MUTUAL ENERGY LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2019

mutualenergy

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A Northern Ireland company
working for consumers...

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Annual Report 2018/19

DIRECTORS & ADVISERS

Directors

Patrick Anderson	Non-executive director
Regina Finn	Chairman (resigned 31 December 2018)
David Gray	Chairman (appointed 1 January 2019)
Patrick Larkin	Executive director
Gerard McIlroy	Executive director
Kate Mingay	Senior independent director
Michael McKernan	Non-executive director
Christopher Murray	Non-executive director

Company Secretary

Gerard McIlroy

Registered Office

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

Principal Place of Business

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

Solicitors

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

Bankers

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

Independent Auditors

KPMG
The Soloist Building
1 Lanyon Place
Belfast, BT1 3LP

CHAIRMAN'S STATEMENT

I welcome the opportunity in this year's report to make my first written commentary on the business of Mutual Energy and, more specifically, the company's progress in the 2018/19 year. I was very pleased to be appointed as Chairman of the company and I look forward to building on the successful achievements of my predecessor, Regina Finn.

Delivering on our Strategy

As you will see from this report, Mutual Energy has four core strategic objectives: managing essential energy assets; returning value to Northern Ireland consumers; managing market change; and extending the benefits of our business model by acquiring further assets. During 2018/19 we made significant progress in each of these areas.

The ability to raise finance at attractive rates is one of the key advantages of our mutual status and a particularly significant milestone was achieved in July with the long-term financing of the Gas to the West project. We raised circa £200 million from Legal & General at a highly attractive rate of interest in a transaction which will result in a multi-million pound cost saving to consumers in Northern Ireland in comparison with the costs that would have been incurred by a developer with a conventional corporate balance sheet. By the end of the year the average of the group's real cost of capital had fallen to below 1.3% on £479m of debt. The difference between this figure and the cost of capital allowance for other UK regulated businesses (which has been in the range of 2.3% - 7.4% in recent years) represents a direct saving to consumers in Northern Ireland.

Whilst the efficient financing of our business delivers a key part of our overall objectives, the operational risks inherent in running these essential assets remain and managing them properly is a core element of our success. In 2018/19 all our assets enjoyed world class availability results, while key safety targets were consistently met. In addition, a major sub-sea survey programme was successfully undertaken and the first stage of decommissioning the gas connection to the recently closed Ballylumford power station completed. Looking ahead, the control system for the Moyle Interconnector is approaching the end of its operational life and during the year we actively progressed the early stages of a programme to invest in a replacement system.

We raised circa £200 million from Legal & General at a highly attractive rate of interest in a transaction which will result in a multi-million pound cost saving to consumers in Northern Ireland.

The operational reliability of our major assets is important both in terms of the security of supply of energy to Northern Ireland consumers and the financial risks to which the group is exposed. The importance of reliability in financial terms has been emphasised by the recent changes to the way in which the energy markets operate in Ireland. We are heavily involved in these changes, directly as the system operator in gas and as a key cross border market participant in electricity, and the successful management of the risks of change is of major strategic importance.

The introduction of the new I-SEM market for electricity in October 2018 has increased both the risks for the Moyle Interconnector and our ability to earn revenue. I am pleased to report that we were able to operate successfully in the early months of I-SEM and were able to achieve a healthy profit of £11.2m for the group as a whole.

CHAIRMAN'S STATEMENT (CONTINUED)

Importantly for customers, we were able to waive our entitlement to use of system charges to pay for Moyle from October 2018, so directly reducing customers' bills.

In many ways our most visible activity in the last year has been the Gas to the West project and our construction partner SGN has been very busy throughout the year managing the construction of the high pressure network to bring natural gas to 7 towns in the west of Northern Ireland. The project is in the final commissioning stage. As new customers are connected in the towns concerned the project will help to support economic growth and business, as well as giving customers important choice and diversity of energy sources.

The last year also saw the signing of a major agreement with Phoenix Natural Gas which allowed us to finance a major part of the extension of their network to the east of Northern Ireland, so further extending the benefits of our low costs to customers and boosting the economic case for the build-up of the network.

Staff and Stakeholders

Delivery on strategic objectives across such a wide spectrum would not be possible without effective co-operation with a wide range of stakeholders.

On the operations side the close working relationship with our key contract providers, SGN and Siemens, has been instrumental in the delivery of the recent outstanding performance figures for our major assets and will be essential for completion of the Gas to the West project and the forthcoming replacement of the Moyle control system. We also continue to engage with our gas shippers and, as the Gas Market Operator for Northern Ireland, look forward to helping develop the market rules further to better align the electricity and gas markets in Northern Ireland.

Maintaining good relationships with our providers of finance is particularly important and our finance team has worked tirelessly with the representatives of our major investors to maintain their confidence in our business model and ensure that we can continue to adapt to market changes. We worked with the financiers of Moyle to explain, and receive their consent for, the multiple changes needed to participate in the new electricity market design; and with the financiers of the gas businesses to facilitate the operation of the Gas Market Operator and the market changes needed as the Gas to the West transmission business goes live. In the case of Gas to the West we have already developed a good working relationship with Legal and General and look forward to working with them over the full lifetime of the project.

For the Gas to the West expansion, the co-operation of the Department for Infrastructure and the Regulator was vital in helping to build trust in the capital markets in the stability of regulation in Northern Ireland. We have worked closely with the Department and Regulator on numerous issues and look forward to contributing to the policy discussion on the future of the energy industry and, in particular, how policy can help achieve the ambitious climate change targets set for 2050.

Our mutual business could not operate without the involvement of our members. We do not have shareholders so, unlike other businesses, we are not here to maximise dividends or shareholder benefit. Instead our goal is to deliver for Northern Ireland consumers; and our membership base, which is drawn from all walks of life in our community and beyond, is invaluable in helping the board maintain this focus. Our particular mutual model of members with shareholder powers sitting over a group structure very like a plc has proven popular with the financial community, and indeed its continuance was a condition for our last financing transaction.

Finally, I would like to thank all the members of the company and my Board colleagues for their commitment and support, and the wider Mutual Energy team for their hard work, dedication and professionalism. I have been very impressed by the amount that is achieved by a relatively small team.

David Gray
Chairman
24 June 2019


moyle
interconnector

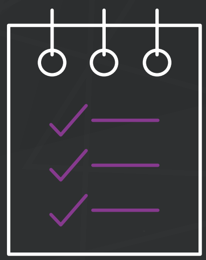
KEY ACHIEVEMENTS

2018 / 2019 HIGHLIGHTS

DEMAND MET

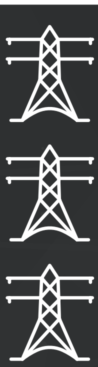
100%

of Northern Ireland's natural gas supplied through Premier Transmission's assets (15.1 TWh)



15.1%

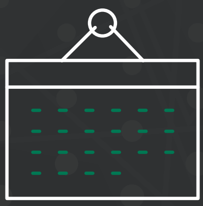
of Northern Ireland's electricity demand supplied by Moyle Interconnector (1.4 TWh)



MARKET & OPERATIONS

1 October 2018

Successful integration to European electricity market for the first time



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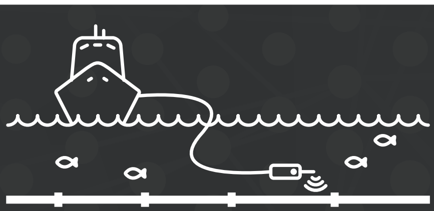
Moyle fast responses to support the Northern Ireland electricity system



Subsea surveys successfully completed for all subsea assets

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AVAILABILITY

100%

gas asset availability

99.6%

availability on the Moyle Interconnector

GAS TO THE WEST

c.£120m

West Transmission finance raised during construction at record low cost to consumers

£80m

Over £80m additional finance raised to support development of gas distribution network on behalf of distribution system operators

c.150km

of gas pipeline constructed in the year through the Gas to the West project

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019

Our strategy and business model

Our Purpose

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

Our Strategy

1. Operate assets safely and cost effectively, outsourcing where appropriate

2. Deliver savings to all Northern Ireland consumers evenly over the life of the assets

3. Manage market changes to minimise risks to the Northern Ireland consumer

4. Acquire stable energy infrastructure assets at low cost to the consumer

Our strategy and performance measures are discussed in more detail on pages 14-16.

Our Business Model

What We Do

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

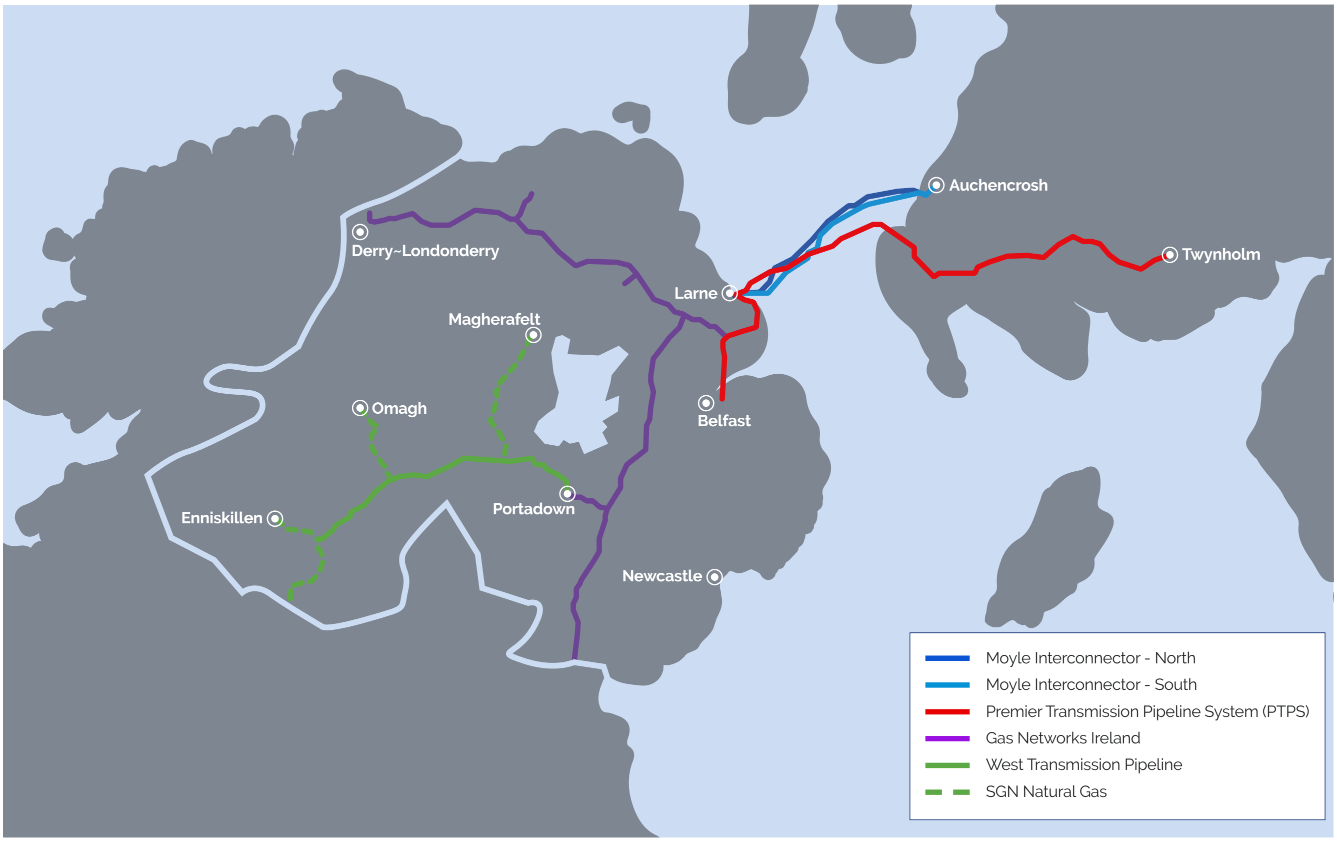
- Operation of assets (see pages 18-20 & 26-29)
- Cost savings (see pages 22-23 & 30-31)
- Market environment (see pages 24-25 & 32-33)
- Infrastructure acquisition (see pages 34-35)

How We Do It

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

- Business structure (see pages 12-13)
- Risk managment (see pages 38-39)
- Governance structure (see pages 42-48)
- Executive remuneration (see pages 49-61)

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)



Business structure

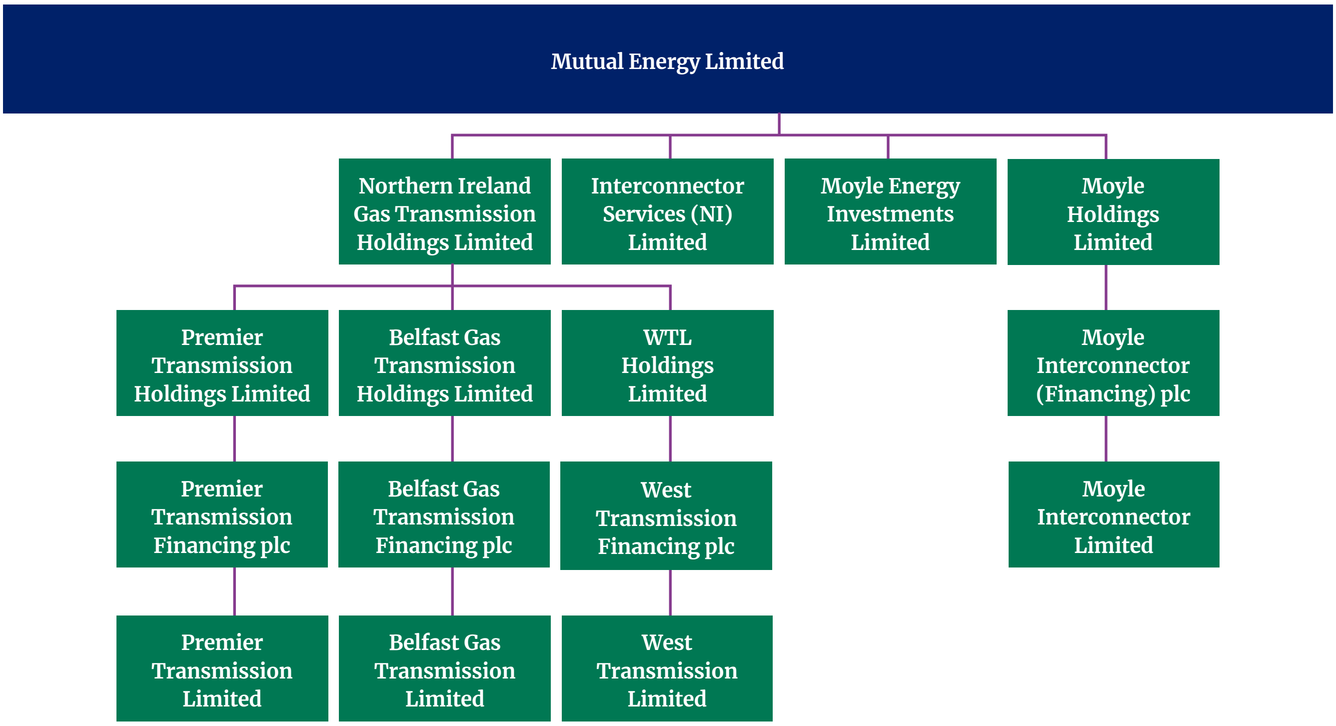
Mutual Energy owns and operates the Moyle Interconnector (Moyle) which links the electricity systems of Northern Ireland and Scotland, the Premier Transmission Pipeline System (PTPS), which consists of the Scotland to Northern Ireland natural gas transmission pipeline (SNIP), the Belfast Gas Transmission Pipeline (BGTP) and the West Transmission Pipelines (WTP – under construction) operated by Premier Transmission Limited, Belfast Gas Transmission Limited and West Transmission Limited respectively.

These strategically important assets provide vital energy links with Great Britain, and Mutual Energy aims to manage them to the highest standards of safety, reliability and efficiency. More detail on this is available in the infrastructure acquisition section on page 35.

Mutual Energy Limited is a company limited by guarantee with no shareholders, commonly known as a mutual. The mutual model and our licence structures are attractive to investors looking for long-term stable cash flows, enabling the company to operate without equity and therefore allowing a lower cost of capital than would otherwise be the case. The bonds held by the group have competitive real interest rates with the overall average WACC of the group currently circa 1.3%.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

The group's principal stakeholders are the energy consumers of Northern Ireland and the financiers of its debt-financed subsidiaries. The group's structure can be seen in the diagram below:



As well as each main operating company and their respective financing and holding companies, the group includes Moyle Energy Investments Limited and Interconnector Services (NI) Limited. Moyle Energy Investments manages the longer-term cash reserves of the Moyle business and Interconnector Services provides services to the operational assets of the group where savings can be achieved by combining the provision of these services.

The principal risks affecting the business are discussed on pages 38-39. More information regarding our customers, stakeholders and staff can be found on pages 36-37.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Strategic objectives

Our strategy is made up of four key elements:

Strategy	How We Deliver	How We Measure Success
Safe, cost efficient operation Operate the best model to minimise costs and overheads including outsourcing	We provide a safe, reliable and efficient transmission service to the electricity and gas suppliers of Northern Ireland. Delivery is achieved through a competitive tendering process for operational activities and the development of a comprehensive contracting strategy and partnership approach with key contractors. We operate a Health & Safety system based on the Plan, Do, Check, Act approach. **Further information on asset operation can be found on pages 18-20 & 26-29.**	Our success measures include: • availability targets for our assets (KPI 1); • operational savings against forecast (KPI 2); • lost time incidents (KPI 3) and a series of detailed health & safety targets; • detailed maintenance and contracting milestones which are monitored at contract meetings; and • detailed monthly budgets which are monitored over a rolling five year horizon.
Return savings to consumer Deliver savings to all consumers evenly over the life of the assets	Group strategy involves returning all savings or cash surpluses to the generality of Northern Ireland consumers as evenly as possible over the life of the assets. In doing so, where possible, we seek to build up reserves to smooth future cash flows and minimise energy price increases and fluctuations associated with our assets. Where appropriate, reserves will be used to provide capital for future investments. **Cost smoothing is discussed in more detail on pages 22-23 & 30-31.**	Our measures of success include: • operational savings against forecast (KPI 2); • cash reinvested to reduce charge to consumers (KPI 4); and • cash generated from operations (KPI 5).

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Strategy	How We Deliver	How We Measure Success
Manage market change Manage market changes to minimise risks to the Northern Ireland consumer	Our key focus is to ensure, so far as possible, that changes driven by EU, national or other bodies do not impact negatively on our business, our financing arrangements or energy consumers in Northern Ireland. We seek to achieve this by influencing discussions at EU stakeholder meetings, actively participating in the work of the EU system operator confederations and by assisting the regulators and relevant government departments to identify and address issues particularly relevant to Northern Ireland. **The market environment is discussed in more detail on page 24-25 & 32-33.**	Our measures of success include: • avoidance of changes which would compromise the financing structures of the group; • monitoring of individual projects against initial objectives and implementation plans with milestone dates; and • the percentage of market change date milestones met (KPI 6).
Acquire Infrastructure Look to acquire stable infrastructure assets at low cost to the consumer	The group looks to acquire stable energy infrastructure assets which it can own and operate at lower cost than otherwise would be the case to benefit consumers. We achieve lower cost through a long term reduced cost of capital and operating efficiencies. Delivery involves: • the assessment of potential assets, both acquisition and new build, on an ongoing basis; • the development of working relationships with potential partners and developers; and • continued innovation in reviewing financing and licencing structures to ensure low cost to the consumer. **This objective is discussed in more detail on pages 34-35.**	Success is measured with reference to the quality of the projects brought to the board as potential opportunities to develop. The progress of individual projects is measured against project-specific milestones. In acquiring assets the group will not overpay the going market rate. Compliance with key covenants on our existing asset base is measured as a KPI for maintaining investor confidence (KPI 7).

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Key Performance Indicators ("KPIs")

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

Key Performance Indicator	Definition of KPI
1. Availability The quality of service to our direct customers is determined by the performance of our assets, of which the principal measure is the availability of transmission capacity. Graphs showing availability can be found on pages 19 & 29.	**Availability** Availability is calculated as the number of hours available (excluding upstream outages) x capacity available / total plant capacity under connection agreements x the number of hours in the year.
2. Operational savings against forecast For the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs. Operational savings vs forecasts for the gas businesses are shown on page 23.	**Operational savings against forecast** The KPI for gas business operational savings is calculated by subtracting the actual required revenue for the gas year, calculated in accordance with the gas companies' licences, from the forecast required revenue submitted in advance of the year.
3. Lost time incidents Our safety is measured by the safe operation of our staff and contractors as noted on pages 19 & 29.	**Lost time incidents** Lost time incidents are calculated as the number of lost time incidents per 100,000 hours worked by staff and contractors.
4. Cash reinvested to reduce charge to consumers Cash reinvested in the business to reduce the direct charge to consumers for the provision of the Moyle Interconnector asset. Cash reinvested to avoid charging consumers can be seen on page 31.	**Cash reinvested to reduce charge to consumers** The Moyle Interconnector can charge consumers for the benefit of the interconnector through their electricity bill, in a similar way that other electricity infrastructure is charged. The KPI is the cash actually transferred into the current account to reduce the charge to consumers.
5. Cash generated from operations Cash generated in each of the businesses which will be used to avoid future charges to consumers. Cash generated in the gas and electricity businesses can be seen in the graphs on pages 23 & 31.	**Cash generated from operations** Cash generated in each of the businesses post tax.
6. Market change date milestones met Market change date milestones are set to meet EU obligations, the Northern Ireland gas market targets, or internal market improvement targets. Performance is measured against the deadlines set to show the percentage of the milestones which were met in each financial year. Market change date milestones met can be seen in the graph on page 25.	**Market change date milestones met** Market change date milestones met is the percentage of the milestones due in each financial year which were delivered on time.
7. Annual Debt Service Cover Ratio The ability to acquire infrastructure at low cost to the consumer is critically dependent upon our track record with the existing asset financing. As well as compliance with the respective financing covenants, the principal requirements of all financiers are the maintenance of Annual Debt Service Cover Ratios (ADSCR) of greater than 1.15 for Moyle, 1.25 for Premier Transmission, 1.20 for Belfast Gas Transmission and 1.20 for West Transmission. Graphs showing these ratios can be found on pages 19 & 29.	**Annual Debt Service Cover Ratio** The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the bonds for each operational company. The basis of calculation is Available Cash / Debt Service in the next 12 months. In each case Available Cash = the difference between income and expenses in the period + cash in designated bank accounts, where cash in the designated bank accounts is limited to 1x Debt service.

A number of other KPIs are used at a corporate level to monitor other aspects of business performance, including corporate responsibility KPIs and Employee KPIs. These are included later in this report.

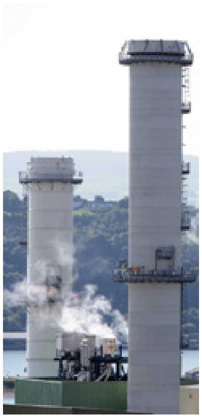
STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Gas Business Review

STRATEGIC OBJECTIVE:

Operate assets safely and cost effectively, outsourcing where appropriate



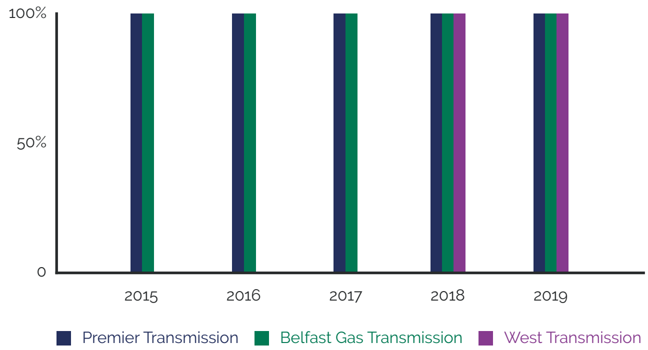
STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Gas Business Review (continued)

Operational performance

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

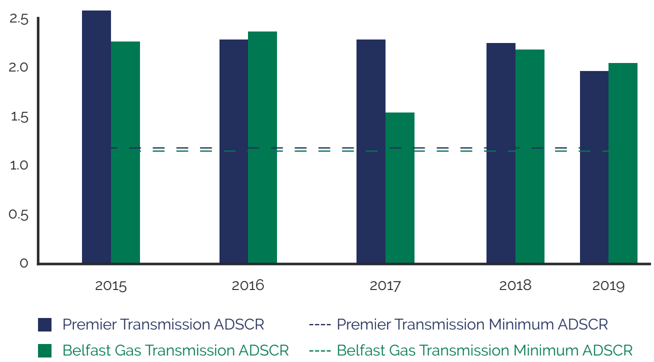
Routine surveillance, inspection, monitoring and maintenance of the gas assets was executed, as planned, with no material issues arising. This included a successful submarine campaign to survey the external condition of the pipeline in the North Channel and Belfast and Larne Loughs and an internal 'in-line' inspection of the onshore pipeline in South West Scotland. In the context of the growing (and aging) gas asset base, and the increasing need to demonstrate effective and efficient investment methodologies, we have commenced formalising the asset management activity within the ISO55001 asset management framework. This will involve a two to three year process of documentation and improvement planning leading to a quantified and benchmarkable assessment, accreditation and an ongoing framework of continual improvement.



KPI 1: Gas business availability

Financial performance

The combined gas business costs for Mutual Energy's subsidiaries (Premier Transmission, Belfast Gas Transmission and West Transmission) for the gas year ending on 30 September 2018 were £2.8m below the forecasts used for predicting tariffs (September 2017: £3.0m below) (KPI 2).



KPI 7: Gas business ADSCRs

The businesses are cash generative and able to meet their debt service obligations, though because of the debt structures they are not expected to be profitable in the earlier years when interest costs incurred are in excess of debt repayments. This situation will then reverse in later years. For the gas businesses, the Annual Debt Service Cover Ratio (ADSCR) will tend to average towards 2.0. Over-performance above 2.0 in earlier years will reverse in the future and will result in future ADSCR below 2.0 when this cash is released to the benefit of consumers. The timing of tax payments can have a similar effect and is the cause of Belfast Gas Transmission's lower ADSCR in 2017. West Transmission had no debt service during the gas year ended 30 September 2018 so had no ADSCR for the period. The ADSCRs for the gas businesses can be seen in the graph above.

	2015	2016	2017	2018	2019
Premier Transmission ADSCR	2.60	2.27	2.17	2.06	1.95
Belfast Gas Transmission ADSCR	2.28	2.32	1.45	1.93	2.06

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Gas Business Review (continued)

Future development

Due to the age of the assets there is an increasing focus upon repair, refurbishment and often replacement of ancillary components. Refurbishment and replacement projects are planned over the long-term on whole life cost basis, but given priority within the year on a risk based approach. These projects are subject to a strict process of change control. The amount of resource assigned to this activity has continued to increase, with material projects in the period being the replacement of an on-site control system (which captures data from site and relays it to the control room) and design works to decommission and remove components within the Ballylumford offtake site previously supplying the Ballylumford B Station which closed during the year.

In preparation for an almost doubling of the gas asset base, when we integrate the operation of the new Gas to the West assets in Q2 2019 into the existing business, we have undertaken a detailed amendment of all relevant operational procedures as well as technical due-diligence of the design, construction and commissioning of the assets.

We have also been approached by several parties interested in connecting to the gas transmission pipeline and we look forward to furthering such requests should they materialise further.

When we integrate the operation of the new Gas to the West assets, it will be an almost doubling of the gas asset base.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STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Gas Business Review (continued)

STRATEGIC OBJECTIVE:

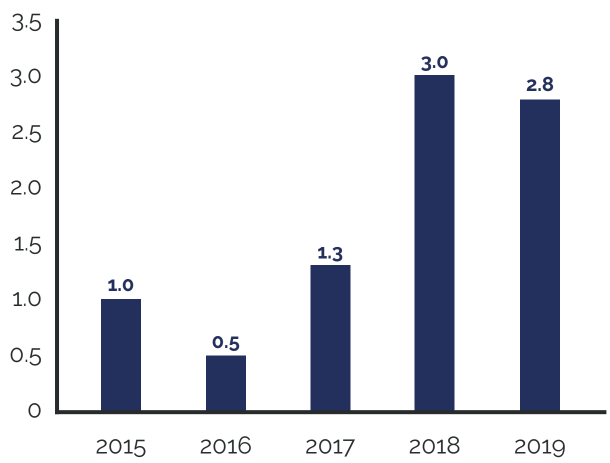
Deliver savings to all consumers evenly over the life of the assets

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Gas Business Review (continued)

The main means by which the company delivers savings to the consumers in Northern Ireland is through providing a low cost of capital. The costs of the gas transmission assets are charged to the respective shippers through a "use of system" charge which happens automatically through the postalised transmission system charging methodology. The savings achieved due to our low costs of capital are therefore passed on to shippers, allowing them to charge the end consumer less for their gas. Overall gas business charges recovered from shippers in the 2017-18 gas year (excluding the new West Transmission assets) were 18% lower (2016-17: 23% lower) in real terms than in 2004-5, before the mutualisation of Mutual Energy's gas assets. We continually seek to achieve operational savings and efficiencies.

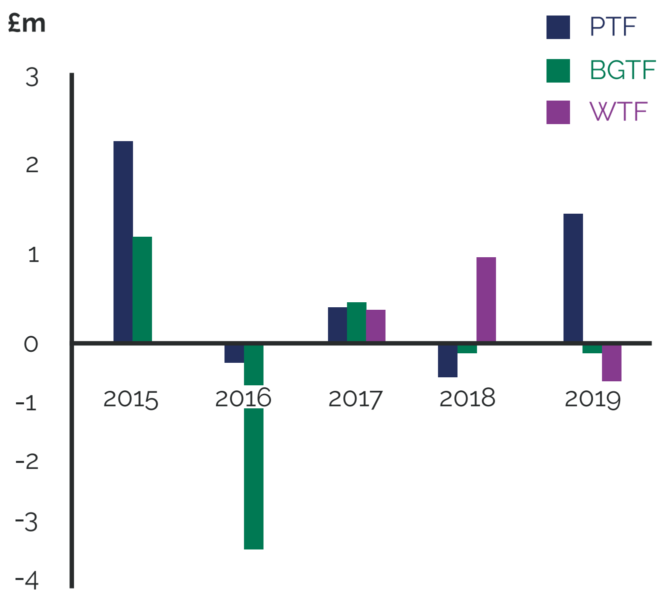
Year on year the business measures its progress with reference to the annual forecast provided for the tariff calculation, as shown in the following chart (KPI 2).



KPI 2: Gas business operational savings vs forecast

KPI 5 shows the movement in the cash balance (including deposits and investments with maturity of less than 1 year) from the previous year. The cash outflow in 2015/16 is the result of timing of payments in relation to tax from prior years and is the reversal of prior year cash inflows. The cash flows shown exclude cash flows in relation to the financing of the West Transmission business.

In 2017/18, £1.25m of funds retained from Premier Transmission's previous outperformance against targets were provided to West Transmission to assess the opportunity of a preconstruction financing. As a result, West Transmission was financed in July 2018 at a very low rate, resulting in significant benefit to customers.



KPI 5: Cash generated in the year

The savings achieved due to our low costs of capital are therefore passed on to shippers, allowing them to charge the end consumer less for their gas.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Gas Business Review (continued)

STRATEGIC OBJECTIVE:

Manage market changes to minimise risks to the Northern Ireland consumer

Image courtesy of Tourism NI

Image courtesy of Tourism NI

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Gas Business Review (continued)

European Energy Regulation

European legislation continues to be a driver for changes in our market arrangements and contracts with shippers. The EU regulation has driven a "Gas Target Model" to be implemented by our gas businesses. The first major deadline for implementation was October 2015, with others following until 2019.

This year, the gas businesses continued to implement the Gas Tariff Network Code, which came into force in April 2017, by carrying out analysis which was an essential part of the Utility Regulator's consultation on the Reference Price Methodology (RPM) to be used to determine Northern Ireland's transmission tariff. The Utility Regulator's decision to remain with the Postalised RPM means there will be minimal change. It is expected that the Tariff Network Code will be implemented in accordance with the deadlines stipulated. In conjunction, the gas businesses will continue to implement the Balancing Network Code by monitoring liquidity within the Northern Ireland market as well as incorporating changes to the Northern Ireland balancing arrangements as required.

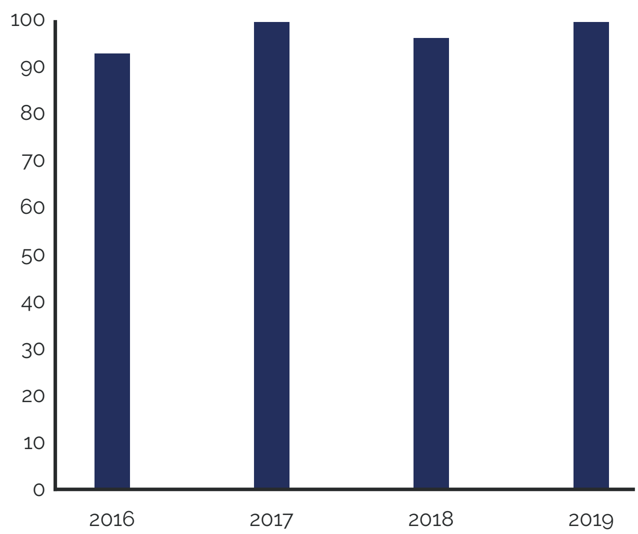
Whilst substantial changes have been made over the past four years it should be expected that there will be further changes coming from the EU over the upcoming years, as the work continues to deliver the Gas Target Model.

Impact of Brexit

The business is adopting an approach of complying fully with all EU obligations until there is a clear rationale not to. As our assets are fully within the UK, downside risks of Brexit are less than if we were connecting to another EU country at a border (although we do connect to assets in the UK owned by Gas Networks Ireland and Northern Ireland gas is co-mingled with gas destined for the Republic of Ireland). There is an element of uncertainty about EU obligations therefore engagement has taken place with stakeholders including the European Network of Transmission System Operators for Gas (ENTSOG), National Regulatory Authorities, Adjacent Transporters, Government Departments and Shippers whilst Brexit arrangements are negotiated and finalised. As a prudent business, during the year we developed contingency plans for a 'No Deal' scenario.

As a result, we do not expect any significant change to day to day operations on Brexit day one whether the UK leaves with a deal or not. As Brexit discussions progress, engagement will continue with stakeholders, particularly with regard to enduring arrangements post Brexit and ensuring Northern Ireland continues to contribute to any decisions on changes to gas transmission arrangements in the future.

The graph below shows the percentage of market changes which were implemented on time in each financial year (KPI 6).



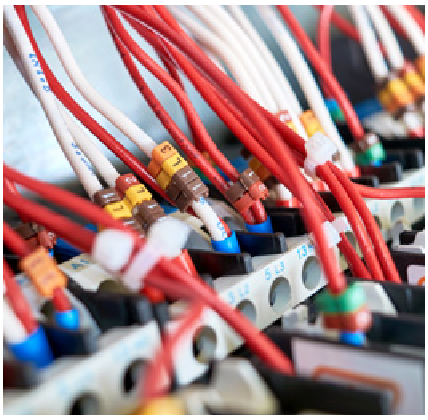
KPI 6: % of market change date milestones met

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Electricity Business Review

STRATEGIC OBJECTIVE:

Operate assets safely and cost effectively, outsourcing where appropriate



STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Electricity Business Review (continued)

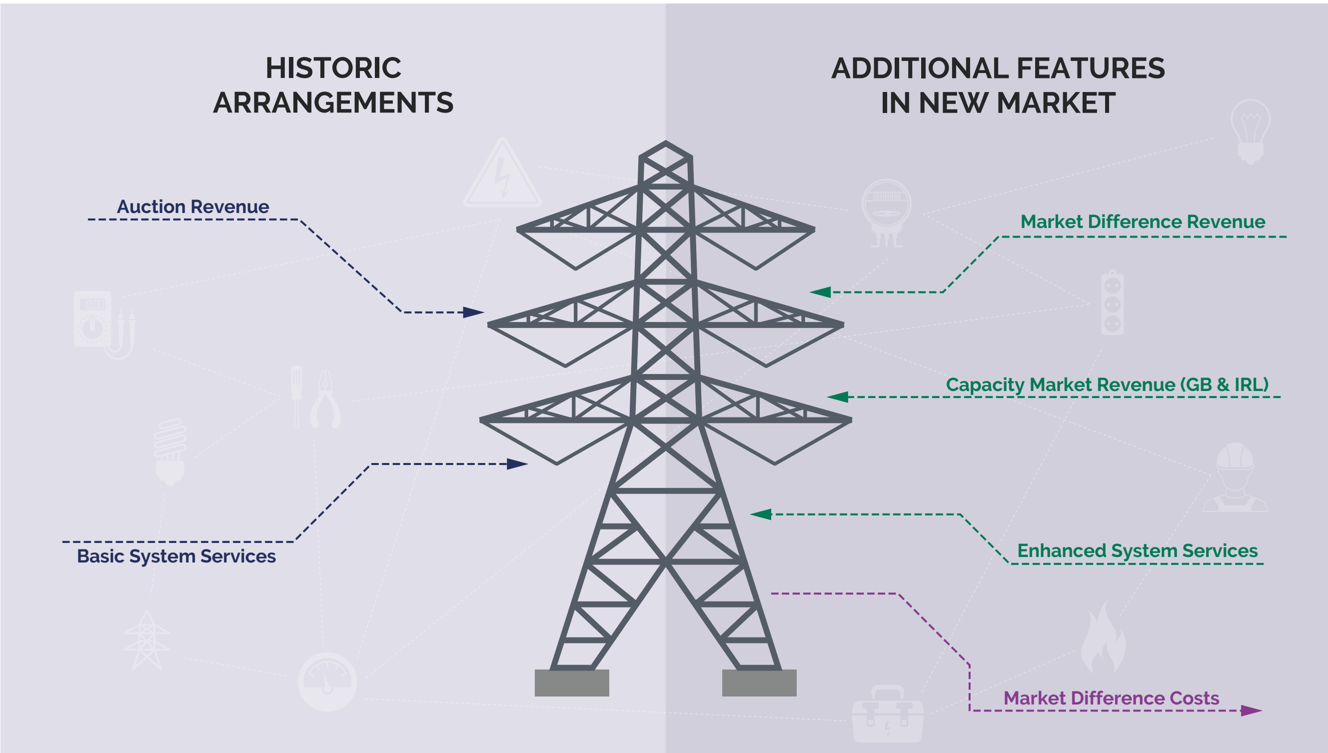
Financial Performance
The electricity business has two types of revenue flows: i) commercial flows from contracts with electricity market participants; and ii) flows from the tariff mechanism (charged by the System Operator Northern Ireland to electricity suppliers and passed through to Moyle Interconnector Limited).

Commercial Revenues
The prior year saw the beginnings of some of the new market arrangements being introduced in line with system operator initiatives and EU regulations. Further changes were implemented in October 2018 with the introduction of I-SEM, the new electricity market arrangements in Ireland. These brought fundamental changes to how Moyle earns its market revenue and, whilst the overall impact is mainly positive, these changes bring increased uncertainty.

The diagram below shows Moyle's historical income streams in blue, with new revenue shown in green and reductions to revenue in purple.

Auction revenue/Market Difference Revenue
From the introduction of I-SEM in October 2018, Moyle has been auctioning financial, rather than physical, transmission rights. Whilst Moyle still earns auction revenue (shown in blue) it also receives the difference in market prices (revenue, shown in green) which underpins its ability to pay out this market difference to its customers (revenue reduction, shown in purple). The group has had six months' experience of this market which has been positive, on the whole, however the company has a greater exposure to balancing charges in the event of non-performance in the new market.

System Services
Moyle has historically provided a level of basic system services to the Irish and GB electricity systems (blue). New rules and products feature in new market-based arrangements which have led to increased revenue (green) from these enhanced services. We expect to see increased competition from new technologies in system services markets which may result in a reduction in this revenue in future.



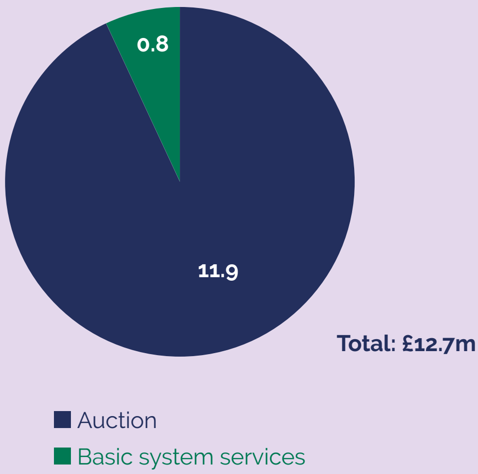
STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Electricity Business Review (continued)

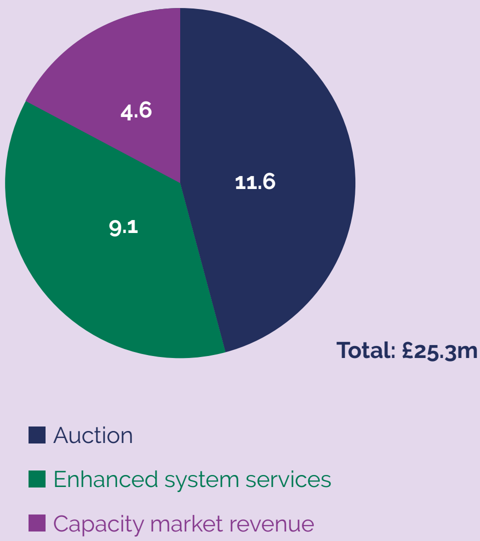
Capacity Market Revenue
Moyle began participating in the GB capacity market in October 2017 and the new Irish capacity market from I-SEM go live in October 2018. This new revenue stream recognises Moyle's contribution to security of supply on both islands. Moyle receives significant additional revenue from these markets, but penalties are very high in the I-SEM where there is non-performance at a time of system stress. The GB capacity market was suspended during the year. This suspension had no impact on the group's revenue in the year, as the group was not participating in this market at the time of suspension.

Moyle has seen a significant change in the commercial revenue flows in recent years, with more income originating from services provided to the system operators and capacity market revenue, in recognition of the value of interconnection between markets with high renewable penetration. Moyle capacity continues to be sold to electricity traders in annual, half-yearly, quarterly, monthly and daily explicit auctions, on contracts ranging from one day to one year. Additional unused capacity is implicitly allocated within the electricity market trading day and a charge applied after use.

The charts opposite show the change in make-up of the commercial revenue from 2014 to 2019 which demonstrates the shift.



2014 commercial income £m



2019 commercial income £m

Tariff Mechanism Revenue
The charges through the tariff mechanism are known as the Collection Agency Income Requirement (CAIRt). No CAIRt charge was made for the 2018/19 electricity year, being 12 months to 30 September 2019 (year to 30 September 2018: £12.5m). Page 31 provides more explanation of our historic use of reserves to waive CAIRt calls in order to deliver savings to consumers evenly over the life of the asset.

The Moyle Interconnector group made an operating profit of £19.0m (2018: £13.8m). The ADSCR for the year was 3.99 due to strong revenues under the new market arrangements and a return to full operation.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

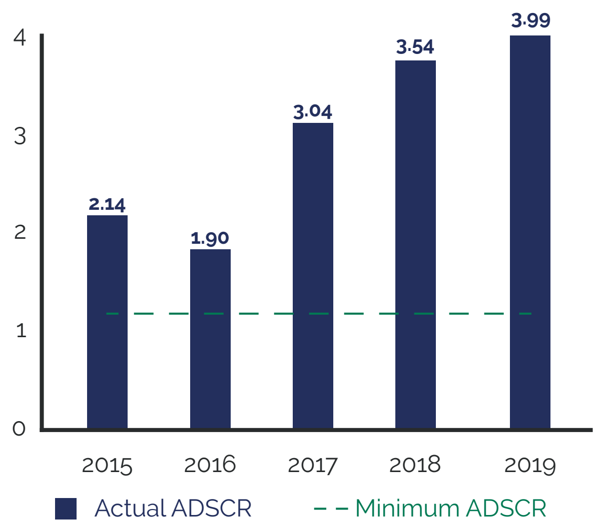
Electricity Business Review (continued)

Operational Performance

Moyle's availability through the year has been extremely high at 99.6% (KPI 1) (2018: 81.4%). There were no lost time incidents in the year (KPI 3).

Moyle has also been very reliable through the period in delivering DS3[1] ancillary services to the Irish system operator and 'Balancing and Ancillary Services' to the GB system operator. These are increasingly important tools for both system operators to manage the increasing levels of non-synchronous generation on their respective networks. These services are tendered on a market basis in Ireland and, where we are able, we are continuing to make adjustments to the control system functionality to ensure our means of delivery meets the very strict and generic performance measures within the contracts. During the year Moyle responded to support NI system frequency on thirty occasions using a dynamic response to frequency.

From 1st October 2018 the new I-SEM market arrangements have been in place and these have had a significant impact upon typical market flows whereby we now tend to flow from the cheaper to more expensive market, thus improving load factor.



KPI 7: Moyle ADSCR

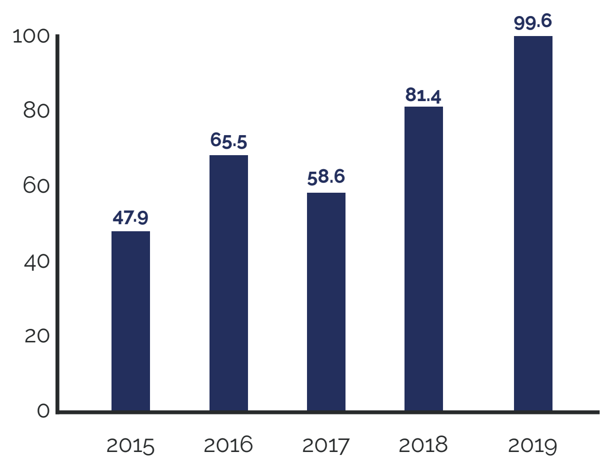
Future Development

We continue to work with the system operators in Northern Ireland and GB to improve the levels of capacity they can accept up to our full technical level of 500MW. We were expecting firm capacity levels into Scotland to rise from 80MW to 307MW in December 2019 but have been informed by the GB system operator that, due to a delay in alternating current (AC) system works, this increase will not now occur until 2020.

Meantime, the system operator continues to release whatever capacity it can, when there is headroom in their system, to improve upon the prevailing 80MW firm capacity levels. The Northern Ireland system operator is also carrying out studies to attempt to release more capacity on the Northern Ireland system to maximise the flows on the interconnector.

During the period we also entered a first stage contract with the original equipment manufacturer Siemens to carry out front end engineering design and specify Moyle's replacement control system, which is required due to increasing obsolesce of hardware systems and ancillaries within the original control system commissioned in 2001. Design, build and factory acceptance testing of the new system will take several years and the target delivery on site is currently 2022. There will be some periods of downtime for installation and testing at this time. Minimising and refining these is a factor in this early design.

[1] DS3: Delivering a Secure, Sustainable System - the SONI/EirGrid programme to enable high penetration of renewables on the electricity transmission system.



KPI 1: Moyle Availability (%)

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Electricity Business Review (continued)

STRATEGIC OBJECTIVE:

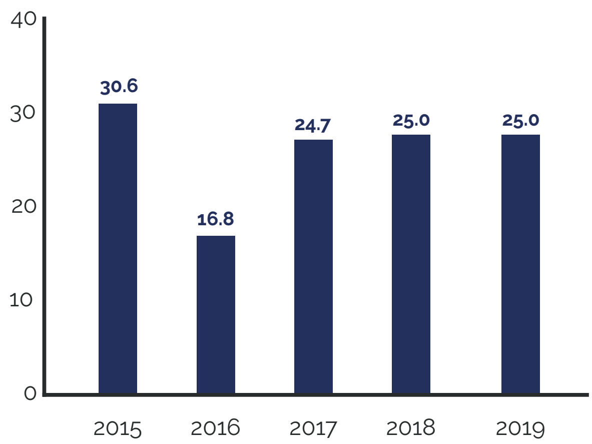
Deliver savings to all consumers evenly over the life of the assets

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

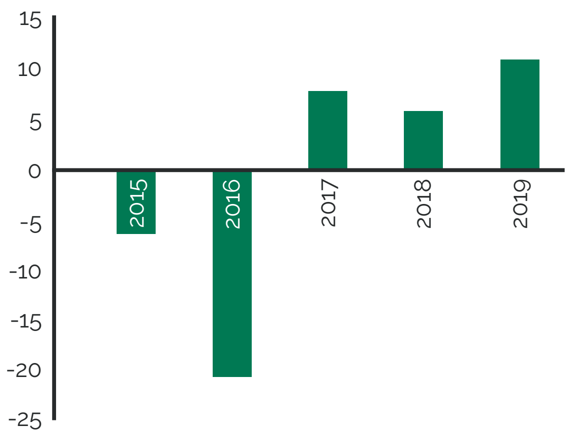
Electricity Business Review (continued)

The interconnector business has the ability to waive use of system charges, rather than automatically charging these to supply companies and hence on to end customers. To the extent that this reduces the profit otherwise made by shippers, this is a direct benefit to customers. In its operation to date Moyle has waived over £100m in use of system revenue it was otherwise entitled to collect. Year on year this is monitored by way of KPI on cash reinvested as part of the Collection Agency Income (CAIRt) process to avoid charging consumers.

Whilst all initial modelling and expectations forecast auction revenue to be immaterial, the historic market conditions and active management of the auction opportunities resulted in this being a major source of income, to the extent that it was possible to provide the considerable benefits of the interconnector to the Northern Ireland market for some time free of any use of system charge. No use of system charges have been applied to customers in the 2018/19 tariff year.



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



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

As a result of recent market changes Moyle has seen a significant increase in revenue, at least in the short term, which could lead to significant future reductions in use of system charges (CAIRt), if market arrangements are stable. There is still, however, significant uncertainty as to the medium and long-term outturn of Moyle's revenue under these new arrangements, and indeed how long the arrangements will endure. The business will always aim to understand and respond appropriately to ongoing uncertainty so that it can be appropriately prudent in its forecasts.

Investing To Smooth Costs

A key part of our delivery of cost savings to the consumers is an approach to smooth some of the ebbs and flows of the business cash flows before they are passed through in charges to consumers. This approach enabled the Moyle business to absorb the cost of the sub-sea repairs in 2011/12 without passing the costs through into use of system tariffs, as well funding a large portion of the cost of replacing Moyle return conductors in 2017 thereby reducing the impact of these works on electricity tariffs.

Cash generated in the business in recent years can be seen in the previous graph (KPI 5). Within year cash is managed within the business and the subsidiary Moyle Energy Investments Ltd manages the longer-term cash reserves of the Moyle business.

In its operation to date, Moyle has waved over £100m in use of system revenue it was otherwise entitled to collect.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Electricity Business Review (continued)

STRATEGIC OBJECTIVE:

Manage market changes to minimise risks to the Northern Ireland consumer

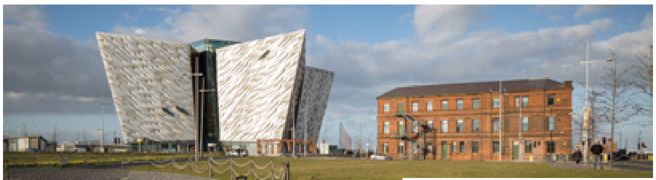


Image courtesy of Tourism NI

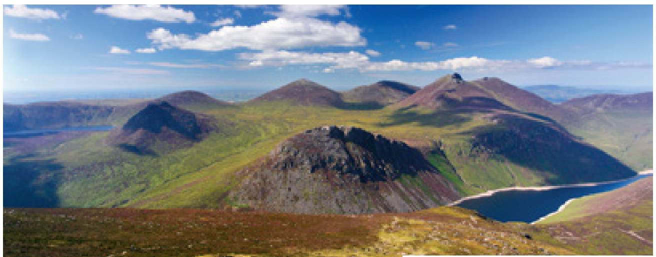


Image courtesy of Tourism NI

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Electricity Business Review (continued)

A major project to implement an Integrated Single Electricity Market (I-SEM) linking the market in Ireland to the main European market in line with European regulations completed and went live in October 2018.

In recent years Moyle has achieved significant improvement on the amount of capacity that it may make available to the market. This has historically been restricted due to onshore system conditions where Moyle connects in Northern Ireland and, most pertinently Scotland. The improvements achieved to date are positive but do not deliver the capability to flow up to Moyle's full capacity. We will continue to work with SONI and National Grid to progress towards this goal and deliver increased benefits of interconnection to both the I-SEM and GB markets.

Ahead of, and alongside, the I-SEM project EirGrid are delivering the DS3 project (see page 29), which continues to develop, with new products and procurement rounds taking place. Implementation of the initial phases of this project led to increased system support services revenues and we continue to work with the system operators to ensure that Moyle's unique value in this area is recognised and appropriately rewarded in future procurement rounds.

With increasing renewables penetration and new technologies on the GB system, National Grid are changing their procurement of ancillary services to increase transparency and competition between providers. These new arrangements are expected to be phased in, commencing in this financial year, and we will continue to engage in these developments to ensure Moyle's participation and maximise ancillary services revenues in this new competitive environment.

Key to delivery of new and existing system services is the operation of the interconnector control system. This is the brain of the interconnector that controls how power flows and can be programmed to automatically tell it how to respond to events on the wider electricity network. An excellent level of reliability of system services is required by system operators due to their importance for keeping the lights on. Moyle is in the process of replacing its control system and an important part of that project will be to ensure that the current quality of system services can be retained and/or improved on.

As noted above, Moyle currently directly participates in capacity markets in I-SEM and GB which is known as an 'interconnector led' approach to cross border participation in capacity markets. The European target model for cross border participation is a 'generator led' model whereby a power station in a neighbouring country can participate in a 'local' capacity market, e.g. a generator in Cork would receive payment for contributing to security of supply in GB or a battery in Birmingham would get paid for benefitting the I-SEM. We have always been sceptical about the value of such an approach for island systems connected by HVDC interconnectors, as the interconnector provides access to foreign power and is scheduled by the market as a whole, but this appears to be the direction of travel in both I-SEM and GB. We will continue arguing for the interconnector led model and coordinate with our other GB interconnector colleagues to ensure that the capacity benefits of interconnectors continue to be recognised and incentivised under whatever model(s) are chosen by the relevant authorities.

Whilst ongoing market changes have generally resulted in positive outcomes for Moyle, the immediately foregoing demonstrates that there is a significant amount of uncertainty around the longevity and magnitude of each of Moyle's revenue streams. A strategic objective will be to reduce and manage this uncertainty so that accurate views of the future can be taken into account when determining CAIRt calls, ensuring that there are no unnecessary or unexpected CAIRt calls.

Brexit

It has become apparent that a no-deal Brexit would result in the unwinding of key interconnector-related aspects of the new market design, leaving Moyle without an effective route to the day ahead market in the immediate aftermath. This is a sensitive political topic which is difficult to fully prepare for in advance but, in the event of a no-deal Brexit, Moyle will engage with regulators and relevant counterparties to re-establish effective interconnector trading arrangements between the I-SEM and GB markets. All parties are committed to resolving this situation as soon as practicable should this arise.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Group

STRATEGIC OBJECTIVE:

Acquire stable infrastructure assets at a low cost to the consumer

We have a proven process for providing energy infrastructure at the lowest cost of capital in the UK and during the year we fixed the capital cost for the Gas to the West project by entering into a financing agreement with Legal and General. This financing agreement resulted in a nominal saving to the consumer of c£139m.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Group (continued)

Gas to the West

Mutual Energy's subsidiary, West Transmission Limited, holds a licence for gas transmission to the West of Northern Ireland. The first phase of the project has been operational since January 2017 when the Strabane leg was completed. The main pipeline has been constructed by SGN (the UK's second largest gas distribution company, operating across Scotland and southern England) and is in the testing phase with first gas to customers expected in mid 2019.

Once complete, ownership and operation of the high pressure transmission pipeline will transfer to West Transmission, and SGN will own and operate the low pressure pipelines (the mains, services and meters) which deliver the gas to customers within the eight towns identified in the licence: Strabane, Dungannon, Coalisland, Cookstown, Magherafelt, Omagh, Enniskillen and Derrylin.

Mutual Energy is in a unique position to provide cost efficiency in the operation of this transmission network.

We have a proven process for providing energy infrastructure at the lowest cost of capital in the UK and during the year we fixed the capital cost for the Gas to the West project by entering into a financing agreement with Legal and General.

This financing agreement resulted in a nominal saving to the consumer of c£139m in 2018 prices, based on the target efficient build determined once the project was fully designed in comparison to the alternative bidder at their assumed cost of capital. In addition to capital savings we also aim to bring significant cost synergies with our two existing gas businesses through the access to our IT systems, network control and operations and staff resources.

The group continues to maintain a watching brief for potential acquisitions and is actively assessing the types of asset that will be valuable in a transition to a low carbon economy.

Mutual Energy and its advisors and funders collect their award for 'European Midstream Oil & Gas Deal of the Year' at the IJ Global Awards 2018 for the Gas to the West Project.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Group Financial Highlights

Cash flow and liquidity position

The majority of the finance costs are non-cash and the mechanisms which are in place to generate group income are aligned to the cash requirements to cover the debt, both interest and principal.

The group had a net cash inflow in the period. All four subgroups hold high levels of cash reserves to allow for unforeseen requirements and indeed are obliged to hold significant cash reserves as conditions of their financing arrangements. At 31 March 2019, cash reserves in Premier Transmission group amounted to £25.4m (with a further £9.9m certificates of deposit held with maturity in March 2020) (2018: £33.8m cash reserves), Belfast Gas Transmission group held £9.5m (2018: £9.6m) and West Transmission group held £13.0m (with a further £36.3m held in short term deposits and £150.4m held in long term deposits) (2018: £1.5m). At 31 March 2019, Moyle Interconnector group held operating cash reserves of £57.6m (2017: £46.5m). Total cash holdings (including cash held on deposit which is classified as financial assets) by the group at year end amounted to £306.6m (2018: £95.0m). Cash balances have increased significantly during the year due to the early financing of the West Transmission project, including debt raised to finance other parts of the Northern Ireland gas network. Funds will return to normal operating levels once West's assets have been purchased and the capital contributions due have been paid.

Revenue, profitability and reserves

After accounting for debt service, the group made an after-tax profit of £11.2m (2018: £1.2m).

Finance costs

Included within finance costs is £18.7m (2018: £19.8m) in respect of borrowing costs arising on the group's index linked issued bonds. These borrowing costs are made up of three elements:

- actual interest charge was £8.6m (2018: £9.2m);
- £8.9m (2018: £9.4m) required to restate debt liabilities to latest applicable Retail Price Index; and
- bond fees, liquidity facility fees and other charges and credits £1.2m (2018: £1.2m).

Stakeholders, relationships and resources

The interests of Mutual Energy's stakeholders are considered through interactions with shippers at shipper forums and through face to face meetings. Formalised reporting to and regular calls and meetings with financiers and rating agencies are carried out. Regular engagement is carried out with key contractors in line with each contract management plan. Meetings are held with the consumer council to ensure consumer interests are taken into consideration. More information on our stakeholders is set out below.

Customers

All Mutual Energy businesses supply, not to the end consumer, but to the large gas shippers or electricity suppliers and traders in the energy markets.

The Premier Transmission Pipeline System provides a service to shippers from Moffat in Scotland to exit points at AES Ballylumford, the connection with Gas Networks Ireland (NI) pipelines at Carrickfergus and Belfast Gas exit points in Belfast and Larne, as well as West Transmission's exit point at Maydown which is an offtake from GNI's pipeline. A total of 16 shippers (2018: 16) are currently registered to use our gas system.

Partners and contractors

The System Operator for Northern Ireland (SONI) continues to oversee the operation and administration of the Moyle Interconnector, with Siemens plc undertaking the long-term maintenance of the electricity convertor stations. In the previous year we joined with our European colleagues to become part of the Joint Allocation Office which now carries out the auction processes through which Moyle's transmission rights are sold. SGN carry out the routine maintenance, emergency response, and monitor our gas system from their gas control centre in Horley, outside London.

Bondholders and financiers

The directors are very conscious of their obligations to the bondholders and noteholders in the finance documents. In addition to complying with their other reporting obligations, they make available to financiers copies of the Annual Report. Our key financiers are: for Moyle, Assured Guaranty (Europe)

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Bondholders and financiers (continued)

plc as controlling creditor and the Bank of New York Mellon as trustee; for Premier Transmission, Financial Guaranty Insurance Company ("FGIC") as controlling creditor and Prudential Trustee Company Limited as trustee; for Belfast Gas Transmission, Assured Guaranty (Europe) plc as controlling creditor and Prudential Trustee Company Limited as trustee; and for West Transmission, Legal and General Assurance Society Limited (LGAS) as majority noteholder and Law Debenture Trust Corporation plc as trustee.

Staff

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

During the year a staff satisfaction survey was carried out which showed a high level of staff satisfaction. A review of all HR policies was undertaken in the period with a new employee handbook being created as part of this process, taking into account the findings of the employee engagement process.

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

Employee diversity

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

	2019		2018	
	Male	Female	Male	Female
Board	6	1	5	2
Senior Management	9	3	9	3
All employees & Board	25	11	21	10

Employee KPIs

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

KPI	2019	2018
Training days per employee	4.0	4.3
Sickness absence days per employee	2.8%	1.6%

Due to the group's small number of staff a few longer-term illnesses in the period can have a significant impact on the sickness absence rate. Where such instances arise appropriate actions, such as the use of temporary staff and consultants, are taken by the business to ensure business continuity during these periods of absence.

Social, community and human rights issues

The group has a fundamental community focus through its purpose: to own and operate energy infrastructure in the long-term interest of energy consumers in Northern Ireland. This is also reflected through all of our strategic objectives which include cost effective operation to deliver savings and minimise risks of market change to Northern Ireland consumers. More information on how the group delivers these objectives can be found on pages 10-35.

The group also continues to consider its impact on the environment and remains committed to reducing our energy consumption and related emissions where possible, as well as reducing our wider impacts such as resource use and waste to landfill. The group ensures robust Health & Safety systems are in place as discussed on page 40, for the benefit of employees, contractors and the wider public. We comply with the Employments Rights Act, Modern Slavery Act and all other applicable UK law as an absolute minimum and recognise the importance of treating all of our employees fairly.

We are committed to conducting business in an honest and ethical manner and act according to our Code of Ethics, which is integral to our business and sets out a range of principles we adhere to. We do not tolerate bribery or corruption of any kind and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships.

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Risk management

The group continues to apply a structured approach to risk management throughout the companies in the group, which is designed to ensure that emerging risks are identified and managed effectively.

Risk management structure

The Board approves the overall risk management process, known as the group risk governance framework, and approves all the policies covered by the framework. Responsibility for ensuring compliance with the policies is divided between the Risk Committee and the Audit Committee. The Risk Committee deals with all risks that are inherently operational in nature (including Health & Safety), and reports into the Audit Committee which monitors all financial and other risks.

The risk register records key risks identified and how they are being managed and is reviewed regularly by the board and the relevant board committees. This process has been in place for the full year ended 31 March 2019 and up to the date of approval of the annual report and financial statements. Control is maintained through a management structure with clearly defined responsibilities, authority levels and lines of reporting; the appointment of suitably qualified staff in specialised business areas; a comprehensive financial planning and accounting framework and a formal reporting structure. These methods of control are subject to periodic review as to their continued suitability.

During the year the Board held a risk workshop whereby it reviewed its approach to risk recording, management and mitigation and how this remains appropriate in the current market environment. 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:

Risk description and potential impact	Mitigation	Assessment of risk movement from March 2018
Operational risk		
Poor operational performance could result in impaired availability, damage to assets and/or reputation, injury to third party and/or employees, loss of revenue, loss of licence.	Experienced qualified maintenance subcontractors are used and are managed through the contractual process, frequent performance monitoring, and maintaining a high standard of eligibility for tendered work. Structured maintenance plans are followed. The group promotes a strong health and safety culture, has a well-defined health and safety management system and follows industry standard practices.	➜
Financial risk		
Poor financial management could result in breach of financing covenants, compliance failure or financial loss.	The Board reviews and agrees policies for addressing these compliance risks and senior management are specifically delegated the task of ensuring compliance.	➜

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Risk description and potential impact	Mitigation	Assessment of risk movement from March 2018
Inadequate financing, liquidity problems, non-compliance with covenants, market changes or failure of counterparties could lead to failure of financial structure.	Borrowing arrangements align the financing costs to the income allowances. Processes are in place to monitor covenant compliance and there is active management of market changes. Treasury policies are aimed at minimising the risks associated with the group's financial assets and liabilities and financial counterparty failure clauses are included in financing documents. 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 remain fully funded and £35m of liquidity facilities were in place throughout the year for Moyle, Premier Transmission, Belfast Gas Transmission and West Transmission. Business planning processes are in place to identify cash requirements in advance.	→
Business environment and market risk, including Brexit risk		
Market changes for gas and electricity in Northern Ireland could result in reduced volumes transported through the assets, insufficient revenue recovery, default on debt, damage to reputation of mutual model or fines.	Licence provisions implementing a collection agency agreement in the electricity business and the postalised charges system in the gas business are designed to offset the impact of such changes. An influencing strategy is in place to positively impact market developments. Recent and future market development are discussed on pages 25 & 33. Risk has increased in the period due to I-SEM Market design resulting in volatile prices and high imbalance risks and penalties.	↑
Regulatory and political risk		
As the group consists primarily of regulated businesses it is exposed to regulatory risk. Changes in economic regulation or government policy could have an adverse effect on our financial position.	The group's relationships with the Northern Ireland Authority for Utility Regulation (NIAUR) and DfE are managed at senior level through frequent meetings and correspondence in line with the group's communication strategy. The group coordinates with other EU system operators on EU issues. A proactive approach is taken to consultations on any issue which could affect the group's business interests, with legal advice sought where appropriate. The risk assessment has continued to increase given the ongoing absence of government in NI, and nationalisation comments by the main opposition party in the UK. Whilst this has had no direct adverse impact in the period the risk assessment is a recognition of potential unforeseen issues in the future.	↑
Corporate strategy & communication risk		
Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.	The Board retains responsibility for strategy as a reserved matter and manages communications directly in line with its communication plan, using outsourcing as appropriate. Risk profile has remained in line with the prior year with the continuation of Gas to the West construction.	→
Project delivery risk		
Poor contracting or management, insufficient resources or extreme weather could cause project delays resulting in financial losses, reputational damage, damage to assets or loss of availability.	A project governance structure exists with sufficiently qualified and trained resources. Contractors are closely monitored and stakeholder engagement plans and insurance are in place. Project delivery risk has decreased with the financing of West's new assets now in place.	↓

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

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Environment and safety

The group continues to put a high value on the Health and Safety of its operations and to recognise the importance of minimising the impact of its activities on the environment, both locally and in the global context. Our gas business runs simulated gas emergency exercises to ensure a robust response plan is in place to manage gas supply emergencies and pipeline incidents. Mutual Energy Limited and the Northern Ireland Network Emergency Co-ordinator (NINEC) coordinated the annual Gas Supply Exercise (November 2018), testing the response to an incident on one of the Gas Transmission Pipelines in Northern Ireland. An actual Gas Supply Emergency would be co-ordinated and managed in the same manner as that tested in the exercise.

The group has a comprehensive Health and Safety Management System (HSMS) which is based on HSE's HSG 65 'Successful Health and Safety Management' and the revised joint Institute of Directors / Health & Safety Executive guidance "Leading Health and Safety at Work". HSG 65 was substantially revised in December 2013 and re-titled 'Managing for Health and Safety' and is now based on the Plan, Do, Check, Act approach which achieves a balance between the systems and behavioural aspects of management. It also treats Health and Safety management as an integral part of good management generally, rather than a stand-alone system.

A RoSPA Quality Safety Audit was carried out in late March 2019 with a strong result having been obtained.

The group is committed to environmental performance, with no breach of any environmental licence or permit recorded in the year. Usage of gas for pre heating and auxiliary electricity used in the main electricity sites is monitored to help target improvements.

Greenhouse gas emissions reporting

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

	Tonnes of CO_2e	
Emissions from:	**2019**	**2018**
Usage of gas in operations	1,097	1,307
Electricity consumption at convertor stations	852	1,165
Electricity, heat, steam and cooling purchased for own use	13	20
Total emissions	**1,962**	2,492
Emissions per GWh energy transmission	**0.12**	0.13

Methodology

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

Forward-looking statements

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

By order of the Board

Gerard McIlroy
Director
24 June 2019

THE MUTUAL ENERGY BOARD

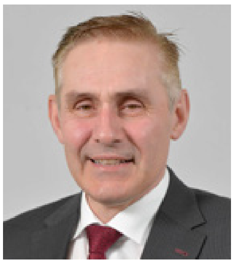
David Gray (67)

Chairman

David was appointed Chair of Mutual Energy on 1st January 2019 and a member of the Remuneration Committee on 28th March 2019. He is also a non-executive director of the UK Civil Aviation Authority, where he is Chair of the Remuneration Committee. From 2013 to 2018 he was Chair of the Gas & Electricity Markets Authority (Ofgem) which regulates the gas and electricity sectors in Great Britain. In his earlier career, David spent 30 years working in financial markets as an investment analyst and subsequently in corporate finance, when he led HSBC's team in the energy sector and advised the government on the privatisation of the gas and electricity industries in Great Britain. From 2003 – 2007 he was an executive director of Ofgem where he led the Networks division. He subsequently advised government on the economic regulation of airports and led a review of the water sector regulator, Ofwat. Before returning to Ofgem in 2013 he was Chair of Pitkin Petroleum, an oil exploration company, and a non-executive director of Halite Energy, the developer of a proposed gas storage facility in the north west of England.

Paddy Larkin (50)

Chief Executive



Paddy Larkin was appointed Chief Executive Officer of Mutual Energy, on 1st January 2010. He joined what was then Northern Ireland Energy Holdings in 2007 as an executive director and managing director for the Moyle Interconnector. After studying mechanical engineering at Queen's University Belfast, he started work with NIE at Ballylumford power station in 1991 just before privatisation. In 1992 British Gas bought Ballylumford Power station and Paddy continued to work with Premier Power, initially in breakdown maintenance before moving to the business side of the operation where he helped to oversee the change in practices from a nationalised to a private company. Later he was involved in the buy out of the long term contracts and construction of the combined cycle gas turbine and served as the station's Chief Executive.

Gerard McIlroy (50)

Finance Director

Gerard 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.

Patrick Anderson (45)

Non-Executive Director

Paddy is the CFO of Translink, one of Northern Ireland's leading companies. Paddy has an extensive range of experience at Board level in both the private and public sectors. A Fellow of the Institute of Chartered Accountants in Ireland, he spent seven years with Viridian Group PLC, where he held a number of senior Finance positions. Paddy spent his early career with PricewaterhouseCoopers in Belfast. He is a Council Member at the Northern Ireland Chamber of Commerce and Industry, a Fellow of the Institute of Directors and a member of the Bank of England's Decision Maker Panel. Paddy joined the Mutual Energy Board in October 2016.

THE MUTUAL ENERGY BOARD (CONTINUED)

Michael McKernan (59)

Non-Executive Director

Michael McKernan is an economist with 30 years of experience working in Government, North and South, in the Irish energy sector and in strategic communications. After a spell in the Department of Finance in Dublin as a national trade negotiator, he joined NIE/Viridian as a strategic planner. He became Interconnector Business Manager responsible for the commercial and regulatory aspects of the Moyle Interconnector. During this time, he secured the restoration of NIE's North South Interconnector after a long outage. He subsequently spearheaded Viridian's entry into the Southern Irish electricity market. Upon leaving Viridian, Michael established BMF Business Services, a communications company specialising in business events, publishing and public affairs. In recent times Michael also served as Special Adviser to Northern Ireland's Social Development and Environment Ministers. He joined the Mutual Energy board in January 2018. He is also a Director of the Integrated Education Fund (IEF).

Kate Mingay (53)

Non-Executive Director

Kate Mingay was appointed Mutual Energy's Senior Independent Director in 2018, having been a Non-Executive Director of Mutual Energy since 2014. She is a corporate finance professional with extensive experience of large scale, complex infrastructure projects in the public and private sectors, often with a regulatory dimension. Building on her corporate finance background and strategic approach, she helps to structure and finance investment in such projects so as to meet the diverse responsibilities of those undertaking them. She began her career with S G Warburg (then UBS), before moving to Goldman Sachs, advising on strategic financings for UK corporates. Then as Director, Corporate Finance, at the Department for Transport she built a top quality in-house corporate finance function. This led to major roles with multi billion pound transport projects. She was a member of HM Treasury's Major Projects Review Group. More recently, in her Senior Adviser role she assists Cambridge Economics Policy Associates, providing corporate finance experience to their economic and policy advisory business. Kate also supported the Horizon Nuclear Power Chief Executive, and Hitachi, its shareholder, in the project to build a nuclear power station in Anglesey. She has also been a Non-Executive Director of Ansaldo STS S.p.A., the listed Italian rail systems engineering company (now Hitachi Rail STS) and has recently been appointed as an independent Non-Executive Director at Wessex Water.

Chris Murray (63)

Non-Executive Director

Chris Murray has over 40 years' experience in the energy industry and, following a career with National Grid Gas and its predecessor companies, now holds a number of Non-Executive Director roles. During his time with National Grid, Chris chaired both National Grid and National Grid Electricity after heading numerous operational directorates. These ranged from leadership of commercial areas to operation of both the national electricity and gas networks. Prior to his roles with National Grid, Chris was the founding CEO of Phoenix Natural Gas and before that worked for East Midlands Gas and British Gas. Chris is a Board Member of the Low Carbon Contracts Company, the Electricity Settlements Company and is a Special Adviser to the Board of Energy & Utility Skills. He is a Fellow of the Energy Institute Past President, and past Midlands Section Chairman of the Institution of Gas Engineers and Managers and a member of the Institute of Directors.

CORPORATE GOVERNANCE STATEMENT

The group is committed to high standards of corporate governance. The Board leads the group's governance through the Group Corporate Governance Framework and associated policies. This statement describes how, during the year ended 31 March 2019, the group has applied the main and supporting principles of corporate governance.

The only listed securities of the group are the debt securities of Moyle Interconnector (Financing) plc, Premier Transmission Financing plc and Belfast Gas Transmission Financing plc. As such the group is not obliged to comply with the provisions set out in the UK Corporate Governance Code (April 2016) (the Code) which is publicly available at www.frc.org.uk. Instead the group uses its provisions as a guide to the extent considered appropriate to the circumstances of the group. The group has considered the impact of the July 2018 revisions to the Code, which are not yet effective for the current year, and is well positioned to implement these in the year ending 31 March 2020.

The Board

An effective board of directors leads and controls the group. The Board, is responsible for the overall conduct of the group's business and has powers and duties pursuant to the relevant laws of Northern Ireland and our articles of association. Board meetings are usually held 6 to 8 times per year, with 8 meetings being held in the year.

The Board:

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

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

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

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

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

In particular, non-executive directors are responsible for:

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Board (continued)

Non-executive directors receive on-going training in line with the Board timetable, a process overseen by the Chairman, and attend the annual members' day to ensure they have an understanding of the members' opinions.

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	Financing Subcommittee	Risk Committee	Membership Selections Committee
Regina Finn	5/5	3/3	4/4	-	8/8	-	-
David Gray	3/3	-	-	-	-	-	-
Patrick Anderson	8/8	3/3	-	5/5	-	-	1/1
Michael McKernan	8/8	3/3	-	5/5	-	-	1/1
Kate Mingay	8/8	3/3	6/6	5/5	8/8	-	-
Chris Murray	8/8	3/3	6/6	-	-	3/3	-
Paddy Larkin	8/8	3/3	-	-	8/8	3/3	-
Gerard McIlroy	8/8	3/3	-	-	7/8	-	-

The names of the directors and their details appear on the first page of the directors' report.

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. During the year the non-executive directors, including the Chairman, met independently of management.

Board appointments and evaluation

All non-executive Directors joining the Board are required to submit themselves for election at the AGM following their appointment. Thereafter, they are subject to re-election annually. David Gray was appointed as non-executive director on 1 January 2019, following Regina Finn's retirement on 31 December 2018. The non-executive directors are expected to serve only two terms of three years, but may be extended in exceptional circumstances up to a further three years. The process for recruiting directors is co-ordinated by the nominations committee.

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 Kate Mingay, 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 on the following pages.

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 table above. The Committee is responsible for considering and recommending to the Board persons who are appropriate for appointment as executive and

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Nominations Committee (continued)

non-executive directors. The Nominations Committee is also responsible for succession planning and Board evaluation. The role and responsibilities of the Nominations Committee are set out in its terms of reference.

During the year the Nominations Committee, aided by Curzon Trinitas Limited, an external recruitment consultant, undertook a recruitment exercise to replace Regina Finn, who retired during the year. This resulted in the appointment of David Gray in January 2019 as Chairman of the board of Mutual Energy. Curzon Trinitas Limited is independent, having no other connection to Mutual Energy other than provision of these services. The committee has also taken a forward look at the next cycle of non-executive directorship replacement as part of their succession planning process.

Audit Committee

Patrick Anderson is Audit Committee chair. The Audit Committee also comprised Kate Mingay and Michael McKernan. The requirement for the committee to have recent and relevant financial experience was met by the Audit Committee Chair, Patrick Anderson, being a Chartered Accountant. Audit Committee meetings were also attended, by invitation, by the executive directors of the group, the external auditors, other advisors and other finance employees as considered necessary.

The role and responsibilities of the Audit Committee are set out in its terms of reference and are described in more detail in the Audit Committee Report on pages 63-65.

Remuneration Committee

The Remuneration Committee is chaired by Kate Mingay. The Remuneration Committee also comprised Chris Murray and Regina Finn until her retirement in December 2018. David Gray was appointed to the Committee on 28 March 2019, having attended meetings since 1 January 2019. The committee is comprised solely of 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 on pages 49-61.

Risk Committee

The Risk Committee is chaired by Chris Murray, non-executive director, and also comprises Paddy Larkin, Chief Executive, along with other engineering and operations employees. It is the responsibility of the committee to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor operational non-financial risks.

The role and responsibilities of the Risk Committee are set out in its terms of reference and further information on the activities undertaken in the year can be found in the Risk Committee Report on page 62.

Financing Subcommittee

A Financing Subcommittee was in place during the first half of the year which was tasked with overseeing the arrangements for the financing of the Gas to the West project. The Committee was chaired by Regina Finn and met 8 times during the year to monitor progress and lead the financing process, with progress updates being provided to the Board at each meeting during this period, as well as email circulars being provided to the Board as required.

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 the Utility Regulator. The committee is chaired by Michael McKernan with Patrick Anderson filling the other non-executive director role throughout the year.

The role of the Membership Selections Committee is to select suitable potential members of the company (see Members section) and to recommend their appointment to the board (as set out in its terms of reference). 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Membership Selections Committee (continued)

The Membership Selections Committee procures candidates through two routes:

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

The Committee met once during the year ended 31 March 2019 where it considered the recruitment process from the previous year, as well as considering the membership renewal policy and the adequacy of the representation of various stakeholders within the group of Members. Committee attendance was as listed in the previous table.

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 five members ceased membership with the company. David Gray became a member upon appointment as non-executive director.

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

Patrick Anderson	Andrew Kirke
Declan Billington	Helen Kirkpatrick
Margaret Butler	Stephen Kirkpatrick
John Cherry (retired 31/3/19)	Gavin McBride
David Cunningham	Robert McConnell
Robin Davey	Brian McFarland
Jamie Delargy	Michael McKernan
Connor Diamond	Kate Mingay
Joe Doherty	Nevin Molyneaux
Stephen Ellis	Dr Bernard Mulholland
Regina Finn (retired 31/12/18)	Chris Murray
Kathy Graham	Tim Nelson
David Gray (appointed 1/1/19)	Colin Oxton
Trevor Greene	Conor Quinn
Peter Hayes	Robert Richmond (resigned 14/8/18)
Wesley Henderson (resigned 2/5/18)	Ken Simpson
Chris Horner	Patrick Thompson
Gillian Hughes (resigned 25/5/18)	Mark Wishart
David Jenkins	Ed Wright

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Internal control and risk management

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

A discussion of the process of identifying, evaluating and managing the significant financial, operational, compliance and general risks to the group's business and of the key risks identified is included in the Risk Management section of the strategic report on pages 38-39.

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

Any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. Management is required to apply judgement in evaluating the risks we face in achieving our objectives, in determining the risks that are considered acceptable to bear, in assessing the likelihood of the risks concerned materialising, in identifying our ability to reduce the incidence and impact on the business of risks that do materialise, and in ensuring that the costs of operating particular controls are proportionate to the benefit.

Long term viability

The directors have assessed the viability of the group over a five-year period to March 2024, taking account of the group's current position and the potential impact of the principal risks documented in the strategic report on page 38-39. Based on this assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over this period.

The directors have determined that the five-year period to March 2024 is an appropriate period over which to provide its viability statement, as this aligns with the period for which detailed business plans are prepared and this period is considered to have a greater level of certainty than could be achieved for a longer period.

In making this viability statement the directors have considered the group's current position, its business plan and committed borrowing facilities. The group's five-year business plan includes detailed financial budgets and cashflow projections, and additional sensitivity and scenario analysis including plausible severe scenarios. The business plan includes views and assumptions on the operating of the new I-SEM market in Ireland, the operation of capacity markets in both GB and Ireland and the development of arrangements for rewarding services to the grid. The forecast cash generated over this period is adequate to meet the group's anticipated liabilities as they fall due over this period, including the scheduled partial repayment of bond capital and interest. This assessment has also considered the risks faced by the business and the potential impacts of these on the business, including the business' liquidity over the period. The directors have also taken account of the protections which exist under the group's electricity and gas transmission licences which allow for full recovery of costs, including finance costs in making this assessment.

Going concern

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

DIRECTORS' REMUNERATION REPORT

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

The chairman's annual statement

I am pleased to present the Directors' remuneration report for the financial year which ended on 31 March 2019, the first full year since I have taken over as Chair of the Remuneration Committee. The Committee has been very active throughout the year, particularly with a review of our approach to compensation of the senior executives. A review of succession planning was also carried out.

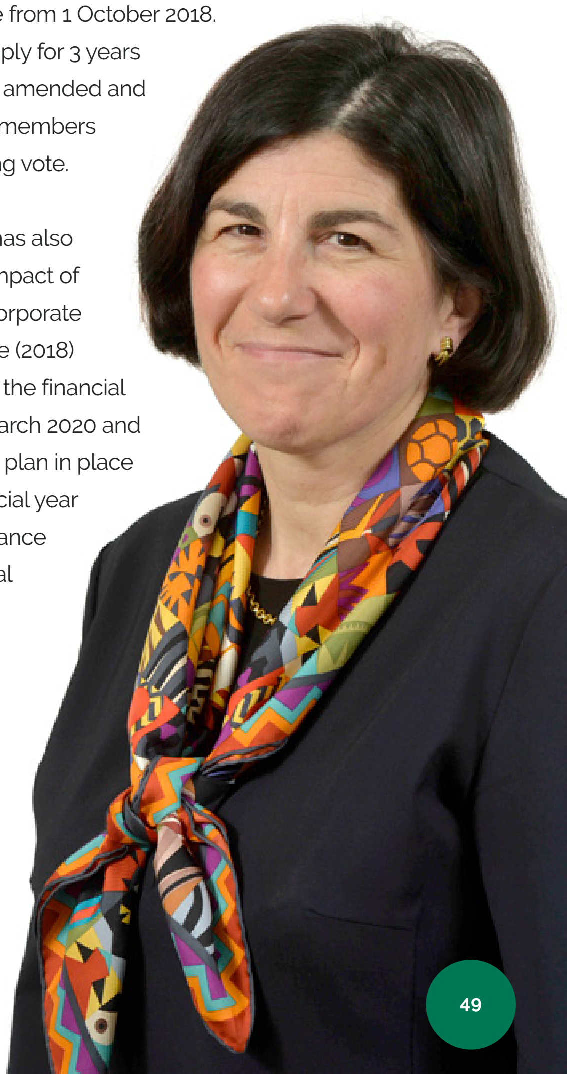
The group's senior management remuneration structure includes an element of performance-related pay, the majority of which is deferred in order to incentivise longer term performance in line with business-critical projects. The remainder of the performance-related pay relates to in-year performance based on operational targets. The group's remuneration policy for directors and senior management has been in place since 2013 and has been operating well. Both the in-year and deferred performance-related pay are driven from the business plan agreed by the Board, with the in-year targets specifically picking up business KPIs. We believe this ensures the alignment of the directors' interests with the long-term interests of the business and of Northern Ireland's consumers. During the year, in light of the addition of the Gas to the West network increasing the scope of the overall business, the increased risks and complexity of the new electricity market in Ireland, as well as other increasing demands on the senior management team, the Committee reviewed Mutual Energy's remuneration policy. The review took into account the results of an external benchmarking exercise carried out by Towers Watson during the prior year, to ensure we are able to retain and reward the senior executive directors, who are crucial to the success of the business.

The Committee considered how best to consult the membership before presenting any proposed changes to the Remuneration Policy at the 2018 AGM. It sent out information on its proposals asking Members for views and welcoming consultation on a one-to-one basis before deciding what to table at the AGM. We were pleased to receive a high level of engagement which not only gave us the confidence to present the key change in policy being considered, but also gave the Committee important feedback which we used to adapt our policy, to take Members' views into account.

The resulting revisions proposed at the 2018 AGM were a balanced package of changes. The first of three resolutions was to increase the maximum performance-related pay from 50% of salary to 75% of salary to bring the policy more into line with comparable firms. Because most of the potential increase will fall to the deferred element, this will help to ensure a longer-term focus on strategic and operational targets to ensure the interests of the Northern Ireland consumers will continue to be foremost for Mutual Energy. At the same time, the other two proposed resolutions reduced pension contributions to align the remuneration policy of the senior executives with the rest of the employees, as well as proposing clawback of performance pay in the event that extremely poor performance subsequently came to light. Both of these last two amendments are increasingly being adopted elsewhere in the commercial world as best practice. The revised policy was approved and became effective from 1 October 2018. The policy will apply for 3 years unless otherwise amended and approved by the members in a further binding vote.

The Committee has also considered the impact of the revised UK Corporate Governance Code (2018) which applies for the financial year ending 31 March 2020 and has put an action plan in place for the next financial year to ensure compliance with the additional requirements of this code, where appropriate.

Kate Mingay
Chairman
24 June 2019



DIRECTORS' REMUNERATION REPORT (CONTINUED)

Introduction

This report summarises the activities of the remuneration committee for the period to 31 March 2019. It sets out the remuneration policy and remuneration details for the executive and non-executive directors of the company and has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended August 2013. The report is split into three main areas: the statement by the Chair of the remuneration committee (page 49), the policy report (pages 50-56), and the annual report on remuneration (pages 56-61).

The policy report was approved by a binding vote at the 2018 Annual General Meeting and applies for three years from 1 October 2018, subject to any future changes approved by the members. The annual report on remuneration provides details on remuneration in the period and other information required by the Regulations.

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

The role of the remuneration committee

The role of the Remuneration Committee is to determine and agree the remuneration policies of the company and its subsidiaries, which are presented to the members for approval at least every 3 years, and specifically:

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

Remuneration Policy

The Remuneration Policy set out in this report was approved at the 2018 AGM, and came into effect on 1 October 2018. The policy will be reconsidered on or before the 2021 AGM. The policy is kept under review to ensure it remains suitable as the business or wider markets change.

Future policy table

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

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Policy for executive directors

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

Component	Purpose and Operation	Opportunity	Applicable performance measures	Recovery
Salary and fees	**Why:** Part of a basic competitive package to recruit and retain individuals of the necessary calibre to execute the group's business strategy. **How:** Reviewed annually and fixed for 12 months commencing 1 April. Decision influenced by: • role, experience or performance; • average change in broader workforce salary; • group performance and prevailing market conditions; and • external benchmarking of similar roles at comparable companies.	Increases only for inflation and in line with other employees unless there is a change in role, responsibility or to reflect market conditions.	None	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Annual performance-related pay	**Why:** Focus attention on group KPIs, incentivise outperformance of targets and provide a competitive total annual earnings opportunity. **How:** The remuneration committee sets targets which are linked to operational performance and determines the percentages of salary achievable for each and at what performance level these are receivable. Performance-related pay is calculated and awarded based on the financial year end to which it relates. Discretion may be used where circumstances necessitate the adjustment of targets within the year. Awards are paid in cash except where a director chooses to take all or a portion of the performance-related pay as company paid pension contributions. Where individuals receive their performance-related pay as pension this reduces the company's National Insurance Contributions and this saving is also credited to the individual's pension (currently 13.8% of the amount exchanged).	Normal annual performance-related pay is expected to be 20% of salary with a maximum annual performance-related pay potential of 30% of salary.	Performance-related pay elements are based on group KPIs for the year and include: • Availability and asset integrity improvements; • Revenue; • Costs and cost savings; and • Compliance and health and safety improvements Performance below the threshold usually results in zero payment. Payments rise from 0% to 100% of the maximum opportunity for levels of performance between the threshold and maximum. As these elements are fundamental to the business the company sets its target performance at 100% of the maximum potential performance-related pay.	There are no provisions for the recovery of any sums paid or the withholding of any payments.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Policy for executive directors (continued)

Component	Purpose and Operation	Opportunity	Applicable performance measures	Recovery
Taxable benefits	**Why:** Providing employee protection in interest of employee and group. **How:** Insured healthcare cover set at suitable protection level and premiums paid monthly.	Cost of healthcare insurance as part of group scheme. Additional benefits may also be provided where they are made available to the wider workforce or to take account of any changes to general taxation rules.	None	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Deferred performance-related pay	**Why:** Align executives with long term interests of the group and encourage retention of key employees. **How:** Each year a predetermined % of salary is set aside for each director as deferred performance-related pay. After 3 years half of the total which has been deferred to date becomes available for payment. Payment of this performance-related pay will be linked to key deliverables in the business plan in order to align payment with longer term goals. Discretion may be used to calculate the amount payable where appropriate.	It is expected that each year up to 50% of salary will be deferred. However this amount can be in the range 45-55% to give a total annual and deferred performance-related pay receivable of 75% in relation to each year.	The payment of the deferred performance-related pay is linked to the group strategic business plan and the key deliverables in that plan. Milestones for award are linked to the business plan projections. Targets are set for each of the relevant categories with the percentage of performance-related pay obtainable for each target to be determined each year by the remuneration committee. The categories for which targets are set include asset performance, financial and regulatory/market performance.	The deferred performance-related pay may be subject to forfeiture where the participant leaves the employment of the group prior to vesting. Forfeiture is at the discretion of the committee. The Remuneration Committee may adjust an award before it is paid, for example by lapsing part or all of it, reducing the value which would otherwise vest, by imposing additional conditions on it, or imposing a new holding period. Award adjustments may be made as a result of an individual's misconduct or misconduct through the individual's direction or non-direction, which influenced the metrics and outcomes used in determining the individual's annual performance-related pay outcome; any material breach of health and safety or environment regulations; or material failure of risk management. For a further two years after payment, clawback adjustments may be made as a result of an individual's misconduct which influenced the metrics and outcomes used in determining the individual's annual or deferred bonus included in that payment.
Pensions	**Why:** To provide funding for retirement. **How:** A defined contribution allowance for all Executive Directors. The group also operates a pension salary sacrifice arrangement where individuals can exchange part of their salary for Company paid pension contributions and vice versa. NIC cost savings for taking additional into pension are credited to the individual's pension. Any additional NIC costs from reducing amounts paid into pension are deducted from the director's pension allowance.	The company pension contribution is expected to be 9.5% of salary; and be no more than 25%, excluding any employee salary sacrifice.	None	There are no provisions for the recovery of any sums paid or the withholding of any payments.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Policy for executive directors (continued)

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

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

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

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

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

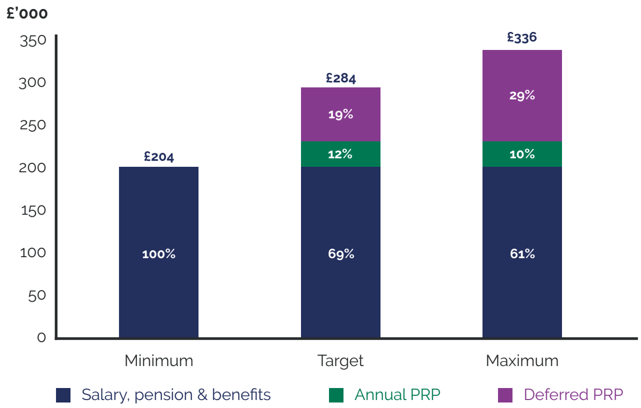
The Remuneration Committee reserves the right to make any remuneration or loss of office payments where the terms were agreed prior to an individual being appointed as a director of the company or prior to the approval of the policy.

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

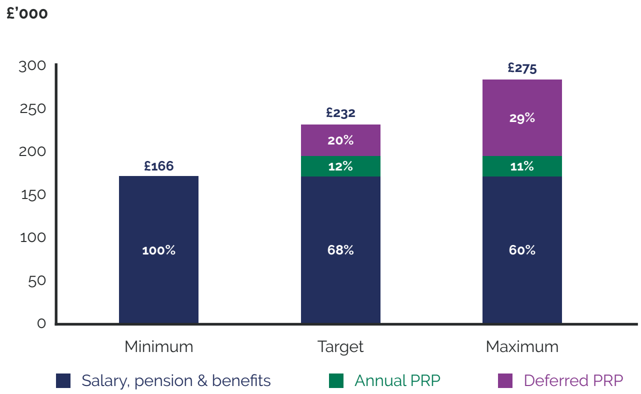
DIRECTORS' REMUNERATION REPORT (CONTINUED)

Illustrations of potential reward opportunities for the executive directors

The total remuneration for each of the executive directors that could result from the remuneration policy in 2019/20 under three different performance levels is shown below.



Chief Executive Officer - Paddy Larkin



Finance Director - Gerard McIlroy

The following assumptions have been made:

- Minimum (performance below threshold) – Fixed pay only;
- Target – Total performance-related pay (PRP) is expected to be c60% of the potential maximum award; and
- Maximum (performance meets or exceeds maximum) – Fixed pay plus maximum in-year performance-related pay and maximum deferred performance-related pay.

Fixed pay comprises:

- salaries – salary effective as at 1 April 2019;
- benefits – amount receivable by each Executive Director in the 2019/20 financial year; and
- pension related benefits – amount receivable by each Executive Director in the 2019/20 financial year, assumed taken as salary.

Service contracts and policy on payment for loss of office of the Executive Directors

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

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

Approach to recruitment remuneration

The committee's approach to remuneration is to pay no more than is necessary to attract appropriate candidates to the role.

When setting the remuneration package for a new executive director, the committee will apply the same principles and implement the policy as set out in the future policy table. Base salary will be set at a level appropriate to the role and the experience of the director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate. The maximum level of variable pay and structure of remuneration will be in accordance with the policy table. This limit does not include the value of any buy out arrangements. Different performance measures may be set initially for the annual performance-related pay, taking into account the responsibilities of the individual and the point in the financial year in which they joined.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Approach to recruitment remuneration (continued)

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

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

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

Statement of consideration of employment conditions elsewhere in company

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

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

Statement of consideration of member views

The company remains committed to member dialogue and takes an active interest in understanding voting outcomes. The Chairman of the remuneration committee presents the remuneration policy to the members at the AGM, prior to approval. Questions and comments are invited and members are offered the opportunity to discuss any issues on a one-to-one basis. Any feedback received from members is considered when setting the directors' remuneration policy. Members views will be sought going forward, at a minimum, in line with the 3-year policy approval cycle. The policy was last approved at the September 2018 AGM.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Policy for Non-executive directors

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

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Annual Fee	Competitive fee to recruit and retain NEDs who have a broad range of experience and skills to oversee the implementation of the group strategy.	The chairman and NEDs are paid an all-inclusive fee for all Board responsibilities. The fees are reviewed annually and fixed for 12 months commencing 1 April. NED fees are determined by the Chairman and executive directors and approved by the Board. The Chairman's fees are set by the committee. No additional fees are payable for the chairmanship of other committees or for the additional responsibilities of the senior independent director. Fees are periodically reviewed against those for NEDs in companies of similar scale and complexity and may be adjusted as appropriate. NEDs are not eligible to receive benefits and do not participate in pension plans or performance-related pay schemes.	Fee levels for incumbents for 2018/19 are as follows: Chairman £77,320p.a. NEDs £33,500p.a.	None	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Additional fees payable for other duties to the company	To provide the group with services which it requires which do not fall within the normal duties of a director and where there are overriding reasons that make them the most suitably qualified to undertake it.	Where a director possesses skills and experience which the company requires and the director is best-placed to provide them such services may be provided at an arms-length basis, in line with the company's procurement policies. The terms of engagement for such services must be approved by the Board.	Any remuneration will be at the discretion of the Board and will be reported in the annual report.	N/A	There are no provisions for the recovery of any sums paid or the withholding of any payments.

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

Annual report on remuneration

The remuneration policy in respect of the executive directors was amended and approved at the group's AGM on 28 September 2018. The previous policy applied for the period to 30th September 2018, with the updated policy applying from 1 October 2018 onwards. The annual report on remuneration which follows shows the blended outturn for the entire year, the result of each of the policies having been applied to each six-month period. The changes made from 1 October 2018 onward are discussed in more detail in the Chairman's statement, with the key impact being the increase in the maximum performance-related pay and a decrease in the pension related benefits.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

Annual report on remuneration (continued)

Single total figure of remuneration for each director

The remuneration of the directors for the years 2018/19 and 2017/18 is made up as follows:

Directors' remuneration as a single figure (2018/19)

£'000	Salary and fees[1]	All taxable benefits[2]	Annual performance-related pay[1]	Deferred performance-related pay	Pension related benefits[3]	Total
Executive Directors						
Paddy Larkin[4]	**181**	**1**	**30**	**58**	**19**	**289**
Gerard McIlroy[5]	**147**	**1**	**25**	**48**	**18**	**239**
Non-Executive Directors						
Paddy Anderson[6]	**34**	**-**	**-**	**-**	**-**	**34**
Regina Finn[7]	**58**	**-**	**-**	**-**	**-**	**58**
David Gray[8]	**19**	**-**	**-**	**-**	**-**	**19**
Michael McKernan[9]	**34**	**-**	**-**	**-**	**-**	**34**
Kate Mingay	**34**	**-**	**-**	**-**	**-**	**34**
Chris Murray	**34**	**-**	**-**	**-**	**-**	**34**
	541	**2**	**55**	**106**	**37**	**741**

Directors' remuneration as a single figure (2017/18)

£'000	Salary and fees[1]	All taxable benefits[2]	Annual performance-related pay[1]	Deferred performance-related pay	Pension related benefits[3]	Total
Executive Directors						
Paddy Larkin[4]	176	1	27	48	23	275
Gerard McIlroy[5]	143	1	23	40	20	227
Non-Executive Directors						
Paddy Anderson[6]	34	-	-	-	-	34
Clarke Black[10]	17	-	-	-	-	17
Regina Finn	77	-	-	-	-	77
Michael McKernan[9]	8	-	-	-	-	8
Kate Mingay	34	-	-	-	-	34
Chris Murray	34	-	-	-	-	34
	523	2	50	88	43	706

[1] Figures in the table are shown before the effect of salary sacrifices.
[2] All taxable benefits consists solely of healthcare benefits provided to executive directors.
[3] Pension related benefits includes, as applicable, employer pension contribution or pension allowances where the director has elected to receive salary instead of pension.
[4] In the year Paddy Larkin elected to exchange £21,839 pension for £19,191 salary (2018: £26,607 pension exchanged for £23,381 salary), with the difference being used to pay additional employer NIC costs incurred as a result. The 2018/19 pension exchanged was paid in April 2019. In addition £17,306 pension accrued in relation to 2017 was exchanged for £15,207 salary in 2018.
[5] In 2018, Gerard McIlroy elected to exchange £19,266 pension for £16,930 salary, with the difference being used to pay additional employer NIC costs incurred as a result. Gerard McIlroy also elected, in 2018, to exchange £18,578 performance-related pay for company paid pension contributions, with £2,564 NIC savings being credited to his pension account. No such election was made in the current year.
[6] In accordance with the current terms of engagement £15,000 (2018: £14,000) was paid to the director and the remaining £18,500 (2018: £19,500) was elected to be paid to charity (Disability Sport NI).
[7] Retired as Director on 31 December 2018.
[8] Appointed as Director on 1 January 2019.
[9] Appointed as Director on 1 January 2018.
[10] Retired as Director on 30 September 2017.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Determination of 2018/19 annual performance-related pay

Annual performance-related pay awards were determined with reference to performance over the financial year ending 2018/19. The performance-related pay accruing to executive directors is set out below. The particulars of the performance measures have not been disclosed as these are considered commercially sensitive.

	Annual performance-related pay (% of salary)				Deferred performance-related pay (% of salary)			
	CEO		FD		CEO		FD	
	Maximum	Actual	Maximum	Actual	Maximum	Actual	Maximum	Actual
Asset performance	8.7%	8.1%	8.7%	8.1%	22.7%	15.3%	22.7%	15.3%
Financial performance	8.2%	8.1%	8.2%	8.1%	10.7%	9.3%	10.7%	9.3%
Regulatory/ market performance	1.6%	1.5%	1.6%	1.5%	10.6%	9.1%	10.6%	9.1%
	18.5%	**17.7%**	**18.5%**	**17.7%**	**44.0%**	**33.7%**	**44.0%**	**33.7%**

The exercise of discretion is a key part of good practice for remuneration committees and is exercised in the normal course of the deliberations of the remuneration committee. During the year, the committee considered two issues where discretion could have been exercised. Firstly, the Committee considered the impact of the delay in the I-SEM project caused by the IT systems of the system operator. This delay had an adverse impact on the revenue of the business. The committee decided not to make any downward adjustments to the targets for this delay, as the targets had been set aware that these types of extraneous adverse impacts were possible, and an adjustment was not required. The Committee also considered the impact of the changes of the scheduling of work on the achievement of cost targets. The Committee exercised discretion in this case by tightening the target to remove certain cost savings which were a result of the rescheduling of major projects.

Payments to past directors

No payments were made to past directors in the year (2018: £Nil).

Payments for loss of office

There were no payments for loss of office made in the year (2018: £Nil).

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

CEO Remuneration Table

The table below sets out the details for the director undertaking the role of chief executive officer.

Year	CEO single figure of total remuneration (£'000s)	Annual performance-related pay pay-out against maximum %	Deferred performance-related pay pay-out against maximum opportunity % **
2009/10	48*	95%	N/A
2010/11	197	92%	N/A
2011/12	189	86%	N/A
2012/13	203	81%	N/A
2013/14	257	85%	-
2014/15	260	76%	-
2015/16	265	92%	88%
2016/17	270	71%	92%
2017/18	275	97%	90%
2018/19	289	96%	82%

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

** During 2015/16 payments in relation to the deferred performance-related pay were made for the first time since the introduction of the deferred performance-related pay element to the directors' remuneration in 2013/14. The percentage shown represents the amount paid as a percentage of the maximum possible payment.

Percentage change in remuneration of director undertaking the role of chief executive officer

The table below shows the percentage change in remuneration of the director undertaking the role of chief executive officer and the group's employees as a whole between 2018/19 and 2017/18.

	Percentage increase in remuneration in 2018/19 compared with remuneration in 2017/18	
	CEO	Group's Employees as a Whole*
Salary and fees	2.8%	5.1%
All taxable benefits	4.6%	3.1%
Annual performance-related pay	10.5%	4.7%
Total (excluding pension)	4.0%	5.0%

* Reflects the average change in pay for employees (excluding non-executive directors) employed throughout both the year ended 31 March 2018 and the year ended 31 March 2019.

In addition to the above, pension related benefits for the CEO reduced from 16% to 9.5% from 1 October 2018.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Relative importance of spend on pay

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

	2018/19 £'000	2017/18 £'000	% change
Total employee costs	2,674	2,480	8%
Total debt repayments plus cash retained in the business plus cash returned to customers via shippers	44,917	45,108	0%

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

Statement of implementation of remuneration policy in 2019/20

The directors' salaries and fees for the 2019/20 year are as follows:

	2019/20 £'000	2018/19 £'000	% change
Chief Executive	188	181	3.9%
Financial Director	153	147	4.0%
Chairman	77	77	0%
Non-executive directors	34	34	0%

The annual performance-related pay for 2019/20 will operate on the same basis as for 2018/19 and will be consistent with the policy detailed in the Remuneration Policy section of this report. The measures have been selected to reflect a range of financial and operational goals that support the key strategic objectives of the group.

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

	Annual performance related pay (max % of salary)		Deferred performance related pay (max % of salary)	
	CEO	**FD**	**CEO**	**FD**
Asset performance & business resilience	9.0%	9.0%	29%	29%
Financial performance	8.5%	8.5%	9%	9%
Regulatory/market performance	2.5%	2.5%	17%	17%
	20.0%	**20.0%**	**55%**	**55%**

The particulars of the performance targets are considered to be commercially sensitive.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Consideration by the directors of matters relating to directors' remuneration

During the year, the committee met six times, with four extra meetings to consider matters relating to executive directors' remuneration. The directors who were members of the committee during these considerations were Kate Mingay and Chris Murray (throughout the year), Regina Finn (until her retirement on 31 December 2018), and David Gray (in attendance from 1 January 2019, appointed to the Committee on 28 March 2019). The CEO and Finance Director attend meetings by invitation and assist the Committee in its deliberations where appropriate. The executive directors are not involved in deciding their own remuneration. During the year PwC were engaged to benchmark non-executive director remuneration. Executive director remuneration benchmarking was carried out by Towers Watson during the year ended 31 March 2018.

The committee also discussed the pay award for the business as a whole with the executive directors, including the thoughts behind levels of allowances, staff structure, and succession planning. The restructure of the executive directors remuneration in the year allowed the alignment of the employer pension related benefit percentages of the executive to the median of staff.

Statement of voting at general meeting

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

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

	Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration report (2018 AGM)	28	100%	-	0%	28	-
Remuneration policy (2018 AGM)	27	96%	1	4%	28	-

Approval

This report was approved by the board of directors on 24 June 2019 and signed on its behalf by:

Kate Mingay
Chairman
24 June 2019

RISK COMMITTEE REPORT

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

The terms of reference of the Committee determine that its duties are to proactively review the strategies, policies, management, initiatives, targets and performance of the group, and where appropriate, its suppliers and contractors in the following areas:

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

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

- Prior to each financial year considering and reviewing the plan for safety and environmental audits;
- Reviewing safety and environmental audits and performance at each meeting held;
- Annually reviewing health, safety, environmental and security matters;
- Oversight of the operational risk management system and its implementation;
- Reporting to the Board on all major incidents, potentially serious near misses and any other matters of appropriate significance, with details of follow-up action;
- Reviewing the effectiveness of the Committee annually; and
- Advising the Audit Committee on non-financial risks.

The Committee is chaired by Chris Murray, non-executive director, and also comprises Paddy Larkin, Chief Executive; Stephen Hemphill, Operations Director; Shane Rafferty, Group Engineer; and Roy Coulter, Health and Safety Manager.

Activities in 2018/19

The Committee met on three occasions during the year ended 31 March 2019 in order to review risk registers and business improvement plans, review Health and Safety policies and procedures, and to address specific issues of operational and environmental risk. A further conference call meeting was held in August 2018. Attendance was as listed in the Corporate Governance Statement.

During the year the Committee:

- Reviewed Health and Safety performance including incidents, near-miss and good-catch reports;
- Provided oversight and review of amendments to the 2019 Health and Safety Policy Statement and 2019 Health and Safety Management System to reflect changes in Health and Safety guidance, reviewed the 2019/20 Health and Safety Plans and recommended these documents to the Board for approval;
- Reviewed Site Safety and Work Inspections;
- Agreed the plan for Health and Safety audit in 2019;
- Reviewed the Security Policy and annual Security Plan and recommended these documents to the Board for approval
- Reviewed the arrangements in place to prevent or mitigate against a cyber or physical security breach;
- Reviewed the Business Continuity/ Disaster Recovery programme;
- Reviewed the risk registers and improvement plans for both the gas and electricity businesses, incorporating both Health, Safety, Welfare and asset performance improvement;
- Reviewed the Moyle low voltage land cable strategy and repair plan;
- Considered the ISO 55001 gap analysis report and improvement plan;
- Reviewed the Risk Committee Terms of Reference;
- Reviewed risks particular to the subsea gas pipeline assets;
- Reviewed the Gas to the West Operational Integration plans;
- Reviewed the gas offshore pipeline emergency repair strategy;
- Reviewed the annual Risk Committee Effectiveness Questionnaire; and
- Reviewed the Risk Committee Terms of Reference.

The Risk Committee reports to the Audit Committee after each meeting through the issuance of minutes, meeting summaries and Chair-to-Chair discussions. Proceedings are reported by the Audit Committee at the subsequent Board meeting, as necessary.

AUDIT COMMITTEE REPORT

I am pleased to present the Audit Committee Report for the year ending 31 March 2019. During the year the Committee continued to review the effectiveness of the group's financial reporting and internal control systems. Risk management has played a central role in the Committee's activities during the year. The approach to risk was affirmed at the group's annual Strategy Day, held in January 2019. The Committee has considered the impacts of the significant changes in the Irish electricity market and the introduction of new International Financial Reporting Standards. Finally, during the year the Committee performed an early review of the group's compliance against the 2018 UK Corporate Governance Code.

Patrick Anderson
Chairman
24 June 2019

The Audit Committee was in place throughout the year ended 31 March 2019 and all its members were independent in accordance with provision B.1.1 of the UK Corporate Governance Code.

Principal responsibilities

The role of the Audit Committee is to:

- review the effectiveness of the group's financial reporting and internal control systems;
- monitor the integrity of the financial statements of the company, reviewing significant financial reporting judgements contained therein;
- review the procedures for the identification, assessment and reporting of risks, and subsequently manage and mitigate risks identified;
- recommend the remuneration and approve the terms of the external auditors, monitoring their independence, objectivity and effectiveness and making recommendations to the Board as to their appointment;
- monitor the engagement of the external auditors to supply non-audit services, where applicable; and
- report to and advise the Board, as appropriate.

The Audit Committee delegates management of certain non-financial operating risks to the Risk Committee who provide minutes of each meeting to the Audit Committee. Discussions are held between the Audit Committee and Risk Committee as required and reports of each Risk Committee meeting are provided to the Audit Committee.

Membership

The Committee was chaired by Patrick Anderson throughout the year. The Chair is a qualified accountant and fulfils the Committee's terms of reference that at least one member of the Audit Committee should have sufficient recent and relevant financial experience. The Committee also comprised Kate Mingay and Michael McKernan. The Committee possess a range of skills, knowledge and experience and have competence relevant to the energy sector. Members receive no additional remuneration for their service on the Committee. All Committee members have competence relevant to the sector in which the company operates.

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

Activities

The Committee met five times in the year ended 31 March 2019 with attendance as listed in the Corporate Governance Statement. The key areas of consideration are set out below, along with a description of the activities carried out in each area during the year.

Audit

A key role of the Committee is to monitor and manage the relationship with the Auditor. The duty to assess the effectiveness of the audit process including the qualifications, expertise and resources of the external auditors is fundamental to the Committee's work. Throughout the period of appointment, the Committee reviews the audit planning documentation provided by the Auditor for each audit, ensuring its consistency with the initial proposal and its ongoing suitability.

AUDIT COMMITTEE REPORT (CONTINUED)

Audit (continued)

The group policy is to tender the audit contract on an approximate 7-year cycle, with consideration on the exact timing taking into account other business activities ongoing at the time. The audit was last tendered in 2016/17. The audit tender includes other services linked to the audit which are pre-approved by the Audit Committee as a matter of policy, namely the audit of regulatory accounts and production of iXBRL versions of the accounts.

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

- meeting with the external auditor to confirm their independence and objectivity;
- meeting with the external auditor:
  - » at the planning stage before the audit in order to review and approve the annual audit plan, ensuring that it is consistent with the scope of the audit engagement;
  - » after the audit at the reporting stage to review the findings of the audit and discuss any major issues which arose during the audit, including any accounting and audit judgements, the levels of errors identified and the effectiveness of the audit; and
  - » without management present so that any matters can be raised in confidence;
- monitoring of the statutory audit of the annual financial statements;
- monitoring of the review of Moyle's interim financial statements;
- considering and making recommendations to the Board, to be put to members for approval at the AGM, in relation to the re-appointment of the external auditor; and
- considering whether an internal audit function is required. The group operates a risk based, cyclical compliance review programme, approved by the Audit Committee, which monitors compliance with all group policies. On occasions the Committee will engage specialist resource where complexity of policy determines this to be appropriate. All findings from compliance reviews are presented to the Audit Committee for review, with remedial actions taken if appropriate and timely implementation monitored by the Committee. At the Committee's January 2019 meeting the Committee considered the need for an internal audit function and determined that it is satisfied for the present, given the scope of the group's activities, that the systems of internal control and risk management are adequate without an internal audit function.

Financial reporting

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

The majority of the matters identified are effectively routine and consistent year on year. In the current year the primary issues considered significant were accounting for new revenue streams under I-SEM, as well as the impact of new accounting standards IFRS15: *Revenue*, IFRS 9: *Financial Instruments* and IFRS16: *Leases* on the group's accounts.

The Committee spent significant time reviewing the market arrangements arising from the introduction of the Integrated Single Electricity Market, the arrangements for making capacity available to system operators, and the treatment of the sales of financial transmission rights (FTRs) which entitle the holder to receive payments based on the difference between market prices within the electricity markets in Great Britain and Ireland. Consideration was given to the new accounting standards set out above as part of this review. It was concluded that the variable revenue arising under the market arrangement should be recognised in line with the relevant services provided in the accounting period.

The Committee also gave further consideration to the implementation of IFRS 15, effective for the 2018/19 financial year, considering all other revenue streams for the group. The Committee completed its consideration of the impact of IFRS 9 on Premier Transmission Financing's swaps and, taking into consideration third party advice, determined that these should not be hedged under IFRS 9: *Financial Instruments*. The Committee considered the impact of IFRS 16, which will come into effect in the 2019/20 financial year. The group is currently assessing its wayleaves, property and equipment leases and other contracts to determine which will fall within the scope of this new standard.

AUDIT COMMITTEE REPORT (CONTINUED)

Financial reporting (continued)

The Committee reconsidered the useful economic lives of its assets and determined that these remain appropriate. Other key judgements and policies are included in note 1 on pages 92-94.

The other financial reporting matters which the Committee considered included:

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

Internal controls and risk management systems

The company operates a risk governance framework which is managed by the Audit Committee. Under this framework, the policies which govern the system of internal control within the group are approved by the Committee and are only amended with the approval of the Committee. During the year, the Committee completed the following work in this regard, including:

- reviewing the effectiveness of the group's internal controls and risk management systems including consideration of fraud risk;
- reviewing the group's Corporate Risk Register and making revisions thereto in line with changes to the group's business;
- reviewing and approving the statement to be included in the annual report concerning internal controls and risk management;
- determining the schedule and frequency of performance of compliance reviews, reviewing the outcome of these compliance reviews and recommending improvements and policy amendments in a range of areas;
- reviewing the revised employee handbook prior to issue to all employees; and
- reviewing and approving a range of group policies.

Review of committee effectiveness

The Committee reviews its effectiveness annually. Feedback is collated and discussed at Committee, with actions being agreed where improvements are identified.

MUTUAL ENERGY MEMBERS

Declan Billington MBE

Declan is the Chief Executive of John Thompson & Sons Ltd, Northern Ireland's largest animal feed processor. A fellow of the Institute of Chartered Accountants in Ireland, Declan worked in a variety of industries, ranging from meat processing to compressor manufacturing before joining John Thompson & Sons Ltd in Belfast. Over the last sixteen years he has been heavily involved with the Northern Ireland region of CBI, including Chair of its Economic Affairs Committee and subsequently Chairman of CBI NI. At that time, he was also Chair of the Skills Sub Group of the Economic Development Forum, an advisory body to the then minister of Education. He currently sits on the CBI NI Energy Sub-Group. He has also sat on the Ministerial Energy and Manufacturing Advisory Group, advising the then DETI minister. Keen on playing a strong role in driving forward the Agri-Food agenda, Declan plays an active role on a number of Government Brexit Advisory bodies. He currently sits on the Boards of the Agricultural Industries Confederation (AIC); is Vice Chairman of the NI Food and Drink Association (and is past Chair). He is also a member of the Institute of Global Food Security Industry Advisory Board, and sits on the Executive Committee of the NI Grain Trade Association, and is a past President. He was also a former member of the Agri Food Strategy Board (AFSB) up until the end of its tenure in 2017.

Margaret Butler

Margaret Butler is a retail banker with multinational experience and a career spanning many years in the financial services industry. She has worked in banking in Northern Ireland, England, Scotland and Australia, firstly with Northern Bank and then with National Australia Bank in Executive roles. Margaret is currently a non-executive director of AIB (UK). Margaret has leadership experience across a wide range of disciplines including human resources, business planning, strategy, operations and business transformation. Margaret has an MBA from the University of Ulster. She is Chairperson of the Northern Ireland Hospice.

John Cherry

John Cherry is an external investigator for a major financial institution and was also a Programme Manager managing the delivery of European Regional Development Funding. John also worked as a consultant providing specialist support to a leading consultancy firm in Ireland. John has delivered bespoke training on topics such as fraud risk management, corruption, whistle blowing and investigative risk management. He has a BA (Hons) in Public Policy and Management from the University of Ulster, PGD in HRM and Training, University of Leicester, PGD in Professional Management, Open University and a PGC in Professional Development, University of Teeside.

David Cunningham

After graduating from the University of Ulster David Cunningham spent 10 years in manufacturing roles spanning the automotive and high-tech industries. At Hewlett Packard, he led and participated in the identification and resolution of complex manufacturing challenges. He progressed to apply analytic skills within HP's Marketing and Corporate Strategy functions where he managed Market Insights for the Printing business in EMEA (Europe Middle East Africa) for several years. In this role he developed a deep understanding of market dynamics, making him the recognized expert of this area across HP. David is a strong advocate of continuous improvement and learning and following the completion of the Executive MBA at Queen's University in 2016 David moved to a new role within the software industry with Bazaarvoice. Currently, he is engaging and collaborating with engineering managers, product managers, program managers, finance and analysts to understand the SaaS business and its vendor relationships. In this role, he connects data to shape stories that drive objective conversations, highlight problematic areas, increase understanding and justify improvement efforts to maximise the company's cloud infrastructure investment.

MUTUAL ENERGY MEMBERS (CONTINUED)

Robin Davey

Robin Davey has spent a lifetime in industry and energy studies. After graduating from Queen's University, he spent ten years in production management in the food industry in England, Scotland, the Republic of Ireland and Northern Ireland. He then took up a lectureship in Food Technology and Science in the Upper Bann Institute of Further and Higher Education. In this position he identified a need for energy management training and, on becoming a member in the Energy Institute, he developed and directed City and Guilds courses in this diverse field. As the demand for higher level courses developed, he helped to develop and lead the Energy Institute's advanced open learning course TEMOL (Training in Energy Management through Open Learning). He carried out numerous energy surveys throughout the UK as an accredited energy manager with the Carbon Trust, and more recently as a lead assessor he has completed many energy audits for the ESOS programme. He is a Chartered Scientist, a Chartered Energy Manager, Fellow of the Energy Institute and a past chairman of the Energy Institute Northern Ireland.

Jamie Delargy

Jamie Delargy has for many years provided news, comment and analysis of developments in the Northern Ireland energy market. In 2014 he launched Northern Ireland's first user-friendly energy price comparison website enirgy.info. Since retiring in 2016 as Business Editor at UTV Jamie has been working as a freelance business commentator, media trainer and business consultant. In addition to an MA in Philosophy from Cambridge University Jamie also has an MSc in Finance and Investment from Ulster University.

Connor Diamond

Connor Diamond has worked in the field of analytics for over a decade for some of Northern Ireland's largest employers. Having graduated from University of Ulster in the field of Mathematics, Statistics and Computing, Connor specialised in big data and analytics and helps businesses turn commercial decision-making into a science. He has worked across a number of industries in both the public and private sector, including the Northern Ireland Statistics and Research Agency and the Royal Bank of Scotland. He is currently the Head of Data & Insights for Independent News and Media in Northern Ireland, working at a strategic level across a portfolio of brands such as the Belfast Telegraph, Sunday Life, NIJobfinder and Propertynews.

Joe Doherty

Joe Doherty has retired as Curriculum Manager in the Technology Department of Southwest College but is still the Principal Moderator for CCEA in the area of ICT (Key Skills and Essential Skills) and is also a Moderator with OCR on their Engineering Technicals and Nationals programs.

MUTUAL ENERGY MEMBERS (CONTINUED)

Stephen Ellis

Stephen Ellis has over 30 years experience across all sectors of the oil and gas industry, with particular expertise in Liquefied Natural Gas (LNG), gas transmission pipelines and commercial operations. He has held a number of senior positions with BG Group, and has recently established his own energy consultancy, Carbon Consulting, supporting and advising a number of energy projects in the UK, Canada and the US. He has held a number of Board and General Management positions in BG Group's incorporated and joint venture companies including; Director and GM for Premier Transmission, (the operator of the Scotland to Northern Ireland transmission pipeline), Commercial Director for Phoenix Natural Gas, Board Director for Atlantic LNG and Commercial Director for Atlantic LNG in Trinidad. Stephen has an MBA from Bath University and an Honours Degree in Economics from Queen's University.

Kathy Graham

A graduate of Queens University Belfast and possessing a Masters in Occupational Psychology from the London Metropolitan University, Kathy Graham is highly experienced in stakeholder engagement, strategic development and public policy with a career spanning 20 years working with public, private, community and voluntary organisations. Prior to establishing Kathy Graham Strategies Ltd, Kathy was Director of Policy at the Consumer Council. Here she led policy work in regulated and unregulated industries including Energy, Transport, Post, Water and Money Affairs, as well as leading on consumer complaints and service improvement. Kathy is a Trustee and Non-Executive Director of Age NI, a member of the Ofcom Advisory Committee for Northern Ireland, a member of the Board of Governors for Annalong Primary School, and an Associate with the Consultation Institute.

Trevor Greene

Trevor Greene worked for the Northern Ireland Housing Executive before his retirement in 2012. He worked in personnel management until the late 1990s when he took up a post as Business Planning Manager dealing with corporate and business planning, performance and risk management, along with equality of opportunity. He also dealt with governance and compliance issues. He has been involved in a wide range of voluntary and charitable organisations. Along with his role as a Mutual Energy member, he is currently a Director of Hostelling International Northern Ireland, Vice-Chair of Habinteg Housing Association, Chair of First Cast NI (an angling related charity to assist vulnerable people),and a committee member of the Association of Professional Game Angling Instructors Ireland.

Peter Hayes

Peter Hayes completed a degree in Clean Technology from Ulster University focusing specifically on energy efficiency. During his time at University he had the opportunity to work in the solar market in Spain. This role provided a valuable insight into the future energy makeup of Europe. After graduating Peter worked for CDE Group, specifically in their Environmental section, CDEnviro. During this role he has worked on projects for major water utilities including United Utilities and Scottish Water. Peter is passionate about the circular economy and finding options for reuse in what was once considered a waste product.

Chris Horner

Christopher Horner is a chartered civil engineer with over 20 years' experience in the industry. Following graduation from Queen's University he worked for local engineering consultancy, Ferguson & McIlveen, before transferring to the Civil Service where he worked in Water Service, Construction Service (CPD) and Roads Service. Christopher was appointed as Capital Projects and Engineering Manager of George Best Belfast City Airport in 2007 and his responsibilities include major and minor airport developments, the airport facilities department, air traffic control and airfield engineering including the radar and aircraft landing systems. Christopher also sits on the Board of Governors of his local primary school.

MUTUAL ENERGY MEMBERS (CONTINUED)

David Jenkins

David Jenkins has over 30 years experience in the energy sector, particularly power stations. David currently works part time as a high voltage electricity consultant.

Andrew Kirke

Andrew is a director in the Contracts and Energy team at Tughans, and works with clients in a full range of commercial matters, with a particular focus on the energy sector. Andrew joined Tughans in 2013, having trained with another Belfast firm and spent some time working offshore in a corporate finance role. He recently completed a year-long secondment to SONI Ltd, the transmission system operator for Northern Ireland, as in-house counsel, and serves as secretary for the Northern Ireland branch of the Energy Institute.

Helen Kirkpatrick

Helen Kirkpatrick is currently a non-executive director of Dale Farm Co-operative, Chairman of Neueda and a non-executive director of Displaynote Technologies. Helen is a member of the Queen's University Belfast Audit Committee, a non-executive director of QUBIS and a lay member of the Queens University Belfast Students' Union Management Advisory Board. She is a director of the Irish Football Association. Prior to this, she was a non executive director of the Kingspan Group plc, a non-executive director of Wireless Group/UTV Media plc, a Corporate Finance Executive in Invest Northern Ireland, a Board member of the International Fund for Ireland, a Director of Enterprise Equity Venture Capital Group and a Director of NI-CO. Helen was alsoa non-executive director of CAUSE (NI). Helen was awarded the Lunn's Excellence Award - Director of the Year in 2013. She was awarded a MBE in 2012 for services to the community in Northern Ireland. She holds a B.A. (Hons) degree in Business Studies from Ulster University and is a Fellow of the Institute of Chartered Accountants and a Member of the Chartered Institute of Marketing.

Stephen Kirkpatrick

Stephen Kirkpatrick was a Non-Executive Director and Audit Committee Chair of Mutual Energy from 2010 until his retirement in September 2016. Stephen has enjoyed a successful executive career in banking, real estate and professional services. During 15 years with the Bank of Ireland Group, Stephen held a number of senior leadership roles including CEO of the Northern Ireland business and Head of Retail Credit for the Group. Stephen is currently a Director of Corbo Limited, a large retail investment property group. Stephen also chairs the Scrutiny Board for the Northern Ireland Investment Fund. Stephen was previously a Non-Executive Director and Audit Committee Chair of Wireless Group plc (formerly UTV Media plc) from 2012-2016. Stephen is a Chartered Accountant and from 2009-2012 was a member of the Governing Council of Chartered Accountants Ireland, where he chaired the Finance Board.

Gavin McBride

Gavin McBride is a qualified solicitor with experience in company/commercial, environmental and public law. He has a particular interest in EU and UK energy law and policy, specifically in relation to climate change and sustainable development.

Robert McConnell

Robert McConnell is Co-Owner and Director at Pinnacle Professional, a business advisory firm, established with the key goal of enabling business growth for their clients. Pinnacle offer specialist expert support in Commercial, Operational and Technical areas. Robert is a Fellow of the Institute of Directors and a Chartered Director (NI's youngest ever), having previously completed his Certificate (Cert. IoD) and Diploma (Dip.IoD) in Company Direction. Robert is also registered as a Chartered Engineer with the Institute of Materials, Minerals and Mining. Robert originally qualified with a BEng (Hons) in Engineering Management, and later with an MSc in International Business, both from the Ulster University. Robert previously won Northern Irelands' Young Director of the Year 2017, and was a finalist in the UK wide competition.

Brian McFarland

Brian McFarland is the Managing Director of McFarland Associates Ltd, a specialist Civil Engineering Consultancy. Brian is a Chartered Civil Engineer with over 30 years of experience in the inspecting, testing, assessment and remediation of structures. Brian is also a Visiting Professor, at QUB, in "Managing ageing infrastructure and structural health monitoring in Civil Engineering" as appointed by The Royal Academy of Engineering. Additionally, Brian is a Director of NIAECC and member of N.I. Advanced Composites and Engineering (NIACE), researching the use of composites in Civil Engineering.

MUTUAL ENERGY MEMBERS (CONTINUED)

Nevin Molyneaux

Nevin Molyneaux is a Technical Specialist for Schrader Electronics Ltd, where his responsibilities are as a key contributor to the design and development of the company's range of application specific integrated circuits (ASIC's) for sensor technology used in the automotive industry. Nevin is a Chartered Engineer with around 18 years of experience in electronics and embedded software.

Dr Bernard Mullholland

Dr. Bernard Mulholland has received a succession of qualifications from Queen's University Belfast that culminated in the award of a Ph.D. in History (2012), followed more recently by an MSc in Management (2017). Bernard is currently a member of the New York Academy of Sciences, International Association of Patristic Studies, Society for the Promotion of Byzantine Studies, and Council of British Archaeology. He has also been a member of MENSA for thirty years and has published two books on MENSA. Bernard is director of Irish Healthcare Limited and also British Healthcare.

Tim Nelson

Tim Nelson is a chartered surveyor with experience developing and delivering strategic objectives on behalf of numerous government departments within the Estates Management, Property and Construction sectors. Tim is currently the Regional Head of Estates and Facilities Management for a central government department responsible for the management and development of a large estate portfolio across the UK. He is also a board committee member with Choice Housing overseeing the development and growth of one of the largest housing associations who operate across Ireland.

Colin Oxton

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

Conor Quinn

Conor Quinn is a Chartered Electrical Engineer with a background in technology companies. He has undertaken engineering and business development roles within the semiconductor industry. He has extensive experience in securing funding for research and development and currently works at Queen's University Belfast in the role of Business Alliance Manager. He is responsible for developing collaborative projects with industrial partners, accessing public grant support for innovation from regional, UK and EU sources. He has been involved in developing collaborative proposals to advance technologies in biogas, waste heat recovery, tidal stream turbines, energy storage and community energy systems. Conor holds a degree in Electrical Engineering from Queen's and an MBA from Trinity College, Dublin. Politically active, he was previously Chair of the Green Party in Northern Ireland and is a former SDLP councillor.

Ken Simpson

Ken Simpson is an accountant and for over 40 years worked in the media sector, 35 of which were as Finance Director of Belfast Telegraph Newspapers. In addition, he has a degree in Economics (Hons) from Queens University and an MBA (distinction) from the University of Ulster. In 2010 Ken moved to the voluntary sector and has held various finance roles with several leading Northern Ireland charities, including Young Enterprise, RNIB and the Red Cross. He is also a Trustee of a number of well known charities, as well as being a Trustee Director of a large pension fund. Ken's main skills and experience are in the areas of finance, governance, risk management, change management, strategy development, operational planning, board and committee meetings and procedures, and grant application, monitoring and control.

Patrick Thompson

Patrick Thompson is the Deputy CEO of the Northern Ireland Federation of Housing Associations (NIFHA), the representative body for Housing Associations in Northern Ireland. Previously, Patrick worked for the Energy Saving Trust, supporting householders to make informed choices about energy use. He still sits on the NI Home Energy Conservation Act Panel and precviously sat on the former DSD Fuel Poverty Advisory Group. Patrick Thompson is the Deputy CEO of the Northern Ireland Federation of Housing Associations (NIFHA), the representative body for Housing Associations in Northern Ireland.

MUTUAL ENERGY MEMBERS (CONTINUED)

Mark Wishart

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

Ed Wright

Ed Wright is a sustainability professional specialising in the interaction of the private sector with the environment. A graduate of Queen's University, Ed has worked for many years as an environmental consultant throughout the UK and Ireland for a number of multinational and niche consultancy firms. He has also worked as Director of ARENA Network, an organisation set up to lead and support the engagement of the Northern Irish private sector with environmental challenges. Now with Lakeland Dairies (NI), Ed's focus is ensuring the appropriate integration of sustainability actions and environmental accounting approaches throughout the food supply chain from primary production to end consumer.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2019

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2019.

General information on the company can be found on page 4 and within note 1 to the financial statements.

Results
The group's profit for the year is £11,214,000 (2018: £1,233,000).

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

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

Patrick Anderson	
Regina Finn	(resigned 31 December 2018)
David Gray	(appointed 1 January 2019)
Patrick Larkin	
Gerard McIlroy	
Michael McKernan	
Kate Mingay	
Christopher Murray	

Financial risk management
Please refer to note 25 to these financial statements for a description of the financial risks that the group faces and how it addresses those risks.

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

Political contributions
Neither the company nor any of its subsidiaries have made any political donations or incurred any political expenditure in the current or prior year.

Other information
An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on pages 18-35.

Corporate governance
Further details in respect of the group's corporate governance statement is set out on pages 44-48.

Statement of disclosure of information to auditors
So far as each of the directors in office at the date of approval of the Directors' report is aware:

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the directors' 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 they have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

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 parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal controls as they determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and the company and to prevent and detect fraud and other irregularities.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG will therefore continue in office.

On behalf of the board

Gerard McIlroy 24 June 2019
Director
First Floor
The Arena Building
85 Ormeau Road
Belfast, BT7 1SH

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF MUTUAL ENERGY LIMITED

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Mutual Energy Limited ('the company') for the year ended 31 March 2019 set out on pages 78-119, which comprise the consolidated statement of profit and loss and other comprehensive income, the consolidated and parent company balance sheet, the consolidated and parent company statement of changes in equity, the consolidated and parent company cash flow statements and related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is UK Law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with ethical requirements that are relevant to our audit of financial statements in the UK, including the Financial Reporting Council (FRC)'s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter – The impact of uncertainties due to the UK exiting the European Union on our audit
Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. Some of the uncertainties arising from Brexit may impact certain of the financial statement captions in the financial statements. The preparation of the financial statements on a going concern basis and the financial statement caption containing estimates all depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. No audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

We have nothing to report on going concern
The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the parent company or to cease their operations, and as they have concluded that the group and the parent company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MUTUAL ENERGY LIMITED (CONTINUED)

Report on the audit of the financial statements (continued)

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the parent company will continue in operation.

Other information

The directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the strategic and directors' report, the Chairman's statement, the 2018/19 Highlights, the Corporate Governance Statement, the Directors' Remuneration Report, the Risk Committee Report and the Audit Committee Report, other than the financial statements and our auditors report thereon. The financial statements and our auditor's report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information;

- we have not identified material misstatements in the directors report or the strategic report;
- in our opinion, the information given in the directors' report and the strategic report is consistent with the financial statements;
- in our opinion, the directors' report and the strategic have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF MUTUAL ENERGY LIMITED

Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements
As explained more fully in the directors' responsibilities statement set out on page 73, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group and parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**.

The purpose of our audit work and to whom we owe our responsibilities
Our report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Poole (Senior Statutory Auditor)
for and on behalf of KPMG, Statutory Auditor
Chartered Accountants
Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

28 June 2019

CONSOLIDATED STATEMENT OF PROFIT AND LOSS
AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

		2019			2018		
	Note	**Results before movements in the fair value of derivatives £'000**	**Fair value movement in derivatives £'000**	**Total £'000**	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000
Revenue - continuing operations	2	**65,306**	**-**	**65,306**	63,170	-	63,170
Operating expenses	3	**(37,032)**	**-**	**(37,032)**	(45,443)	-	(45,443)
Other operating income	3	**1,256**	**-**	**1,256**	1,000	-	1,000
Operating profit		**29,530**	**-**	**29,530**	18,727	-	18,727
Finance income	5	**2,359**	**-**	**2,359**	469	2,240	2,709
Finance expenses	5	**(18,899)**	**(1,544)**	**(20,443)**	(19,861)	-	(19,861)
Finance (expenses)/income – net	5	**(16,540)**	**(1,544)**	**(18,084)**	(19,392)	2,240	(17,152)
Profit/(loss) before income tax		**12,990**	**(1,544)**	**11,446**	(665)	2,240	1,575
Taxation	6	**(494)**	**262**	**(232)**	39	(381)	(342)
Profit/(loss) and total comprehensive income/(expense) for the year attributable to the owners of the parent	17	**12,496**	**(1,282)**	**11,214**	(626)	1,859	1,233

The notes on pages 82-119 are an integral part of these consolidated financial statements.

CONSOLIDATED AND PARENT
COMPANY BALANCE SHEET

At 31 March 2019

		Group		Company	
	Note	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Non-current assets					
Property, plant and equipment	8	**269,935**	242,817	**32**	37
Intangible assets	9	**216,048**	140,960	**-**	-
Investments in subsidiaries	10	**-**	-	**7,321**	5,431
Other investments	11	**5,361**	3,576	**-**	-
Financial assets	14	**150,420**	-	**-**	-
Deferred income tax assets	20	**7,172**	6,632	**46**	52
		648,936	393,985	**7,399**	5,520
Current assets					
Trade and other receivables	12	**16,235**	14,553	**1,569**	2,457
Inventories	13	**113**	-	**-**	-
Financial assets	14	**46,226**	-	**-**	-
Cash and cash equivalents	15	**109,972**	95,049	**3,776**	2,900
		172,546	109,602	**5,345**	5,357
Total assets		**821,482**	503,587	**12,744**	10,877
Equity and liabilities					
Equity attributable to the owners of the parent					
Share capital	16	**-**	-	**-**	-
Retained earnings	17	**36,339**	25,125	**(5,778)**	(7,315)
Total equity		**36,339**	25,125	**(5,778)**	(7,315)
Non-current liabilities					
Other payables	22	**121,713**	31,848	**-**	-
Interest bearing loans and borrowings	18	**456,974**	275,307	**10,250**	10,276
Provisions	19	**3,112**	3,008	**-**	-
Deferred income tax liabilities	20	**37,467**	38,325	**-**	-
Government grants	21	**51,113**	54,522	**-**	-
Derivative financial instruments	25	**42,464**	40,920	**-**	-
		712,843	443,930	**10,250**	10,276
Current liabilities					
Trade and other payables	22	**46,134**	15,537	**8,272**	7,916
Tax payable		**921**	774	**-**	-
Interest bearing loans and borrowings	18	**21,836**	14,812	**-**	-
Government grants	21	**3,409**	3,409	**-**	-
		72,300	34,532	**8,272**	7,916
Total liabilities		**785,143**	478,462	**18,522**	18,192
Total equity and liabilities		**821,482**	503,587	**12,744**	10,877

The notes on pages 82-119 are an integral part of these financial statements.

The financial statements on pages 78-119 were authorised for issue by the Board of Directors on 24 June 2019 and were signed on its behalf by:

Patrick Larkin
Director

Patrick Anderson
Non-executive director

Mutual Energy Limited
Registered number: NI053759

CONSOLIDATED AND PARENT COMPANY

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

Group	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2017	-	23,892	23,892
Total comprehensive income for the year	-	1,233	1,233
At 31 March 2018	-	25,125	25,125
Total comprehensive income for the year	-	11,214	11,214
At 31 March 2019	**-**	**36,339**	**36,339**

Company	Share capital £'000	Retained earnings £'000	Total £'000
At 1 April 2017	-	(9,118)	(9,118)
Total comprehensive expense for the year	-	1,803	1,803
At 31 March 2018	-	(7,315)	(7,315)
Total comprehensive income for the year	-	1,537	1,537
At 31 March 2019	**-**	**(5,778)**	**(5,778)**

The notes on pages 82-119 are an integral part of these financial statements.

CONSOLIDATED AND PARENT COMPANY
CASH FLOW STATEMENTS

For the year ended 31 March 2019

	Note	Group		Company	
		2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Cash flows from operating activities					
Profit before income tax		**11,446**	1,575	**1,458**	1,916
Adjustments for:					
Finance costs/(income) – net	5	**18,084**	17,152	**580**	(1,730)
Depreciation of property, plant and equipment	8	**13,038**	13,834	**26**	32
Loss on disposal of property, plant and equipment		**265**	-	**-**	-
Reversal of impairment on investment	10	**-**	-	**(1,890)**	-
Amortisation and release of government grants	21	**(3,409)**	(3,409)	**-**	-
Amortisation of intangible assets	9	**7,184**	5,550	**-**	-
Fair value adjustment of investment	11	**(1,785)**	11	**-**	-
Movement in inventories		**(113)**	-	**-**	-
Movement in trade and other receivables		**(216)**	(4,009)	**71**	(168)
Movement in trade and other payables		**(424)**	3,926	**(281)**	185
Income tax (paid)/received		**(1,483)**	(4,366)	**-**	160
Non-operating element of insurance proceeds	3	**(1,256)**	(1,000)	**-**	-
Net cash generated from/(used in) operating activities		**41,331**	29,264	**(36)**	395
Cash flows from investing activities					
Interest received		**896**	269	**13**	3
Returns from financial asset		**-**	13,667	**-**	-
Purchase of property, plant and equipment		**(261)**	(687)	**(21)**	(20)
Purchase of financial assets	14	**(196,646)**	-	**-**	-
Return of capital on other investments		**-**	1,807	**-**	-
Repayment/(acquisition) of investments		**-**	(212)	**920**	-
Non-operating element of insurance proceeds	3	**1,256**	1,000	**-**	-
Net cash (used in)/from investing activities		**(194,755)**	15,844	**912**	(17)
Cash flows from financing activities					
Interest paid		**(9,045)**	(8,910)	**-**	(3,000)
Repayment of borrowings		**(20,949)**	(16,697)	**-**	-
Financing raised		**202,462**	-	**-**	-
Financing costs		**(4,121)**	-	**-**	-
Proceeds from refinancing		**-**	-	**-**	3,000
Net cash from/(used in) financing activities		**168,347**	(25,607)	**-**	-
Movement in cash and cash equivalents		**14,923**	19,501	**876**	378
Cash and cash equivalents at the 1 April	15	**95,049**	75,548	**2,900**	2,522
Cash and cash equivalents at 31 March	15	**109,972**	95,049	**3,776**	2,900

The notes on pages 82-119 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

1. Accounting policies and critical accounting estimates/judgements

General information

The group's principal activities during the year were the financing and operation, through its subsidiaries, of the Moyle Interconnector which links the electricity transmission systems of Northern Ireland and Scotland, the Scotland Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland, and the Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne. The group has also been involved in the development of West Transmission's main pipeline which will transport gas to 7 towns in the West of Northern Ireland, as well as the operation of the pipeline which is currently transporting gas to Strabane. The company is a private company limited by guarantee which is incorporated, registered and domiciled in Northern Ireland.

These group 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's assets and liabilities are denominated in Sterling with the exception of the group's investments and certain payables and receivables in relation to Euro sales contracts. These financial statements were authorised for issue by the Board of Directors on 24 June 2019 and were signed on their behalf by Patrick Larkin and Patrick Anderson. 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 financial statements have been prepared under the historical cost convention, as modified by the revaluation of assets and liabilities mandatorily at fair value through profit and loss and derivative hedging instruments. 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 financial statements are disclosed on pages 92-94.

Statement of compliance with IFRSs

The company has availed of the exemption permitted by Section 408 of the Companies Act 2006, and so the parent company's statement of comprehensive income has not been included in these financial statements.

New standards, amendments or interpretations

The following standards were effective for the group for the first time from 1 April 2018 and have been adopted in these financial statements:

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from contracts with customers

Their impact on the group's financial statements is discussed below:

IFRS 9 Financial instruments

IFRS 9 Financial instruments replaced the previous guidance in IAS 39 Financial instruments: recognition and measurement. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The group has assessed the impact from the application of IFRS 9 on its financial statements and concluded that the vast majority of financial assets continue to be accounted for at amortised cost. The group has not designated any financial liabilities as fair value through profit and loss (FVTPL). As a result, the classification and measurement changes have not had a material impact to the group's financial statements, and comparatives have not been restated for the impact of IFRS 9.

Given historic loss rates, normal receivable ageing, the portion of trade receivables within agreed terms and incorporation of forward looking information, the move from an incurred loss model for impairment provisioning purposes, to an expected loss model has not had a material impact.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

1. Accounting policies and critical accounting estimates/judgements (continued)

New standards, amendments or interpretations (continued)

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised, replacing the previous guidance in IAS 18 Revenue. The group has undertaken an assessment of revenue earned in respect of each of its service offerings and the directors are satisfied that all such revenue is recorded on a gross basis in accordance with IFRS 15.

Accordingly, the effect of applying IFRS 15 has not resulted in any reclassifications between revenue and cost of sales, and there has been no material impact to the financial statements. Given the limited number of revenue streams generated by the group and the assessment carried out by management, the adoption of IFRS 15 has not had a material impact on revenue recognition and comparatives have not been restated.

New standards, amendments or interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2019 and have not been applied in preparing these financial statements. The standards and interpretations not adopted are outlined below:

- IFRS 16 Leases (Mandatory for the year commencing on or after 1 January 2019)
- IFRS 17 Insurance Contracts (Mandatory for the year commencing on or after 1 January 2021)
- IFRS 23 Uncertainty over Insurance Tax Treatments (Mandatory for the year commencing on or after 1 January 2019)
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (Mandatory for the year commencing on or after 1 January 2019)
- Amendments to IAS 28 Long-term interests in Associates and Joint Ventures (Mandatory for the year commencing on or after 1 January 2019)
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (Mandatory for the year commencing on or after 1 January 2019)
- Annual Improvements to IFRS Standards 2015-2017 Cycle (Mandatory for the year commencing on or after 1 January 2019)
- Amendments to References to the Conceptual Framework in IFRS Standards (effective date to be confirmed).

With the exception of IFRS 16, the directors do not expect that the adoption of the standards and interpretations listed above will have material impact on the group and company financial statements.

IFRS 16 will be effective for the group and company from 1 April 2019. This standard changes lease accounting, predominantly for lessees, and will replace the existing standard IAS 17. An asset for the right to use the leased item and a liability for future lease payments will be recognised for all leases, subject to limited exemptions for short-term leases and low-value lease assets. The costs of leases will be recognised in profit or loss split between depreciation of the lease asset and a finance charge on the lease liability, resulting in an increase in finance costs and depreciation and a reduction in other operating costs. The group plans to apply IFRS 16 and use the modified retrospective approach, whereby comparatives will not be restated on adoption of the new standard but instead a cumulative adjustment will be reflected in retained earnings.

The group is currently assessing the likely impact of the standard on its financial statements. The group's leases in respect of land and buildings will be brought on balance sheet, with exemptions being taken for low-value office equipment leases. The group is assessing the appropriate term of these leases which should be recognised.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

1. Accounting policies and critical accounting estimates/judgements (continued)

Basis of consolidation

The consolidated financial statements consolidate the financial statements of Mutual Energy Limited and its subsidiary undertakings drawn up to 31 March 2019. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The fair value of consideration paid for 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. 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 fair value of consideration over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the fair value of consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss.

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

Presentation of statement of comprehensive income

The group has adopted a six column format to the group statement of comprehensive income to allow users to appreciate the impact of the fair value of derivatives on the results for both the current and prior year.

Going concern

The company has net liabilities, however, the company and group are cash generative and the forecast cash generated is adequate to meet the liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. Accordingly in view of the above the directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

Segment reporting

The group is not within the scope of IFRS 8 as none of its securities are publicly 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 Great Britain, from the sale of capacity on the Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne and from the sale of capacity, from the sale of capacity at West Transmission's offtake at Maydown, and services to the grid 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.

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 in the period in which the services are provided to the System Operators or customers.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

1. Accounting policies and critical accounting estimates/judgements (continued)

Revenue (continued)

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

Electricity business – revenue is made up of two parts: commercial revenue and tariff revenue.

Commercial Revenue

From 1 April 2018 until 30 September 2018 commercial revenue, totalling £9,537,000, comprised the fair value of the consideration received or receivable from the sale of capacity to customers to transmit electricity between Northern Ireland and Scotland on the Moyle Interconnector, and for services to the grid provided to the System Operators, SONI and National Grid.

From 1 October 2018 commercial revenue, totalling £15,767,000, comprises the fair value of the consideration received or receivable for making available the capability of the interconnector to the System Operators, SONI and National Grid via the overarching market arrangements. This capability is provided to the System Operators via either direct contracts for services or industry wide contractual arrangements resulting in the auctioning of capacity on the Joint Allocation Office platform. The revenues are accounted for in line with the delivery of the services provided under the overarching market arrangements.

Tariff Revenue

The interconnector is entitled to collect revenue via a tariff known as the Collection Agency Income Requirement (CAIRt). CAIRt revenue is recognised in line with the income recovered by SONI on Moyle's behalf via Northern Ireland electricity tariffs, as provided for in Moyle's Collection Agency Agreement.

Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise interest expense on borrowings and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Insurance receipts

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

Intangible assets

(a) Goodwill

Goodwill represents the excess of fair value of consideration paid over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Licences

Acquired licences are shown at historical cost. Licences have a finite useful economic life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful economic lives. The estimated remaining useful economic life of the licences is 15 years for the Scotland Northern Ireland Pipeline, 18 years for the Moyle Interconnector and 33 years for the Belfast Gas Transmission pipeline. The useful economic life of the licences is linked to the allowances to cover repayment of debts and is independent of the full terms of the licences or the useful lives of the assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

1. Accounting policies and critical accounting estimates/judgements (continued)

Intangible assets (continued)

(c) Capital contributions

Revenue entitlements in respect of capital contributions made to other gas network operators are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Such entitlements are amortised over the life of the debt which financed these capital contributions, which aligns with the period upon which the revenue entitlement is recovered.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises purchase cost plus any costs directly attributable to bringing the asset into operation and an estimate of any decommissioning costs. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. An asset is derecognised upon disposal or when no future economic benefit is expected to arise from the asset. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

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

Gas Pipelines	43 years
Electricity interconnector assets	15 - 30 years
Control equipment	20 years
Plant and machinery	15 - 31 years
Office and computer equipment	3 years

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

Assets under construction are stated at historical cost less any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying value amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Assets under construction are not depreciated until commissioned.

Investments

Investments in unquoted funds and other unquoted companies are recorded at fair value with the exception of those who do not have a quoted price on an active market and whose fair value cannot be reliably measured, in which case they are recorded at cost. The group assesses at each reporting date whether there is objective evidence that these investments are impaired. Any increases in fair value are recognised in the statement of other comprehensive income.

Impairment of non-financial assets

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

1. Accounting policies and critical accounting estimates/judgements (continued)

Financial instruments
(policy applicable from 1 April 2018)

(i) Recognition and initial measurement
Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Fair value on initial recognition is deemed to be the fair value of consideration given or received for the financial instrument inclusive of any premiums or discounts. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement
Financial assets

(a) Classification
On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

1. Accounting policies and critical accounting estimates/judgements (continued)

Financial instruments
(policy applicable from 1 April 2018) (continued)

(b) Subsequent measurement and gains and losses
Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Equity investments at FVOCI - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities and equity
Financial instruments issued by the group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derivative financial instruments
Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

(iv) Impairment
The group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the group considers reasonable and supportable information that is relevant and available without undue cost or effort.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

1. Accounting policies and critical accounting estimates/judgements (continued)

Financial instruments
(policy applicable from 1 April 2018) (continued)

(iv) Impairment (continued)
This includes both quantitative and qualitative information and analysis, based on the group's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets
At each reporting date, the group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs
The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Financial instruments
(policy applicable prior to 1 April 2018)

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

Loans and receivables (financial 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 which 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.

(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.

Trade and other receivables with a maturity of more than twelve months from the reporting date are shown as non-current trade and other receivables.

(b) Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call or with short maturity periods with banks, other short-term highly liquid investments with original maturities of three months or less.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

1. Accounting policies and critical accounting estimates/judgements (continued)

Financial instruments
(policy applicable prior to 1 April 2018) (continued)

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

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 has not been designated as an accounting hedge then changes in the fair value of the derivative are reported in finance costs in the statement of comprehensive income. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'finance costs' in the period in which they arise. Derivative financial liabilities are classified as non-current liabilities unless the remaining maturity is less than 12 months after the reporting date.

Available-for-sale financial assets (financial instruments)
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.

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

Impairment of financial assets

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

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

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

The group first assesses whether objective evidence of impairment exists. The amount of the loss is measured as the difference between the asset's carrying amount and the

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

1. Accounting policies and critical accounting estimates/judgements (continued)

Impairment of financial assets (continued)
Assets held at amortised cost (continued)
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 an allowance account and in the statement of comprehensive income in operating costs. 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. If a financial asset is considered uncollectible, it is written off against the allowance account.

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

Other financial liabilities at amortised cost (financial instruments)

(a) Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income within finance expenses 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 reporting date.

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

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

Inventories
Inventories represent assets which are intended to be used in order to generate revenue in the short-term to maintain our network. Inventories are stated at the lower of weighted average cost and net realisable value. Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

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 finance costs in the statement of comprehensive income. The estimated future costs of the decommissioning obligations are regularly reviewed and adjusted as appropriate, through property, plant and equipment, 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.

Taxation
The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss when it relates to items recognised in profit or loss and in other comprehensive income or equity when it relates to items recognised in other comprehensive income or equity.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

1. Accounting policies and critical accounting estimates/judgements (continued)

Taxation (continued)
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 reporting 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 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 reporting 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.

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 profit or loss over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to property, plant and equipment are included in current and non-current liabilities as deferred government grants and are credited to profit or loss 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 profit or loss 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 profit or loss 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 reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in profit or loss.

Critical accounting estimates and judgements
Estimates
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 life of assets on an annual basis.

The remaining useful economic life of the Moyle Interconnector was determined as approximately 14 (2018: 15) years at the

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

1. Accounting policies and critical accounting estimates/judgements (continued)

Critical accounting estimates and judgements (continued)
Estimates (continued)
beginning of the year. If the remaining useful economic life had been assessed at 15 (2018: 16) years' depreciation would have decreased by £549,000 (2018: £516,000) and if the remaining useful economic life had been assessed at 13 (2018: 14) years' depreciation would have increased by £633,000 (2018: £590,000).

The remaining useful economic life of the Scotland Northern Ireland pipeline was determined as approximately 21.5 (2018: 22.5) years at the beginning of the year. If the remaining useful economic life had been assessed at 22.5 (2018: 23.5) years, depreciation would have decreased by £140,000 (2018: £134,000) and if the remaining useful economic life had been assessed at 20.5 (2018: 21.5) years, depreciation would have increased by £154,000 (2018: £147,000).

The remaining useful economic life of the Belfast Gas Transmission pipeline was determined as approximately 21 (2018: 22) years at the beginning of the year. If the remaining useful economic life had been assessed at 22 (2018: 23) years depreciation would have decreased by £56,000 (2018: £54,000) and if the remaining useful economic life had been assessed at 20 (2018: 21) years depreciation would have increased by £62,000 (2018: £59,000).

The remaining useful economic life of Moyle Interconnector's licence was determined as approximately 19 years (2018: 20) years at the beginning of the year. If the remaining useful economic life had been assessed at 20 years (2018: 21) years amortisation would have decreased by £83,000 (2018: £79,000) and if the remaining useful economic life had been assessed at 18 years (2018: 19) years amortisation would have increased by £92,000 (2018: £87,000).

The remaining useful economic life of Premier Transmission's licence was determined as approximately 16 (2018: 17) years at the beginning of the year. If the remaining useful economic life had been assessed at 17 (2018: 16) years, amortisation would have decreased by £82,000 (2018: £78,000) and if the remaining useful economic life had been assessed at 15 (2018: 16) years, amortisation would have increased by £93,000 (2018: £88,000).

The remaining useful economic life of Belfast Gas Transmission's licence was determined as approximately 34 years (2018: 35) years at the beginning of the year. If the remaining useful economic life had been assessed at 35 years (2018: 36) years amortisation would have decreased by £71,000 (2018: £69,000) and if the remaining useful economic life had been assessed at 33 years (2018: 34) years amortisation would have increased by £75,000 (2018: £73,000).

(b) Estimate of assumptions used in the calculation of the decommissioning provision
The decommissioning provision has been estimated at current prices and has therefore been increased to decommissioning date by an inflation rate of 3.91% (2018: 3.83%) based on expected time of expenditure of 13 years (2018: 14 years). The decommissioning provision has been discounted using a rate of 1.22% (2018: 1.59%). The effect of changing the discount rate and inflation rate on the decommissioning provision is disclosed in the table below.

	Increase/(decrease) in provision	
	2019 £'000	2018 £'000
Increase in inflation factor by 1%	**413**	432
Decrease in inflation factor by 1%	**(368)**	(381)
Increase in discount rate by 1%	**(373)**	(386)
Decrease in discount rate by 1%	**429**	447

Judgements
(c) Fair value of other investments
The fair value of other investments is based on the share of the projected cash flows for each individual project which combine to constitute the financial instrument. In calculating the fair value, certain assumptions are required to be made in respect of highly uncertain matters. Changing the assumptions selected by management could significantly affect the group's impairment evaluation and hence results. The group's review includes the key assumptions related to sensitivity in the cash flow projections. The calculation assumes a GBP/EUR rate of 1.130, IRRs of -14% to 118% and discount rate of 7.9%. Further details of the key assumptions and sensitivity in respect of the group's Other Investments are provided in note 11.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

Critical accounting estimates and judgements (continued)

Judgements (continued)

(d) Calculation of West Transmission asset values

West Transmission's assets consist of its Maydown site which is currently in operation and the main pipeline which is under construction and which will be purchased from the contractor, SGN, at a price to be determined by the Utility Regulator. The valuation of these assets is based on preliminary figures provided by the contractor for the period up to the reporting date, with adjustments being made to reflect the expected allowance in line with determinations made to date by the Utility Regulator and estimates for any allowances yet to be determined.

(e) Contractual arrangements under EU market coupling

From 1 October 2018 new market arrangements were introduced governing the use and commercial remuneration for the Moyle Interconnector. Whereas in the previous market arrangements the company sold the rights to interconnector capacity via auctions directly to a variety of customers who attained the rights to nominate to move power or not as they determined, the new market arrangements are very different. The movement of power across the interconnector is effectively predefined by the market rules and will move from the lower priced market to the higher priced market in accordance with a schedule provided by the System Operator in Northern Ireland (SONI), unless this is inconsistent with a system support contract in which case the power will move for a short period in line with separate contractual arrangements with National Grid or SONI.

We no longer sell directly to participants, rather our base entitlement is to the value of the power flown across the interconnector, which is the difference in market price between the two markets multiplied by the amount of power moved after adjusting for losses. We are obliged to make available to Eirgrid and SONI, operating as a body known as SEMOpx, the full capacity, subject to restrictions imposed by the System Operators, of the Interconnector for this purpose. SEMOpx then enter the capacity into the European wide market coupling process run by an arrangement known as the Joint Allocation Office, to produce a coupled market and interconnector schedule. In addition the market arrangements oblige us to offer what are known as Financial Transmission Rights (FTRs) to an auction process also run by the Joint Allocation Office.

In return for a fixed fee per MWh the FTRs oblige us to pay the value of the difference in market price between the two markets multiplied by the amount of capacity sold after adjusting for losses. We no longer have a direct contract with end customers, rather a contract with SEMOpx and the Joint Allocation Office.

The scheduling of the physical movement of power across the interconnector in the majority of conditions is now controlled by the System Operators (albeit in accordance with pre-defined rules) and cannot be determined either by ourselves or the purchasers of Financial Transmission Rights. The schedule is amended in line with defined responses in certain conditions based upon independent contracts with National Grid and SONI. Eirgrid, SONI and National Grid therefore control the activities of the interconnector for the majority of time, however the company is still exposed to the risks of financial loss from outages and to variations in revenue driven by the power price differential between GB and Ireland. Consequently, we have concluded that the trading arrangements are such that revenue, which will vary dependent on market circumstances, is recorded in line with the services provided to the system operators in each financial year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

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 interconnector services including the rights to transmit electricity between Scotland and Northern Ireland along with ancillary services to support the electricity networks in Northern Ireland and Great Britain, Premier Transmission Limited sells capacity on the Scotland Northern Ireland Pipeline for the transmission of gas between Scotland and Northern Ireland, Belfast Gas Transmission Limited sells capacity for the transmission of gas to Greater Belfast and Larne, and West Transmission Limited sells capacity for the transmission of gas to the West of Northern Ireland. All of the group's operating businesses are located in the United Kingdom and the services provided are in the United Kingdom.

The segment information provided to the strategic steering committee for the reportable segments is as follows:

Group Year ended 31 March 2019	Moyle Interconnector Group £'000	Premier Transmission Group £'000	Belfast Gas Transmission Group £'000	West Transmission Group £'000	Other £'000	Total £'000
Segment revenue from external customers	31,098	23,356	7,490	3,361	1	65,306
Segment expenses	(5,308)	(14,078)	(2,521)	(382)	285	(22,004)
Other operating income	1,256	-	-	-	-	1,256
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	(1,634)	-	(7,184)
Depreciation (net of government grants)	(6,394)	(2,072)	(988)	(136)	(39)	(9,629)
Fair value adjustment on investment	-	-	-	-	1,785	1,785
Finance income	762	283	49	1,665	(400)	2,359
Finance costs	(6,160)	(4,962)	(6,646)	(1,131)	-	(18,899)
Fair value adjustment on derivative financial instruments	-	(1,544)	-	-	-	(1,544)
Profit/(loss) before tax	13,593	(419)	(5,103)	1,743	1,632	11,446
Tax (charge)/credit	(2,615)	1,288	1,365	(299)	29	(232)
Profit/(loss) for the year	10,978	869	(3,738)	1,444	1,661	11,214
Assets						
Segment assets	201,386	136,273	118,659	355,315	9,849	821,482
Capital expenditure	-	-	239	40,106	21	40,366
Segment liabilities	129,514	143,436	156,869	353,996	1,328	785,143

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

2. Segment information (continued)

Group Year ended 31 March 2018	Moyle Interconnector Group £'000	Premier Transmission Group £'000	Belfast Gas Transmission Group £'000	West Transmission Group £'000	Other £'000	Total £'000
Segment revenue from external customers	30,364	24,668	7,938	200	-	63,170
Segment expenses	(9,521)	(17,078)	(2,979)	(144)	265	(29,457)
Other operating income	1,000	-	-	-	-	1,000
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	-	-	(5,550)
Depreciation (net of government grants)	(6,413)	(2,840)	(984)	(119)	(69)	(10,425)
Fair value adjustment on investment	-	-	-	-	(11)	(11)
Finance income	815	168	16	3	(533)	469
Finance costs	(9,116)	(4,733)	(8,329)	-	2,317	(19,861)
Fair value adjustment on derivative financial instruments	-	2,240	-	-	-	2,240
Profit/(loss) before income tax	5,468	1,023	(6,825)	(60)	1,969	1,575
Income tax (charge)/credit	(1,085)	115	752	-	(124)	(342)
Profit/(loss) for the year	4,383	1,138	(6,073)	(60)	1,845	1,233
Assets						
Segment assets	199,197	141,077	122,635	33,830	6,848	503,587
Capital expenditure	22	45	-	20,397	20	20,484
Segment liabilities	137,844	149,104	156,184	32,941	2,389	478,462

Disaggregation of revenue

Group	**2019 £'000**	2018 £'000
Electricity business revenue:		
Commercial revenue		
Auction	**11,631**	11,386
System services	**9,089**	6,136
Capacity market	**4,584**	568
Total commercial revenue	**25,304**	18,090
Tariff revenue	**5,718**	12,272
Other	**76**	2
Total electricity business revenue	**31,098**	30,364
Gas business revenue	**34,207**	32,806
Other	**1**	-
	65,306	63,170

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

2. Segment information (continued)

All revenues are generated from the group's country of domicile, the United Kingdom.

Revenues from the group's gas transmission businesses of £34,207,000 (2018: £32,806,000) 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.

As noted on page 94, the system operators control the scheduling of the physical flow of power on the Moyle Interconnector. The market arrangements are enduring and have no end date. The resulting revenue from power transfers is a mixture of variable income depending upon the difference in market spreads and a fixed income from financial transmission right (FTR) sales. Tariff income is recovered by SONI on Moyle's behalf via Northern Ireland electricity tariffs.

The group's electricity business system services and capacity market revenue split by customer (for those exceeding 10% of total revenues) is as follows:

	2019 £'000	2018 £'000
Customer A	**9,831**	3,108
Customer B	**3,842**	3,596

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

3. Expenses by nature - operating costs and other operating income

Group	**2019 £'000**	2018 £'000
Staff costs (note 4)	**2,674**	2,480
Depreciation and amortisation	**20,222**	19,384
Loss on disposal of property, plant and equipment	**265**	-
Fair value adjustment on investment	**(1,785)**	11
Amortisation of deferred government grants	**(3,409)**	(3,409)
Operating lease payments	**323**	305
Auditors' remuneration:		
Audit of these financial statements	**2**	2
Audit of financial statements of subsidiary	**50**	40
Other services	**13**	14
Other expenses	**18,677**	26,616
Total operating costs	**37,032**	45,443

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

Group	**2019 £'000**	2018 £'000
Other operating income	**(1,256)**	(1,000)

Other operating income consists of insurance proceeds received in respect of the February 2017 cable fault.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

4. Staff numbers and cost

Group	2019 £'000	2018 £'000
Wages and salaries	**2,228**	2,110
Social security costs	**269**	251
Pension costs	**177**	119
	2,674	2,480

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 28 (2018: 26). All staff perform asset management activities.

	2019 Number	2018 Number
Members of defined contribution pension scheme	**29**	25

	2019 £'000	2018 £'000
Directors' emoluments		
Aggregate emoluments	**704**	663
Contributions paid to defined contribution pension scheme	**37**	43
	741	706

Directors' emoluments represent the remuneration of the group's executive and non-executive directors. 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 £270,000 (2018: £252,000) and the contributions paid to his defined contribution pension scheme were £19,000 (2018: £23,000).

Directors' emoluments do not include the effects of salary sacrifice arrangements and any employers NIC savings credited to the directors' pension as a result of salary sacrifices made.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

5. Finance income and expense

Group	**2019 £'000**	2018 £'000
Interest expense:		
Borrowings (including borrowing fees)	**18,749**	19,812
Movement of discount on decommissioning provision	**49**	49
Fair value adjustment in respect of derivative financial instruments (note 25)	**1,544**	-
Other finance expenses	**101**	-
Finance expense	**20,443**	19,861
Interest income:		
Short-term bank deposits	**(2,359)**	(269)
Fair value adjustment in respect of derivative financial instruments (note 25)	**-**	(2,240)
Other finance income	**-**	(200)
Finance income	**(2,359)**	(2,709)
Finance expense – net	**18,084**	17,152

The profit and loss account has been presented in a 6 column format in order to allow users to appreciate the impact of derivatives on the results for the year. The group has swaps that are designed to hedge the inflation risk in revenue, however these were not designated as hedges upon inception as they did not qualify under IAS 39.

There has been no change in the treatment under IFRS 9. The directors believe that by separating gains and losses arising from the revaluation of these swaps, the user of this financial information will better understand the underlying performance of the group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

6. Taxation

Group Recognised in profit and loss	2019 £'000	2018 £'000
Current income tax:		
Current tax on profit for the year	**2,740**	901
Adjustments in respect of previous periods	**(1,110)**	36
Total current income tax	**1,630**	937
Deferred income tax:		
Origination and reversal of temporary differences	**(1,395)**	(599)
Adjustments in respect of previous periods	**(3)**	4
Total deferred income tax (note 20)	**(1,398)**	(595)
Taxation	**232**	342

The income tax charge in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

Group Reconciliation of effective tax rate	2019 £'000	2018 £'000
Profit before income tax	**11,446**	1,575
Tax calculated at the UK standard rate of corporation tax of 19% (2018: 19%)	**2,175**	299
Effects of:		
Non deductible expenses	**(3)**	380
Income not taxable	**(536)**	(694)
Other timing differences	**167**	(176)
Deferred tax asset not recognised on loss carried forward	**-**	493
Initial recognition of losses brought forward	**(458)**	-
Adjustments in respect of prior years	**(1,113)**	40
Taxation	**232**	342

Future tax changes

Reduction in the UK corporation tax rate from 19% to 18% (effective 1 April 2020) was enacted on 26 October 2015. Finance Bill 2016 further reduced the 18% rate to 17% from 1 April 2020, following substantial enactment on 6 September 2016. This will reduce the company's future tax charges accordingly.

7. Profit attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The profit dealt with in the financial statements of the parent company is £1,537,000 (2018: £1,803,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

8. Property, plant and equipment

Group	Gas pipelines £'000	Electricity inter-connector £'000	Control equipment £'000	Plant and machinery £'000	Office and computer equipment £'000	Assets under construction £'000	Total £'000
Cost							
At 1 April 2017	149,642	176,558	3,938	1,181	3,436	8,817	343,572
Additions	6	22	-	248	65	20,143	20,484
Movement in decommissioning provision	-	(352)	-	-	-	-	(352)
At 31 March 2018	149,648	176,228	3,938	1,429	3,501	28,960	363,704
Additions	-	-	-	463	21	39,882	40,366
Disposals	(240)	-	(153)	-	(2,967)	-	(3,360)
Movement in decommissioning provision	-	55	-	-	-	-	55
At 31 March 2019	**149,408**	**176,283**	**3,785**	**1,892**	**555**	**68,842**	**400,765**
Accumulated depreciation							
At 1 April 2017	48,876	52,720	2,839	61	2,557	-	107,053
Depreciation charge for the year	4,449	8,249	189	95	852	-	13,834
At 31 March 2018	53,325	60,969	3,028	156	3,409	-	120,887
Depreciation charge for the year	4,449	8,230	189	116	54	-	13,038
Disposals	(128)	-	-	-	(2,967)	-	(3,095)
At 31 March 2019	**57,646**	**69,199**	**3,217**	**272**	**496**	**-**	**130,830**
Net book value							
At 31 March 2019	**91,762**	**107,084**	**568**	**1,620**	**59**	**68,842**	**269,935**
At 31 March 2018	96,323	115,259	910	1,273	92	28,960	242,817
At 31 March 2017	100,766	123,838	1,099	1,120	879	8,817	236,519

Assets under construction are stated at historical cost less any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying value amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Assets under construction are not depreciated until commissioned.

Assets under construction relate to costs incurred in relation to the gas transmission pipeline project to transport gas to the West of Northern Ireland. The group has capital commitments in respect of the construction of the Gas to the West project. The value of these commitments is dependent upon the final determination by the Utility Regulator which is expected in 2019/2020, and the outturn of actual construction costs paid by SGN. Payment in respect of these commitments is not due until 21 months after gas is available on the main West Transmission Pipeline, so will not be required until 2020/2021 at the earliest.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

8. Property, plant and equipment (continued)

Depreciation expense of £13,038,000 (2018: £13,834,000) has been fully charged to operating costs.

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

As noted on page 94, the activities of the interconnector asset set out above are subject to control by the system operators under the overarching market arrangements.

Company	Office and computer equipment £'000
Cost	
At 1 April 2017	227
Additions	20
At 31 March 2018	247
Additions	21
At 31 March 2019	**268**
Accumulated depreciation	
At 1 April 2017	178
Depreciation charge for the year	32
At 31 March 2018	210
Depreciation charge for the year	26
At 31 March 2019	**236**
Net book value	
At 31 March 2019	**32**
At 31 March 2018	37
At 1 April 2017	49

Depreciation expense of £26,000 (2018: £32,000) has been fully charged to operating costs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

9. Intangible assets

Group	Goodwill £'000	Licences £'000	Capital contributions £'000	Total £'000
Cost				
At 1 April 2017 and at 31 March 2018	2,435	206,535	-	208,970
Additions	-	-	82,272	82,272
At 31 March 2019	**2,435**	**206,535**	**82,272**	**291,242**
Accumulated amortisation				
At 1 April 2017	-	62,460	-	62,460
Provided during the year	-	5,550	-	5,550
At 31 March 2018	-	68,010	-	68,010
Provided during the year	-	5,550	1,634	7,184
At 31 March 2019	**-**	**73,560**	**1,634**	**75,194**
Net book value				
At 31 March 2019	**2,435**	**132,975**	**80,638**	**216,048**
At 31 March 2018	2,435	138,525	-	140,960
At 1 April 2017	2,435	144,075	-	146,510

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 29 years (Scotland to Northern Ireland pipeline), 44 years (Belfast Gas Transmission pipeline) and 35 years (electricity transmission). The group has concluded that these assets have a remaining useful economic life of 15 years, 33 years and 18 years respectively.

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

Capital contributions represents West Transmission Limited's entitlement to recover revenue in respect of capital contributions made to Phoenix Natural Gas Limited and SGN Natural Gas Limited to develop their gas networks in Northern Ireland. A corresponding amount has been recognised within creditors as the group have not yet made these contributions but the right to receive revenue has commenced. Revenue is recovered over the period to September 2054 and as such the group has concluded that these assets have a remaining useful economic life as at 31 March 2019, of 35.5 years.

Amortisation expense of £7,184,000 (2018: £5,550,000) has been fully charged to operating costs.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

9. Intangible assets (continued)

Impairment testing for goodwill
Goodwill arising on acquisitions is reviewed for impairment annually. For the purpose of impairment testing it relates to one cash generating unit – the Scotland to Northern Ireland pipeline (acquisition of Premier Transmission Limited). The recoverable amount of the goodwill is based on discounted cash flow forecasts. The cash flow projections are over a period of 11 years, which matches the remaining duration of the group's bond and therefore reflects the period over which the group earns revenue under its licence agreement.

The key assumptions and judgements, which have been determined on the basis of management experience, relate to all costs being pass-through costs and that under the terms of the licence the group can collect sufficient cash to service interest and loan repayments. The discount rate of 1.95% (2018: 2.17%) used is based on Bank of England UK yield curve data for a debt with a remaining maturity of 11 years. The inflation rate assumption used by the group in these calculations of 3.80% (2018: 3.81%) has been obtained from Bank of England UK yield curves over a 11 year period.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

10. Investments in subsidiaries

Company	Subsidiary undertakings £'000
Cost and carrying amount	
At 1 April 2017 and at 31 March 2018	5,431
Reversal of impairment	1,890
At 31 March 2019	**7,321**

The company's investments in its subsidiary undertakings are recorded at cost less impairment, which is the fair value of the consideration paid and reflect 10,250,000 £1 preference shares.

The company's subsidiary undertakings, all of which are incorporated in Northern Ireland and whose registered addresses are First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH, are:

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

* held by a subsidiary undertaking

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

11. Other investments

Group	£'000
Cost and carrying amount	
At 1 April 2017	5,182
Repayment of capital	(1,807)
Additions	212
Fair value adjustment	(11)
At 31 March 2018	3,576
Fair value adjustment	1,785
At 31 March 2019	**5,361**

Other investments represent the fair value of investments made by Moyle Energy Investments Limited to the Platina renewable energy fund, PEN III. Mutual Energy Limited is an initial limited partner in this limited partnership. The present value of estimated future cash flows was calculated and discounted at a rate of 7.9% (2018: 8.0%), based on information provided by the administrator and the real returns of similar portfolios of assets. The present value was determined to be £5,147,000 (2018: £3,362,000), resulting in the reversal of previous impairments of £1,785,000 (2018: impairment of £11,000) which was recognised in operating expenses in the statement of comprehensive income.

Other investments also include a 5% share in Joint Allocation Office (JAO) S.A. at a cost of £212,000 and an interest in PRISMA European Capacity Platform GmbH of less than 1% which is carried at a cost of £1,988. The investments are recorded at cost, which is considered to be an approximation of the fair value of the investments. A 10% interest in Islandmagee Storage was sold in the prior year at cost (£10).

12. Trade and other receivables

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Trade receivables	**5,446**	4,683	**-**	-
Prepayments	**2,335**	2,287	**50**	43
Accrued income	**5,155**	5,456	**-**	-
Other receivables	**3,299**	2,127	**31**	34
Trade receivables due from subsidiary undertakings	**-**	-	**1,488**	2,380
	16,235	14,553	**1,569**	2,457

All of the group's and company's trade and other receivables are denominated in Sterling with the exception of certain balances receivable in Euro as a result of Euro sales contracts including: i) trade receivables of €329,000 due (£286,000 Sterling equivalent); and ii) accrued income of €985,000 due (£849,000 Sterling equivalent).

None of the group's or company's trade and other receivables are impaired or past due and no impairment losses on trade and other receivables were recognised in profit and loss in the year (2018: £nil). No provisions were deemed to be required at the reporting date as the group and company has no history of default in respect of its trade and other receivables and no current expectation of such based on forward looking information. 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.

The fair value of the group and company's trade and other receivables is not materially different from their carrying values.

Trade receivables due from subsidiary undertakings are unsecured, interest free and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

13. Inventories

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Spares	**113**	-	**-**	-

14. Financial assets

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Non-current				
Cash deposits	**150,420**	-	**-**	-
	150,420	-	**-**	-
Current		-	**-**	-
Cash deposits	**36,338**	-	**-**	-
Investments	**9,888**	-	**-**	-
	46,226	-	**-**	-
Total financial assets	**196,646**	-	**-**	-

15. Cash and cash equivalents

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Cash and cash equivalents	**109,972**	95,049	**3,776**	2,900

Cash and cash equivalents earn interest at a range from Bank of England base rate less 0.20% to Bank of England base rate plus 0.55%.

16. 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.

17. Retained earnings

Group	£'000
At 1 April 2017	23,892
Total comprehensive income for the year	1,233
At 31 March 2018	25,125
Total comprehensive income for the year	11,214
At 31 March 2019	**36,339**

Company	£'000
At 1 April 2017	(9,118)
Total comprehensive income for the year	1,803
At 31 March 2018	(7,315)
Total comprehensive income for the year	1,537
At 31 March 2019	**(5,778)**

Included in the retained earnings for the group is an amount of £1,874,000 (2018: £1,874,000) which we have agreed with the regulator will be applied to costs of future EU compliance projects.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

18. Interest bearing loans and borrowings

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Non-current				
5.2022% Guaranteed secured bond	**58,169**	62,466	**-**	-
2.9376% Index linked guaranteed secured bond	**75,184**	82,052	**-**	-
2.207% Index linked guaranteed secured bond	**132,218**	130,789	**-**	-
Index linked guaranteed secured notes	**191,403**	-	**-**	-
Amounts owed to group undertakings	**-**	-	**10,250**	10,276
	456,974	275,307	**10,250**	10,276
Current				
5.2022% Guaranteed secured bond	**4,297**	4,064	**-**	-
2.9376% Index linked guaranteed secured bond	**9,535**	9,032	**-**	-
2.207% Index linked guaranteed secured bond	**1,895**	1,716	**-**	-
Index linked guaranteed secured notes	**6,109**	-	**-**	-
	21,836	14,812	**-**	-
Total borrowings	**478,810**	290,119	**10,250**	10,276

Amounts owed to group undertakings relate to loans for which no interest has been paid. Interest accrued is included within Trade payables due to related parties (note 22), as these are repayable upon demand.

Changes in liabilities from financing activities

Group	Group £'000
Balance at 1 April 2017	296,114
Changes from financing cash flows	
Repayment of borrowings	(16,697)
Total changes from financing cash flows	(16,697)
Non cash changes	
Indexation of guaranteed secured bonds and notes	10,702
Total non cash changes	10,702
Balance at 31 March 2018	290,119
Changes from financing cash flows	
Proceeds from loans and borrowings	202,462
Repayment of borrowings	(20,949)
Total changes from financing cash flows	181,513
Non cash changes	
Capitalised borrowing costs	(2,630)
Indexation of guaranteed secured bonds and notes	9,808
Total non cash changes	7,178
Balance at 31 March 2019	**478,810**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

18. Interest bearing loans and borrowings (continued)

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 guaranteed secured notes due September 2054 were issued to finance the future purchase of West Transmission's gas pipelines, in addition to capital contributions to other gas network operators in respect of their network development, and are linked to the Retail Price Index with no additional interest premium applied to the nominal value. The notes are secured by fixed and floating charges over all the assets of the group.

The 2.9376% index linked bond has a fair value of £103,469,000 (2018: £109,201,000), the 5.2022% bond has a fair value of £91,140,000 (2018: £92,162,000), the 2.207% index linked bond has a fair value of £213,625,000 (2018: £183,517,000) and the index linked notes have a fair value of £204,841,000 (2018: £nil).

These fair values have been calculated by discounting the expected future cash flows using a discount rate of -0.37% (2018: 0.09%) for the 2.9376% index linked bond, a discount rate of -1.24% (2018: 0.08%) for the 5.2022% bond, a discount rate of -0.78% (2018: 0.14%) for the 2.207% index linked bond and a discount rate of -0.73% for the index linked notes. The discount rates used reflect the maturity profile of the group's borrowings. The current effective interest rate for the 2.9376% index linked bond is 3.08%, the 5.2022% bond is 4.02%, the 2.207% index linked bond is 2.18% and the index linked notes is -0.58%. The undiscounted maturity profile of the group's and the company's borrowings are shown in note 25.

Amounts owed to group undertakings are unsecured, carry interest at a rate of 3.52% (2018: 3.52%) and are repayable by 31 March 2033.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

19. Provisions

Group	Decommissioning provision £'000
At 1 April 2017	3,311
Cost adjustments through property, plant and equipment	(352)
Unwinding of discount during the year	49
At 31 March 2018	3,008
Cost adjustments through property, plant and equipment	55
Unwinding of discount during the year	49
At 31 March 2019	**3,112**

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the interconnector in 13 years, at the end of its useful economic life. This provision is expected to be utilised within 13 years.

The provision represents the present value of the current estimated costs of dismantling the connections to the main electricity grids in Scotland and Northern Ireland. The provision has been discounted at a rate of 1.22% (2018: 1.59%) that reflects the maturity profile of the group's provisions.

20. Deferred tax assets and liabilities

Deferred 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 taxes relate to the same fiscal authority.

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Deferred tax assets	**7,172**	6,632	**46**	52
Deferred tax liabilities	**(37,467)**	(38,325)	**-**	-
Deferred tax (liabilities)/assets – net	**(30,295)**	(31,693)	**46**	52

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

Movement in deferred tax during the year:

	Group £'000	Company £'000
At 1 April 2017	(32,288)	55
Recognised in profit and loss	595	(3)
At 31 March 2018	(31,693)	52
Recognised in profit and loss	1,398	(6)
At 31 March 2019	**(30,295)**	**46**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

20. Deferred tax assets and liabilities (continued)

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

Group	Losses £'000	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Derivative financial instruments £'000	Total £'000
At 1 April 2017	-	(14,779)	(24,492)	6,983	(32,288)
Recognised in profit and loss	-	3	943	(351)	595
At 31 March 2018	-	(14,776)	(23,549)	6,632	(31,693)
Recognised in profit and loss	248	197	661	292	1,398
At 31 March 2019	**248**	**(14,579)**	**(22,888)**	**6,924**	**(30,295)**

It is not possible to determine the amount of the deferred tax asset arising from the group's derivative financial instruments which will fall due within 12 months as it will depend on the movement of interest rates. The portion of the group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £21,946,000 (2018: £22,606,000).

It is not possible to determine 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 as this is dependent on future profits and management decisions.

21. Government grants

Group	£'000
At 1 April 2017	61,340
Amortised during the year	(3,409)
At 31 March 2018	57,931
Amortised during the year	(3,409)
At 31 March 2019	**54,522**

The grants were provided to the group for the purpose of its expenditure on its property, plant and equipment. All obligations in respect of these grants have now been met.

The current portion of the government grants is £3,409,000 (2018: £3,409,000), and the non-current portion is £51,113,000 (2018: £54,522,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

22. Trade and other payables

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Trade payables	**1,353**	3,082	**40**	30
Accruals	**5,591**	7,475	**779**	896
Deferred income	**492**	1,306	**-**	-
Taxation and social security	**1,937**	1,750	**66**	116
Other payables	**158,474**	33,772	**-**	-
Trade payables due to related parties	**-**	-	**7,387**	6,874
	167,847	47,385	**8,272**	7,916
Less amounts falling due after one year: Other payables	**(121,713)**	(31,848)	**-**	-
	46,134	15,537	**8,272**	7,916

All of the group's and company's trade and other payables are denominated in Sterling with the exception of certain balances payable in Euro in relation to Euro sales contracts as follows: i) other payables includes €1,605,000 owed (£1,380,000 Sterling equivalent); and ii) deferred income includes €560,000 owed (£483,000 Sterling equivalent).

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

Other payables falling due after one year are secured on West Transmission Limited and West Transmission Financing plc's non-current cash deposits.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

23. Commitments

Operating lease commitments

The group has entered into commercial leases on land and buildings and these leases have remaining lease terms of 6 months, 2, 3, 16, 32 and 81 years. There are no restrictions placed upon the lessee by entering into these leases.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Not later than one year	**208**	281	**49**	59
After one year but not more than five years	**1,031**	1,082	**145**	196
After more than five years	**10,776**	10,999	**-**	-
	12,015	12,362	**194**	255

The lease expense charged to operating costs during the year is disclosed in note 3.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

24. Related party transactions

The ultimate controlling party of the group are its members. During the year the company entered into transactions, in the ordinary course of business, with related parties.

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

Company	Amount owed (to)/from related party	
	2019 £'000	2018 £'000
Subsidiary undertakings – current assets	**1,488**	2,380
Subsidiary undertakings – current liabilities	**(7,387)**	(6,874)
Subsidiary undertakings – non-current liabilities	**(10,250)**	(10,276)

In addition to the amounts owed to related parties as disclosed above, the company owns £10.25m of preference shares in one of its subsidiary undertakings (see note 10) and financed the acquisition of these shares through borrowings from another subsidiary undertaking which are included within non-current liabilities shown above.

Company	Nature of transaction	Value of transaction	
		2019 £'000	2018 £'000
Subsidiary undertakings	Interest payable	**(594)**	(590)
Subsidiary undertakings	Interest receivable	**-**	2,317
Subsidiary undertakings	Group relief surrendered/(claimed)	**88**	(111)
Subsidiary undertakings	Charges receivable	**3,749**	3,744

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

Group	**2019 £'000**	2018 £'000
Short term employee benefits	**598**	575
Long term employee benefits	**106**	88
Post-employment benefits	**37**	43

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

25. Financial instruments

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

Assets and liabilities	Category of financial instrument
Trade and other receivables	Financial assets at amortised cost
Other investments	Fair value through profit or loss
Financial assets	Financial assets at amortised cost
Cash and cash equivalents	Financial assets at amortised cost
Interest bearing loans and borrowings	Other financial liabilities
Derivative financial instruments	Fair value through profit or loss
Trade and other payables	Other financial liabilities

Derivative financial instruments

During the period ended 31 March 2006 the group entered into two index-linked based swaps, maturing in 2030, to hedge against index-linked revenues receivable under its agreement with the regulator. These index-linked swaps did not qualify as an accounting hedge at inception under the IFRS standards in existence at that time and are therefore accounted for as non-hedged derivative financial instruments.

The fair value of these index linked swaps are recognised as a financial liability under non-current liabilities on the balance sheet with fair value movements being reported in the statement of comprehensive income under net finance costs.

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

Group	£'000
Liability At 1 April 2017	43,160
Fair value adjustment	(2,240)
Liability at 31 March 2018	40,920
Fair value adjustment	1,544
Liability at 31 March 2019	**42,464**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

25. Financial instruments (continued)

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

At 31 March 2019 Group	**Within 1 year £'000**	**1-2 years £'000**	**2-3 years £'000**	**3-4 years £'000**	**4-5 years £'000**	**More than 5 years £'000**	**Total £'000**
2.9376% Index linked bond	**12,101**	**10,961**	**10,489**	**8,441**	**7,621**	**51,560**	**101,173**
5.2022% Bond and associated derivatives	**9,164**	**9,347**	**9,533**	**9,721**	**9,914**	**63,754**	**111,433**
2.207% Index linked bond	**4,844**	**4,941**	**5,039**	**5,142**	**5,244**	**162,695**	**187,905**
Index linked notes	**5,040**	**5,040**	**5,040**	**5,040**	**5,040**	**153,729**	**178,929**
Trade and other payables	**43,705**	**121,713**	**-**	**-**	**-**	**-**	**165,418**
	74,854	**152,002**	**30,101**	**28,344**	**27,819**	**431,738**	**744,858**

At 31 March 2018 Group	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.9376% Index linked bond	11,806	11,724	10,619	10,162	8,177	57,336	109,824
5.2022% Bond and associated derivatives	8,706	8,878	9,055	9,235	9,417	71,367	116,658
2.207% Index linked bond	4,456	4,544	4,635	4,727	4,824	157,538	180,724
Trade and other payables	12,481	-	31,848	-	-	-	44,329
	37,449	25,146	56,157	24,124	22,418	286,241	451,535

The group's contractual undiscounted cash flows of its bonds are based on the agreed payments under the index-linked swaps, inflated to the RPI applicable to the bonds at the reporting date.

At 31 March 2019 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**
Borrowings: Amounts owed to group undertakings	**-**	**-**	**-**	**-**	**-**	**10,250**	**10,250**
Trade and other payables	**8,206**	**-**	**-**	**-**	**-**	**-**	**8,206**
	8,206	**-**	**-**	**-**	**-**	**10,250**	**18,456**

At 31 March 2018 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
Borrowings: Amounts owed to group undertakings	-	-	-	-	-	10,276	10,276
Trade and other payables	7,800	-	-	-	-	-	7,800
	7,800	-	-	-	-	10,276	18,076

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

25. Financial instruments (continued)

Financial risk management

Financial risk factors

The group has 4 principal sub-groups: Moyle Interconnector (Financing) plc, Premier Transmission Financing plc, Belfast Gas Transmission Financing plc, and West Transmission Financing plc.

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.

Premier Transmission Financing plc and Belfast Gas Transmission Financing plc

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

West Transmission Limited

The company operates the gas transmission offtake at Maydown, and is licenced to transport gas to a designated area in the West of Northern Ireland. The current licence arrangement allows full recovery of its operating expenses and a return set to compensate it for financing costs. By way of an agreement with SGN Commercial Services Ltd, other than the scenario of regulatory malfeasance, the financial risk that the regulatory income allowance is insufficient, and any benefit if the regulatory income allowance is greater than the financing costs, has been passed on to them.

(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 match certain revenues which are linked to the Retail Price Index the group has entered into a swap transaction which converts its only fixed rate borrowing to a borrowing linked to the Retail Price Index. The group's long term borrowings are therefore susceptible to changes in the Retail Price Index. A change in the Retail Price Index by 1% would have increased/decreased finance costs, loss and equity during the year by £ 3,483,000 (2018: £2,324,000).

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

(b) Credit risk

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

(c) Liquidity risk

Under the terms of its licence agreements the group either i) receives sufficient revenue to settle its operating costs and its repayments of borrowings; or ii) has the ability to make a call on customers. Accordingly the group has limited liquidity risk. The group also retains significant cash reserves and a liquidity facility with an 'A' rated bank to manage any short term liquidity risk. The undiscounted contractual maturity profile of the group's borrowings is shown in note 25.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

25. Financial instruments (continued)

Capital risk management

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

Fair value estimation

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

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Where there are a number of inputs that are unobservable it is included in level 3. The group's only financial instruments fair valued (for recognition purposes) under level 2 are the group's derivative financial instruments. The fair value of the group's derivative financial instruments is calculated based on the group's exposure to the counterparties, with adjustments to reflect the credit risk of both the entity and the counterparty.

The group's only financial instrument fair valued under level 3 is the group's other investments. The fair value is based on the share of the projected cash flows for each individual project which combine to constitute the financial instrument. The cash flows are derived from the IRRs estimated by the fund manager. The project cash flows are then combined to form a consolidated cash flow for the instrument which is itself discounted using a rate of return applicable to similar instruments The calculation assumes a GBP/EUR rate of 1.130, IRRs of -14% to 118% and discount rate of 7.9%.

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

26. Ultimate controlling party

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

27. Subsequent events

There are no events after the reporting date requiring adjustment or disclosure in the financial statements.

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