cash and cash equivalents at the end of the year	14	**92,200**	89,374	**543**	459

The notes on pages 53 to 77 are an integral part of these group financial statements.

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 to 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 2010 and were signed on their behalf by Patrick Larkin and Felicity Huston. 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 61.

Going concern

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

However the group has always been cash generative, is forecast to remain cash positive over that 20 year period, has adequate banking facilities and has cash reserves of £92m. The forecast cash generated is adequate to meet the group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. Arrangements approved by the Northern Ireland Authority for Utility Regulation are in place to ensure sufficient cash is available to ensure bond payments are made.

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

Statement of compliance with IFRSs

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

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

Standards, amendments and interpretations effective in the year ended 31 March 2010 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2010 and are relevant to the group's or parent company's operations:

- IAS 1 Revised - This revised standard requires entities to prepare a statement of comprehensive income. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Owner changes in equity are shown in a statement of changes in equity. In addition, entities making restatements or reclassifications of comparative information are required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period;

- IFRS 8 - This standard replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. This new standard uses a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes; and

- Amendment to IFRS 7 - This amendment forms part of the IASB's response to the financial crisis and addresses the G20 conclusions aimed at improving transparency and enhance accounting guidance. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities.

Standards, amendments and interpretations effective in the year ended 31 March 2010 and that are not relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2010 but they are not relevant to the group's or parent company's operations:

International Accounting Standards (IAS/IFRSs)

IAS 32 (A)	Amendment to financial instruments: presentation
IAS 23 (R)	Borrowing costs (revised)
IAS 32/IFRS 7 (A)	Amendment to financial instruments: reclassification
IFRIC 9/IA S 39 (A)	Amendment to financial instruments: embedded derivatives
IFRS 1	Amendment to first time adoption of IFRS
IFRS 2	Amendment to share based payments: vesting conditions

International Financial Reporting Interpretation Committee (IFRICs)

IFRIC 12	Service concession arrangements
IFRIC 13	Customer loyalty programmes
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign investment

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

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

		Effective date
International Accounting Standards (IAS/IFRSs)		
IAS 24 (A)	Amendment to related party disclosures	1 July 2009 (*)
IAS 27 (R)	Consolidated and separate financial statements (revised)	1 July 2009
IFRS 9	Financial instruments	1 January 2009 (*)
IAS 32 (A)	Amendment to financial instruments: presentation on classification of rights issues	1 February 2010
IAS 39 (A)	Amendment to financial instruments: eligible hedged items	1 July 2009 (*)
IFRS 2 (A)	Amendment to share based payments: group cash-settled transactions	1 January 2010
IFRS 3 (R)	Business combinations (Revised)	1 July 2009
International Financial Reporting Interpretation Committee (IFRICs)		
IFRIC 14 (A)	Amendment to IAS 19	1 January 2011
IFRIC 18	Transfer of assets from customers	31 October 2009
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010 (*)

(*) not yet adopted by the European Union.

Basis of consolidation

The group financial statements consolidate the financial statements of Mutual Energy Limited and its subsidiary undertakings drawn up to 31 March 2010. Subsidiaries are entities that are directly or indirectly controlled by the group. Control exists where the group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

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

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

Segment reporting

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

Revenue

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

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

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.

Intangible assets

Acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. The estimated remaining useful economic life of the licences is 24 years for the Scotland to Northern Ireland pipeline, 27 years for the Moyle Interconnector and 42 years for the Belfast Gas Transmission pipeline.

Property, plant and equipment

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Impairment of non-financial assets

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

Investments

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

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

Classification of financial instruments

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

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

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

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

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

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

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

Available-for-sale financial assets (financial instruments)

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

Loans and receivables (financial instruments)

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

Trade and other 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

(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.

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

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

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

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

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

(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 in (a). 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 profit or loss – is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

Other financial liabilities at amortised cost (financial instruments)

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

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

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

Decommissioning provision
Decommissioning costs are provided at the present value of the expenditures expected to settle the obligation, using estimated cash flows based on current prices. The unwinding of the decommissioning provision is included within the income statement. The estimated future costs of the decommissioning obligations are regularly reviewed 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.

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

Income tax and deferred income tax

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

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

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

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

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

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

Government grants

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

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

Operating lease commitments

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

Pensions and other post-retirement benefits

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

Foreign currency translation

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

Financial Risk Management

Financial risk factors

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

Premier Transmission Financing plc and Belfast Gas Transmission Financing plc

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

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

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

(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 basis point would have increased finance costs during the year by £3,645,000.

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

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

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

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

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

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The group's only financial instruments fair valued (for recognition purposes) under level 1 is the group's available-for-sale current asset investment of £1,942,000 in debt securities. The fair value of these debt securities is based on quoted market prices.

1 Accounting policies, financial risk management & critical accounting estimates/judgements (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 current and non-current loans and receivables and the group's borrowings. The fair value of these financial instruments is determined by discounting future cash flows using a suitable discount rate. These discount rates are based on Bank of England 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:

(a) Estimate of useful economic life of assets
The group assesses the useful economic life of assets on an annual basis.

The remaining useful economic life of the Scotland to Northern Ireland pipeline was determined as approximately 30.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 31.5 years, depreciation would have decreased by £100,000 and if the remaining useful economic life had been assessed at 29.5 years, depreciation would have increased by £107,000.

The remaining useful economic life of the interconnector was determined as approximately 33 years at the beginning of the year. If the remaining useful economic life had been assessed at 34 years depreciation would have decreased by £93,000 and if the remaining useful economic life had been assessed at 32 years depreciation would have increased by £99,000.

The remaining useful economic life of the Belfast Gas Transmission pipeline was determined as approximately 30 years at the beginning of the year. If the remaining useful economic life had been assessed at 31 years depreciation would have decreased by £40,000 and if the remaining useful economic life had been assessed at 29 years depreciation would have increased by £43,000.

(b) 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 4.21%. The decommissioning provision has been discounted using a rate of 4.47%. The effect of changing the discount rate and inflation factor on the decommissioning provision is disclosed in the table below.

	Increase/(decrease) in provision £'000
Increase in inflation factor by 1%	908
Decrease in inflation factor by 1%	(674)
Increase in discount rate by 1%	(667)
Decrease in discount rate by 1%	915

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 to 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 provide services to customers in the United Kingdom.

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

The segment information provided to the strategic steering committee for the reportable segments for the year ended 31 March 2010 is as follows:

Year ended 31 March 2010	Moyle Interconnector £'000	Premier Transmission £'000	Belfast Gas Transmission £'000	Other £'000	Total £'000
Segment revenue to external customers	18,045	14,459	4,563	-	37,067
Segment expenses	(4,430)	(7,817)	(1,383)	(34)	(13,664)
Segment results (adjusted EBITDA)	13,615	6,642	3,180	(34)	23,403
Depreciation and amortisation (net of government grants)	(3,706)	(3,478)	(3,441)	(40)	(10,665)
Finance income	2,879	416	62	(394)	2,963
Finance costs	(2,526)	(1,428)	(6,642)	-	(10,596)
Fair value adjustment on derivative financial instruments	-	(4,029)	-	-	(4,029)
Profit/(loss) before income tax	10,262	(1,877)	(6,841)	(468)	1,076
Income tax (charge)/credit	(2,937)	527	1,672	98	(640)
Profit/(loss) for the year	7,325	(1,350)	(5,169)	(370)	436
Assets					
Segment Assets	206,013	166,016	148,463	22,712	543,204

2 Segment information (continued)

Year ended 31 March 2009	Moyle Interconnector £'000	Premier Transmission £'000	Belfast Gas Transmission £'000	Other £'000	Total £'000
Segment revenue to external customers	20,463	18,690	4,741	-	43,894
Segment expenses	(5,329)	(10,390)	(1,494)	312	(16,901)
Segment results (adjusted EBITDA)	15,134	8,300	3,247	312	26,993
Depreciation and amortisation (net of government grants)	(3,683)	(3,473)	(3,440)	(21)	(10,617)
Finance income	3,601	1,250	284	(102)	5,033
Finance costs	(12,188)	(8,639)	(2,839)	(1)	(23,667)
Fair value adjustment on derivative financial instruments	-	(2,253)	-	-	(2,253)
Profit/(loss) before income tax	2,864	(4,815)	(2,748)	188	(4,511)
Income tax (charge)/credit	(797)	483	770	(45)	411
Profit/(loss) for the year	2,067	(4,332)	(1,978)	143	(4,100)
Assets					
Segment assets	206,371	168,042	151,774	22,990	549,177

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 £19,022,000 are obtained under the postalised system (which is a system by which the group earns sufficient revenues to cover its operating costs and debt repayments) and cannot be attributed to individual customers.

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

	2010 £'000	2009 £'000
Customer A	**7,803**	8,311
Customer B	**4,867**	6,251
Customer C	**2,280**	2,159
	14,950	16,721

3 Expenses by nature

Group	2010 £'000	2009 £'000
Employee benefit expense (note 4)	1,055	1,003
Depreciation and amortisation (net of amortisation of government grants)	10,665	10,617
Operating lease payments	183	177
Fees payable to the company's auditor in respect of the audit of the financial statements	50	51
Fees payable to the company's auditor in respect of taxation services	18	12
Other expenses	12,358	15,658
Total operating costs	24,329	27,518

4 Employee benefit expense

Group	2010 £'000	2009 £'000
Wages and salaries	775	628
Social security costs	95	103
Pension costs – defined contribution pension scheme	185	272
	1,055	1,003

The average monthly number of employees during the period (including directors holding contracts of service with the group) was 12 (2009: 12).

	2010 £'000	2009 £'000
Directors' emoluments		
Aggregate emoluments	231	205
Contributions paid to defined contribution pension schemes	160	203
	391	408

	Number	Number
Members of defined contribution pension schemes	8	6

Directors' emoluments represent the remuneration of the group's executive directors, William Cargo (resigned 1 January 2010), Patrick Larkin and Gerard McIlroy (2009: William Cargo and Patrick Larkin). The remaining directors of the group received £216,000 (2009: £215,000) 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 £38,000 (2009: £38,000) and the contributions paid to his defined contribution pension scheme were £141,000 (2009: £192,000).

Company

The company's employee benefits expense during the year was £452,000 (2009: £402,000). Included in this amount is £46,000 (2009: £39,000) of social security costs and £19,000 (2009: £37,000) in respect of pension costs.

5 Finance income and costs

Group	2010 £'000	2009 £'000
Interest expense:		
Borrowings (including borrowing fees)	10,596	22,895
Movement of discount on decommissioning provision	-	772
Fair value adjustment in respect of derivative financial instruments (note 24)	4,029	2,253
Finance costs	14,625	25,920
Interest income:		
Short-term bank deposits	(2,050)	(4,896)
Movement of discount on decommissioning provision	(571)	-
Financial assets	(342)	(137)
Finance income	(2,963)	(5,033)
Finance costs – net	11,662	20,887

6 Income tax charge/(credit)

Group	2010 £'000	2009 £'000
Current income tax:		
Current income tax charged at 28%	2,515	464
Adjustment in respect of previous periods	154	-
Total current income tax	2,669	464
Deferred income tax:		
Origination and reversal of temporary differences	(1,257)	(238)
Arising on derivative financial instruments	(1,128)	(631)
Adjustments in respect of previous periods	356	(6)
Total deferred income tax	(2,029)	(875)
Income tax charge/(credit)	640	(411)

The income tax charge/(credit) in the income statement for the year differs from the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are reconciled below:

	2010 £'000	2009 £'000
Profit/(loss) before income tax	1,076	(4,511)
Tax calculated at the UK standard rate of corporation tax of 28% (2009: 28%)	301	(1,263)
Effects of:		
Income not taxable	(171)	-
Deferred tax asset de-recognised	-	858
Adjustments in respect of previous periods	510	(6)
Income tax charge/(credit)	640	(411)

7 Loss attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The loss dealt with in the financial statements of the parent company is £394,000 (2009: £119,000).

8 Property, plant and equipment

Group	Pipelines £'000	Interconnector £'000	Control equipment £'000	Office and Computer equipment £'000	Total £'000
Cost					
At 1 April 2008	146,523	128,748	3,785	303	279,359
Additions	467	-	-	72	539
Adjustment to decommissioning provision	-	(849)	-	-	(849)
At 31 March 2009	**146,990**	**127,899**	**3,785**	**375**	**279,049**
Additions	**-**	**-**	**-**	**5**	**5**
At 31 March 2010	**146,990**	**127,899**	**3,785**	**380**	**279,054**
Accumulated depreciation					
At 1 April 2008	9,382	20,635	1,135	210	31,362
Provided during the year	4,377	3,155	190	54	7,776
At 31 March 2009	**13,759**	**23,790**	**1,325**	**264**	**39,138**
Provided during the year	**4,385**	**3,180**	**188**	**67**	**7,820**
At 31 March 2010	**18,144**	**26,970**	**1,513**	**331**	**46,958**
Net book amount					
At 31 March 2010	**128,846**	**100,929**	**2,272**	**49**	**232,096**
At 31 March 2009	133,231	104,109	2,460	111	239,911
At 31 March 2008	137,141	108,113	2,650	93	247,997

Depreciation expense of £7,820,000 (2009: £7,776,000) has been fully charged to operating costs.

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

8 Property, plant and equipment (continued)

Company	Office and Computer equipment £'000	Total £'000
Cost		
At 1 April 2008	51	51
Additions	20	20
At 31 March 2009	71	71
Additions	5	5
At 31 March 2010	76	76
Accumulated depreciation		
At 1 April 2008	20	20
Provided during the year	20	20
At 31 March 2009	40	40
Provided during the year	19	19
At 31 March 2010	59	59
Net book amount		
At 31 March 2010	17	17
At 31 March 2009	31	31
At 31 March 2008	31	31

9 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2008	2,435	206,927	209,362
Adjustment to fair value of acquisitions	-	(392)	(392)
At 31 March 2009 and **at 31 March 2010**	**2,435**	**206,535**	**208,970**
Accumulated amortisation			
At 1 April 2008	-	12,511	12,511
Provided during the year	-	5,550	5,550
At 31 March 2009	**-**	**18,061**	**18,061**
Provided during the year	**-**	**5,550**	**5,550**
At 31 March 2010	**-**	**23,611**	**23,611**
Net book amount			
At 31 March 2010	**2,435**	**182,924**	**185,359**
At 31 March 2009	2,435	188,474	190,909
At 31 March 2008	2,435	194,416	196,851

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 29 years (Scotland to Northern Ireland pipeline), 44 years (Belfast Gas Transmission pipeline) and 34 years (electricity transmission). The group has concluded that these assets have a remaining useful economic life of 24 years, 42 years and 27 years respectively.

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

Impairment testing

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

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

The discount rate of 4.67% used is based on Bank of England UK gilt yield curve data for a debt with a remaining maturity of 20 years. The inflation rate assumption used by the group in these calculations of 4.17% has been obtained from Bank of England yield curves over a 20 year period.

Sensitivity to changes in assumptions

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

10 Investments

Company	Subsidiary undertakings £'000
Cost	
At 1 April 2008, 31 March 2009 and **at 31 March 2010**	**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 and are owned 100% by the group, are:

Name of Company	Holding	Nature of business
Moyle Holdings Limited	Limited by guarantee	Holding company
Moyle Interconnector (Financing) plc *	Ordinary shares	Financing
Moyle Interconnector Limited *	Ordinary shares	Operation of Moyle Interconnector
Premier Transmission Holdings Limited *	Ordinary shares	Holding company
Premier Transmission Financing plc*	Ordinary shares	Financing
Premier Transmission Limited*	Ordinary shares	Operation of Scotland to Northern Ireland Pipeline
Moyle Energy Investments Limited	Ordinary shares Preference shares	Investing
Interconnector Services Limited	Ordinary shares	Procurement of seabed survey, maintenance and emergency response and security services
Northern Ireland Gas Transmission Holdings Limited	Ordinary shares	Dormant
Belfast Gas Transmission Holdings Limited*	Ordinary shares	Holding company
Belfast Gas Transmission Financing plc*	Ordinary shares	Financing
Belfast Gas Transmission Limited*	Ordinary shares	Operation of the Belfast Gas Transmission pipeline
Northern Ireland Energy Holdings Limited	Ordinary shares	Holding company

(*) held by a subsidiary undertaking

11 Other Investments

Group	£'000
Cost	
At 1 April 2008	2,140
Additions	607
At 31 March 2009	**2,747**
Additions	**792**
At 31 March 2009	**3,539**

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

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

12 Trade and other receivables

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Trade receivables	**2,031**	523	**-**	-
Prepayments and accrued income	**4,409**	4,646	**-**	-
Loan notes receivable	**10,000**	10,000	**-**	-
Other receivables	**3,537**	3,697	**16**	37
Amounts owed by subsidiary undertakings	**-**	-	**1,502**	1,122
	19,977	18,866	**1,518**	1,159
Less: loan notes receivable (non-current)	**(10,000)**	(10,000)	**-**	-
	9,977	8,866	**1,518**	1,159

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 their trade and other receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The group's loan notes receivable carry interest at rates between 3.12% and 3.31% per annum and are index linked to the Retail Price Index. They are repayable by the issuer in 4 equal tranches of £2,500,000 commencing 31 March 2013. The fair value of these loan notes is £13,146,000 (2009: £10,367,936). This fair value has been calculated by discounting the future cash flows using discount rates of between 1.83% and 2.98%. The fair value of the group's and company's other current trade and other receivables is not materially different to their carrying values.

13 Financial assets

Group	£'000
Cost	
At 1 April 2009	-
Additions	1,942
At 31 March 2010	1,942

The available-for-sale financial assets represent an investment in UK Government sterling gilts. These gilts carry an interest rate of 4.25% and are due for redemption by 7 March 2011. The maximum exposure to credit risk at the reporting date is the carrying value of the investment mentioned above. None of the group's investments are impaired or past due. The fair value of the group's investments is not materially different to their carrying values.

14 Cash and cash equivalents

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Cash at bank and in hand	18,552	13,581	-	-
Short-term bank deposits	73,648	75,793	543	459
	92,200	89,374	543	459

Cash and cash equivalents earn interest at a range from Bank of England base rate less 0.15% to Bank of England base rate plus 2.5%.

15 Called up share capital

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

16 Retained earnings

Group	£'000
At 1 April 2008	(1,117)
Total comprehensive income for the year	(4,100)
At 31 March 2009	(5,217)
Total comprehensive income for the year	436
At 31 March 2010	(4,781)

Company	£'000
At 1 April 2008	41
Total comprehensive income for the year	(119)
At 31 March 2009	(78)
Total comprehensive income for the year	(394)
At 31 March 2010	(472)

17 Borrowings

	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Non-current				
5.2022% Guaranteed secured bond	**102,372**	106,847	**-**	-
2.9376% Index linked guaranteed secured bond	**120,764**	128,791	**-**	-
2.207% Index linked guaranteed secured bond	**111,463**	108,143	**-**	-
Amounts owed to group undertakings	**-**	-	**12,547**	11,846
	334,599	343,781	**12,547**	11,846
Current				
5.2022% Guaranteed secured bond	**2,889**	2,745	-	-
2.9736% Index linked guaranteed secured bond	**6,158**	5,171	-	-
2.207% Index linked guaranteed secured bond	**649**	555	-	-
	9,696	8,471	**-**	-
Total borrowings	**344,295**	352,252	**12,547**	11,846

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

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

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

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

18 Provisions

Group	Decomissioning Provision £'000
At 31 March 2008	3,184
Adjustment to cost estimate (note 8)	(849)
Movement on discount during the year	771
At 31 March 2009	**3,106**
Movement on discount during the year	**(570)**
At 31 March 2010	**2,536**

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the Interconnector in 33 years, at the end of its useful economic life. This provision is expected to be utilised within 33 years. The provision represents the present value of the current estimated costs of dismantling the connections to the main electricity grids in Scotland and Northern Ireland. The provision has been discounted at a rate of 4.47% (2009: 4.37%).

19 Deferred income tax

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

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Deferred income tax assets	**8,091**	7,370	**8**	6
Deferred income tax liabilities	**(78,920)**	(80,228)	**-**	-
Deferred income tax (liabilities)/assets - net	**(70,829)**	(72,858)	**8**	6

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

	Group £'000	Company £'000
At 31 March 2008	(71,394)	-
Adjustment to fair value of acquisitions	(2,339)	-
Income statement credit for the year	875	6
At 31 March 2009	**(72,858)**	**6**
Income statement credit for the year	**2,029**	**2**
At 31 March 2010	**(70,829)**	**8**

19 Deferred income tax (continued)

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

Group	Tax losses £'000	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Derivative financial instruments £'000	Total £'000
At 31 March 2008	1,509	(24,573)	(54,437)	6,107	(71,394)
Adjustment to fair value of acquisitions	-	(2,450)	111	-	(2,339)
Income statement (charge)/credit for the year	(878)	(432)	1,554	631	875
At 31 March 2009	631	(27,455)	(52,772)	6,738	(72,858)
Income statement (charge)/credit for the year	(406)	(247)	1,554	1,128	2,029
At 31 March 2010	225	(27,702)	(51,218)	7,866	(70,829)

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 after more than 12 months as it will depend on the movement of interest rates. The group expects to utilise its tax losses over a number of years and accordingly the deferred tax asset arising from tax losses is considered to fall due after more than 12 months. The portion of the group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £49,664,000 (2009: £51,218,000). 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 £27,702,000 (2009: £27,455,000).
The company's deferred tax asset relates to accelerated capital allowances.

20 Government grants

Group	£'000
At 31 March 2008	89,756
Adjustment to fair value of acquisitions	(2,639)
Amortised during the year	(2,705)
At 31 March 2009	84,412
Amortised during the year	(2,705)
At 31 March 2010	81,707

The grants were provided to the company for the purpose of its expenditure on its property, plant and equipment. The current portion of the government grants is £2,705,000 (2009: £2,705,000), and the non current portion is £79,002,000 (2009: £81,707,000).

21 Trade and other payables

	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Trade payables	**662**	2,120	**36**	10
Accruals and deferred income	**8,565**	6,301	**101**	56
Amounts owed to subsidiary undertakings	**-**	-	**124**	71
Other tax and social security	**1,094**	1,064	**-**	-
Other payables	**203**	370	**-**	-
	10,524	9,855	**261**	137

22 Commitments

Operating lease commitments - group as lessee

The group has entered into commercial leases on land and these leases have remaining lease terms of 5, 25, 41 and 90 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	**2010**	2009
	£'000	£'000
Not later than one year	**217**	217
After one year but not more than five years	**867**	867
After more than five years	**9,769**	9,914
	10,853	10,998

Other financial commitments

Under the terms of the European Renewable Energy Fund Limited Partnership Agreement, the group is committed to provide funding of Euro 15 million, of which Euro 4.4 million has been invested to date, with the balance to be provided during the next four years.

23 Related party transactions

The ultimate controlling parties of the group are the members.

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

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

Company	Amount owed (to)/from related party	
	2010	2009
	£'000	£'000
Subsidiary undertakings	**1,502**	1,122
Subsidiary undertakings	**(124)**	71
Subsidiary undertakings	**(12,547)**	(11,846)

23 Related party transactions (continued)

In addition to the amounts owed to related parties as disclosed above, the group 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	Amount of transaction 2010 £'000	2009 £'000
Subsidiary undertakings	Interest payable	701	662
Subsidiary undertakings	Group relief surrendered	181	143
Subsidiary undertakings	Charges receivable	1,503	1,228

Compensation of key management (including directors):

Group	2010 £'000	2009 £'000
Short term employee benefits	231	205
Post-employment benefits	160	203

24 Financial instruments

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

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

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

At 31 March 2010 Group	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.9376% Index linked bond	9,914	10,641	10,710	10,558	10,324	115,386	167,533
5.2022% Bond	5,817	5,932	6,050	6,171	6,293	110,861	141,124
2.207% Index linked bond	3,119	3,182	3,246	3,311	3,376	158,831	175,065
Trade and other payables	9,430	-	-	-	-	-	9,430
	28,280	19,755	20,006	20,040	19,993	385,078	493,152

24 Financial instruments (continued)

At 31 March 2009 Group	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.9376% Index linked bond	9,378	10,058	10,795	10,865	10,711	127,529	179,336
5.2022% Bond	5,786	5,902	6,018	6,138	6,260	118,856	148,960
2.207% Index linked bond	2,951	3,009	3,069	3,131	3,194	156,473	171,827
Trade and other payables	8,791	-	-	-	-	-	8,791
	26,906	18,969	19,882	20,134	20,165	402,858	508,914

The group's contractual undiscounted cash flows of its 5.2022% bond are based on the agreed payments under the index-linked swaps.

Fair values of financial assets and liabilities

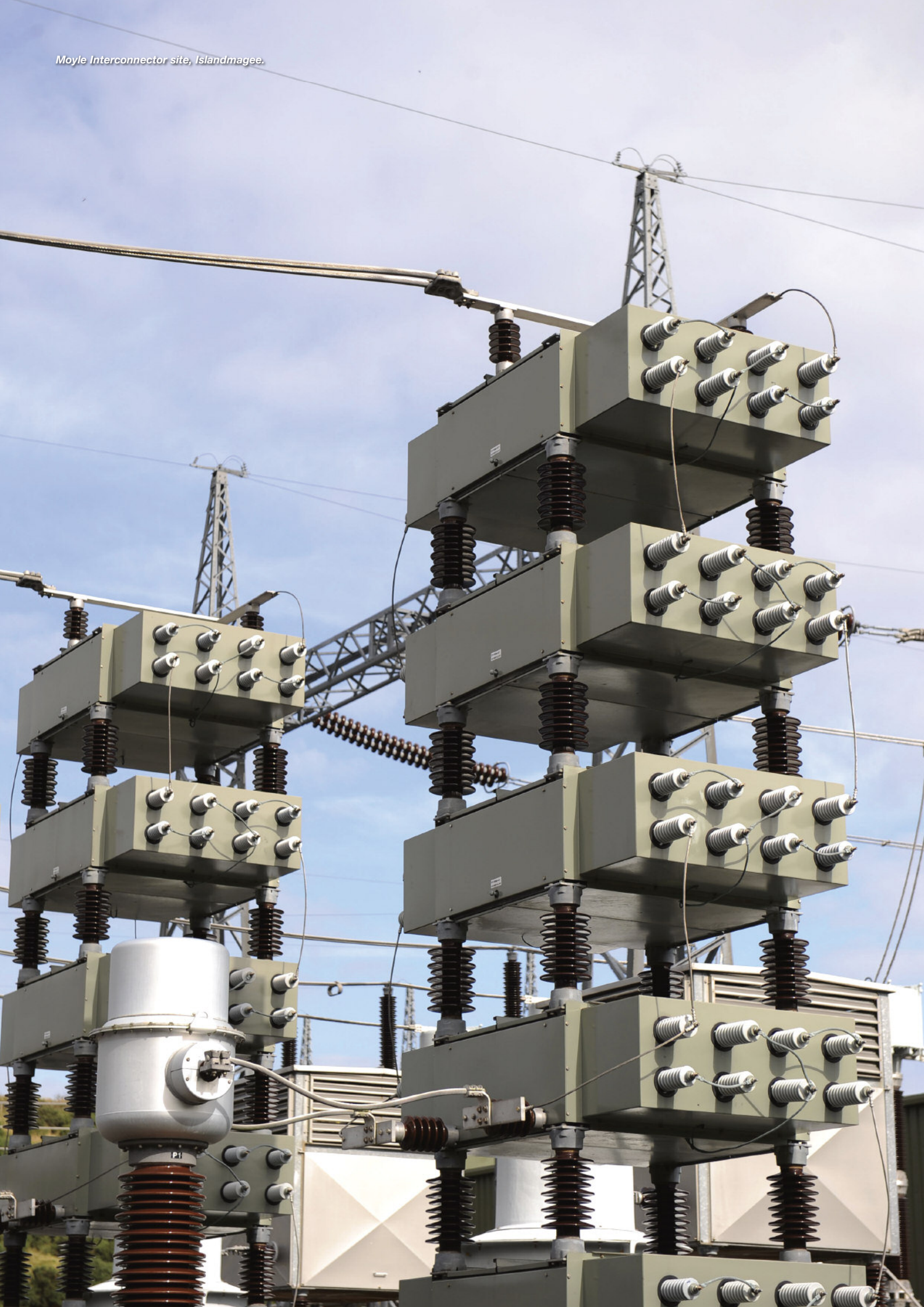
The directors estimate fair value of all financial assets and liabilities to be equal to the book values with the exception of the 2.9376% index linked bond which has a fair value of £113,440,000 (2009: £121,471,000), the 5.2022% bond which has a fair value of £114,808,000 (2009: £123,753,000) and the 2.207% index linked bond which has a fair value of £74,228,000 (2009: £72,714,000). These fair values have been calculated by discounting the expected future cash flows using a discount rate of 4.65% (2009: 4.4%) for the 2.9376% index linked bond, a discount rate of 4.66% (2009: 4.3%) for the 5.2022% bond and a discount rate of 4.64% (2009: 4.42%) for the 2.207% index linked bond.

Derivative financial instruments

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

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

Group	£'000
At 1 April 2008	21,810
Fair value adjustment	2,253
At 31 March 2009	24,063
Fair value adjustment	4,029
At 31 March 2010	**28,092**



Moyle Interconnector site, Islandmagee.

Moyle Interconnector (Financing) plc

Annual report for the year ended 31 March 2010

moyle interconnector

Moyle Interconnector (Financing) plc

Directors and advisers

Directors

Felicity Huston	
Patrick Larkin	Executive Director
Gerard McIlroy	Executive Director

Company Secretary

Gerard McIlroy

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Principal place of business

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Bankers

Barclays Bank plc
Donegall House
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Belfast
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Statutory auditors

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

Registered Number: NI 045625

Directors' report

to the members of Moyle Interconnector (Financing) plc

The directors present their report and the audited financial statements for the year ended 31 March 2010.

Principal activity, review of the business and key performance indicators

The group's principal activity during the year was the financing and operation through its subsidiary undertaking of the Moyle Interconnector which links the electricity transmission systems of Northern Ireland and Scotland. It is the intention of the directors to continue to maintain the efficient and effective operation of the interconnector. The Operating and Financial Review on pages 8 to 26 of these financial statements provides a review of the business, future development and key performance indicators for the Mutual Energy group and is therefore incorporated in this report by cross reference.

Results and dividends

The group's profit for the year is £7,325,000 (2009: £2,067,000). The directors do not recommend the payment of a dividend (2009: £nil).

Directors

The directors who served the group during the year were:

Alan McClure	(Resigned 29 September 2009)
Felicity Huston	
Damian McAteer	(Resigned 29 September 2009)
William Cargo	(Resigned 1 January 2010)
Patrick Larkin	
Gerard McIlroy	(Appointed 1 January 2010)

Financial risk management

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

Political and charitable donations

No political or charitable donations have been made during the year (2009: £nil).

Payment of suppliers

The group's procurement policy is to source equipment, goods and services from a wide range of suppliers in accordance with commercial practices based on fairness and transparency.

The group recognises the important role that suppliers play in its business and works to ensure that payments are made to them in accordance with agreed contract terms.

The group had trade payable days of 12 days at 31 March 2010 (2009: 19 days). The group intends to continue to meet the payment terms contained in its agreements with suppliers.

Statement of directors' responsibilities

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

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

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

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

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

Statement of disclosure of information to auditors

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

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

Independent auditors

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

By order of the Board

Gerard McIlroy
Company secretary
23 June 2010

Independent auditors' report

to the members of Moyle Interconnector (Financing) plc

We have audited the group and parent company financial statements ("financial statements") of Moyle Interconnector (Financing) plc for the year ended 31 March 2010 which comprise the group statement of comprehensive income, the group and parent company balance sheets, and the group and parent company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 82, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2010 and of the group's profit and group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
30 June 2010

Moyle Interconnector (Financing) plc

Group statement of comprehensive income

for the year ended 31 March 2010

	Notes	2010 £'000	2009 £'000
Revenue – continuing operations		**18,045**	20,463
Operating costs	2	**(8,136)**	(9,012)
Earnings before depreciation and amortisation of intangible assets		**13,615**	15,134
Amortisation of intangible assets		**(1,661)**	(1,661)
Depreciation (net of amortisation of government grants)		**(2,045)**	(2,022)
Operating profit		**9,909**	11,451
Finance income	4	**2,879**	3,601
Finance costs	4	**(2,526)**	(12,188)
Finance income/(costs) – net	4	**353**	(8,587)
Profit before income tax		**10,262**	2,864
Income tax charge	5	**(2,937)**	(797)
Profit for the year	14	**7,325**	2,067

The notes on pages 87 to 105 are an integral part of these group financial statements.

Moyle Interconnector (Financing) plc

Group and parent company balance sheets

at 31 March 2010

	Notes	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Assets					
Non current assets					
Property, plant and equipment	7	**103,202**	106,571	-	-
Intangible assets	8	**44,850**	46,511	-	-
Investment in subsidiary undertaking	9	-	-	**20,950**	20,950
Trade and other receivables	10	**22,886**	21,846	**102,940**	109,647
Deferred income tax assets	17	-	615	-	-
		170,938	175,543	**123,890**	130,597
Current assets					
Trade and other receivables	11	**4,853**	2,843	**5,324**	4,689
Cash and cash equivalents	12	**53,147**	49,961	**86**	111
		58,000	52,804	**5,410**	4,800
Total assets		**228,938**	228,347	**129,300**	135,397
Equity					
Ordinary shares	13	**50**	50	**50**	50
Retained earnings	14	**30,359**	23,034	**(222)**	(202)
Total equity		**30,409**	23,084	**(172)**	(152)
Liabilities					
Non current liabilities					
Borrowings	15	**120,764**	128,793	**120,764**	128,793
Provisions	16	**2,536**	3,106	-	-
Deferred income tax liabilities	17	**19,281**	19,172	-	-
Government grant	18	**39,731**	41,055	-	-
		182,312	192,126	**120,764**	128,793
Current liabilities					
Trade and other payables	19	**7,935**	6,642	**2,550**	1,585
Income tax liabilities		**800**	-	-	-
Borrowings	15	**6,158**	5,171	**6,158**	5,171
Government grant	18	**1,324**	1,324	-	-
		16,217	13,137	**8,708**	6,756
Total liabilities		**198,529**	205,263	**129,472**	135,549
Total equity and liabilities		**228,938**	228,347	**129,300**	135,397

The notes on pages 87 to 105 are an integral part of these group financial statements.

The group financial statements on pages 84 to 105 were authorised for issue by the Board of Directors on 23 June 2010 and were signed on its behalf by: Patrick Larkin **Director** Felicity Huston **Director**

Moyle Interconnector (Financing) plc

Group and parent company cash flow statements

for the year ended 31 March 2010

	Notes	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Cash flows from operating activities					
Profit/(loss) before income tax and finance costs		**9,909**	11,451	**(20)**	(24)
Adjustments for:					
Depreciation of property, plant and equipment		**3,369**	3,346	-	-
Amortisation of government grant		**(1,324)**	(1,324)	-	-
Amortisation of intangible assets		**1,661**	1,661	-	-
Movement in trade and other receivables		**(2,101)**	1,828	-	109
Movement in trade and other payables		**1,713**	646	**229**	(480)
Income tax liabilities paid		**(486)**	(362)	-	-
Net cash generated from/(used in) operating activities		**12,741**	17,246	**209**	(395)
Cash flows from investing activities					
Interest received		-	2,280	**2,455**	5,781
Repayment of loans		-	-	**6,817**	4,183
Purchase of property, plant and equipment		-	(1)	-	-
Net cash generated from investing activities		-	2,279	**9,272**	9,964
Cash flows from financing activities					
Interest paid (including borrowing fees)		**(4,272)**	(4,693)	**(4,223)**	(4,693)
Advances to related parties		-	(10,000)	-	-
Repayment of borrowings		**(5,283)**	(4,770)	**(5,283)**	(4,770)
Net cash used in financing activities		**(9,555)**	(19,463)	**(9,506)**	(9,463)
Movement in cash and cash equivalents		**3,186**	62	**(25)**	106
Cash and cash equivalents at the beginning of the year	12	**49,961**	49,899	**111**	5
Cash and cash equivalents at the end of the year	12	**53,147**	49,961	**86**	111

The notes on pages 87 to 105 are an integral part of these group financial statements.

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 2010 and were signed on their behalf by Patrick Larkin and Felicity Huston. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Moyle Interconnector (Financing) plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention. 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 93.

Standards, amendments and interpretations effective in the year ended 31 March 2010 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2010 and are relevant to the group's or parent company's operations:

- IAS 1 Revised - This revised standard requires entities to prepare a statement of comprehensive income. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Owner changes in equity are shown in a statement of changes in equity. In addition, entities making restatements or reclassifications of comparative information are required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period;
- IFRS 8 - This standard replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. This new standard uses a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes; and
- Amendment to IFRS 7 - This amendment forms part of the IASB's response to the financial crisis and addresses the G20 conclusions aimed at improving transparency and enhance accounting guidance. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities.

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

Standards, amendments and interpretations effective in the year ended 31 March 2010 and that are not relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2010 but they are not relevant to the group's or parent company's operations:

International Accounting Standards (IAS/IFRSs)	
IAS 32 (A)	Amendment to financial instruments: presentation
IAS 23 (R)	Borrowing costs (revised)
IAS 32/IFRS 7 (A)	Amendment to financial instruments: reclassification
IFRIC 9/IAS 39 (A)	Amendment to financial instruments: embedded derivatives
IFRS 1	Amendment to first time adoption of IFRS
IFRS 2	Amendment to share based payments: vesting conditions
International Financial Reporting Interpretation Committee (IFRICs)	
IFRIC 12	Service concession arrangements
IFRIC 13	Customer loyalty programmes
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign investment

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

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

		Effective date
International Accounting Standards (IAS/IFRSs)		
IAS 24 (A)	Amendment to Related party disclosures	1 July 2009 (*)
IAS 27 (R)	Consolidated and separate financial statements (revised)	1 July 2009
IFRS 9	Financial instruments	1 January 2009 (*)
IAS 32 (A)	Amendment to financial instruments: presentation on classification of rights issues	1 February 2010
IAS 39 (A)	Amendment to financial instruments: eligible hedged items	1 July 2009 (*)
IFRS 2 (A)	Amendment to share based payments: group cash-settled transactions	1 January 2010
IFRS 3 (R)	Business combinations (Revised)	1 July 2009
International Financial Reporting Interpretation Committee (IFRICs)		
IFRIC 14 (A)	Amendment to IAS 19	1 January 2011
IFRIC 18	Transfer of assets from customers	31 October 2009
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010 (*)

(*) not yet adopted by the European Union.

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 2010. Subsidiaries are entities that are directly or indirectly controlled by the group. Control exists where the group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

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

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

Segment reporting

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

Revenue

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

Intangible assets

Acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. The estimated remaining useful economic life of the licence is 27 years.

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and accumulated impairment losses. The initial cost of an asset comprises cost plus any costs directly attributable to bringing the asset into operation and an estimate of any decommissioning costs. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Interconnector	40 years
Control equipment	20 years
Office equipment	3 years

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

Property, plant and equipment (continued)

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

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

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

Impairment of non-financial assets

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

Investments

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

Classification of financial instruments

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

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

Loans and receivables (financial instruments)

(a) Trade and other receivables

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

Trade and other 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.

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

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

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

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

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

Ordinary shares

Ordinary shares are classified as equity.

Other financial liabilities at amortised cost (financial instruments)

None of the group's financial instruments are traded in active markets. Accordingly, the fair value of the group's 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.

(a) Borrowings

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

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

(b) Trade and other payables

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

Decommissioning provision

Decommissioning costs are provided at the present value of the expenditures expected to settle the obligation, using estimated cash flows based on current prices. The unwinding of the decommissioning provision is included within the income statement. The estimated future costs of the decommissioning obligations are regularly reviewed 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.

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

Income tax and deferred income tax

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

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

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

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

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

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

Government grants

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

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

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

Operating lease commitments

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

Pensions and other post-retirement benefits

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

Foreign currency translation

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

Financial risk management

Financial risk factors

The group 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 Northern Ireland electricity consumers for any shortfall. Accordingly the group has limited financial risk.

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

(a) Market risk
The group's interest rate risk arises from its long term borrowings. These borrowings are index linked to the Retail Price Index and expose the company to interest rate cash flow risk. A change in the Retail Price Index by 1 basis point would have increased finance costs during the year by £1,405,000.

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

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

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

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

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

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

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

(a) Estimate of useful economic life of assets
The group assesses the useful economic life of assets on an annual basis. The remaining useful economic life of the interconnector was determined as approximately 33 years at the beginning of the year. If the remaining useful economic life had been assessed at 34 years depreciation would have decreased by £93,000 and if the remaining useful economic life had been assessed at 32 years depreciation would have increased by £99,000.

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

(b) 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 4.21%. The decommissioning provision has been discounted using a rate of 4.47%. The effect of changing the discount rate and inflation factor on the decommissioning provision is disclosed in the table below.

	Increase/(decrease) in provision £'000
Increase in inflation factor by 1%	908
Decrease in inflation factor by 1%	(674)
Increase in discount rate by 1%	(677)
Decrease in discount rate by 1%	915

2 Expenses by nature

Group	2010 £'000	2009 £'000
Employee benefit expense (note 3)	190	204
Depreciation and amortisation (net of amortisation of government grants)	3,706	3,683
Operating lease payments	94	95
Fees payable to the company's auditor in respect of the audit of the financial statements	17	15
Other expenses	4,129	5,015
Total operating costs	8,136	9,012

3 Employee benefit expense

	2010 £'000	2009 £'000
Group		
Wages and salaries	159	167
Social security costs	20	26
Pension costs	11	11
	190	204

The average monthly number of employees during the year (comprising only directors holding contracts of service with the Group) was 1 (2009: 1).

	2010 £'000	2009 £'000
Directors' emoluments		
Aggregate emoluments	159	167
Contributions paid to defined contribution pension scheme	13	11
	172	178

	Number	Number
Members of defined contribution pension scheme	1	1

Directors' emoluments represent the remuneration of the group's executive director, Patrick Larkin. The remaining directors of the company received £295,000 (2009: £155,000) 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 company and their services as directors of other group companies.

Company
The company had no employee benefits expense during the year (2009: £nil).

4 Finance income and costs

Group	2010 £'000	2009 £'000
Interest expense:		
Borrowings (including borrowing fees)	2,526	11,417
Movement of discount on decommissioning provision	-	771
Finance costs	2,526	12,188
Interest income:		
Short-term bank deposits	(1,287)	(2,844)
Amounts owed by related parties	(1,021)	(757)
Movement of discount on decommissioning provision	(571)	-
Finance income	(2,879)	(3,601)
Finance (income)/costs – net	(353)	8,587

5 Income tax charge

Group	2010 £'000	2009 £'000
Current income tax:		
Current income tax charge at 28%	1,194	(15)
Group relief claimed	709	570
Group relief adjustments in respect of previous periods	219	-
Adjustments in respect of previous periods	91	-
Total current income tax	2,213	555
Deferred income tax:		
Origination and reversal of temporary differences	797	242
Adjustments in respect of previous periods	(73)	-
Total deferred income tax	724	242
Income tax charge	2,937	797

The income tax charge in the income statement for the year differs from the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are reconciled below:

	2010 £'000	2009 £'000
Profit before income tax	10,262	2,864
Tax calculated at the UK standard rate of corporation tax of 28% (2009: 28%)	2,873	797
Effects of:		
Income not taxable	(173)	-
Adjustments in respect of previous periods	237	-
Income tax charge	2,937	797

6 Loss attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The loss dealt with in the financial statements of the parent company is £20,000 (2009: £8,000).

7 Property, plant and equipment

Group	Interconnector £'000	Control equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2008	128,748	3,785	15	132,548
Adjustment to decommissioning provision	(849)	-	-	(849)
Additions	-	-	1	1
At 31 March 2009 and **at 31 March 2010**	**127,899**	**3,785**	**16**	**131,700**
Accumulated depreciation				
At 1 April 2008	20,635	1,135	13	21,783
Provided during the year	3,155	190	1	3,346
At 31 March 2009	**23,790**	**1,325**	**14**	**25,129**
Provided during the year	**3,180**	**188**	**1**	**3,369**
At 31 March 2010	**26,970**	**1,513**	**15**	**28,498**
Net book amount				
At 31 March 2010	**100,929**	**2,272**	**1**	**103,202**
At 31 March 2009	104,109	2,460	2	106,571
At 1 April 2008	108,113	2,650	2	110,765

Depreciation expense of £3,369,000 (2009: £3,346,000) has been fully charged to operating costs.

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

8 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2008, 31 March 2009 and **at 31 March 2010**	56,477
Accumulated amortisation	
At 1 April 2008	8,305
Provided during the year	1,661
At 31 March 2009	9,966
Provided during the year	1,661
At 31 March 2010	11,627
Net book amount	
At 31 March 2010	44,850
At 31 March 2009	46,511
At 31 March 2008	48,172

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 34 years. The group has concluded that these assets have a remaining useful economic life of 27 years.

9 Investments

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2008, 31 March 2009 and **at 31 March 2010**	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

10 Trade and other receivables (non-current)

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Financial assets				
Amounts owed by subsidiary undertaking	-	-	108,083	114,158
Amounts owed by related parties	22,886	21,846	-	-
	22,886	21,846	108,083	114,158
Less current assets:				
Amounts owed by subsidiary undertaking	-	-	(5,143)	(4,511)
	22,886	21,846	102,940	109,647

None of the group's or company's loans and receivables are impaired or past due. The group and company have no history of default in respect of their 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 £25,693,000 (2009: £22,214,000). This fair value has been calculated by discounting the future cash flows using discount rates in the range 1.83% to 2.98%. The fair value of the company's loans and receivables is £99,395,000 (2009: £106,673,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 4.65% (2009: 4.4%).

11 Trade and other receivables (current)

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Trade receivables	1,599	-	-	-
Prepayments and accrued income	2,361	1,840	171	171
Other receivables	854	873	2	4
Amounts owed by related parties	39	130	2	-
Amounts owed by subsidiary undertakings	-	-	5,149	4,514
	4,853	2,843	5,324	4,689

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.

12 Cash and cash equivalents

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Cash at bank and in hand	99	114	86	111
Short-term bank deposits	53,048	49,847	-	-
	53,147	49,961	86	111

Cash and cash equivalents earn interest at a range from Bank of England base rate less 0.15% to Bank of England base rate plus 2.5%.

13 Called up share capital

Group and company	2010 £'000	2009 £'000
Allotted and fully paid		
50,000 ordinary shares of £1 each	**50**	50

14 Retained earnings

Group	£'000
At 1 April 2008	20,967
Total comprehensive income for the year	2,067
At 31 March 2009	**23,034**
Total comprehensive income for the year	**7,325**
At 31 March 2010	**30,359**

Company	£'000
At 1 April 2008	(194)
Total comprehensive income for the year	(8)
At 31 March 2009	**(202)**
Total comprehensive income for the year	**(20)**
At 31 March 2010	**(222)**

15 Borrowings

Group and company	2010 £'000	2009 £'000
Non current		
2.9376% Index linked guaranteed secured bond	**120,764**	128,793
Current		
2.9376% Index linked guaranteed secured bond	**6,158**	5,171
Total borrowings	**126,922**	133,964

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 index-linked to the Retail Price Index. The bond is secured by fixed and floating charges over all the assets of the group, and also by way of an unconditional and irrevocable financial guarantee given by Assured Guaranty (Europe) Ltd 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 £113,440,000 (2009: £121,471,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 4.65% (2009: 4.4%).

16 Provisions

Group	Decommissioning provision £'000
At 31 March 2008	3,184
Adjustment to cost estimate (note 7)	(849)
Movement on discount during the year	771
At 31 March 2009	**3,106**
Movement on discount during the year	**(570)**
At 31 March 2010	**2,536**

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the Interconnector in 33 years, at the end of its useful economic life. This provision is expected to be utilised within 33 years. The provision represents the present value of the current estimated costs of dismantling the connections to the main electricity grids in Scotland and Northern Ireland. The provision has been discounted at a rate of 4.47% (2009: 4.37%).

17 Deferred income tax

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

Group	2010 £'000	2009 £'000
Deferred income tax assets	-	615
Deferred income tax liabilities	**(19,281)**	(19,172)
Deferred income tax assets/(liabilities) – net	**(19,281)**	(18,557)

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

Group	£'000
At 1 April 2008	(18,315)
Income statement charge for the year	(242)
At 31 March 2009	**(18,557)**
Income statement charge for the year	**(724)**
At 31 March 2010	**(19,281)**

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

Group	Tax losses £'000	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Total £'000
At 1 April 2008	618	(5,444)	(13,489)	(18,315)
Income statement (charge)/credit for the year	(3)	(704)	465	(242)
At 31 March 2009	**615**	**(6,148)**	**(13,024)**	**(18,557)**
Income statement (charge)/credit for the year	**(615)**	**(575)**	**466**	**(724)**
At 31 March 2010	**-**	**(6,723)**	**(12,558)**	**(19,281)**

17 Deferred income tax (continued)

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 £12,092,000 (2009: £12,558,000). 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 £6,723,000 (2009: £6,148,000).

18 Government grant

Group	£'000
At 1 April 2008	43,703
Amortised during the year	(1,324)
At 31 March 2009	**42,379**
Amortised during the year	**(1,324)**
At 31 March 2010	**41,055**

The government grant was provided to the company for the purpose of its expenditure on its property, plant and equipment. The current portion of the government grant is £1,324,000 (2009: £1,324,000). The non current portion is £39,731,000 (2009: £41,055,000).

19 Trade and other payables

	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Trade payables	**144**	759	**12**	12
Accruals and deferred income	**6,546**	4,300	**3**	4
Amounts owed to related parties	**937**	1,028	**3**	18
Amounts owed to subsidiary undertakings	**-**	-	**2,532**	1,551
Other tax and social security	**308**	555	**-**	-
	7,935	6,642	**2,550**	1,585

20 Commitments

Operating lease commitments - group as lessee

The group has entered into a commercial lease on land and this lease has a remaining lease term of 90 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:

	2010	2009
Group	**£'000**	£'000
Not later than one year	**94**	94
After one year but not more than five years	**376**	376
After more than five years	**7,907**	8,001
	8,377	8,471

21 Related party transactions

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

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

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

	Amount owed (to)/from related party	
	2010	2009
Group	£'000	£'000
Parent undertakings	12,495	11,870
Fellow subsidiary undertakings	15	106
Fellow subsidiary undertakings	10,415	10,000
Parent undertakings	(174)	-
Fellow subsidiary undertakings	(763)	(1,028)

		Amount of transaction	
		2010	2009
Group	**Nature of transaction**	£'000	£'000
Fellow subsidiary undertakings	Group relief claimed	(754)	(570)
Parent undertakings	Group relief claimed	(174)	-
Fellow subsidiary undertakings	Survey and security costs payable	(34)	(729)
Parent undertakings	Charges payable	(330)	(308)
Parent undertakings	Interest receivable	702	662
Fellow subsidiary undertakings	Loan provided to	-	10,000
Fellow subsidiary undertakings	Interest receivable	319	95

	Amount owed (to)/from related party	
	2010	2009
Company	£'000	£'000
Subsidiary undertakings	(2,532)	(1,551)
Subsidiary undertakings	108,083	114,158
Fellow subsidiary undertakings	2	3
Fellow subsidiary undertakings	(3)	(18)
Subsidiary undertakings	6	-

		Amount of transaction	
		2010	2009
Company	**Nature of transaction**	£'000	£'000
Parent undertakings	Group relief surrendered	6	-
Fellow subsidiary undertakings	Group relief surrendered	2	3
Subsidiary undertaking	Interest receivable	2,468	11,398

Compensation of key management (including directors):

	2010	2009
Group	£'000	£'000
Short term employee benefits	159	167
Post-employment benefits	13	11

22 Financial instruments

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

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

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

At 31 March 2010 Group	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.9376% bond	9,914	10,641	10,710	10,558	10,324	115,386	167,533
Trade and other payables	7,627	-	-	-	-	-	7,627
	17,541	10,641	10,710	10,558	10,324	115,386	175,160

At 31 March 2009 Group	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.9376% bond	9,378	10,058	10,795	10,865	10,711	127,529	179,336
Trade and other payables	6,087	-	-	-	-	-	6,087
	15,465	10,058	10,795	10,865	10,711	127,529	185,423

At 31 March 2010 Company	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.9376% bond	9,914	10,641	10,710	10,558	10,324	115,386	167,533
Trade and other payables	2,550	-	-	-	-	-	2,550
	12,464	10,641	10,710	10,558	10,324	115,386	170,083

At 31 March 2009 Company	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.9376% bond	9,378	10,058	10,795	10,865	10,711	127,529	179,336
Trade and other payables	1,585	-	-	-	-	-	1,585
	10,963	10,058	10,795	10,865	10,711	127,529	180,921

23 Ultimate parent undertaking

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

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

PTL's Gas Pressure Reduction Facility, Islandmagee

Premier Transmission Financing plc

Annual report for the year ended
31 March 2010

premier
TRANSMISSION

Premier Transmission Financing plc

Directors and advisers

Directors

Felicity Huston	
Patrick Larkin	Executive Director
Gerard McIlroy	Executive Director

Company Secretary

Gerard McIlroy

Registered office

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

Principal place of business

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

Solicitors

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

Bankers

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

Statutory auditors

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

Registered Number: NI 053751

The directors present their report and the audited financial statements for the year ended 31 March 2010.

Principal activity, review of the business and key performance indicators

The group's principal activity during the year was the financing and operation through its subsidiary undertaking of the Scotland to Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland. It is the intention of the directors to continue to maintain the efficient and effective operation of the pipeline. The Operating and Financial Review on pages 8 to 26 of these financial statements provides a review of the business, future development and key performance indicators for the Mutual Energy Group and is therefore incorporated in this report by cross reference.

Results and dividends

The group's loss for the year is £1,350,000 (2009: £4,332,000). The directors do not recommend the payment of a dividend (2009: £nil).

Directors

The directors who served the group during the year were:

Alan McClure	(Resigned 29 September 2009)
Felicity Huston	
Damian McAteer	(Resigned 29 September 2009)
William Cargo	(Resigned 1 January 2010)
Patrick Larkin	
Gerard McIlroy	(Appointed 1 January 2010)

Financial risk management

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

Political and charitable donations

No political or charitable donations have been made during the year (2009: £nil).

Payment of suppliers

The group's procurement policy is to source equipment, goods and services from a wide range of suppliers in accordance with commercial practices based on fairness and transparency.

The group recognises the important role that suppliers play in its business and works to ensure that payments are made to them in accordance with agreed contract terms.
The group had trade payable days of 26 days at 31 March 2010 (2009: 29 days). The group intends to continue to meet the payment terms contained in its agreements with suppliers.

Derivative financial instruments

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

As the Retail Price Index is higher than was expected at the time the index-linked swaps were entered into, a financial liability arises. The financial liability in respect of these index-linked swaps is £28,092,000 as at 31 March 2010. This fair value effectively represents the amount that the group would have to pay to discharge itself from the index-linked swaps; however, the group has no intention of discharging itself from its obligations as the index-linked swaps hedge against future index-linked revenues. As the hedge is almost 100% effective in commercial terms it follows that the group has in effect a financial asset of approximately £28,092,000 in respect of future revenues, however, this financial asset cannot be recognised under IFRS and therefore there is a significant accounting mis-match of costs and revenues in these financial statements. In the event that the Retail Price Index is expected to fall then the financial liability will reduce.

Had the requirement to fair value this financial liability not been required the group's reported profit for the year would have been a profit of £1,551,000 (2009: loss of £2,710,000).

Statement of directors' responsibilities

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

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

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

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

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

Statement of disclosure of information to auditors

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

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

Independent auditors

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

By order of the Board

Gerard McIlroy
Company secretary
23 June 2010

Independent auditors' report

to the members of Premier Transmission Financing plc

We have audited the group and parent company financial statements ("financial statements") of Premier Transmission Financing plc for the year ended 31 March 2010 which comprise the group statement of comprehensive income, the group and parent company balance sheets, the group and parent company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 110, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2010 and of the group's loss and group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
30 June 2010

Premier Transmission Financing plc

Group statement of comprehensive income

for the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Revenue – continuing operations		**14,459**	18,690
Operating costs	2	**(11,295)**	(13,863)
Earnings before depreciation and amortisation of intangible assets		**6,642**	8,300
Amortisation of intangible assets		**(1,402)**	(1,402)
Depreciation (net of amortisation of government grants)		**(2,076)**	(2,071)
Operating profit		**3,164**	4,827
Finance income	4	**416**	1,250
Finance costs	4	**(1,428)**	(8,639)
Fair value adjustment on derivative financial instruments	4	**(4,029)**	(2,253)
Finance costs – net	4	**(5,041)**	(9,642)
Loss before income tax		**(1,877)**	(4,815)
Income tax credit	5	**527**	483
Loss for the year	15	**(1,350)**	(4,332)

The notes on pages 115 to 135 are an integral part of these group financial statements.

Premier Transmission Financing plc

Group and parent company balance sheets

for the year ended 31 March 2010

	Notes	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Assets					
Non current assets					
Property, plant and equipment	7	**92,849**	96,021	-	-
Intangible assets	8	**36,070**	37,472	-	-
Investment in subsidiary undertaking	9	-	-	**51,307**	51,307
Trade and other receivables	10	-	-	**44,429**	45,075
Deferred income tax assets	17	**7,866**	6,738	**7,866**	6,738
		136,785	140,231	**103,602**	103,120
Current assets					
Trade and other receivables	11	**4,624**	6,275	**82**	1,670
Financial assets	12	**1,942**	-	-	-
Cash and cash equivalents	13	**23,029**	22,711	**3,612**	976
		29,595	28,986	**3,694**	2,646
Total assets		**166,380**	169,217	**107,296**	105,766
Equity					
Ordinary shares	14	**13**	13	**13**	13
Retained earnings	15	**(27,723)**	(26,373)	**(30,833)**	(27,943)
Total equity		**(27,710)**	(26,360)	**(30,820)**	(27,930)
Liabilities					
Non current liabilities					
Borrowings	16	**102,372**	106,847	**102,372**	106,847
Deferred income tax liabilities	17	**24,630**	25,321	-	-
Government grant	18	**31,200**	32,296	-	-
Derivative financial instruments	22	**28,092**	24,063	**28,092**	24,063
		186,294	188,527	**130,464**	130,910
Current liabilities					
Trade and other payables	19	**2,719**	2,730	**4,760**	41
Income tax liabilities		**1,092**	479	**3**	-
Borrowings	16	**2,889**	2,745	**2,889**	2,745
Government grant	18	**1,096**	1,096	-	-
		7,796	7,050	**7,652**	**2,786**
Total liabilities		**194,090**	195,577	**138,116**	133,696
Total equity and liabilities		**166,380**	169,217	**107,296**	105,766

The notes on pages 115 to 135 are an integral part of these group financial statements.
The group financial statements on pages 112 to 135 were authorised for issue by the Board of Directors on 23 June 2010 and were signed on its behalf by: Patrick Larkin, **Director** Felicity Huston, **Director**.

Premier Transmission Financing plc

Group and parent company cash flow statements

for the year ended 31 March 2010

	Notes	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Cash flows from operating activities					
Profit/(loss) before income tax and finance costs		**3,164**	4,827	**(61)**	(49)
Adjustments for:					
Depreciation of property, plant and equipment		**3,172**	3,167	-	-
Amortisation of government grants		**(1,096)**	(1,096)	-	-
Amortisation of intangible assets		**1,402**	1,402	-	-
Movement in trade and other receivables		**840**	(779)	**(29)**	(25)
Movement in trade and other payables		**879**	(1,379)	**720**	1,503
Income tax paid		**(758)**	-	-	-
Net cash generated from operating activities		**7,603**	6,142	**630**	1,429
Cash flows from investing activities					
Interest received		**474**	1,250	**1,387**	3,934
Repayments of loans		-	-	**6,278**	-
Purchase of property, plant and equipment		-	(467)	-	-
Purchase of financial asset		**(2,000)**	-	-	-
Net cash (used in)/generated from investing activities		**(1,526)**	783	**7,665**	3,934
Cash flows from financing activities					
Interest paid		**(2,819)**	(3,081)	**(2,719)**	(3,065)
Repayment of borrowings		**(2,940)**	(2,520)	**(2,940)**	(2,520)
Net cash used in financing activities		**(5,759)**	(5,601)	**(5,659)**	(5,585)
Movement in cash and cash equivalents		**318**	1,324	**2,636**	(222)
Cash and cash equivalents at the beginning of the year	13	**22,711**	21,387	**976**	1,198
Cash and cash equivalents at the end of the year	13	**23,029**	22,711	**3,612**	976

The notes on pages 115 to 135 are an integral part of these group financial statements

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 to 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 2010 and were signed on their behalf by Patrick Larkin and Felicity Huston. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Premier Transmission Financing plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 122.

Going concern

The group has recurring accounting losses and accordingly net liabilities. In view of the structure of the group's initial set up including the acquisition of Premier Transmission Limited and the issuing of a bond, this is a situation which will prevail for potentially 20 years. However the group is cash generative and is forecast to remain cash positive over that 20 year period. The forecast cash generated is adequate to meet the group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the group being short of adequate cash to service the bond an arrangement approved by the Northern Ireland Authority for Utility Regulation would be triggered which would ensure bond payments are made. Accordingly in view of the above the Directors consider it appropriate to adopt the going concern basis in the preparation of the accounts.

Standards, amendments and interpretations effective in the year ended 31 March 2010 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2010 and are relevant to the group's or parent company's operations:

- IAS 1 Revised - This revised standard requires entities to prepare a statement of comprehensive income. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Owner changes in equity are shown in a statement of changes in equity. In addition, entities making restatements or reclassifications of comparative information are required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period;

- IFRS 8 - This standard replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. This new standard uses a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes; and

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

- Amendment to IFRS 7 - This amendment forms part of the IASB's response to the financial crisis and addresses the G20 conclusions aimed at improving transparency and enhance accounting guidance. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities.

Standards, amendments and interpretations effective in the year ended 31 March 2010 and that are not relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2010 but they are not relevant to the group's or parent company's operations:

International Accounting Standards (IAS/IFRSs)	
IAS 32 (A)	Amendment to financial instruments: presentation
IAS 23 (R)	Borrowing costs (revised)
IAS 32/IFRS 7 (A)	Amendment to financial instruments: reclassification
IFRIC 9/IA S 39 (A)	Amendment to financial instruments: embedded derivatives
IFRS 1	Amendment to first time adoption of IFRS
IFRS 2	Amendment to share based payments: vesting conditions

International Financial Reporting Interpretation Committee (IFRICs)	
IFRIC 12	Service concession arrangements
IFRIC 13	Customer loyalty programmes
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign investment

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

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

		Effective date
International Accounting Standards (IAS/IFRSs)		
IAS 24 (A)	Amendment to Related party disclosures	1 July 2009 (*)
IAS 27 (R)	Consolidated and separate financial statements (revised)	1 July 2009
IFRS 9	Financial instruments	1 January 2009 (*)
IAS 32 (A)	Amendment to financial instruments: presentation on classification of rights issues	1 February 2010
IAS 39 (A)	Amendment to financial instruments: eligible hedged items	1 July 2009 (*)
IFRS 2 (A)	Amendment to share based payments: Group cash-settled transactions	1 January 2010
IFRS 3 (R)	Business combinations (Revised)	1 July 2009
International Financial Reporting Interpretation Committee (IFRICs)		
IFRIC 14 (A)	Amendment to IAS 19	1 January 2011
IFRIC 18	Transfer of assets from customers	31 October 2009
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010 (*)

(*) not yet adopted by the European Union.

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 undertakings drawn up to 31 March 2010. Subsidiaries are entities that are directly or indirectly controlled by the group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

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

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

Segment reporting

The group has one business segment, the selling of capacity on the Scotland to 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 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.

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.

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 estimated useful economic life of the licence is 24 years.

Property, plant and equipment

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

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

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

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

Pipelines	35 years
Computer equipment	3 years

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Investments

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

Impairment of non-financial assets

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

Classification of financial instruments

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

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

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

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

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

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

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

Available-for-sale financial assets (financial instruments)

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

Loans and receivables (financial instruments)

(a) Trade and other receivables

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

Trade and other 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

(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.

1 Accounting policies, financial risk management & critical accounting estimates/judgements (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 consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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 income statement over the period of the borrowings using the effective interest method.

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

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

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

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.

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

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

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

Government grants

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

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

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

Operating lease commitments

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

Pensions and other post-retirement benefits

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

Foreign currency translation

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

Financial risk management

Financial risk factors

The group operates the gas pipeline which links the gas transmission systems of Northern Ireland and Scotland under a licence agreement with the Northern Ireland Authority for Utility Regulation. Under the licence agreement the group receives revenue that compensates it for its operating expenses, financing costs and repayment of borrowings. Accordingly the group has limited financial risk.

(a) Market risk

The group's interest rate cash flow risk arises from its long term borrowings. The group issued its long term borrowings to refinance its transmission assets at the lowest possible rates in order to reduce the costs of transmission to the consumers of Northern Ireland. In order to hedge against certain revenues which are linked to the Retail Price Index the group has entered into a swap transaction which converts its fixed rate borrowings to a borrowing linked to the Retail Price Index. 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 basis point would have increased finance costs during the year by £1,165,000.

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

(b) Credit risk

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

(c) Liquidity risk

Under the group's licence agreement it receives revenue that compensates the group for its operating expenses, financing costs and repayment of borrowings. Accordingly the group has limited liquidity risk. The group also retains significant cash reserves and a liquidity facility with an A– bank to manage any short term liquidity risk. The undiscounted contractual maturity profile of the group's borrowings is shown in note 22.

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

Capital risk management

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

Fair value estimation

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

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The group's only financial instrument fair valued (for recognition purposes) under level 1 is the group's available-for-sale current asset investment of £1,942,000 in debt securities. The fair value of these debt securities is based on quoted market prices.

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

The group's financial instruments fair valued (for disclosure purposes only) under level 2 are the group's current and non-current loans and receivables and the group's borrowings. The fair value of these financial instruments is determined by discounting future cash flows using a suitable discount rate. These discount rates are based on Bank of England 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 30.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 31.5 years, depreciation would have decreased by £100,000 and if the remaining useful economic life had been assessed at 29.5 years, depreciation would have increased by £107,000.

2 Expenses by nature

Group	2010 £'000	2009 £'000
Employee benefit expense (note 3)	415	429
Depreciation and amortisation (net of amortisation of government grants)	3,478	3,473
Operating lease payments	40	71
Fees payable to the company's auditor in respect of the audit of the financial statements	20	19
Other expenses	7,342	9,871
Total operating costs	**11,295**	13,863

3 Employee benefit expense

Group	2010 £'000	2009 £'000
Wages and salaries	229	168
Social security costs	30	37
Pension costs – defined contribution pension scheme	156	224
	415	429

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 4 (2009: 4).

	2010 £'000	2009 £'000
Directors' emoluments		
Aggregate emoluments	38	37
Contributions paid to defined contribution pension scheme	141	192
	179	229
	Number	Number
Members of defined contribution pension scheme	1	1

Directors' emoluments represent the remuneration of the group's executive director, William Cargo. The remaining directors of the group received £289,000 (2009: £155,000) 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.

Company

The company had no employee benefits expense during the year (2009: £nil).

4 Finance income and costs

Group	2010 £'000	2009 £'000
Interest expense:		
Borrowings (including borrowing fees)	1,428	8,639
Fair value adjustment in respect of derivative financial instruments (note 22)	4,029	2,253
Finance costs	5,457	10,892
Interest income:		
Short-term bank deposits	(416)	(1,250)
Finance income	(416)	(1,250)
Finance costs – net	5,041	9,642

5 Income tax credit

Group	2010 £'000	2009 £'000
Current income tax:		
Current income tax charge at 28%	1,306	717
Group relief surrendered	-	(767)
Group relief adjustments in respect of previous periods	(79)	-
Adjustments in respect of previous periods	65	-
Total current income tax	1,292	(50)
Deferred income tax:		
Origination and reversal of temporary differences	(704)	204
Arising on derivative financial instruments	(1,128)	(631)
Adjustments in respect of previous periods	13	(6)
Total deferred income tax	(1,819)	(433)
Income tax credit	(527)	(483)

The income tax credit in the income statement for the year differs from the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are reconciled below:

	2010 £'000	2009 £'000
Loss before income tax	(1,877)	(4,815)
Tax calculated at the UK standard rate of corporation tax of 28% (2009: 28%)	(526)	(1,348)
Effects of:		
Deferred tax asset de-recognised	-	871
Adjustments in respect of previous periods	(1)	(6)
Income tax credit	(527)	(483)

6 Loss attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The loss dealt with in the financial statements of the parent company is £2,890,000 (2009: £5,469,000).

7 Property, plant and equipment

Group Cost	Pipeline £'000	Computer equipment £'000	Total £'000
At 1 April 2008	108,043	237	108,280
Additions	467	-	467
At 31 March 2009 and **at 31 March 2010**	**108,510**	**237**	**108,747**
Accumulated depreciation			
At 1 April 2008	9,382	177	9,559
Provided during the year	3,136	31	3,167
31 March 2009	**12,518**	**208**	**12,726**
Provided during the year	**3,143**	**29**	**3,172**
At 31 March 2010	**15,661**	**237**	**15,898**
Net book amount **At 31 March 2010**	**92,849**	**-**	**92,849**
At 31 March 2009	95,992	29	96,021
At 31 March 2008	98,661	60	98,721

Depreciation expense of £3,172,000 (2009: £3,167,000) 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.

8 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2008, 31 March 2009 and **at 31 March 2010**	**2,435**	**40,645**	**43,080**
Accumulated amortisation			
At 1 April 2008	-	4,206	4,206
Provided during the year	-	1,402	1,402
At 31 March 2009	**-**	**5,608**	**5,608**
Provided during the year	**-**	**1,402**	**1,402**
At 31 March 2010	**-**	**7,010**	**7,010**
Net book amount			
At 31 March 2010	**2,435**	**33,635**	**36,070**
At 31 March 2009	2,435	35,037	37,472
At 31 March 2008	2,435	36,439	38,874

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 24 years.

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

Impairment testing

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

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

The projections are based on a financial model for a period of 29 years which has been approved by the board. The discount rate of 4.67% used is based on Bank of England UK gilt yield curve data for a debt with a remaining maturity of 20 years. The inflation rate assumption used by the group in these calculations of 4.17% has been obtained from Bank of England yield curves over a 20 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.

9 Investments

Company	Subsidiary undertaking
Cost	£'000
At 1 April 2008, 31 March 2009 and at **31 March 2010**	**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 Scotland to Northern Ireland pipeline

10 Trade and other receivables (non-current)

Company	2010 £'000	2009 £'000
Amounts owed by group undertakings	**44,429**	45,075

None of the company's loans and receivables are impaired or past due. The company has no history of default in respect of their 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 £34,901,000 (2009: £37,007,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 4.66% (2009: 4.3%).

11 Trade and other receivables (current)

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Trade receivables	**298**	410	-	-
Prepayments and accrued income	**1,953**	2,685	**52**	27
Other receivables	**2,009**	2,005	**9**	5
Amounts owed by related parties	**364**	1,175	**21**	1,293
Amounts owed by subsidiary undertaking	-	-	-	345
	4,624	6,275	**82**	1,670

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.

12 Financial assets

	Available for sale £'000
At 1 April 2009	-
Additions	1,942
At 31 March 2010	**1,942**

The available-for-sale financial assets represent an investment in UK Government sterling gilts. These gilts carry an interest rate of 4.25% and are due for redemption by 7 March 2011. The maximum exposure to credit risk at the reporting date is the carrying value of the investment mentioned above. None of the group's investments are impaired or past due. The fair value of the group's investments is not materially different to their carrying values.

13 Cash and cash equivalents

	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Cash at bank and in hand	**5,576**	5,797	**3,612**	976
Short-term bank deposits	**17,453**	16,914	-	-
	23,029	22,711	**3,612**	976

Cash and cash equivalents earn interest at a range from Bank of England base rate less 0.15% to Bank of England base rate plus 2.5%.

14 Called up share capital

Group and company	2010 £'000	2009 £'000
Allotted and fully paid		
12,500 ordinary shares of £1 each	**13**	13

15 Retained earnings

Group	£'000
At 1 April 2008	(22,041)
Total comprehensive income for the year	(4,332)
At 31 March 2009	**(26,373)**
Total comprehensive income for the year	**(1,350)**
At 31 March 2010	**(27,723)**

Company	£'000
At 1 April 2008	(22,474)
Total comprehensive income for the year	(5,469)
At 31 March 2009	**(27,943)**
Total comprehensive income for the year	**(2,890)**
At 31 March 2010	**(30,833)**

16 Borrowings

Group and company	2010 £'000	2009 £'000
Non current		
5.2022% Guaranteed secured bond	**102,372**	106,847
Current		
5.2022% Guaranteed secured bond	**2,889**	2,745
Total borrowings	**105,261**	109,592

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 £114,808,000 (2009: £123,753,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 4.66% (2009: 4.3%).

17 Deferred income tax

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

	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Deferred income tax assets	**7,866**	6,738	**7,866**	6,738
Deferred income tax liabilities	**(24,630)**	(25,321)	**-**	-
Deferred income tax (liabilities)/assets – net	**(16,764)**	(18,583)	**7,866**	6,738

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

	Group	Company
	£'000	**£'000**
At 1 April 2008	(19,015)	6,978
Income statement credit/(charge) for the year	432	(240)
At 31 March 2009	**(18,583)**	**6,738**
Income statement credit for the year	**1,819**	**1,128**
At 31 March 2010	**(16,764)**	**7,866**

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

Group	**Tax losses £'000**	**Accelerated capital allowances £'000**	**Valuation of intangible assets £'000**	**Derivative financial instruments £'000**	**Total £'000**
At 1 April 2008	871	(15,790)	(10,203)	6,107	(19,015)
Income statement (charge)/credit for the year	(871)	279	393	631	432
At 31 March 2009	-	**(15,511)**	**(9,810)**	**6,738**	**(18,583)**
Income statement credit for the year	-	**298**	**393**	**1,128**	**1,819**
At 31 March 2010	**-**	**(15,213)**	**(9,417)**	**7,866**	**(16,764)**

17 Deferred income tax (continued)

Company	Tax losses £'000	Derivative financial instruments £'000	Total £'000
At 1 April 2008	871	6,107	6,978
Income statement (charge)/credit for the year	(871)	631	(240)
At 31 March 2009	-	6,738	6,738
Income statement credit for the year	-	1,128	1,128
At 31 March 2010	**-**	**7,866**	**7,866**

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 after more than 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 £9,024,000 (2009: £9,417,000). 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 £15,213,000 (2009: £15,511,000).

18 Government grant

Group	£'000
At 1 April 2008	34,488
Amortised during the year	(1,096)
At 31 March 2009	33,392
Amortised during the year	(1,096)
At 31 March 2010	**32,296**

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 (2009: £1,096,000) and the non current portion is £31,200,000 (2009: £32,296,000).

19 Trade and other payables

	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Trade payables	**454**	583	**6**	35
Accruals and deferred income	**1,515**	1,583	**3**	6
Amounts owed to subsidiary undertaking	**-**	-	**4,751**	-
Amounts owed to related parties	**127**	-	**-**	-
Other tax and social security	**420**	200	**-**	-
Other payables	**203**	364	**-**	-
	2,719	2,730	**4,760**	41

20 Commitments

Operating lease commitments - Group as lessee

The group has entered into a commercial lease on land and this lease has a remaining lease term of 25 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:

	2010	2009
Group	**£'000**	£'000
Not later than one year	**71**	71
After one year but not more than five years	**284**	284
After five years	**1,420**	1,491
	1,775	1,846

21 Related party transactions

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

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

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

	Amount owed (to)/from related party	
	2010	2009
Group	**£'000**	£'000
Fellow subsidiary undertakings	**(127)**	-
Parent undertakings	**124**	89
Fellow subsidiary undertaking	**240**	1,086

21 Related party transactions (continued)

Company	Nature of transaction	Amount of transaction 2010 £'000	2009 £'000
Parent undertakings	Charges payable	(289)	(270)
Fellow subsidiary undertakings	Survey and security costs payable	(9)	(778)
Fellow subsidiary undertakings	Group relief surrendered	79	767

Company	Amount owed (to)/from related party 2010 £'000	2009 £'000
Fellow subsidiary undertakings	21	1,293
Subsidiary undertakings	44,429	45,075
Subsidiary undertakings	(4,751)	345

Company	Nature of transaction	Amount of transaction 2010 £'000	2009 £'000
Fellow subsidiary undertakings	Group relief surrendered	-	812
Subsidiary undertakings	Group relief surrendered	-	345
Subsidiary undertakings	Interest receivable	1,387	4,525

Compensation of key management (including directors):

Group	2010 £'000	2009 £'000
Short term employee benefits	38	37
Post-employment benefits	141	192

22 Financial instruments

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

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

22 Financial instruments (continued)

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 2010 Group	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
5.2022% bond	5,817	5,932	6,050	6,171	6,293	110,861	141,124
Trade and other payables	2,299	-	-	-	-	-	2,299
	8,116	5,932	6,050	6,171	6,293	110,861	143,423

At 31 March 2009 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	5,786	5,902	6,018	6,138	6,260	118,856	148,960
Trade and other payables	2,530	-	-	-	-	-	2,530
	8,316	5,902	6,018	6,138	6,260	118,856	151,490

At 31 March 2010 Company	Within 1 year £'000	1-2 Years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
5.2022% bond	5,817	5,932	6,050	6,171	6,293	110,861	141,124
Trade and other payables	4,760	-	-	-	-	-	4,760
	10,577	5,932	6,050	6,171	6,293	110,861	145,884

At 31 March 2009 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	5,786	5,902	6,018	6,138	6,260	118,856	148,960
Trade and other payables	41	-	-	-	-	-	41
	5,827	5,902	6,018	6,138	6,260	118,856	149,001

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

22 Financial instruments (continued)

Derivative financial instruments

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

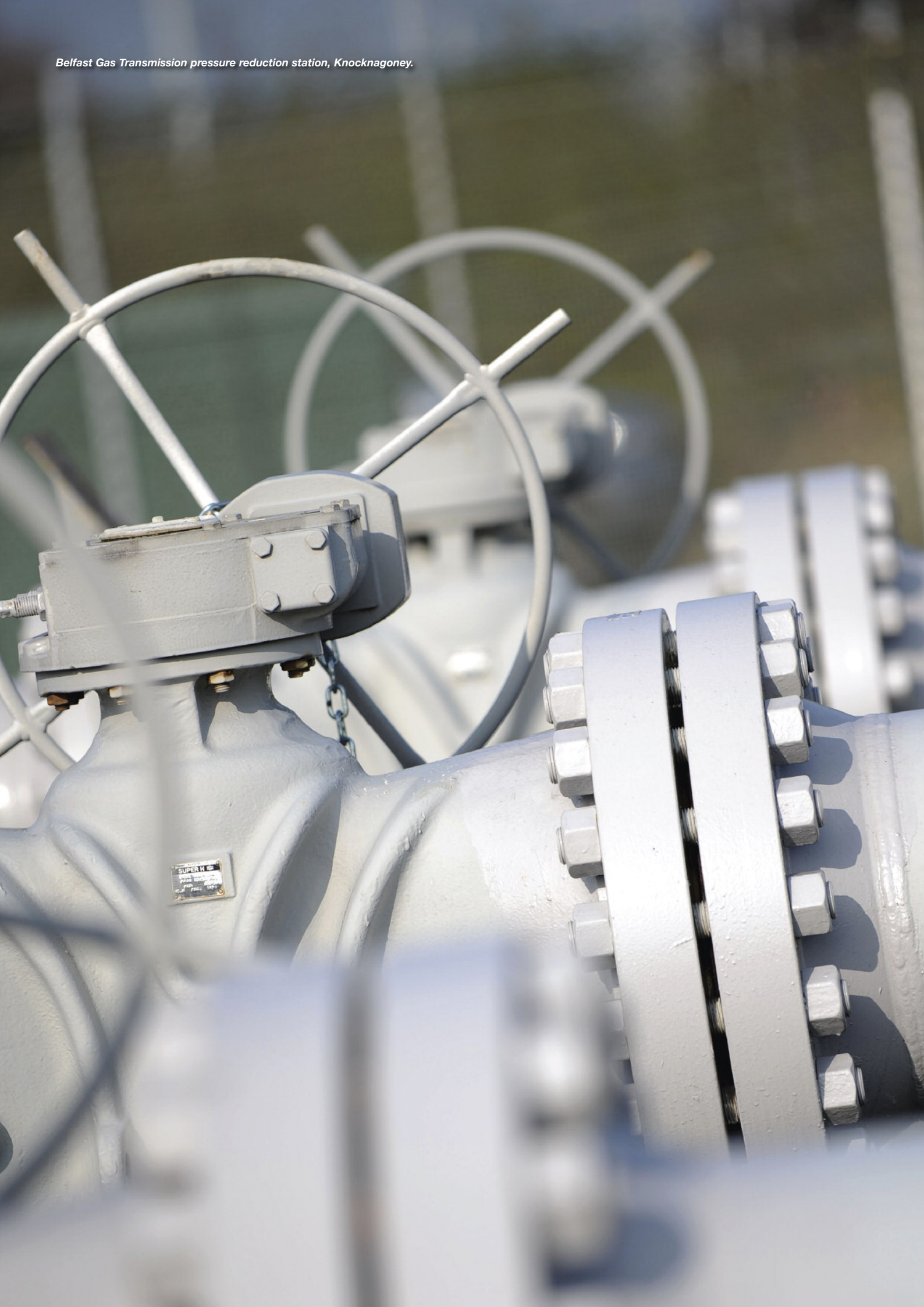
The movement on the group's and company's derivative financial instruments is as follows:

Group and company	**£'000**
At 1 April 2008	21,810
Fair value adjustment	2,253
At 31 March 2009	**24,063**
Fair value adjustment	**4,029**
At 31 March 2010	**28,092**

23 Ultimate parent undertaking

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

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



Belfast Gas Transmission pressure reduction station, Knocknagoney.

Belfast Gas Transmission Financing plc

Annual report for the year ended
31 March 2010

belfast gas
TRANSMISSION

Belfast Gas Transmission Financing plc

Directors and advisers

Directors

Felicity Huston	
Patrick Larkin	Executive Director
Gerard McIlroy	Executive Director

Company secretary

Gerard McIlroy

Registered office

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

Principal place of business

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

Solicitors

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

Bankers

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

Statutory auditors

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

Registered Number: NI 067348

Directors' report

for the year ended 31 March 2010

The directors present their report and the audited financial statements for the year ended 31 March 2010.

Principal activity and review of the business

The group's principal activity during the year was the financing and operation through its subsidiary of the Belfast Gas Transmission Pipeline which transports gas from Ballylumford to Greater Belfast and Larne. It is the intention of the directors to continue to maintain the efficient and effective operation of the pipe line. The Operating and Financial Review on pages 8 to 26 of these financial statements provides a review of the business, future development and key performance indicators for the Mutual Energy group and is therefore incorporated in this report by cross reference.

Results and dividends

The group's loss for the year is £5,169,000 (2009: £1,978,000). The directors do not recommend the payment of a dividend (2009: £nil).

Directors

The directors who served the group during the year were:

Alan McClure	(Resigned 29 September 2009)
Felicity Huston	
Damian McAteer	(Resigned 29 September 2009)
William Cargo	(Resigned 1 January 2010)
Patrick Larkin	
Gerard McIlroy	(Appointed 1 January 2010)

Financial risk management

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

Political and charitable donations

No political or charitable donations have been made during the year (2009: £nil).

Payment of suppliers

The group's procurement policy is to source equipment, goods and services from a wide range of suppliers in accordance with commercial practices based on fairness and transparency.

The group recognises the important role that suppliers play in its business and works to ensure that payments are made to them in accordance with agreed contract terms.

The group had trade payable days of 6 days at 31 March 2010 (2009: 18 days). The group intends to continue to meet the payment terms contained in its agreements with suppliers.

Directors' report

for the year ended 31 March 2010

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 and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement of disclosure of information to auditors

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

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

Independent auditors

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

By order of the Board

Gerard McIlroy
Company secretary
23 June 2010

Independent auditors' report

to the members of Belfast Gas Transmission Financing plc

We have audited the group and parent company financial statements ("financial statements") of Belfast Gas Transmission Financing plc for the year ended 31 March 2010 which comprise the group statement of comprehensive income, the group and parent company balance sheets and the group and parent company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 140, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2010 and of the group's loss and group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
30 June 2010

Belfast Gas Transmission Financing plc

Group statement of comprehensive income

for the year ended 31 March 2010

	Notes	2010 £'000	2009 £'000
Revenue – continuing operations		**4,563**	4,741
Operating costs	2	**(4,824)**	(4,934)
Earnings before depreciation and amortisation of intangible assets		**3,180**	3,247
Amortisation of intangible assets		**(2,487)**	(2,487)
Depreciation (net of amortisation of government grants)		**(954)**	(953)
Operating loss		**(261)**	(193)
Finance income	4	**62**	284
Finance costs	4	**(6,642)**	(2,839)
Finance costs – net	4	**(6,580)**	(2,555)
Loss before income tax		**(6,841)**	(2,748)
Income tax credit	5	**1,672**	770
Loss for the year	13	**(5,169)**	(1,978)

The notes on pages on pages 145 to 160 are an integral part of these group financial statements.

Belfast Gas Transmission Financing plc

Group and parent company balance sheets

at 31 March 2010

	Notes	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Assets					
Non current assets					
Property, plant and equipment	7	**35,997**	37,239	**-**	-
Intangible assets	8	**104,439**	106,926	**-**	-
Investment in subsidiary undertaking	9	**-**	-	**112,384**	112,384
Deferred income tax assets	15	**225**	-	**-**	-
		140,661	144,165	**112,384**	112,384
Current assets					
Trade and other receivables	10	**1,649**	1,071	**51**	41
Cash and cash equivalents	11	**6,923**	6,644	**1,307**	1,314
		8,572	7,715	**1,358**	1,355
Total assets		**149,233**	151,880	**113,742**	113,739
Equity					
Ordinary shares	12	**50**	50	**50**	50
Retained earnings	13	**(7,147)**	(1,978)	**8**	3
Total equity		**(7,097)**	(1,928)	**58**	53
Liabilities					
Non current liabilities					
Borrowings	14	**111,463**	108,143	**111,463**	108,143
Deferred income tax liabilities	15	**35,017**	35,737	**-**	-
Government grant	16	**8,062**	8,350	**-**	-
		154,542	152,230	**111,463**	108,143
Current liabilities					
Trade and other payables	17	**851**	735	**1,572**	4,988
Borrowings	14	**649**	555	**649**	555
Government grant	16	**288**	288	**-**	-
		1,788	1,578	**2,221**	5,543
Total liabilities		**156,330**	153,808	**113,684**	113,686
Total equity and liabilities		**149,233**	151,880	**113,742**	113,739

The notes on pages 145 to 160 are an integral part of these group financial statements.

The group financial statements on pages 142 to 160 were authorised for issue by the Board of Directors on 23 June 2010 and were signed on its behalf by: Patrick Larkin, **Director** Felicity Huston, **Director.**

Belfast Gas Transmission Financing plc

Group and parent company cash flow statements

for the year ended 31 March 2010

	Notes	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Cash flows from operating activities					
Loss before income tax and finance costs		**(261)**	(193)	**(14)**	(5)
Adjustments for:					
Depreciation of property, plant and equipment		**1,242**	1,241	**-**	-
Amortisation of government grant		**(288)**	(288)	**-**	-
Amortisation of intangible assets		**2,487**	2,487	**-**	-
Movement in trade and other receivables		**86**	9,139	**(10)**	(41)
Movement in trade and other payables		**179**	(8,689)	**11**	(4,150)
Net cash generated from/(used in) operating activities		**3,445**	3,697	**(13)**	(4,196)
Cash flows from investing activities					
Interest received		**62**	284	**3,234**	2,847
Acquisition of subsidiaries, net of cash acquired		**-**	(103,247)	**-**	(103,247)
Net cash generated from/(used in) investing activities		**62**	(102,963)	**3,234**	(100,400)
Cash flows from financing activities					
Interest paid		**(2,659)**	(2,647)	**(2,659)**	(2,647)
Proceeds from issue of share capital		**-**	50	**-**	50
Repayment of borrowings		**(569)**	(493)	**(569)**	(493)
Proceeds from borrowings		**-**	109,000	**-**	109,000
Net cash (used in)/generated from financing activities		**(3,228)**	105,910	**(3,228)**	105,910
Movement in cash and cash equivalents		**279**	6,644	**(7)**	1,314
Cash and cash equivalents at the beginning of the year	11	**6,644**	-	**1,314**	-
Cash and cash equivalents at the end of the year	11	**6,923**	6,644	**1,307**	1,314

The notes on pages 145 to 160 are an integral part of these group financial statements.

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 2010 and were signed on their behalf by Patrick Larkin and Felicity Huston. 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 151.

Going concern

The group has recurring accounting losses and accordingly net liabilities. In view of the structure of the group's initial set up including the acquisition of Belfast Gas Transmission Limited and the issuing of a bond, this is a situation which will prevail for potentially 20 years. However the group is cash generative and is forecast to remain cash positive over that 20 year period. The forecast cash generated is adequate to meet the group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the group being short of adequate cash to service the bond an arrangement approved by the Northern Ireland Authority for Utility Regulation would be triggered which would ensure bond payments are made. Accordingly in view of the above the Directors consider it appropriate to adopt the going concern basis in the preparation of the accounts.

Standards, amendments and interpretations effective in the year ended 31 March 2010 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2010 and are relevant to the group's or parent company's operations:

- IAS 1 Revised - This revised standard requires entities to prepare a statement of comprehensive income. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Owner changes in equity are shown in a statement of changes in equity. In addition, entities making restatements or reclassifications of comparative information are required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

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

- IFRS 8 - This standard replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. This new standard uses a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes; and
- Amendment to IFRS 7 - This amendment forms part of the IASB's response to the financial crisis and addresses the G20 conclusions aimed at improving transparency and enhance accounting guidance. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities.

Standards, amendments and interpretations effective in the year ended 31 March 2010 and that are not relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2010 but they are not relevant to the group's or parent company's operations:

International Accounting Standards (IAS/IFRSs)	
IAS 32 (A)	Amendment to financial instruments: presentation
IAS 23 (R)	Borrowing costs (revised)
IAS 32/IFRS 7 (A)	Amendment to financial instruments: reclassification
IFRIC 9/IA S 39 (A)	Amendment to financial instruments: embedded derivatives
IFRS 1	Amendment to first time adoption of IFRS
IFRS 2	Amendment to share based payments: vesting conditions
International Financial Reporting Interpretation Committee (IFRICs)	
IFRIC 12	Service concession arrangements
IFRIC 13	Customer loyalty programmes
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign investment

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

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

		Effective date
International Accounting Standards (IAS/IFRSs)		
IAS 24 (A)	Amendment to Related party disclosures	1 July 2009 (*)
IAS 27 (R)	Consolidated and separate financial statements (revised)	1 July 2009
IFRS 9	Financial instruments	1 January 2009 (*)
IAS 32 (A)	Amendment to financial instruments: presentation on classification of rights issues	1 February 2010
IAS 39 (A)	Amendment to financial instruments: eligible hedged items	1 July 2009 (*)
IFRS 2 (A)	Amendment to share based payments: group cash-settled transactions	1 January 2010
FRS 3 (R)	Business combinations (Revised)	1 July 2009
International Financial Reporting Interpretation Committee (IFRICs)		
IFRIC 14 (A)	Amendment to IAS 19	1 January 2011
IFRIC 18	Transfer of assets from customers	31 October 2009
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010 (*)

(*) not yet adopted by the European Union.

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

Basis of consolidation

The group financial statements consolidate the financial statements of Belfast Gas Transmission Financing plc and its subsidiary undertaking drawn up to 31 March 2010. Subsidiaries are entities that are directly or indirectly controlled by the group. Control exists where the group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

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

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

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.

Investments

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

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 42 years.

Property, plant and equipment

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

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

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

Pipeline	31 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.
An asset is derecognised upon disposal or when no future economic benefit is expected to arise from the asset.

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

Impairment of non-financial assets

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

Classification of financial instruments

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

Loans and receivables (financial instruments)

(a) Trade and other receivables

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

Trade and other 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.

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 consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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 income statement over the period of the borrowings using the effective interest method.

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

(b) Trade and other payables

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

Income tax and deferred income tax

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

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Government grants

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

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

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

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 income statement on a straight-line basis over the period of the lease.

Pensions and other post-retirement benefits

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

Foreign currency translation

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

Financial risk management

Financial risk factors

The group operates the Belfast Gas Transmission pipeline which transports gas from Ballylumford to Greater Belfast and Larne under a licence agreement with the Northern Ireland Authority for Utility Regulation. Under the licence agreement the group receives revenue that compensates it for its operating expenses, financing costs and repayment of borrowings. Accordingly the group has limited financial risk.

(a) Market risk

The group's interest rate cash flow risk arises from its long term borrowings. The group issued its long term borrowings to refinance its transmission assets at the lowest possible rates in order to reduce the costs of transmission to the consumers of Northern Ireland. Its long term borrowings were issued at rates linked to the Retail Price Index. The group's long term borrowings are therefore susceptible to changes in the Retail Price Index. A change in the Retail Price Index by 1 basis point would have increased finance costs during the year by £1,073,000.

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

(b) Credit risk

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

(c) Liquidity risk

Under the group's licence agreement it receives revenue that compensates the group for its operating expenses, financing costs and repayment of borrowings. Accordingly the group has limited liquidity risk. The group also retains significant cash reserves and a liquidity facility with an A- bank to manage any short term liquidity risk. The undiscounted contractual maturity profile of the group's borrowings is shown in note 20.

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

Capital risk management

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

Fair value estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); 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 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:

(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 30 years at the beginning of the year. If the remaining useful economic life had been assessed at 31 years depreciation would have decreased by £40,000 and if the remaining useful economic life had been assessed at 29 years depreciation would have increased by £43,000.

2 Expenses by nature

Group	2010 £'000	2009 £'000
Depreciation and amortisation (net of amortisation of government grants)	3,441	3,440
Operating lease payments	12	12
Fees payable to the company's auditor in respect of the audit of the financial statements	15	11
Other expenses	1,356	1,471
Total operating costs	4,428	4,934

3 Employee benefit expense

The group had no employees other than its directors during the year. The directors received emoluments of £467,000 (2009: £229,000) (including contributions to pension scheme) from a fellow subsidiary undertaking for 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.

4 Finance income and costs

Group	2010 £'000	2009 £'000
Interest expense:		
Borrowings (including borrowing fees)	(6,642)	(2,839)
Finance costs	(6,642)	(2,839)
Interest income:		
Short-term bank deposits	62	284
Finance income	62	284
Finance costs – net	(6,580)	(2,555)

5 Income tax credit

Group	2010 £'000	2009 £'000
Current income tax:		
Current income tax charge at 28%	1	-
Group relief surrendered	(570)	(82)
Group relief adjustments in respect of previous periods	(158)	-
Total current income tax	(727)	(82)
Deferred income tax:		
Origination and reversal of temporary differences	(1,346)	(688)
Adjustments in respect of previous periods	401	-
Total defered income tax	(945)	(688)
Income tax credit	(1,672)	(770)

5 Income tax credit (continued)

The income tax credit in the income statement for the year differs from the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are reconciled below:

	2010	2009
	£'000	£'000
Loss before income tax	**(6,841)**	(2,748)
Tax calculated at the UK standard rate of corporation tax of 28% (2009: 28%)	**(1,915)**	(770)
Effects of:		
Adjustments in respect of previous periods	**243**	-
Income tax credit	**(1,672)**	(770)

6 Profit attributable to members of the parent company

As permitted by Section 408 the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The profit dealt with in the financial statements of the parent company is £5,000 (2009: £3,000).

7 Property, plant and equipment

Group	**Pipeline**
Cost	**£'000**
Arising on acquisition	38,480
At 31 March 2009 and **at 31 March 2010**	**38,480**
Accumulated depreciation	
Provided during the year	1,241
At 31 March 2009	**1,241**
Provided during the year	**1,242**
At 31 March 2010	**2,483**
Net book amount	
At 31 March 2010	**35,997**
At 31 March 2009	37,239

Depreciation expense of £1,242,000 (2009: £1,241,000) has been fully charged to operating costs.

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

8 Intangible assets

Group	Licences £'000
Cost	
Arising on acquisition	109,413
At 31 March 2009 and **at 31 March 2010**	**109,413**
Accumulated amortisation	
Provided during the year	2,487
At 31 March 2009	**2,487**
Provided during the year	**2,487**
At 31 March 2010	**4,974**
Net book amount	
At 31 March 2010	**104,439**
At 31 March 2009	106,926

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 44 years. The group has concluded that these assets have a remaining useful economic life of 42 years.

9 Investments

Company	Subsidiary undertaking
Cost	**£'000**
Arising on acquisition, at 31 March 2009 and **at 31 March 2010**	**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

10 Trade and other receivables

	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Trade receivables	**134**	112	**-**	-
Other receivables	**657**	732	**-**	-
Amounts owed by related parties	**770**	106	**37**	37
Prepayments and accrued income	**88**	121	**14**	4
	1,649	1,071	**51**	41

10 Trade and other receivables (continued)

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

11 Cash and cash equivalents

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Cash at bank and in hand	**4,318**	2,891	**1,307**	1,314
Short-term bank deposits	**2,605**	3,753	**-**	-
	6,923	6,644	**1,307**	1,314

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 2.5%.

12 Called up share capital

	2010 £'000	2009 £'000
Group and company		
Allotted and fully paid		
50,000 ordinary shares of £1 each	**50**	50

13 Retained earnings

Group	**£'000**
Total comprehensive income for the year	(1,978)
At 31 March 2009	**(1,978)**
Total comprehensive income for the year	**(5,169)**
At 31 March 2010	**(7,147)**

Company	**£'000**
Total comprehensive income for the year	3
At 31 March 2009	**3**
Total comprehensive income for the year	**5**
At 31 March 2010	**8**

14 Borrowings

Group and company	2010 £'000	2009 £'000
Non-current		
2.207% Index linked guaranteed secured bond	**111,463**	108,143
Current		
2.207% Index linked guaranteed secured bond	**649**	555
Total borrowings	**112,112**	108,698

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 £74,228,000 (2009: £72,714,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 4.64% (2009: 4.42%).

15 Deferred income tax

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

Group	2010 £'000	2009 £'000
Deferred income tax assets	**225**	-
Deferred income tax liabilities	**(35,017)**	(35,737)
Deferred income tax liabilities - net	**(34,792)**	(35,737)

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

£'000	Group	Group
Arising on acquisition		(36,425)
Income statement credit for the year		688
At 31 March 2009		**(35,737)**
Income statement credit for the year		**945**
At 31 March 2010		**(34,792)**

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

Group	Tax losses £'000	Accelerated capital allowances £'000	Valuation intangible of assets £'000	Total £'000
Arising on acquisition	-	(5,789)	(30,636)	(36,425)
Income statement (charge)/credit for the year	-	(9)	697	688
At 31 March 2009	-	**(5,798)**	**(29,939)**	**(35,737)**
Income statement credit for the year	**225**	**23**	**697**	**945**

At 31 March 2010	**225**	**(5,775)**	**(29,242)**	**(34,792)**

15 Deferred income tax (continued)

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 £28,545,000 (2009: £29,242,000). The portion of the group's deferred tax liability arising from accelerated capital allowances that is expected to fall due after more than 12 months is estimated at £5,775,000 (2009: £5,798,000). The portion of the group's deferred tax asset arising from losses that is expected to fall due after more than 12 months is £225,000 (2009: £nil).

16 Government grant

Group	**£'000**
Arising on acquisition	8,926
Amortised during the year	(288)
At 31 March 2009	**8,638**
Amortised during the year	**(288)**
At 31 March 2010	**8,350**

The government grant was provided to the company for the purpose of its expenditure on its property, plant and equipment. The current portion of the government grant is £288,000 (2009: £288,000) and the non-current portion is £8,062,000 (2009: £8,350,000).

17 Trade and other payables

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Trade payables	**20**	79	**8**	6
Accruals and deferred income	**399**	293	**6**	3
Amounts owed to subsidiary undertaking	**-**	-	**1,557**	4,979
Amounts owed to related parties	**66**	50	**-**	-
Other tax and social security	**366**	313	**1**	-
	851	735	**1,572**	4,988

18 Commitments

Operating lease commitments - group as lessee

The group has entered into a commercial lease on land which expires on 31 December 2051. There are no

restrictions placed upon the lessee by entering into these leases.

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

Group	2010 £'000	2009 £'000
Not later than one year	12	12
After one year but not more than five years	47	47
After five years	429	441
	488	500

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	
	2010	2009
Group	**£'000**	£'000
Fellow subsidiary undertakings	**770**	58
Parent undertakings	**(45)**	48
Fellow subsidiary undertakings	**(21)**	(50)

		Amount of transaction	
		2010	2009
Group	**Nature of transaction**	**£'000**	£'000
Parent undertakings	Charges payable	**(190)**	(171)
Parent undertakings	Group relief surrendered	**-**	36
Fellow subsidiary undertakings	Group relief surrendered	**728**	46
Fellow subsidiary undertakings	Charges payable	**(31)**	(24)

	Amount owed (to)/from related party	
	2010	2009
Company	**£'000**	**£'000**
Subsidiary undertaking	**(1,557)**	(4,979)
Fellow subsidiary undertakings	**37**	37

		Amount of transaction	
		2010	2009
Company	**Nature of transaction**	**£'000**	£'000
Fellow subsidiary undertakings	Group relief claimed	**-**	(1)
Subsidiary undertaking	Interest receivable	**6,817**	2,752
Subsidiary undertaking	Interest payable	**(162)**	(52)

20 Financial instruments

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

Assets and liabilities	**Category of financial instrument**
Trade and other receivables	Loans and other receivables

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Mutual Energy Directors and employees at the company's launch, Parliament Buildings, November 2009.

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