mutualenergy

Mutual Energy

Annual Report

2019/20

Our major assets continued to operate at very high levels of reliability, we completed the construction of the "Gas to the West" project and Moyle Interconnector achieved a record level of commercial income.

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DIRECTORS & ADVISERS

DIRECTORS

Patrick Anderson	Non-executive director
David Gray	Chair
Patrick Larkin	Executive director
Gerard McIlroy	Executive director
Kate Mingay	Senior independent director
Michael McKernan	Non-executive director
Christopher Murray	Non-executive director
Ceri Richards	Non-executive director (appointed 1 March 2020)

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
Chartered Accountants and Statutory Auditors
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

CHAIR'S STATEMENT

Although 2019/20 has already been overshadowed by the impact of the COVID-19 pandemic it was in most respects a very successful year for Mutual Energy. Our major assets continued to operate at very high levels of reliability, we completed the construction of the "Gas to the West" project and Moyle Interconnector achieved a record level of commercial income.

2019/20 ACHIEVEMENTS

Our gas system achieved 100% availability in 2019/20, continuing a well-established track record of very high reliability. Operating costs for the 2018/19 gas year were £3.6 million below the forecasts used in setting tariffs and these were returned to gas shippers in January. However, the major event of the year was the completion of the main construction phase of the "Gas to the West" pipeline. The first industrial and commercial customers were connected to that part of the network in July, and there is the potential in due course to connect some 40,000 homes and businesses.

The Moyle electricity interconnector achieved 99.7% availability (excluding the impact of Scottish Power line outages), continuing the improvement seen in recent years. As the year started with a period when staff at SONI, the system operator, took industrial action, placing a significant extra burden on our team, this achievement is particularly impressive.

As well as providing a route for transfers of power between Northern Ireland and Great Britain, Moyle provides a range of ancillary services to the Irish and GB system operators and participates in the capacity mechanisms in both markets. During the year we were able to improve the functionality of Moyle to allow us to extend the range of services we can offer in the Irish market to include fast frequency response. Ancillary services are now a major source of income for us and provided 33% of Moyle's revenues in 2019/20. As a result, we again did not require any financial call on customers for the operation of Moyle.

Safety is of course of paramount importance in both our gas and electricity operations and is a major focus of our management team.

Our gas system achieved 100% availability in 2019/20, continuing a well-established track record of very high reliability.

Our staff experienced no "lost time incidents" in 2019/20 and continued our drive for improved safety in our own operations and our contractors. In November we held a Health, Safety and Wellbeing seminar for team members and partners across the gas industry. Attendees heard from leading authorities on health and welfare including Chris Murray, one of our non-executive directors, who emphasised the importance that the board places on these matters.

During the year we also took over the statutory role of Northern Ireland's Gas Network Emergency Coordinator role from Phoenix Natural Gas.

CURRENT AND FUTURE CHALLENGES

The onset of the COVID-19 pandemic has faced society with unprecedented challenges and the need to adapt to fundamental changes in the way we live and work. At Mutual our arrangements for all of our staff members to work from home have worked successfully to date and we and our contractors have been able to make arrangements to continue with essential operational and maintenance work on our gas and electricity systems.

We have been very aware of the difficulties faced by families and businesses in the face of the measures taken to combat the virus and we have reviewed our business to see what steps we could take to help. As a mutual business, without shareholders to provide support, Mutual has to retain significant amounts of cash to satisfy financiers' requirements and to cover operational risks and future investment requirements.

CHAIR'S STATEMENT (CONTINUED)

The amount to be retained is a matter of judgement for the board with due regard to minimums set by our contractual requirements and, in the light of the recent successful financial performance of our Moyle business, we concluded that we were in a position to return some of our cash resources to consumers through a contribution to a reduction in customer tariffs. We have been working with our regulator on a mechanism to achieve this and intend to use £3.8 million of our cash resources for this purpose.

Turning to more conventional business issues, we face a number of challenges in the coming years. The UK has now left the European Union and, when the transitional arrangements fall away at the end of this year, there may be significant changes in the commercial arrangement for the Moyle Interconnector. We will also seek to progress negotiations with Gas Networks Ireland GNI(UK) to secure an extension of our gas transportation arrangements with GNI(UK) in Scotland and with National Grid to secure the necessary access for Moyle to electricity transmission capacity in Great Britain. We have also now commenced on a major three-year investment program to upgrade the control system of the Moyle Interconnector.

In the longer term we need to address the challenge of climate change. Northern Ireland is in many ways some distance behind the rest of the UK or Ireland in measures to decarbonise its economy. Last year the British government adopted a "net zero" target for 2050 and Ireland launched a similarly ambitious plan for "net zero" by 2050. This will have profound implications for the energy sector and, in particular for the use of natural gas for domestic heating and industrial purposes. We therefore welcomed the Department for the Economy's (DfE's) call for evidence in relation to a future energy strategy to meet the 2050 target. We responded extensively to this and have been working to develop our own thinking on future decarbonisation of the gas networks.

The onset of the COVID-19 pandemic has faced society with unprecedented challenges and the need to adapt to fundamental changes in the way we live and work. At Mutual our arrangements for all of our staff members to work from home have worked successfully to date and we and our contractors have been able to make arrangements to continue with essential operational and maintenance work on our gas and electricity systems.

STAFF & STAKEHOLDERS

We would not have been able to secure the achievements of 2019/20, nor would we be able to address the future challenges I have outlined, without the enthusiastic commitment of our staff and good relationships with our stakeholders.

I said last year in my first statement as Chair that I had been very impressed by the amount achieved by a relatively small team at Mutual. Having learned more about Mutual and the complex issues and risks that it faces, that is even more true today and I would like to thank all members of staff for their hard work and commitment. COVID-19 will place further demands on us but I am confident that our team will continue to perform well, with the interests of Northern Ireland energy consumers as its central focus.

In March we welcomed Ceri Richards as a new non-executive member of the board. She brings with her extensive experience of investment and finance in the infrastructure sector.

We also depend substantially on good relationships with our main contractors; notably SGN, which provides operation and maintenance services for our gas assets, and Siemens, which supports the maintenance of the Moyle Interconnector and has commenced the major investment project to upgrade the control system for the interconnector.

We have had constructive discussions with the DfE on energy strategy and with the Utility Regulator on our approach to decarbonisation and our proposal to return funds to consumers. In the future it will be even more important for government, regulator and industry to have a common focus on both the consumer and on decarbonisation.

Finally, I would like to thank the members of the Company and my colleagues on the board for their commitment and support. Our members provide valuable oversight, advice and challenge. We are very fortunate to have highly experienced and very capable board and company members and their input will continue to be critical as we develop our longer term strategy to address the major challenges facing our business and our customers.

David Gray
Chair
25 June 2020

OPERATE ASSETS SAFELY AND COST EFFECTIVELY, OUTSOURCING WHERE APPROPRIATE

16.3TWh

100% of Northern Ireland's natural gas supplied through Premier Transmission's assets

1.4TWh

15% of Northern Ireland's electricity demand supplied by Moyle Interconnector

100%

Gas asset availability

99.7%

Availability on the Moyle Interconnector

23

Moyle fast responses to support the NI electricity system

DELIVER SAVINGS TO ALL NORTHERN IRELAND CONSUMERS EVENLY OVER THE LIFE OF THE ASSETS

£30.6m

Highest ever year for commercial income for the Moyle business. No tariff charges required

MANAGE MARKET CHANGES TO MINIMISE RISKS TO THE NORTHERN IRELAND CONSUMER

Moyle Interconnector awarded Fast Frequency Response contract for the Single Electricity Market in Ireland.

Capacity market contracts secured and delivered upon to support security of supply in both SEM and GB out to 2022.

Over 40,000 tonnes of carbon emissions avoided due to the use of Moyle to provide clean energy which would otherwise have been constrained .

ACQUIRE STABLE ENERGY INFRASTRUCTURE ASSETS AT LOW COST TO THE CONSUMER

GAS TO THE WEST

>6,000

Main pipeline commissioned making gas available to over 6,000 additional domestic and commercial properties in Dungannon, Coalisland, Cookstown, Magherafelt, Omagh, Enniskillen and Derrylin, should they wish to connect.

£28.1m

Grant funding received in the year.

Connections

Major manufacturers connected to gas including Dale Farm, Encirc, LacPatrick Dairies, Linergy and Moy Park.

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 14-17.

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.

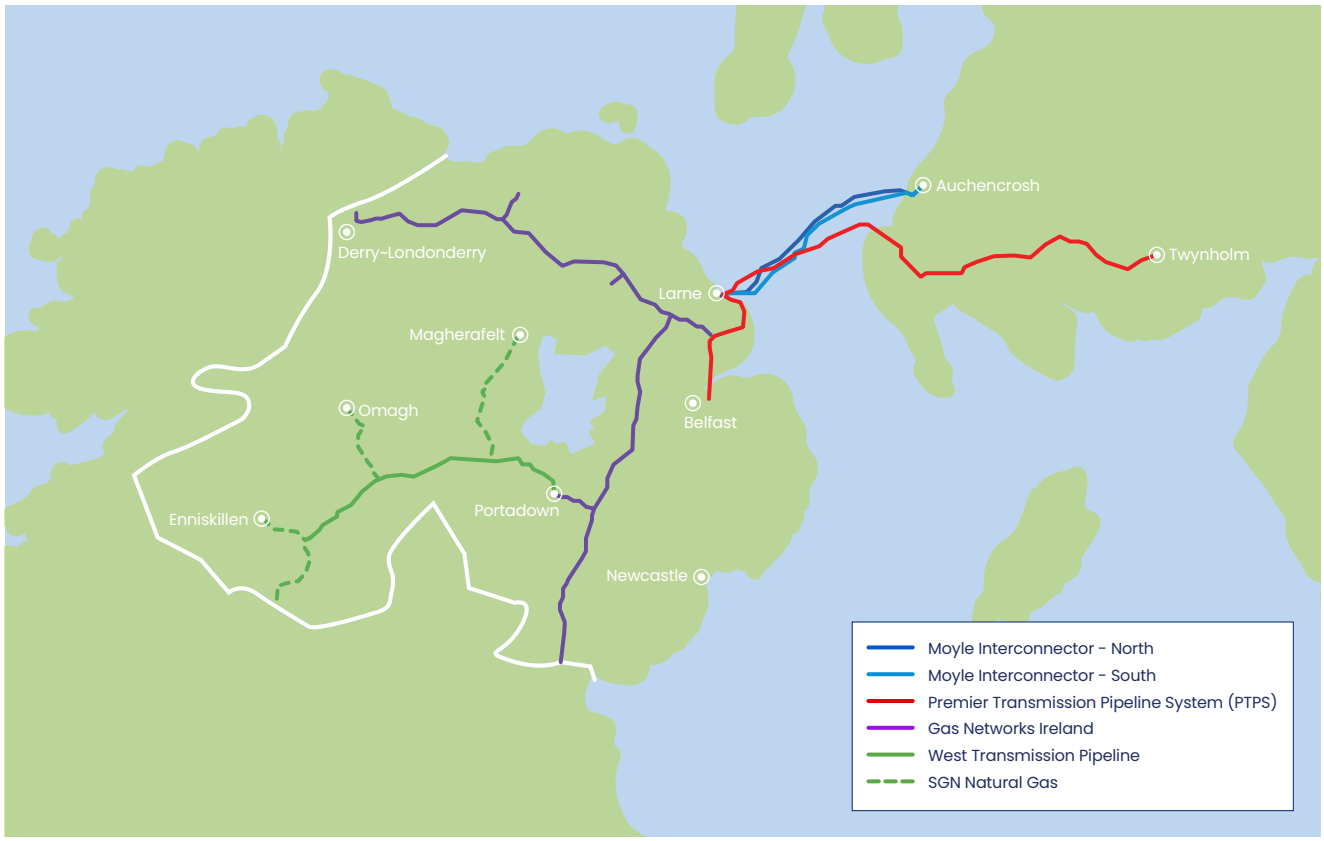
- Operation of assets (see pages 18-21 & 28-31)
- Cost savings (see pages 23 & 33)
- Market environment (see pages 25, 26, 35 & 36)
- Infrastructure acquisition (see page 39)

How We Do It

Mutual Energy operates using a mutual model to manage assets for the benefit of energy consumers in Northern Ireland. Income is received through gas and electricity transmission tariffs and other electricity market revenue.

- Business structure (see pages 12-13)
- Risk managment (see pages 43-45)
- Governance structure (see pages 50-55)
- Directors' remuneration (see pages 56-63)


moyle
Interconnector



BUSINESS STRUCTURE

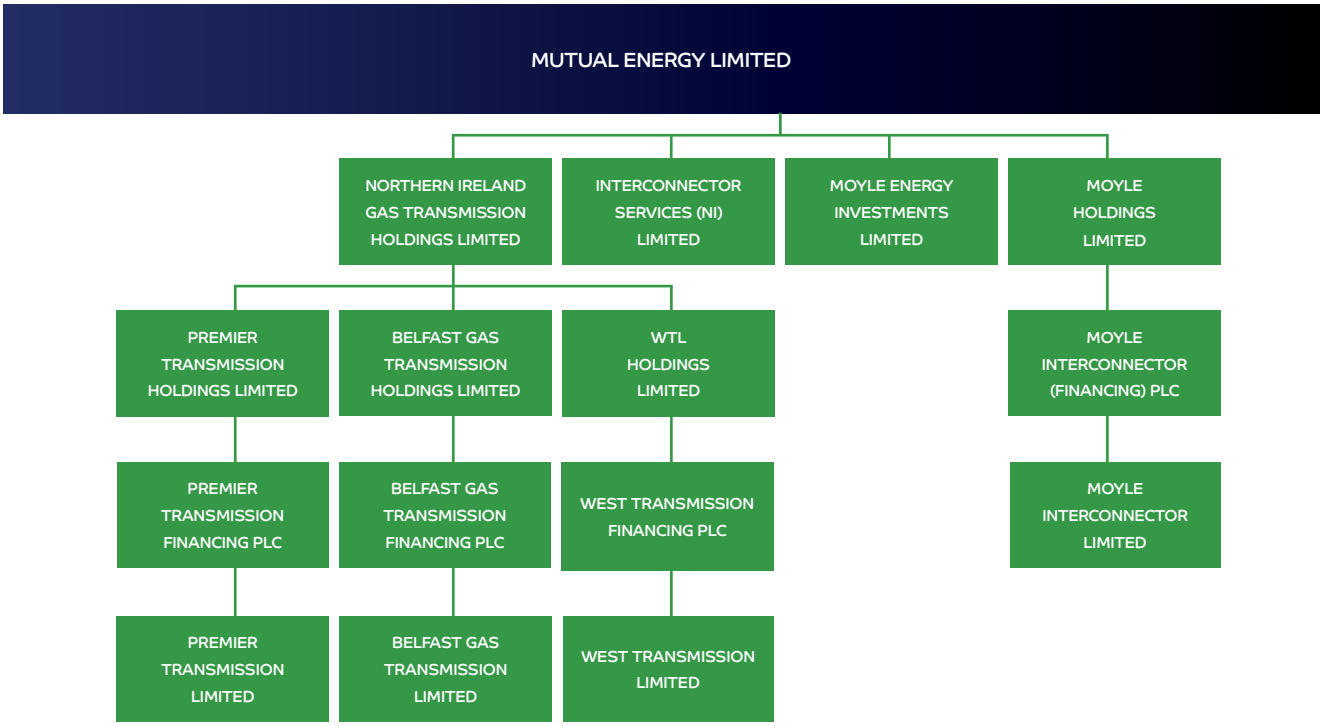
Mutual Energy owns and operates the Moyle Interconnector (Moyle) which links the electricity systems of Northern Ireland and Scotland, the Premier Transmission Pipeline System (PTPS), which consists of the Scotland to Northern Ireland natural gas transmission pipeline (SNIP), the Belfast Gas Transmission Pipeline (BGTP) and the West Transmission Pipelines (WTP) 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 39.

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 2020 (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 44 to 45. More information regarding our customers, stakeholders and staff can be found on pages 40 to 42.

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 18-21 and 28-31.	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 page 33.	Our measures of success include: • operational savings against forecast (KPI 2); • cost of capital of Mutual Energy vs NI comparator (KPI 4); and • cash generated from operations (KPI 5). Cost of capital of Mutual Energy vs NI comparator has replaced the previous KPI which showed Moyle cash reinvested to avoid charging consumers. The new KPI is considered to better reflect the savings made by the group as a whole.

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 pages 25, 26, 35 and 36.	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 page 39.	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).

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 and 30.	**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 and 30.	**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. Cost of capital of Mutual Energy vs NI comparator Savings incurred on the Group's financing costs compared to the costs which would have been incurred if financed by a Northern Ireland energy utility comparator. This is a direct saving to consumers. Cost of capital of Mutual Energy vs NI comparator can be seen on page 33.	**Cost of capital of Mutual Energy vs NI comparator** The Group incurs financing costs in respect of debt entered into for the purpose of the business. The Group's average cost of capital is compared to the costs which would have been incurred if financed at the rates charged by a Northern Ireland energy utility comparator over this period. The KPI is the savings made as a result of the lower cost of capital than the comparator company. The savings are calculated as the cost which would have been incurred by a comparator financing the Group's debt compared to the costs actually incurred.
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 and 33.	**Cash generated from operations** Cash generated in each of the businesses post tax.

Key Performance Indicator	Definition of KPI
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 (ADSCR) 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 20 and 30.	**Annual Debt Service Cover Ratio (ADSCR)** The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the bonds for each operational company. The basis of calculation is Available Cash / Debt Service in the next 12 months. In each case Available Cash = the difference between income and expenses in the period + cash in designated bank accounts, where cash in the designated bank accounts is limited to 1x Debt service.

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

GAS BUSINESS REVIEW

STRATEGIC OBJECTIVE:

OPERATE ASSETS SAFELY AND COST EFFECTIVELY, OUTSOURCING WHERE APPROPRIATE

GAS BUSINESS REVIEW (CONTINUED)

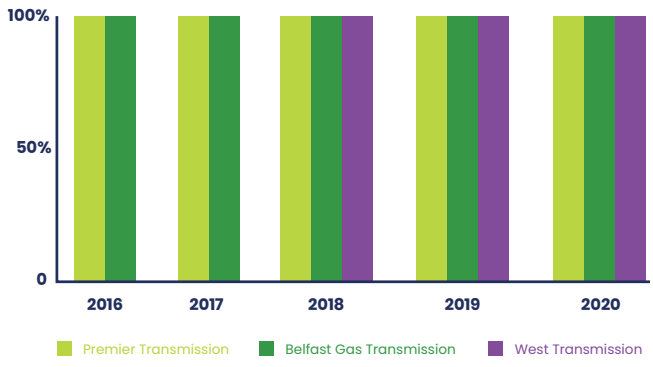
OPERATIONAL PERFORMANCE

The availability of the gas system through the year was 100% (2019: 100%) (KPI 1). Total annual gas consumption in NI continues to increase for the distribution sector, driven by increased connections to the expanding distribution networks, and decrease for power generation, driven by increasing penetration of renewable generation as a source for electricity supply. The underlying maximum daily capacity of the system has remained steady, at circa 6.5 million standard cubic metres (mscm)/day against a contractual maximum capability of 8.08mscm/day, albeit recent winters have been relatively mild.

There were no lost time incidents in the current or prior year (KPI 3).

Routine surveillance, inspection, monitoring and maintenance of the gas assets was executed, as planned, with no material issues arising. The highlight for the period was the successful commissioning and operational takeover of the Gas to the West assets in the summer of 2019 and the seamless integration of the operation of these assets into the existing gas business operations.

In the context of the growing (and ageing) gas asset base, and the increasing need to demonstrate effective and efficient investment methodologies, we continued to formalise the asset management activity within the ISO55001 asset management framework.



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 2020 were £3.6m below the forecasts used for predicting tariffs (September 2018: £2.8m below) (KPI 2).

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 calculation during the year ended 31 March 2019, with the first calculation being required during the year ending 31 March 2020.

GAS BUSINESS REVIEW (CONTINUED)

FINANCIAL PERFORMANCE (CONTINUED)

The ADSCRs for the gas businesses can be seen in the following graph.

KPI 7: Gas business ADSCRs

		2016	2017	2018	2019	2020
-	Premier Transmission ADSCR	2.27	2.17	2.06	1.95	2.15
-	Belfast Gas Transmission ADSCR	2.32	1.45	1.93	2.06	2.17
-	West Transmission ADSCR					3.09
--	Premier Transmission Minimum ADSCR	1.25	1.25	1.25	1.25	1.25
--	Belfast Gas Transmission Minimum ADSCR	1.20	1.20	1.20	1.20	1.20
--	West Transmission Minimum ADSCR					1.20

FUTURE DEVELOPMENT – ENERGY TRANSITION

Northern Ireland's government ended its three year suspension in early 2020 and amongst its ambitions for the future is the development of a new energy strategy in the context of the zero emission target by 2050. The business has been heavily engaged in modelling the options for the energy transition and the consequences for the Northern Ireland consumer, and so was in a good position to contribute to the initial stages of the development of a new strategy.

The core need identified by our analysis is the need to provide dispatchable zero carbon electricity. The most cost-efficient way of achieving this will be to decarbonise the gas network, providing a solution not just for dispatchable electricity but also for high energy industrial processes and domestic heating requirements. A core part of our future work will be to build upon the research, pilot projects and lessons from the first installations in other jurisdictions, in order to allow Northern Ireland to catch up with the progress being made throughout the rest of Europe and beyond.

GAS BUSINESS REVIEW (CONTINUED)

FUTURE DEVELOPMENT – ASSET PERFORMANCE AND UTILISATION

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. In the year, the material projects completed include the roll out of replacement on-site control systems (which capture data from site and relay it to the control room) and replacement and/or decommissioning of pre-heating systems on certain sites.

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

GAS BUSINESS REVIEW (CONTINUED)

STRATEGIC OBJECTIVE:

DELIVER SAVINGS TO ALL CONSUMERS EVENLY OVER THE LIFE OF THE ASSETS

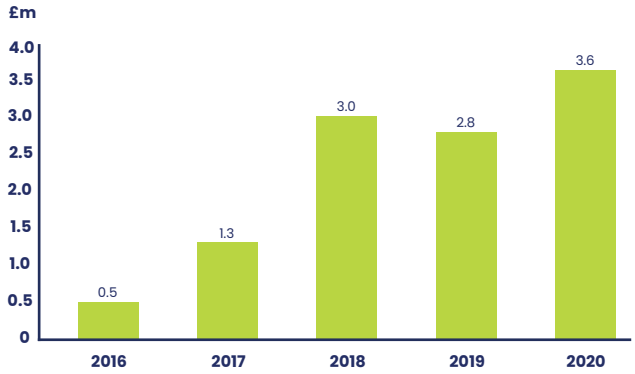
GAS BUSINESS REVIEW (CONTINUED)

The main means by which the Group 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.

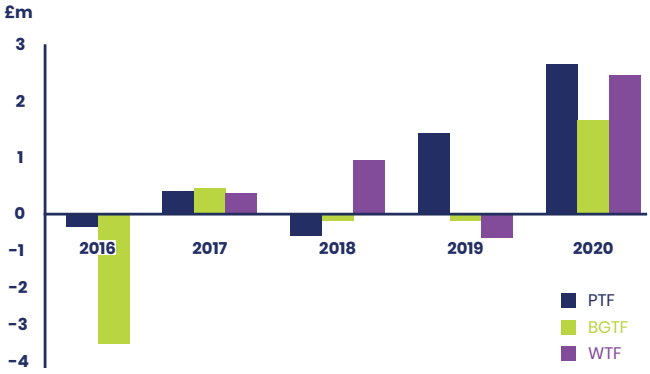
The savings achieved due to our low costs of capital are therefore passed on to shippers, allowing them to charge the end consumer less for their gas.

Overall gas business charges recovered from shippers in the 2018-19 gas year (excluding the new West Transmission assets) were 20% lower (2017-18: 18% 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: Cash generated in the year

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 which resulted in West Transmission being financed in July 2018 at a very low rate, with significant benefit to customers.

The Northern Ireland consumer will face significant costs as government policy changes to seek to decarbonise the economy, and the ability to generate savings and then return them to customers or absorb some of these additional costs will become an important part of our strategy going forward.

GAS BUSINESS REVIEW (CONTINUED)

STRATEGIC OBJECTIVE:

MANAGE MARKET CHANGES TO MINIMISE RISKS TO THE NORTHERN IRELAND CONSUMER

GAS BUSINESS REVIEW (CONTINUED)

ENERGY TRANSITION

All energy markets are expected to undergo significant change in the next decade as government policy is developed to facilitate the energy transition. In Northern Ireland this process is somewhat behind most developed countries, with the DfE commencing consultation on their future energy strategy with an initial call for evidence in March 2020. Our businesses provided a comprehensive response and engaged in the numerous workshops with the DfE as they sought to explore the issues and potential solutions. We expect this will be a lengthy process with an approved energy strategy unlikely until 2022. As part of this process we developed a forum with the other gas transmission and distribution operators in Northern Ireland to co-ordinate our efforts and share research.

EUROPEAN ENERGY REGULATION

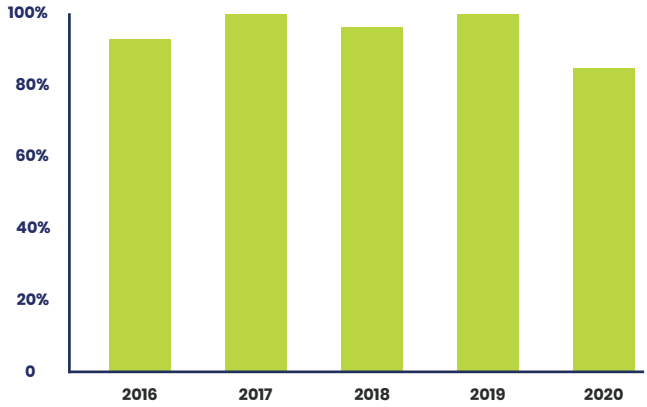
European legislation continues to be a driver for changes in our market arrangements and contracts with shippers. The EU regulation has driven a "Gas Target Model" to be implemented by our gas businesses. The first major deadline for implementation was October 2015, with others following until 2019.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

As harmonised rules on congestion management procedures, capacity allocation, balancing, interoperability and data exchange, and harmonised transmission tariff structures have already been adopted, published and are being implemented, the European Commission's focus for 2020 will be on the full and correct implementation of the existing market rules in all Member States. It is anticipated that in the upcoming years, there will be further changes to facilitate the European Green Deal and address cybersecurity.

IMPACT OF BREXIT

The UK formally left the EU on 31st January 2020, with a transition period in place until 31st December 2020. During this 11-month period, the UK will continue to follow all of the EU's rules and its trading relationship will remain the same. 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 following the end of the transition period; 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. We do not expect any significant change to day to day operations in the short to medium term, however, engagement will continue with stakeholders, particularly with regard to enduring arrangements post transition period 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

GAS BUSINESS REVIEW (CONTINUED)

2018 market changes include 3 connected tasks in relation to a Cost Benefit Analysis (CBA) for information provision due on 1 October 2017. As the Gas Market Operator for Northern Ireland only became operational on this date the CBA was delayed to allow one year of operation of the new arrangements so that a CBA could be carried out under these modified arrangements.

In 2020, all internal market change milestone were completed on time. There were small delays in the final stage milestones as the Utility Regulator has not yet approved of the Interim Measures Second Update Report (ongoing), and their modification of licences to implement the decision on Harmonised Transmission Tariffs was implemented one week after the deadline.

The highlight for the period was the successful commissioning and operational takeover of the Gas to the West assets in the summer of 2019 and the seamless integration of the operation of these assets into the existing gas business operations.

ELECTRICITY BUSINESS REVIEW

STRATEGIC OBJECTIVE:

OPERATE ASSETS SAFELY AND COST EFFECTIVELY, OUTSOURCING WHERE APPROPRIATE

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

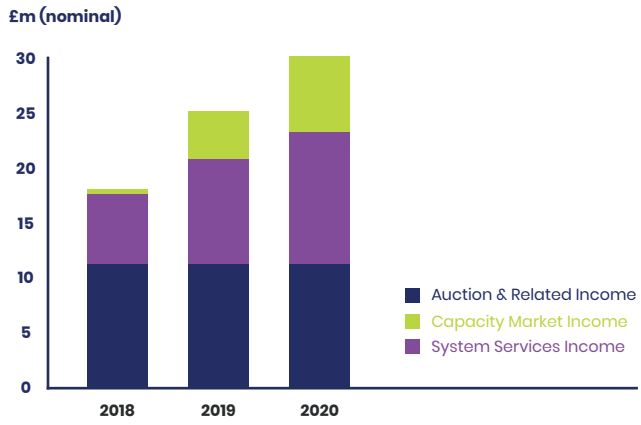
In recent years new market arrangements have been introduced due to system operator initiatives and EU regulations, including the introduction of I-SEM, the new electricity market arrangements in Ireland, in September 2018. These brought fundamental changes to how Moyle earns its market revenue, with more recognition of the services provided to the system in addition to the revenue for transporting energy between connected systems.

Within commercial revenues there are three distinct streams:

- **Revenue from power transfers:** Electricity is scheduled to flow automatically from the lower priced system to the higher priced system, and Moyle is entitled to the revenue related to this price difference. This flows either directly to Moyle, or for the majority of our capacity, Moyle sells the right to this revenue via an auction. The Group has had eighteen months' experience of this market which has been on the whole positive, 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, but as the need to accommodate more non-dispatchable renewable energy has increased, so has the systems needs for more complex services. This has led to greater revenue flows for these enhanced services. Competition from new technologies in system services markets may result in a reduction in this revenue in future.
- **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 prior 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. This market has since been restored and Moyle is once again participating.

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 following charts show the evolution of the commercial revenue streams over the last three years:



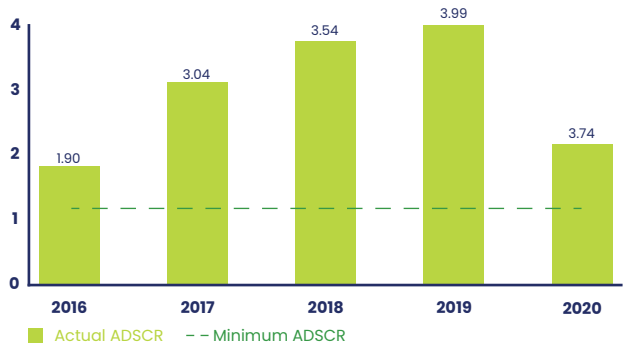
Commercial income trend

ELECTRICITY BUSINESS REVIEW (CONTINUED)

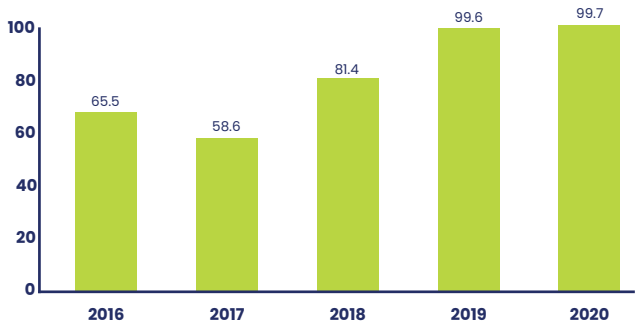
TARIFF MECHANISM REVENUE

The charges through the tariff mechanism are known as the Collection Agency Income Requirement (CAIRt). No CAIRt charge was made for the 2019/20 electricity year, being 12 months to 30 September 2020 (year to 30 September 2019: £Nil). Page 33 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 £14.2m (2019: £19.0m). The ADSCR for the year was 3.74 due to strong revenues under the new market arrangements.



KPI 7: Moyle ADSCR



KPI 1: Moyle Availability (%)

OPERATIONAL PERFORMANCE

Moyle's availability through the year has been high at 99.7% (KPI 1) (2019: 99.6%), but outages upstream on the Scottish Power system, particularly a nine day outage in June, further restricted the use of the asset. The effect of these upstream outages is to reduce the effective availability by 2%. These long forced outages by National Grid Electricity System Operator relate to system refurbishment schemes which will ultimately see Moyle's firm capacity (into GB) increase from 80MW to 307MW and ultimately (by 2022) to 500MW commercial firm.

There were no lost time incidents in the current or prior 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 services have become important tools for both system operators to manage the increasing levels of non-synchronous generation on their respective networks. Highlights for the year regarding these services include a correct and timely response in support of the GB system when it experienced its partial blackout on 9th August and, on the Irish side, technical changes to improve functionality which culminated in Moyle being awarded a contract for a Fast Frequency Response product. These services represent an ever-increasing source of revenue, and their reliability is as equally an important measure as availability. In 2019/20, the first year of measurement, reliability of these services was 95.3%.

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

ELECTRICITY BUSINESS REVIEW (CONTINUED)

FUTURE DEVELOPMENT

High levels of interconnection are widely accepted as a key enabler of the energy transition, allowing networks to facilitate more intermittent renewable energy. 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. Whilst we didn't receive the increase in firm capacity levels into Scotland which we expected in 2019 (from 80MW to 307MW) the works which didn't get executed in 2019 are scheduled to be executed in 2020 and we are hopeful our 80MW capacity will rise to 250MW in Q4 2020.

In the interim, before we receive the commitment given by the system operator for 500MW commercial firm from 2022, 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.

This has already led to removal of the 410MW summer import constraint, with the new constraint being 450MW year-round and removal of the export constraint of 300MW, with the new constraint being raised to 400MW.

During the period we took steps to address our ageing control system. A front end engineering design to refurbish Moyle's control system was completed with the original equipment manufacturer Siemens and we have awarded a contract which will see design, build and factory acceptance testing of the new system through 2020/21 and delivery on site in 2022. There will be some periods of downtime for installation and testing at this time. Minimising and refining these outages has been a factor in the conceptual design.

Due to the ageing electricity asset base, and the increasing need to demonstrate effective and efficient investment methodologies, we continued to formalise the asset management activity for the electricity business within the ISO55001 asset management framework.

ELECTRICITY BUSINESS REVIEW (CONTINUED)

STRATEGIC OBJECTIVE:

DELIVER SAVINGS TO ALL CONSUMERS EVENLY OVER THE LIFE OF THE ASSETS

ELECTRICITY BUSINESS REVIEW (CONTINUED)

COVID-19 has had and will continue to have a significant impact on society and the economy. In particular, some energy customers have been placed in particular hardship, having lost business revenue or lost employment. In light of this, and having fully considered our required cash reserves, Moyle proposed releasing £3.8m of cash reserves to assist energy customers and is currently working with the regulator to determine the process of applying this cash to reduce electricity tariffs.

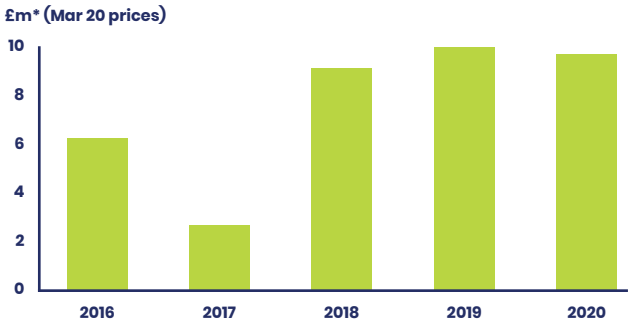
This direct contribution is in addition to the interconnector business continuing to waive use of system charges. In its operation to date Moyle has waived over £250m in use of system revenue it was otherwise entitled to collect. Whilst all initial modelling and expectations had forecast commercial revenue to be immaterial, the changing market conditions and active management of the auction and system services 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 2019/20 tariff year, or are proposed for the 2020/21 year.

In addition to tariff charges waived, the Mutual Energy group passes further savings on to consumers through its low cost of capital. A way of measuring the benefit which will flow to consumers is to calculate the cost of capital savings for the Group compared to a Northern Ireland energy utility comparator (KPI 4). The chart below shows the annual savings, indexed to March 2020 prices, over the last 5 years. Cumulative savings to 31 March 2020 are more than £120m.

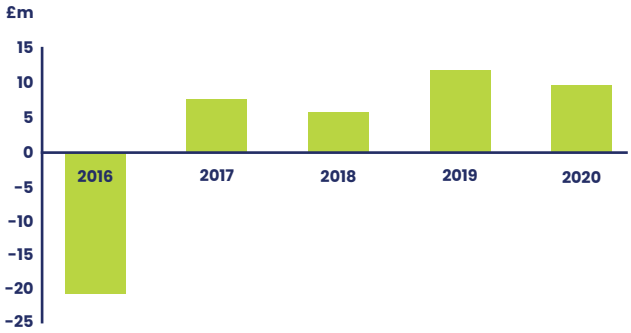
INVESTING TO SMOOTH COSTS

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 graph below (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.



KPI 4: Mutual Energy group annual cost of capital savings vs comparator



KPI 5: Moyle cash generated in the year

ELECTRICITY BUSINESS REVIEW (CONTINUED)

STRATEGIC OBJECTIVE:

MANAGE MARKET CHANGES TO MINIMISE RISKS TO THE NORTHERN IRELAND CONSUMER

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. We have now observed 18 months of operation of the new market which has proved to be very successful for Moyle and for delivering increased benefits of interconnection. Interconnector flows are now directly scheduled based on prices in the day ahead markets of SEM and GB which means the interconnector essentially always flows towards the higher priced market, which was not always the case in the past. This has led to increased wind generation being facilitated on the Northern Ireland system with less intervention than otherwise would be required from the system operator (SONI).

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 Scotland. In the current year we agreed a process with SONI whereby seasonal restrictions on imports to Northern Ireland could be removed and also improvements to the amount of export capacity made available, the latter being implemented just after financial year end. The improvements achieved are positive but do not deliver the capability to flow up to Moyle's full capacity, particularly in Scotland. An increase in export capacity to Scotland was due in December 2019 but unfortunately National Grid informed us that onshore works on which this was contingent would not be delivered leading to a year's delay. We continue to work with SONI and National Grid to progress towards the goal of flowing up to Moyle's full capability in both directions to deliver increased benefits of interconnection to both the SEM and GB markets.

Ireland has set testing targets for levels of renewable energy as part of a drive to achieve lower carbon emissions. For this to happen the system operator requires a suite of tools to manage the unpredictability of the electricity generation.

In recent years Moyle has also provided system support services to SONI as part of their DS3 initiative which seeks to provide these tools (see page 30). The services needed under DS3 continue to develop, with new procurement rounds taking place approximately every six months. This year Moyle was awarded a 'Fast Frequency Response' contract which rewards Moyle's ability to react almost instantaneously to falls in the system frequency when other units trip off. This is a vital support to the working of the Northern Ireland electricity system and a key tool that allows the system operator to increase the amount of renewable energy on the system. This benefit is recognised by higher system support services revenues, with extra value for supporting the system when it is windy, and we continue to work to optimise Moyle's response and ensure we can continue to deliver these valuable services. Whilst these services are provided under a long-term contract, there are strong incentives to perform and an expectation of increased competition in future years, so we must work to maintain the current high revenues from this area.

With increasing renewables penetration and new technologies on the GB system, National Grid are on a similar pathway to SONI, seeking to introduce new system support products and changing their procurement of these ancillary services to increase transparency and competition between providers. These new arrangements began to be phased in this year but do not yet facilitate interconnector participation. For now, Moyle continues to provide ancillary services under a historical bilateral agreement but we have ongoing engagement with National Grid to try and ensure Moyle can participate in this new competitive environment alongside other ancillary services providers. On 9th August 2019 there was a high-profile power outage in GB due to two large generators tripping off, which triggered automatic frequency response from ancillary services providers. Part of the subsequent investigation into this event highlighted that the SEM interconnectors were the only class of provider to deliver a response that was exactly as expected.

ELECTRICITY BUSINESS REVIEW (CONTINUED)

This was gratifying and there can be some optimism that this capability will be recognised and valued in future.

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. The work undertaken this year has included developing our understanding of the system operators' future needs so that the required functionality can be included in the control system specification.

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 (i.e. a generator in Scotland could receive payment from the SEM for contributing to security of supply in Ireland) and this is currently being crystallised by developments under the Clean Energy Package of European regulations. We have always been sceptical about the appropriateness of such an approach for island systems connected by HVDC interconnectors but it is probable that this will be introduced in both SEM and GB (subject to the outturn of Brexit). Draft proposals for this model would share capacity market revenues between the interconnector owner and 'foreign' generator.

We will continue to monitor and provide input to developments of the European model and aim to ensure that the capacity benefits of interconnectors continue to be recognised and incentivised under whatever form(s) of this model are implemented in the SEM and GB.

Whilst recent market changes have generally resulted in positive outcomes for Moyle, recognising the varied technical contributions of an interconnector to the wider electricity system and so contributing to record revenues in the current year, there remains significant uncertainty around the longevity and magnitude of each of Moyle's revenue streams and significant effort is required to track these risks and deliver positive outcomes. 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.

NEW EU UK TRADING ARRANGEMENTS

The UK has now left the EU and entered into a transition phase where their future relationship is to be agreed. From Moyle's perspective there remains a significant amount of uncertainty, similar to the risk previously foreseen with a 'no-deal' Brexit. If the UK no longer participates in the European internal energy market after the transition phase, this may well lead to 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 extremely difficult to fully prepare for in advance. We have engaged with both the government and regulators, who have recognised this difficulty. When the political position becomes clear Moyle will engage with regulators and relevant counterparties to re-establish effective interconnector trading arrangements between the I-SEM and GB markets as required.

This year Moyle was awarded a 'Fast Frequency Response' contract which rewards Moyle's ability to react almost instantaneously to falls in the system frequency when other units trip off.

GROUP BUSINESS REVIEW

STRATEGIC OBJECTIVE:

ACQUIRE STABLE INFRASTRUCTURE ASSETS AT A LOW COST TO THE CONSUMER

GROUP BUSINESS REVIEW (CONTINUED)

GAS TO THE WEST

Mutual Energy's subsidiary, West Transmiswsion Limited, holds a licence for gas transmission to the West of Northern Ireland. Following the successful construction of the transmission pipeline assets the West Transmission Pipeline has been fully operational since July 2019.

The main pipeline was constructed by SGN (the UK's second largest gas distribution company, operating across Scotland and southern England), and reinstatement of land is currently scheduled to complete summer 2020. The project team are assessing the impact of current Government Guidelines in response to the COVID-19 pandemic to understand how it may affect the remaining works.

SGN Natural Gas who own and operate the low pressure pipelines (the mains, services and meters) which deliver the gas to customers continue to build out the network across the towns identified in the licence: Strabane, Dungannon, Coalisland, Cookstown, Magherafelt, Omagh, Enniskillen and Derrylin.

Mutual Energy is in a unique position to provide cost efficiencies to the operation of transmission networks. We have a proven process for providing energy infrastructure at the lowest cost of capital in the UK. 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.

GROUP FINANCIAL HIGHLIGHTS

CASH FLOW AND LIQUIDITY POSITION

The majority of the Group's 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 (excluding payments made to Phoenix to fund the development of their distribution network). 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 2020, cash reserves in Premier Transmission group amounted to £5.2m, with a further £32.5m cash held on deposit (2019: £25.4m cash reserves with a further £9.9m certificates of deposit held), Belfast Gas Transmission group held £11.1m (2019: £9.5m) and West Transmission group held £4.5m (with a further £165.4m held on deposits maturing in the coming year) (2019: £13.0m, with a further £36.3m held in short term deposits and £150.4m held in long term deposits).

At 31 March 2020, Moyle Interconnector group held operating cash reserves of £67.0m (2019: £57.6m). Total cash holdings (including cash held on deposit which is classified as financial assets) by the Group at year end amounted to £290.3m (2019: £306.6m). Cash balances have reduced in the year due to contributions made to Phoenix Natural Gas Limited to fund part of their gas network. Funds will return towards normal operating levels once West's assets 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 £5.5m (2019: £11.2m).

GROUP FINANCIAL HIGHLIGHTS (CONTINUED)

FINANCE COSTS

Included within finance costs is £20.9m (2019: £18.7m) 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 £8.0m (2019: £8.6m);
- £11.6m (2019: £8.9m) required to restate debt liabilities to latest applicable Retail Price Index; and
- bond fees, liquidity facility fees and other charges and credits £1.3m (2019: £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, Belfast Gas exit points in Belfast and Larne, and West Transmission's exit points at Maydown and in the West of Northern Ireland via offtakes from GNI(UK)'s pipelines. A total of 18 shippers (2019: 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.

REGULATORS AND GOVERNMENT DEPARTMENTS

The Group works closely with the Northern Ireland Authority for Utility Regulation and the Department for the Economy (DfE), where appropriate, to ensure that the interests of Northern Ireland's energy consumers are protected. The Group welcomes the commencement of DfE's new Energy Strategy and continues to work with the Department to determine how Mutual Energy can assist with this move towards a low carbon environment.

STAKEHOLDERS, RELATIONSHIPS AND RESOURCES (CONTINUED)

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) 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 noteholder agent 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.

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:

	2020		2019	
	Male	Female	Male	Female
Board	6	2	6	1
Senior Management	9	3	9	3
All employees & Board	25	11	25	11

EMPLOYEE KPIS

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

KPI	2020	2019
Training days per employee	4.9	4.0
Sickness absence per employee	2.0%	2.8%

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.

STAKEHOLDERS, RELATIONSHIPS AND RESOURCES (CONTINUED)

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 14 to 39.

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 46, 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. During the year, the Group joined Business in the Community and is currently exploring options for positive improvements to our environment, community and workforce.

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, with Moyle Control System Upgrade Committee having responsibility for managing the risks of the Control System upgrade. 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 Moyle Control System Upgrade Committee reports to the Board as appropriate.

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 2020 and up to the date of approval of the annual report and financial statements.

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

The Board, Audit and Risk Committees review the respective risk registers regularly and consider the 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 Group has scheduled a comprehensive review of the risk processes throughout the businesses for 2020 as part of our normal approach to drive improvements in all areas of the business.

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.

RISK MANAGEMENT (CONTINUED)

The principal risks of the Group are:

Risk description and potential impact	Mitigation	Assessment of risk movement from March 2019
Operational risk		
Poor operational performance could result in impaired availability, damage to assets and/or reputation, injury to third party and/or employees, loss of revenue, loss of licence.	Experienced qualified maintenance subcontractors are used and are managed through the contractual process, frequent performance monitoring, and maintaining a high standard of eligibility for tendered work. Structured maintenance plans are followed. The Group promotes a strong health and safety culture, has a well-defined health and safety management system and follows industry standard practices.	⇨
Financial risk		
Poor financial management could result in breach of financing covenants, compliance failure or financial loss.	The Board reviews and agrees policies for addressing these compliance risks and senior management are specifically delegated the task of ensuring compliance.	⇨
Inadequate financing, 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 £36m 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. The risk has decreased as West Transmission is now fully operational.	⇩
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. Brexit could lead to short-term disturbance to the day ahead electricity market.	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 24 to 26 and 34 to 36. Risk has increased in the period due to the need for market changes to meet decarbonisation targets.	⇧

RISK MANAGEMENT (CONTINUED)

Risk description and potential impact	Mitigation	Assessment of risk movement from March 2019
Business environment and market risk, including Brexit risk (continued)		
COVID-19 could impact business operations.	Remote working arrangements are in place for all office staff. Field operations have been reduced to essential maintenance and surveillance. Practices have been updated as appropriate to enable seamless continuation of critical operations and ensure social distancing and appropriate PPE is in place. The changing demand on the transmission systems has been navigated with minimal impact on operations.	⇧
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 stabilised with the return of government in NI.	⇨
Corporate strategy and communication risk		
Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.	The Board retains responsibility for strategy as a reserved matter and manages communications directly in line with its communication plan, using outsourcing as appropriate.	⇨
Project delivery risk		
Poor contracting or management, insufficient resources or extreme weather could cause project delays resulting in financial losses, reputational damage, damage to assets or loss of availability.	A project governance structure exists with sufficiently qualified and trained resources. Contractors are closely monitored and stakeholder engagement plans and insurance are in place. Project delivery risk has decreased with the financing and operation of West's new assets now in place.	⇩

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.

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 management system. In addition, the Group has incorporated a number of wellbeing strategies into the Health and Safety Management System.

A Royal Society for the Prevention of Accidents (RoSPA) Quality Safety Audit was carried out in late March 2019 with a strong result having been obtained. Most of the recommendations from this audit were implemented throughout the year ending 31 March 2020 and the remainder will be implemented during 2020.

In November 2019, the Group held its first Health, Safety and Wellbeing Seminar which was well attended and positively received by staff, Board members, external partners and HSENI.

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, having taken over as the Northern Ireland Network Emergency Co-ordinator (NINEC) in November 2019, coordinated the annual Gas Supply Exercise in November, 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 is committed to good environmental performance and holds under review its policies and strategies to monitor and deliver on this commitment, in the context of shifting societal awareness and priority on improving environmental performance. No breach of any environmental licence or permits (which included those issued for Gas To The West construction and subsea surveys) were recorded in the year.

ENVIRONMENT AND SAFETY (CONTINUED)

GREENHOUSE GAS EMISSIONS REPORTING

The Group qualifies as large for the purposes of reporting emissions under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, however, there is no requirement to include information on any of its subsidiaries under this Regulation. The group voluntarily publishes its greenhouse gas (GHG) emissions in line with Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 as set out below:

	Tonnes of CO_2e	
Emissons from:	2020	2019
Usage of gas in operations	936	1,097
Electricity consumption at convertor stations	740	852
Electricity, heat, steam and cooling purchased for own use	12	13
Total emissions	**1,688**	1,962
Emissions per GWh energy transmission	**0.09**	0.12

METHODOLOGY

We have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. Emissions have been calculated using UK Government guidelines for conversion of natural gas and grid electricity. It is not practical for the company to publish information in respect of its consumption of fuel for the purposes of transport, which consists only of fuel used in personal/hire cars for business use.

FORWARD-LOOKING STATEMENTS

The Chair'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
25 June 2020

THE MUTUAL ENERGY BOARD

DAVID GRAY (68)
CHAIRMAN

David was appointed Chair of Mutual Energy on 1st January 2019. He is also Chair of The Energy Innovation Centre, a non-executive director of Tokamak Energy Ltd, and Deputy Chair of the Regulatory Policy Institute. From 2013 to 2018 he was Chair of the Gas & Electricity Markets Authority (Ofgem) which regulates the gas and electricity sectors in Great Britain and from 2009 to 2019 he was a non-executive director of the Civil Aviation Authority. 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 (51)
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. Paddy also serves as a non-executive director of Northern Ireland Water.

GERARD MCILROY (51)
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 (46)
NON-EXECUTIVE DIRECTOR

Patrick is the CFO of Translink, one of Northern Ireland's leading companies. He 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. Patrick 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. Patrick joined the Mutual Energy Board in October 2016.

MICHAEL MCKERNAN (60)
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

THE MUTUAL ENERGY BOARD (CONTINUED)

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 (54)
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. 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 is an independent Non-Executive Director at Wessex Water.

CHRIS MURRAY (64)
NON-EXECUTIVE DIRECTOR

Chris Murray has over 40 years experience in the energy industry and, following a career with National Grid and its predecessor companies, now holds a number of Non-Executive Director roles. During his time with National Grid, Chris chaired both National Grid Gas 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, the Leicestershire Hospice and is a Special Adviser to the Board of Energy & Utility Skills. He is a Fellow of the Energy Institute, Fellow and past President of the Institution of Gas Engineers and Managers and a member of the Institute of Directors.

CERI RICHARDS (61)
NON-EXECUTIVE DIRECTOR

With a career spanning over 30 years in both the public and private sectors, Ceri Richards brings specialised industry expertise and an in-depth knowledge of corporate finance to Mutual Energy's Board. She was previously Chief Investments Officer for international engineering enterprise Laing O'Rourke, and prior to this, she was Managing Director of Specialised Industry Finance and Corporate Real Estate for Lloyds Bank. Ceri has also held senior positions for HBOS and BNP Paribas. In 2017, Ceri established a management consultancy firm, Rolo Consultancy Services LTD, which she now runs. A qualified accountant of the Chartered Institute of Public Finance and Accountancy, Ceri is also a Fellow of the Chartered Institute of Bankers in Scotland and a past graduate of the Harvard Business School Advanced Management Programme. Building on a highly successfully career in corporate finance, Ceri is also an experienced board member, helping a range of industrial, transport and finance companies achieve excellence including GrowthDeck, Red Funnel Holdings and the Dutch Infrastructure Fund.

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 2020, 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 2018 (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. During the year, the Board reviewed its compliance with the revised UK Corporate Governance Code 2018 and took actions, where appropriate, to ensure compliance.

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 7 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

THE BOARD (CONTINUED)

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.

Provision is made for non-executive directors to receive on-going training, as required, in line with the Board timetable. Non-executive directors 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	Risk Committee	Membership Selections Committee	Control System Upgrade Committee
David Gray	7/7	3/3	3/3	-	-	-	-
Patrick Anderson	7/7	3/3	-	4/4	-	1/1	2/2
Michael McKernan	7/7	3/3	-	4/4	-	1/1	-
Kate Mingay	7/7	3/3	3/3	4/4	-	-	2/2
Chris Murray	7/7	3/3	3/3	-	5/5	-	2/2
Ceri Richards	1/1	-	-	-	-	-	-
Paddy Larkin	7/7	3/3	-	-	5/5	-	2/2
Gerard McIlroy	7/7	3/3	-	-	-	-	-

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

Throughout the year, the Chair and the other non-executive directors were independent of management and were independent of any business relationship with the Group. The Chair held one-to-one meetings with non-executive directors during the year, 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, and was elected at the September 2019 AGM. The non-executive directors are expected to serve only two terms of three years, but may be extended in exceptional circumstances up to a further three years. The process for recruiting directors is co-ordinated by the Nominations Committee (see page 52).

The Board conducted an evaluation of its own performance and that of its committees and individual directors in respect of the year. An independent external consultancy firm, On Board Training and Consultancy Limited, led the process which included completion of a bespoke questionnaire by all directors, based on best practice, one-to-one meetings with directors, Board observation, and reporting of findings.

The evaluation covered the role, organisation and skills of the Board, information provision, governance and compliance and committee effectiveness. The findings of these exercises were discussed at a full meeting of the Board and a panel was set up to consider the findings reported and recommend improvements and timelines for any required actions. In addition, Kate Mingay, as Senior Independent Director, held one-to-one meetings with non-executive directors to appraise the performance of the Chair.

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**.

NOMINATIONS COMMITTEE

The Nominations Committee comprises all the non-executive directors and is chaired by the Chair of the Board.

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

Following an open public competition to recruit a new board member, aided by Curzon Trinitas Limited, an independent external recruitment consultant, the Committee appointed Ceri Richards in March 2020 as a non-executive director. Ceri's appointment overlaps with Kate Mingay's, whose second non-executive term has been extended by a year until Summer 2021 to allow for more flexibility in succession planning. 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 66 to 68.

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Kate Mingay. The Remuneration Committee also comprised Chris Murray and David Gray. The Committee is comprised solely of non-executive directors. The role of this Committee and details of how the Group applies the principles of the Code in respect of directors' remuneration are set out in the Remuneration Committee Report on pages 56 to 63.

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 and relevant consultants as appropriate. 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 pages 64 to 65.

MOYLE CONTROL SYSTEM UPGRADE COMMITTEE

A Moyle Control System Upgrade Committee has been in place since September 2019, tasked with overseeing the upgrade of Moyle's Control System. The Committee is chaired by Chris Murray and also comprises Patrick Anderson and Kate Mingay. The Committee met twice during the year to monitor progress, and provide guidance and advice on the main project contract. The Committee provided project progress updates from each meeting to the Board, sending email circulars as required, and provided advice to the Board prior to the main contract approval.

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.

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 2020 where it considered the recruitment process from the previous year, membership renewals and the adequacy of the representation of various stakeholders within the group of Members. As a result of these consideration, the Committee determined that a new recruitment exercise for members should be conducted, though the timing has been impacted by the COVID-19 restrictions. The Committee attendance was as listed in the table on page 51.

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 four members ceased membership with the Company. Ceri Richards 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	Peter Hayes	Nevin Molyneaux
Declan Billington	Chris Horner	Dr Bernard Mulholland
Margaret Butler (resigned 20/09/19)	David Jenkins	Chris Murray
David Cunningham	Andrew Kirke	Tim Nelson
Robin Davey	Helen Kirkpatrick	Colin Oxton
Jamie Delargy	Stephen Kirkpatrick (resigned 01/04/19)	Conor Quinn
Connor Diamond	Gavin McBride	Ceri Richards (appointed 01/03/20)
Joe Doherty	Robert McConnell (resigned 08/10/19)	Ken Simpson
Stephen Ellis	Brian McFarland	Patrick Thompson (resigned 01/10/19)
Kathy Graham	Michael McKernan	Mark Wishart
David Gray	Kate Mingay	Ed Wright
Trevor Greene		

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 43 to 45.

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 2025, taking account of the Group's current position and the potential impact of the principal risks documented in the strategic report on page 44 to 45, including the impact of the outbreak of COVID-19. 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 2025 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 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. In making this assessment, 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. The directors consider that these arrangements, including the cross-guarantee of shippers within the gas businesses, and along with the significant level of credit held by the Joint Allocations Office in respect of electricity revenue, protect the business from material detrimental impact of COVID-19 on budgeted cashflows.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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.

The global outbreak of COVID-19 is not expected to impact the Group's ability to continue as a going concern. 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 REMUNERATION COMMITTEE CHAIR'S ANNUAL STATEMENT

I am pleased to present the Directors' remuneration report for the financial year ending 31 March 2020. The Committee considered a range of changes flowing from the 2018 update of the UK Governance Code, together with best practice guidelines and have reviewed the information provided in our report in light of these changes. The Committee continues to consider the wider remuneration policy throughout the business and as part of our consideration of the latest 2018 Governance Code, the Committee specifically considered pay gaps and gender balance within the organisation as part of its commitment to a diverse and motivated workforce.

The Group adopts a relatively simple approach to the senior management remuneration structure which, in addition to the basic pay, includes an element of performance-related pay, the majority of which is deferred in order to incentivise longer term performance in line with business strategy and encourage retention of the senior executives. 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 a consistency of approach allows for a clear line between business objectives and remuneration and more predictable correlation with performance. The business plan, which is produced with a five-year horizon, is the core starting point for the performance assessment. The in-year targets specifically pick up financial performance in the budget year and relevant business KPIs. The longer-term deferred performance related pay operates on a rolling basis as described in the remuneration policy which can be found on the Group's website at **www.mutual-energy.com**. This allows the Board to target objectives and projects which develop over multiple years and to engender a long term focus on the culture and direction of the business in the interests of consumers in Northern Ireland. External benchmarking is carried out from time to time to ensure the financial targets are set proportionately not only to the business but to levels broadly consistent with its peer group.

As discussed in the Chair's statement earlier, performance of the business in the year to 31 March 2020 was very strong: Moyle Interconnector achieved a record level of commercial revenues, on the back of excellent availability leading to strong performance in both auction revenues and ancillary services. In the gas business, the construction of the Gas to the West pipeline was completed and the first industrial and commercial customers were connected in July 2019. Tight cost control was managed effectively in both businesses. Beyond the core operating businesses, the Senior Executive have had a wide range of issues to contend with, including renegotiating the Transportation Agreement with GNI(UK) and capacity for Moyle output in Scotland with National Grid; the Moyle Control System Upgrade programme and the potential impact of Brexit on the NI energy markets. In addition, the Board has been working extensively to develop our thinking on the future decarbonisation of gas as the energy transition accelerates. In determining the performance related remuneration, the Committee assesses the performance of the executive team as a whole, reflecting the closely integrated

Moyle Interconnector achieved a record level of commercial revenues, on the back of excellent availability leading to strong performance in both auction revenues and ancillary services.

working arrangements of the team. This approach is considered annually and has been applied consistently.

As befits a business of our nature, there is a keen focus on risk and this is incorporated throughout the targets, whether it be operating risk, specific health and safety risks, compliance risks in respect of licences or financing or indeed the more long term strategic risks faced by the Company. The Company's response to the COVID-19 pandemic since the year-end has focussed on measures to ensure the safety and wellbeing of its employees, as well as ensuring operational resilience.

Kate Mingay
Remuneration Committee Chair
25 June 2020

This report summarises the activities of the Remuneration Committee for the period of 31 March 2020 and sets out remuneration details for the executive and non-executive directors of the Company, 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 includes the statement by the Chair of the Remuneration Committee (page 56) and the annual report on remuneration (page 57 to 63). The annual report on remuneration provides details on remuneration in the period and other information required by the Regulations.

The Group's remuneration policy can be found on the Group's website at www.mutual-energy.com. The remuneration policy was approved by a binding vote at the Group's Annual General Meeting on 28 September 2018 and applies for three years from 1 October 2018, subject to any future changes approved by the members.

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 is 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 Chair, 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.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

ANNUAL REPORT ON REMUNERATION

The annual report on remuneration which follows shows the outturn for the year ending 31 March 2020, determined in line with the remuneration policy approved at the Group's AGM on 28 September 2018.

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

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR

The remuneration of the directors for the years 2019/20 and 2018/19 is made up as follows:

DIRECTORS' REMUNERATION AS A SINGLE FIGURE (2019/20)

£'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]	187	1	34	74	17	313
Gerard McIlroy[5]	150	1	28	61	14	254
Non-Executive Directors						
Paddy Anderson[6]	34	-	-	-	-	34
David Gray[8]	77	-	-	-	-	77
Michael McKernan	34	-	-	-	-	34
Kate Mingay	34	-	-	-	-	34
Chris Murray	34	-	-	-	-	34
Ceri Richards[9]	3	-	-	-	-	3
	553	2	62	135	31	783

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	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	34	-	-	-	-	34
Kate Mingay	34	-	-	-	-	34
Chris Murray	34	-	-	-	-	34
	541	2	55	106	37	741

ANNUAL REPORT ON REMUNERATION (CONTINUED)

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR (CONTINUED)

[1] Figures in the table are shown before the effect of salary sacrifices which substitute salary or bonus for pension, or alternatively, pension for salary.
[2] All taxable benefits consists solely of healthcare benefits provided to executive directors.
[3] Pension related benefits include, 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 £16,760 pension for £14,728 salary (2019: £21,839 pension exchanged for £19,191 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.
[5] During the year Gerard McIlroy elected to exchange £9,490 pension for £8,339 salary (2019: £Nil), with the difference being used to pay additional employer NIC costs incurred as a result. Gerard McIlroy also elected to exchange £12,000 of the 2019/20 annual performance-related pay (2019: £nil) for company paid pension contributions. This amount, along with £1,656 NIC savings, was credited to his pension account in April 2020.
[6] In 2018/19 £15,000 was paid to the director and the remaining £18,500 was elected to be paid to charity (Disability Sport NI) in line with the terms of engagement existing at that time.
[7] Retired as Director on 31 December 2018.
[8] Appointed as Director on 1 January 2019.
[9] Appointed as Director on 1 March 2020.

DETERMINATION OF 2019/20 ANNUAL PERFORMANCE-RELATED PAY

Annual performance-related pay awards were determined with reference to performance over the financial year ending 2019/20. The performance-related pay accruing to executive directors is set out below. The detailed particulars of the performance measures, which we do share with our Members, 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	9.0%	8.2%	9.0%	8.2%	29.0%	21.5%	29.0%	21.5%
Financial performance	8.5%	8.4%	8.5%	8.4%	9.0%	8.5%	9.0%	8.5%
Regulatory/ market performance	2.5%	2.4%	2.5%	2.4%	17.0%	12.1%	17.0%	12.1%
	20.0%	19.0%	20.0%	19.0%	55.0%	42.1%	55.0%	42.1%

In respect of the within year targets the achievement of record availability flowed through to the highest ever levels of commercial revenues and cash generated without the requirement to charge customers via the CAIRt mechanism, and the outcomes correctly reflected this performance.

The award in respect of the longer term objectives reflects a strong performance throughout, in particular in respect of the asset performance and financial targets: achievements on Gas to the West, and progress on the Moyle Control System Upgrade are notable, as well as the work done to update Mutual's strategy to reflect the energy transition and to be proactive in developing industry collaborations on the future of gas.

ANNUAL REPORT ON REMUNERATION (CONTINUED)

DETERMINATION OF 2019/20 ANNUAL PERFORMANCE-RELATED PAY (CONTINUED)

The exercise of discretion is a key part of good practice for remuneration committees and is applied in the normal course of the deliberations of the Remuneration Committee.

The Committee considered the issue of the COVID-19 impact upon the targets achieved for 2019/20 and whether the remuneration targets and structure for 2020/21 should be amended to reflect the impact expected on the business. The Committee concluded that no change was needed to the performance awarded for 2019/20 as it did not impact the strong overall results for the year in question. Any financial impact, if applicable, would be in the 2020/21 financial year.

In respect of business resilience and the ability to continue working effectively, the Committee considered this was already sufficiently covered in the targets set. The Committee also considered the impact of the changes of the scheduling of work on the achievement of cost targets for 2019/20. 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 (2019: £Nil).

PAYMENTS FOR LOSS OF OFFICE

There were no payments for loss of office made in the year (2019: £Nil).

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

CEO REMUNERATION TABLE

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

Year	CEO single figure of total remuneration (£'000s)	Annual performance-related pay pay-out against maximum %	Deferred performance-related pay pay-out against maximum opportunity % *
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%
2019/20	313	95%	79%

* 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.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

ANNUAL REPORT ON REMUNERATION (CONTINUED)

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 2019/20 and 2018/19.

	Percentage increase in remuneration in 2019/20 compared with remuneration in 2018/19	
	CEO	Group's Employees as a Whole*
Salary and fees	3.1%	5.2%
All taxable benefits	-5.0%	-4.8%
Annual performance-related pay	10.6%	8.3%

* Reflects the change in pay for an average employee (excluding non-executive directors) employed throughout both the year ended 31 March 2019 and the year ended 31 March 2020.

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

As part as part of our consideration of the latest 2018 Governance Code, the Committee specifically considered pay gaps and gender balance within the organisation as part of its commitment to a diverse and motivated workforce. The Committee did so by looking at four levels of the company and the relative pay between the individuals in the groups and concluded that the results were satisfactory for a business of its type. The Committee agreed to review these on an annual basis.

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.

	2019/20 £'000	2018/19 £'000	% change
Total employee costs	2,875	2,674	8%
Total debt repayments plus cash retained in the business plus cash returned to customers via shippers	46,025	44,917	2.5%

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.

ANNUAL REPORT ON REMUNERATION (CONTINUED)

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN 2020/21

The directors' salaries and fees for the 2020/21 year reflect the effect of the agreed inflationary increase and any other adjustments to terms and conditions, and are as follows:

	2020/21 £'000	2019/20 £'000	Change
Chief Executive	184	187	(1.5%)
Financial Director	153	150	2.3%
Chair	77	77	0%
Non-executive directors	34	34	0%

The annual performance-related pay for 2020/21 will operate on the same basis as for 2019/20 and will be consistent with the Group's remuneration policy. 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	8.75%	8.75%	17.5%	17.5%
Financial performance	6.50%	6.50%	-	-
Markets and Regulatory change management	2.75%	2.75%	21.0%	21.0%
Business Resilience and Development	2.00%	2.00%	16.5%	16.5%
	20.0%	20.0%	55.0%	55.0%

The asset performance targets in the within year targets are centred around the availability statistics for the assets and the Committee considers the targets in the light of past performance, benchmark comparators and the schedule of planned works for the incoming year. These targets also cover the Health and Safety management plan and the yearly improvement plan targets. The longer-term asset performance targets cover the major projects to protect and enhance asset performance and the long-term changes to asset management processes, targeting the procurement, quality timescales and costs to deliver.

The financial performance of the business within year is the performance against the budgets for the year, both revenue and cost lines. Longer term there is no explicit financial performance target as the financial performance will be the output of the areas covered in the deferred targets such as the asset performance and market and regulatory change management.

Markets and regulatory change targets by their nature are mostly longer term. These targets cover the access to the markets for the assets, both in terms of the limits placed on the assets by system operators or other utilities and the rules which govern how our assets are used. This category also encompasses targets concerning energy transition.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

ANNUAL REPORT ON REMUNERATION (CONTINUED)

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN 2020/21 (CONTINUED)

Similarly, business resilience and development is also by its nature mostly long term. The within year targets cover specific objectives concerning process improvements in strategy and risk management, while the deferred targets concern topics such as preparedness for market disruption connected to the UK exiting the EU, financing structures, connections to the networks and organisational structure.

CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

During the year, the Committee met three times to consider matters relating to executive directors' remuneration. The directors who were members of the Committee during these considerations were Kate Mingay, Chris Murray and David Gray. 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. Executive director remuneration benchmarking was last 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.

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 (2019 AGM)	25	100%	-	0%	25	1
Remuneration policy (2018 AGM)	27	96%	1	4%	28	-

APPROVAL

This report was approved by the board of directors on 25 June 2020 and signed on its behalf by:

Kate Mingay
Remuneration Committee Chair
25 June 2020

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 certain 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;
- Advising the Audit Committee on non-financial risks;
- 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; and
- Reviewing the effectiveness of the Committee annually.

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 Consultant.

RISK COMMITTEE REPORT (CONTINUED)

ACTIVITIES IN 2019/20

The Committee met on four occasions during the year ended 31 March 2020 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 2019. 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 2020 Health and Safety Policy Statement and 2020 Health and Safety Management System to reflect changes in Health and Safety guidance, reviewed the 2020/21 Health and Safety Plans and recommended these documents to the Board for approval;
- Reviewed Site Safety and Work Inspections;
- Monitored the progress against the 2019 RoSPA Quality Safety Audit (QSA) recommendations.
- 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 operational risk registers for both the gas and electricity businesses, incorporating Health, Safety, Welfare and asset performance improvement;
- Reviewed the emergency preparedness arrangements of critical elements of converter station and cable assets of the Moyle Interconnector;
- Reviewed the Gas to the West due diligence prior to commissioning and operational commencement;
- Reviewed risks particular to the subsea gas pipeline assets and engaged with other stakeholders on this matter;
- Monitored progress on the ISO 55001 implementation programme;
- 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 2020. The Committee continues to review the effectiveness of the Group's financial reporting and internal control systems. During the year, the Committee considered the impact of the implementation of IFRS 16 Leases. This new accounting standard significantly changes the accounting treatment for leases where the company acts as a lessee. The Committee considered the appropriate terms and discount rates to be used in calculating the right-of-use assets and lease liabilities which should be brought on to the balance sheet. The Committee also considered and updated the useful lives of the Group's assets and reviewed the Group's cybersecurity arrangements and controls against the occurrence of fraud.

Patrick Anderson
25 June 2020

The Audit Committee was in place throughout the year ended 31 March 2020 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 all have competence relevant to the energy sector. Members receive no additional remuneration for their service on the Committee.

The Committee invites the executive directors, the Chair of the Board 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 four times in the year ended 31 March 2020 with attendance as listed in the Corporate Governance Statement. The key areas of consideration are set out in pages 67 to 68, along with a description of the activities carried out in each area during the year.

AUDIT COMMITTEE REPORT (CONTINUED)

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 issue considered significant was the impact of new accounting standard IFRS16: Leases on the Group's accounts.

The Committee considered the impact of IFRS 16, which came into effect in the current financial year. The Committee considered the appropriateness of the terms of the leases and the discount rates used to calculate the right-of-use asset and lease liability to be brought onto the balance sheet.

The Committee reconsidered the useful economic lives of its assets and determined that the useful lives of the Premier Transmission and Belfast Gas Pipelines should be extended. The updated useful lives are in line with the new West Transmission pipeline commissioned in the year, which will be supplied via these existing assets, and are consistent with the useful lives used by other gas transmission system operators.

Other key judgements and policies are included in note 1 on pages 94 to 96.

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;
- approving revisions to the employee handbook;
- reviewing the Group's cybersecurity measures; and
- reviewing and approving a range of Group policies.

AUDIT COMMITTEE REPORT (CONTINUED)

AUDIT

A key role of the Committee is to monitor and manage the relationship with the external 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.

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.

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 April 2020 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.

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 seventeen 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 DETNI 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 Alternative Arrangements Advisory Technical Group advising the UK Government.

He also sits on the Boards of the Agricultural Industries Confederation (AIC); 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. Current Chair of the NI Poultry Federation. He was also a former member of the Agri Food Strategy Board (AFSB) up until the end of its tenure in 2017.

Declan has also been recognised by the Agri Food industry for his practice and development of agriculture and received his Fellowship with Institute of Directors (FIoD), Associateship of Rural Agricultural Societies (ARAgS), and Honorary Professor of Practice from Queens University of Belfast.

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 the manufacturing and energy industries. 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 the need for energy management training. On becoming a member in the Energy Institute, he developed and directed City and Guilds courses in all aspects of energy management. As the demand for higher level courses grew, he helped to develop and lead the Energy Institute's advanced open learning course TEMOL (Training in Energy Management through Open Learning). Over the last twenty years he has 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 (Energy Saving Opportunities Scheme) initiative. He is a Chartered Energy Manager, Fellow of the Energy Institute, and a past chairman of the Energy Institute Northern Ireland. Recently he has become involved in the practicalities of renewable energy particularly electricity generation and storage and its use in electrical and hydrogen powered transport.

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 Group Head of Digital Insights for Independent News and Media, working at a strategic level across a portfolio of brands such as the Irish Independent, Belfast Telegraph, Sunday Life, NIJobfinder and Propertynews. Connor also sits on the board of Radius housing.

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.

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.

MUTUAL ENERGY MEMBERS (CONTINUED)

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 is a retired public service manager. In his work he dealt with corporate and business planning, performance and risk management, corporate governance issues and equality of opportunity. 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 Chair of Hostelling International Northern Ireland, Vice-Chair of Habinteg Housing Association, a member 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 included airport developments, airport facilities department, and air traffic control and airfield engineering. In March 2020 Christopher was appointed as the Projects Director for Belfast International Airport. He also sits on the Board of Governors of his local primary school.

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.

MUTUAL ENERGY MEMBERS (CONTINUED)

HELEN KIRKPATRICK

Helen Kirkpatrick is currently a non-executive director of NTR plc , 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 Dale Farm Co-operative Limited, 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 also a 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, a Member of the Chartered Institute of Marketing and a Fellow of the Institute of Directors.

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.

BRIAN MCFARLAND

Brian McFarland is the Managing Director of McFarland Consulting 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.

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.

MUTUAL ENERGY MEMBERS (CONTINUED)

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 at Dunleath-Fashion.com; Womens-Clothing.us; and Irish Healthcare Limited.

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

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 Research Development 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.

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 2020

The directors present their annual report and the audited financial statements of the Group and Parent Company for the year ended 31 March 2020.

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 £5,515,000 (2019: £11,214,000).

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
David Gray
Patrick Larkin
Gerard McIlroy
Michael McKernan
Kate Mingay
Christopher Murray
Ceri Richards (appointed 1 March 2020)

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 10 to 47 and within note 27.

CORPORATE GOVERNANCE
Further details in respect of the Group's corporate governance statement is set out on pages 50 to 55.

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 auditor is 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 auditor is aware of that information.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS
The directors are responsible for preparing the directors' report, the strategic 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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS (CONTINUED)

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 Company 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
Director
25 June 2020

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

INDEPENDENT AUDITORS' 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 2020 set out on pages 80 to 124, 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 2020 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.

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. In our evaluation of the directors' conclusions, we considered the inherent risks to the group and the company's business model and analysed how those risks might affect the group and the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MUTUAL ENERGY LIMITED (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 report, the Directors' report, the Chairman's statement, the 2019/20 highlights, the Corporate Governance Statement, the Director's Remuneration Report, the Risk Committee report and the Audit Committee report. 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 report have been prepared in accordance with the Companies Act 2006.

DIRECTORS' REMUNERATION REPORT

The directors have voluntarily prepared a directors' remuneration report in accordance with the provisions of the Companies Act 2006, as required as if the Parent Company were a quoted company.

In our opinion, the part of the directors' remuneration report to be audited, as required if the Parent Company were a quoted company, 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 AUDITORS' REPORT
TO THE MEMBERS OF MUTUAL ENERGY LIMITED (CONTINUED)

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 75-76, 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

26 June 2020

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

		2020			2019		
	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	72,044	-	72,044	65,306	-	65,306
Operating expenses	3	(43,003)	-	(43,003)	(37,032)	-	(37,032)
Other operating income	3	-	-	-	1,256	-	1,256
Operating profit		29,041	-	29,041	29,530	-	29,530
Finance income	5	3,401	3,557	6,958	2,359	-	2,359
Finance expenses	5	(24,839)	-	(24,839)	(18,899)	(1,544)	(20,443)
Finance (expenses)/income – net	5	(21,438)	3,557	(17,881)	(16,540)	(1,544)	(18,084)
Profit/(loss) before income tax		7,603	3,557	11,160	12,990	(1,544)	11,446
Taxation	6	(5,817)	172	(5,645)	(494)	262	(232)
Profit/(loss) and total comprehensive income/(expense) for the year attributable to the owners of the parent	17	1,786	3,729	5,515	12,496	(1,282)	11,214

The notes on pages 84-124 are an integral part of these consolidated financial statements.

CONSOLIDATED AND PARENT COMPANY BALANCE SHEET

AT 31 MARCH 2020

		Group		Company	
	Note	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Non-current assets					
Property, plant and equipment	8	292,723	269,935	117	32
Intangible assets	9	207,861	216,048	-	-
Investments in subsidiaries	10	-	-	8,263	7,321
Other investments	11	2,662	5,361	-	-
Financial assets	14	-	150,420	-	-
Deferred tax assets	21	7,096	7,172	48	46
		510,342	648,936	8,428	7,399
Current assets					
Trade and other receivables	12	25,358	16,235	1,975	1,569
Inventories	13	113	113	-	-
Tax receivable		1,029	-	-	-
Financial assets	14	200,994	46,226	3,016	-
Cash and cash equivalents	15	89,322	109,972	701	3,776
		316,816	172,546	5,692	5,345
Total assets		827,158	821,482	14,120	12,744
Equity and liabilities					
Equity attributable to the owners of the parent					
Share capital	16	-	-	-	-
Retained earnings	17	41,884	36,339	(5,182)	(5,778)
Total equity		41,884	36,339	(5,182)	(5,778)
Non-current liabilities					
Other payables	23	123,950	121,713	-	-
Interest bearing loans and borrowings	18	450,863	456,974	29	10,250
Provisions	20	3,070	3,112	-	-
Deferred income tax liabilities	21	40,652	37,467	-	-
Government grants	22	74,665	51,113	-	-
Derivative financial instruments	25	38,907	42,464	-	-
		732,107	712,843	29	10,250
Current liabilities					
Trade and other payables	23	24,477	46,134	8,954	8,272
Tax payable		-	921	-	-
Interest bearing loans and borrowings	18	24,627	21,836	10,319	-
Government grants	22	4,063	3,409	-	-
		53,167	72,300	19,273	8,272
Total liabilities		785,274	785,143	19,302	18,522
Total equity and liabilities		827,158	821,482	14,120	12,744

The notes on pages 84-124 are an integral part of these financial statements.

The financial statements on pages 80-124 were authorised for issue by the Board of Directors on 25 June 2020 and were signed on its behalf by:

Patrick Larkin
Director

Gerard McIlroy
Director

Mutual Energy Limited Registered number: NI053759

CONSOLIDATED AND PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

Group	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2018	-	25,125	25,125
Total comprehensive income for the year	-	11,214	11,214
At 31 March 2019 (as previously reported)	-	36,339	36,339
Impact of change in accounting policy (see note 28)	-	30	30
At 1 April 2019 (as adjusted)	-	36,369	36,369
Total comprehensive income for the year	-	5,515	5,515
At 31 March 2020	**-**	**41,884**	**41,884**

Company	Share capital £'000	Retained earnings £'000	Total £'000
At 1 April 2018	-	(7,315)	(7,315)
Total comprehensive income for the year	-	1,537	1,537
At 31 March 2019 (as previously reported)	-	(5,778)	(5,778)
Impact of change in accounting policy (see note 28)	-	2	2
At 1 April 2019 (as adjusted)	-	(5,776)	(5,776)
Total comprehensive income for the year	-	594	594
At 31 March 2020	**-**	**(5,182)**	**(5,182)**

The notes on pages 84-124 are an integral part of these financial statements.

CONSOLIDATED AND PARENT COMPANY CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

		Group		Company	
	Note	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Cash flows from operating activities					
Profit before tax		11,160	11,446	506	1,458
Adjustments for:					
Finance costs – net	5	17,881	18,084	579	580
Depreciation of property, plant and equipment	8	14,031	13,038	88	26
Loss on disposal of property, plant and equipment		327	265	-	-
Reversal of impairment on investment	10	-	-	(942)	(1,890)
Amortisation and release of government grants	22	(3,900)	(3,409)	-	-
Amortisation of intangible assets	9	8,064	7,184	-	-
Fair value adjustment of investment	11	(624)	(1,785)	-	-
Movement in inventories		-	(113)	-	-
Movement in trade and other receivables		(7,181)	(216)	(320)	71
Movement in trade and other payables		7,002	(424)	71	(281)
Income tax paid		(4,341)	(1,483)	-	-
Non-operating element of insurance proceeds	3	-	(1,256)	-	-
Net cash from/(used in) operating activities		42,419	41,331	(18)	(36)
Cash flows from investing activities					
Interest received		1,373	896	30	13
Returns from financial asset		32,004	-	-	-
Purchase of property, plant and equipment		(29,133)	(261)	(12)	(21)
Maturity of financial assets		(36,352)	(196,646)	(3,016)	-
Return of capital on other investments		3,323	-	-	-
Repayment of investments		-	-	-	920
Non-operating element of insurance proceeds	3	-	1,256	-	-
Purchase of intangible assets		(32,149)	-	-	-
Receipt of grants		28,106	-	-	-
Net cash (used in)/from investing activities		(32,828)	(194,755)	(2,998)	912
Cash flows from financing activities					
Interest paid		(9,283)	(9,045)	-	-
Repayment of borrowings		(20,656)	(20,949)	-	-
Lease payments		(302)	-	(59)	-
Financing raised		-	202,462	-	-
Financing costs		-	(4,121)	-	-
Net cash (used in)/from financing activities		(30,241)	168,347	(59)	-
Movement in cash and cash equivalents		(20,650)	14,923	(3,075)	876
Cash and cash equivalents at the 1 April	15	109,972	95,049	3,776	2,900
Cash and cash equivalents at 31 March	15	89,322	109,972	701	3,776

The notes on pages 84-124 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

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, the Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne, the West Transmission Pipeline which transports gas to 7 towns in the West of Northern Ireland and through its offtake at Strabane. The Company is a private company limited by guarantee which is incorporated, registered and domiciled in Northern Ireland. The registered number of the Company is NI053759 and the address of the registered office is First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.

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 and Parent Company'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. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its Group. These financial statements were authorised for issue by the Board of Directors on 25 June 2020 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BASIS OF PREPARATION

The consolidated and Parent Company 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 on a going concern basis and 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 94 to 96.

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, amendments and interpretations were effective for accounting periods beginning on or after 1 March 2019 and these have been adopted in the Group and Company financial statements where relevant:

- IFRS 16 Leases;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Plan Amendments, Curtailment or Settlement (Amendments to IAS 19); and
- Annual Improvements to IFRSs 2015 – 2017 Cycle Prepayment features with Negative Compensation (Amendments to IFRS 9).

The effects of applying IFRS 16 is described in further detail below. The other changes listed above did not result in material changes to the Group and Company financial statements.

1. ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES/JUDGEMENTS (CONTINUED)

NEW STANDARDS, AMENDMENTS OR INTERPRETATIONS (CONTINUED)

IFRS 16 Leases

IFRS 16 has been adopted from 1 April 2019 and replaced the requirements of IAS 17: Leases. The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS17. Further information of this change of accounting policy can be found in Note 28.

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 2020 and have not been applied in preparing these financial statements. The standards and interpretations not adopted are outlined below:

- Conceptual framework (Mandatory for the year commencing on or after 1 January 2020);
- Definition of Material (Amendments to IAS1 and IAS 8) (Mandatory for the year commencing on or after 1 January 2020);
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) (Mandatory for the year commencing on or after 1 January 2020);
- Definition of a Business (Amendments to IFRS 3) (Mandatory for the year commencing on or after 1 January 2020);
- IFRS 17 Insurance Contracts (Mandatory for the year commencing on or after 1 January 2021); and
- Classification of liabilities as current or non-current (Amendments to IAS 1) (Mandatory for the year commencing on or after 1 January 2022).

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.

BASIS OF CONSOLIDATION

The consolidated financial statements consolidate the financial statements of Mutual Energy Limited and its subsidiary undertakings drawn up to 31 March 2020. 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.

1. ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES/JUDGEMENTS (CONTINUED)

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 12 months from the date of approval of the financial statements 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 on the West Transmission Pipeline which transports gas to the West of Northern Ireland and through its offtake at Maydown. The Moyle Interconnector revenue is derived from fees for the transmission of electricity between Northern Ireland and Scotland and services provided to the Grid.

All revenue is generated within the United Kingdom. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

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

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 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 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 dealing with "congestion rent" 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.

1. ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES/JUDGEMENTS (CONTINUED)

FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income on funds invested and income of leases (prior to 1 April 2019 unearned finance income). 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 14 years for Premier Transmission, 17 years for Moyle Interconnector and 32 years for Belfast Gas Transmission at the end of the financial year. 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.

(c) Other intangibles

Other intangibles relate to 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.

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Gas pipelines	43 - 58 years
Electricity interconnector	15 - 30 years
Control equipment	20 years
Plant and machinery	15 - 31 years
Office and computer equipment	3 years
Right-of-use assets	2 – 36 years

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each reporting date. Further information on adjustments to the useful lives made during the year is set out within the critical accounting estimates note on pages 94 to 96.

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.

LEASES

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

The Group does not act as a lessor on any leases. The accounting policies presented below set out the policies for recognising leases where the Group acts as a lessee.

Policy applicable before 1 April 2019 (under IAS 17)

For contracts entered into before 1 April 2019, the Group determined whether the arrangement was, or contained, a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

In the comparative period, as a lessee the Group classified leases that transfer substantially all of the risks and rewards of ownership as financing leases. No such leases were held.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Policy applicable from 1 April 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period; and
- the Group has the right to direct the use of the asset.

This policy is applied to contracts entered into, or changed on or after 1 April 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Policy applicable from 1 April 2019 (CONTINUED)
The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the asset are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise a purchase extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position (see notes 8 and 18 respectively).

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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.

FINANCIAL INSTRUMENTS
(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.

FINANCIAL INSTRUMENTS (CONTINUED)

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.

(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.

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.

FINANCIAL INSTRUMENTS (CONTINUED)
(IV) IMPAIRMENT (CONTINUED)

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. 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.

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

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation.

Decommissioning costs are provided at the present value of the expenditures expected to settle the obligation, using estimated cash flows based on current prices.

DECOMMISSIONING PROVISION (CONTINUED)

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.

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.

DEFINED CONTRIBUTION PLANS

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

SHORT-TERM BENEFITS

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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 useful lives of Premier Transmission and Belfast Gas Transmission's gas pipelines were extended during the year. The updated useful lives are in line with the new West Transmission pipeline commissioned in the year, which will be supplied via these existing assets, and are consistent with the useful lives used by other gas transmission system operators. This change has resulted in a lower depreciation charge in relation to these assets in the year.

The remaining useful economic life of the Moyle Interconnector was determined as approximately 13 (2019: 14) years at the beginning of the year. If the remaining useful economic life had been assessed at 14 (2019: 15) years depreciation would have decreased by £588,000 (2019: £549,000) and if the remaining useful economic life had been assessed at 12 (2019: 13) years depreciation would have increased by £686,000 (2019: £633,000).

The remaining useful economic life of Premier Transmission's Pipeline was determined as approximately 35.5 (2019: 21.5) years at the beginning of the year. If the remaining useful economic life had been 36.5 (2019: 22.5) years, depreciation would have decreased by £50,000 (2019: £140,000) and if the remaining useful economic life had been assessed at 34.5 (2019: 20.5) years, depreciation would have increased by £52,000 (2019: £154,000).

The remaining useful economic life of the Belfast Gas Transmission pipeline was determined as approximately 35.5 (2019: 21) years at the beginning of the year. If the remaining useful economic life had been assessed at 36.5 (2019: 22) years depreciation would have decreased by £19,000 (2019: £56,000) and if the remaining useful economic life had been assessed at 34.5 (2019: 20) years depreciation would have increased by £20,000 (2019: £62,000).

The remaining useful economic life of the West Transmission pipeline was determined as approximately 43 years at operational commencement in July 2019. If the remaining useful economic life had been assessed at 44 years depreciation would have decreased by £35,000 and if the remaining useful economic life had been assessed at 42 years depreciation would have increased by £36,000.

The remaining useful economic life of Moyle Interconnector's licence was determined as approximately 18 (2019: 19) years at the beginning of the year. If the remaining useful economic life had been assessed at 19 (2019: 20) years amortisation would have decreased by £87,000 (2019: £83,000) and if the remaining useful economic life had been assessed at 17 (2019: 18) years amortisation would have increased by £98,000 (2019: £92,000).

The remaining useful economic life of Premier Transmission's licence was determined as approximately 15 (2019: 16) years at the beginning of the year. If the remaining useful economic life had been assessed at 16 (2019: 17) years, amortisation would have decreased by £88,000 (2019: £82,000) and if the remaining useful economic life had been assessed at 14 (2019: 15) years, amortisation would have increased by £100,000 (2019: £93,000).

The remaining useful economic life of Belfast Gas Transmission's licence was determined as approximately 33 (2019: 34) years at the beginning of the year. If the remaining useful economic life had been assessed at 34 (2019: 35) years amortisation would have decreased by £73,000 (2019: £71,000) and if the remaining useful economic life had been assessed at 32 (2019: 33) years amortisation would have increased by £78,000 (2019: £75,000).

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates (continued)

(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 3.28% (2019: 3.91%) based on expected time of expenditure of 12 years (2019: 13 years). The decommissioning provision has been discounted using a rate of 0.50% (2019: 1.22%). The effect of changing the discount rate and inflation rate on the decommissioning provision is disclosed in the table below.

	Increase/(decrease) in provision	
	2020 £'000	2019 £'000
Increase in inflation rate by 1%	376	413
Decrease in inflation rate by 1%	(338)	(368)
Increase in discount rate by 1%	(344)	(373)
Decrease in discount rate by 1%	391	429

(C) FAIR VALUE OF OTHER INVESTMENTS

The fair value of other investments is based on the valuation of the remaining assets within the fund by the fund manager in accordance with ECVA valuation guidelines. In the previous year, the valuation was based on our 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 Company's impairment evaluation and hence results. The Company's review includes the key assumptions related to sensitivity in the cash flow projections. The calculation assumes a GBP/EUR rate of 1.125. Further details of the key assumptions and sensitivity in respect of the Group's Other Investments are provided in note 11.

(D) CALCULATION OF WEST TRANSMISSION ASSET VALUES

West Transmission's assets consist of the Western Transmission Pipeline and other associated assets. The final cost for these assets is still to be finalised with the price to be paid to the contractor, SGN, at a price based on a methodology determined by the Utility Regulator. The valuation of these assets is based on 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 by the Utility Regulator and estimates for any allowances yet to be determined.

Judgements

(E) JUDGEMENTS MADE IN THE IMPLEMENTATION OF IFRS 16 LEASES

The remaining useful lives of the right-of-use assets in respect of the Group's Crown Estate leases were determined to be in line with the useful life of the related assets, with extensions and cancellable terminations assumed where this is probable. Property lease terms were set in line with non-cancellable periods under the leases. Judgements were also required in determining the relevant incremental borrowing rate at the inception date which ranged from -0.41% to -0.93%.

(F) 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.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Judgements (continued)

(F) CONTRACTUAL ARRANGEMENTS UNDER EU MARKET COUPLING (CONTINUED)

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 subject to the requirements of 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. The activities of the interconnector are therefore subject to the requirements of Eirgrid, SONI and National Grid 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.

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 2020	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	30,641	25,121	8,133	8,149	-	72,044
Segment (expenses)/income	(8,253)	(13,613)	(2,360)	(1,589)	383	(25,432)
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	(2,514)	-	(8,064)
Depreciation (net of government grants)	(6,544)	(843)	(494)	(2,163)	(87)	(10,131)
Fair value adjustment on investment	-	-	-	-	624	624
Finance income	926	418	64	2,244	(251)	3,401
Finance costs	(5,230)	(5,137)	(6,928)	(7,541)	(3)	(24,839)
Fair value adjustment on derivative financial instruments	-	3,557	-	-	-	3,557
Profit/(loss) before tax	9,879	8,101	(4,072)	(3,414)	666	11,160
Tax (charge)/credit	(3,180)	(1,856)	(1,132)	524	(1)	(5,645)
Profit/(loss) for the year	6,699	6,245	(5,204)	(2,890)	665	5,515
Assets						
Segment assets	203,877	139,098	118,715	358,830	6,638	827,158
Capital expenditure	116	-	793	30,234	15	31,158
Segment liabilities	122,101	140,000	160,956	360,655	1,562	785,274

2. SEGMENT INFORMATION (CONTINUED)

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)/income	(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 income tax	13,593	(419)	(5,103)	1,743	1,632	11,446
Income 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

2. SEGMENT INFORMATION (CONTINUED)

DISAGGREGATION OF REVENUE

Group	2020 £'000	2019 £'000
Electricity business revenue:		
Commercial revenue		
Revenue from power transfers	**12,608**	11,631
System services	**10,005**	9,089
Capacity market	**7,978**	4,584
Total commercial revenue	**30,591**	25,304
Tariff revenue	**22**	5,718
Other	**28**	76
Total electricity business revenue	**30,641**	31,098
Gas business revenue	**41,403**	34,207
Other	**-**	1
	72,044	65,306

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

Revenues from the Group's gas transmission businesses of £41,403,000 (2019: £34,207,000) 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 95 to 96, the scheduling of the physical flow of power on the Moyle Interconnector is subject to the requirements of the system operators. 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:

	2020 £'000	2019 £'000
Customer A	**14,389**	9,831
Customer B	**1,639**	3,842

3. EXPENSES BY NATURE – OPERATING EXPENSES

Group	2020 £'000	2019 £'000
Staff numbers and costs (note 4)	2,875	2,674
Depreciation and amortisation (excluding right-of-use assets)	21,771	20,222
Loss on disposal of property, plant and equipment	327	265
Depreciation of right-of-use assets	324	-
Fair value adjustment on investment	(624)	(1,785)
Amortisation of deferred government grants	(3,900)	(3,409)
Operating lease expenses in relation to payments not included in lease liabilities	-	323
Auditors' remuneration:		
Audit of these financial statements	2	2
Audit of financial statements of subsidiary	50	50
Other services	10	13
Other expenses	22,168	18,677
Total operating expenses	43,003	37,032

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 overheads and general administrative costs.

Group	2020 £'000	2019 £'000
Other operating income	-	1,256

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

4. STAFF NUMBERS AND COST

Group	2020 £'000	2019 £'000
Wages and salaries	2,432	2,228
Social security costs	289	269
Pension costs	154	177
	2,875	2,674

The average monthly number of employees during the year (including directors holding contracts of service with the Group) was 30 (2019: 28). All staff perform asset management activities.

	2020 Number	2019 Number
Members of defined contribution pension scheme	29	29

	2020 £'000	2019 £'000
Directors' emoluments		
Aggregate emoluments	752	704
Contributions paid to defined contribution pension scheme	31	37
	783	741

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 £296,000 (2019: £270,000) and the contributions paid to his defined contribution pension scheme were £17,000 (2019: £19,000).

Directors' emoluments do not include the effects of salary sacrifice arrangements which substitute salary or bonus for pension, or alternatively, pension for salary made.

5. FINANCE INCOME AND EXPENSE

Group	2020 £'000	2019 £'000
Interest expense:		
Borrowings (including borrowing fees)	20,947	18,749
Movement of discount on decommissioning provision	29	49
Fair value adjustment in respect of derivative financial instruments (note 25)	-	1,544
Other finance expenses	3,863	101
Finance expense	24,839	20,443
Interest income:		
Short-term bank deposits	(3,377)	(2,359)
Fair value adjustment in respect of derivative financial instruments (note 25)	(3,557)	-
Lease interest	(24)	-
Finance income	(6,958)	(2,359)
Finance expense – net	17,881	18,084

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.

6. TAXATION

Group Recognised in profit and loss	2020 £'000	2019 £'000
Current income tax:		
Current tax on profit for the year	2,393	2,740
Adjustments in respect of prior years	(2)	(1,110)
Total current income tax	2,391	1,630
Deferred income tax:		
Origination and reversal of temporary differences	(307)	(1,395)
Adjustments in respect of prior years	(3)	(3)
Impact of change in deferred tax rate	3,564	-
Total deferred income tax (note 21)	3,254	(1,398)
Taxation	5,645	232

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% (2019: 19%). The differences are reconciled below:

Group Reconciliation of effective tax rate	2020 £'000	2019 £'000
Profit before income tax	11,160	11,446
Tax calculated at the UK standard rate of corporation tax of 19% (2019: 19%)	2,120	2,175
Effects of:		
Non deductible expenses	213	(3)
Income not taxable	(247)	(536)
Other timing differences	-	167
Initial recognition of losses brought forward	-	(458)
Adjustments in respect of prior years	(5)	(1,113)
Impact of change in deferred tax rate	3,564	-
Taxation	5,645	232

Future tax changes

The Finance Bill 2016 enacted a reduction in corporation tax rate to 17% with effect from 1 April 2020. This was the rate at which deferred tax was provided in the 2019 accounts. The Finance Bill 2020 confirmed that the rate of corporation tax will remain at the rate of 19% from 1 April 2020 (cancelling the enacted cut to 17%). As this change was enacted before year end by the passing of Budget Resolution on 17 March 2020, deferred tax is now provided at 19%.

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 £594,000 (2019: £1,537,000).

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	Right-of-use assets £'000	Total £'000
Cost								
At 1 April 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 (as previously reported)	149,408	176,283	3,785	1,892	555	68,842	-	400,765
Recognition of assets upon IFRS16 implementation (see note 28)	-	-	-	-	-	-	5,585	5,585
At 1 April (as restated)	149,408	176,283	3,785	1,892	555	68,842	5,585	406,350
Additions	-	-	116	794	12	30,236	474	31,632
Transfers	84,743	-	-	14,335	-	(99,078)	-	-
Disposals	(738)	-	-	-	-	-	-	(738)
Movement in decommissioning provision	-	(71)	-	-	-	-	-	(71)
At 31 March 2020	**233,413**	**176,212**	**3,901**	**17,021**	**567**	**-**	**6,059**	**437,173**
Accumulated depreciation								
At 1 April 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
Depreciation charge for the year	3,917	8,243	189	1,324	34	-	324	14,031
Disposals	(411)	-	-	-	-	-	-	(411)
At 31 March 2020	**61,152**	**77,442**	**3,406**	**1,596**	**530**	**-**	**324**	**144,450**
Net book value								
At 31 March 2020	**172,261**	**98,770**	**495**	**15,425**	**37**	**-**	**5,735**	**292,723**
At 1 April (as restated)	91,762	107,084	568	1,620	59	68,842	5,585	275,520
At 31 March 2019 (as previously reported)	91,762	107,084	568	1,620	59	68,842	-	269,935
At 1 April 2018	96,323	115,259	910	1,273	92	28,960	-	242,817

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 related 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 West Transmission Pipeline project. The value of these commitments is dependent upon the final determination by the Utility Regulator, expected in 2020/2021, and the outturn of actual construction costs paid by SGN. Payment in respect of these commitments is not due until April 2021.

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

Depreciation expense of £14,031,000 (2019: £13,038,000) has been fully charged to operating costs.

As noted on pages 95 to 96, the activities of the interconnector asset set out above are subject to the requirements of the system operators under the overarching market arrangements.

Company	Office and computer equipment £'000	Right-of-use assets £'000	Total £'000
Cost			
At 1 April 2018	247	-	247
Additions	21	-	21
At 31 March 2019 (as previously reported)	268	-	268
Recognition of assets upon IFRS16 implementation (see note 28)	-	161	161
At 1 April 2019 (as restated)	268	161	429
Additions	12	-	12
At 31 March 2020	**280**	**161**	**441**
Accumulated depreciation			
At 1 April 2018	210	-	210
Depreciation charge for the year	26	-	26
At 31 March 2019	236	-	236
Depreciation charge for the year	19	69	88
At 31 March 2020	**255**	**69**	**324**
Net book value			
At 31 March 2020	**25**	**92**	**117**
At 1 April 2019 (as restated)	32	161	193
At 31 March 2019 (as previously reported)	32	-	32
At 1 April 2018	37	-	37

Depreciation expense of £88,000 (2019: £26,000) has been fully charged to operating costs.

9. INTANGIBLE ASSETS

Group	Goodwill £'000	Licences £'000	Other Intangibles £'000	Total £'000
Cost				
At 1 April 2018	2,435	206,535	-	208,970
Additions	-	-	82,272	82,272
At 31 March 2019	2,435	206,535	82,272	291,242
Disposals	-	-	(123)	(123)
At 31 March 2020	**2,435**	**206,535**	**82,149**	**291,119**
Accumulated amortisation				
At 1 April 2018	-	68,010	-	68,010
Amortisation for the year	-	5,550	1,634	7,184
At 31 March 2019	-	73,560	1,634	75,194
Amortisation for the year	-	5,550	2,514	8,064
At 31 March 2020	**-**	**79,110**	**4,148**	**83,258**
Net book value				
At 31 March 2020	**2,435**	**127,425**	**78,001**	**207,861**
At 31 March 2019	2,435	132,975	80,638	216,048
At 1 April 2018	2,435	138,525	-	140,960

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 14 years, 32 years and 17 years respectively at 31 March 2020.

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

Other intangibles represents West Transmission Limited's entitlement to recover revenue in respect of capital contributions made to Phoenix Natural Gas Limited and to be made to SGN Natural Gas Limited to develop their gas networks in Northern Ireland.

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 2020, of 34.5 years.

Amortisation expense of £8,064,000 (2019: £7,184,000) has been fully charged to operating costs.

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 10 years, which matches the remaining duration of the Group's bond and therefore reflects the minimum 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 1.00% (2019: 1.95%) used is based on Bank of England UK yield curve data for a debt with a remaining maturity of 10 years. The inflation rate assumption used by the Group in these calculations of 3.27% (2019: 3.80%) has been obtained from Bank of England UK yield curves over a 10 year period.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

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

10. INVESTMENTS IN SUBSIDIARIES

Company	Subsidiary undertakings £'000
Cost and carrying amount	
At 1 April 2018	5,431
Reversal of impairment	1,890
At 31 March 2019	7,321
Reversal of impairment	942
At 31 March 2020	**8,263**

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

11. OTHER INVESTMENTS

Group	£'000
Cost and carrying amount	
At 1 April 2018	3,576
Fair value adjustment	1,785
At 31 March 2019	5,361
Repayment of capital	(3,323)
Fair value adjustment	624
At 31 March 2020	**2,662**

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 investments are expected to mature within the coming year therefore no discounting was applied in the current year. In the year ended 31 March 2019 the present value of estimated future cash flows were discounted at a rate of 7.9%, based on the real returns of similar portfolios of assets. The present value was determined to be £2,448,000 at 31 March 2020 (2019: £5,147,000), resulting in the reversal of previous impairments of £624,000 (2019: £1,785,000) which was recognised in net operating income in the profit and loss account.

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.

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Trade receivables	**5,797**	5,446	**-**	-
Prepayments	**2,149**	2,335	**68**	50
Accrued income	**9,060**	5,155	**-**	-
Other receivables	**8,352**	3,299	**40**	31
Trade receivables due from subsidiary undertakings	**-**	-	**1,867**	1,488
	25,358	16,235	**1,975**	1,569

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 as follows: i) trade receivables includes €403,000 due (£337,000 Sterling equivalent) (2019: €329,000 due (£286,000 Sterling equivalent)); and ii) accrued income includes €646,000 due (£574,000 Sterling equivalent) (2019: €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 (2019: £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.

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

13. INVENTORIES

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Spares	113	113	-	-

14. FINANCIAL ASSETS

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Non-current				
Cash deposits	-	150,420	-	-
	-	150,420	-	-
Current				
Cash deposits	200,994	36,338	3,016	-
Investments	-	9,888	-	-
	200,994	46,226	3,016	-
Total financial assets	200,994	196,646	3,016	-

15. CASH AND CASH EQUIVALENTS

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Cash and cash equivalents	89,322	109,972	701	3,776

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 0.85%.

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 2018	25,125
Total comprehensive income for the year	11,214
At 31 March 2019 (as previously reported)	36,339
Impact of change in accounting policy (see note 28)	30
At 1 April 2019 (as adjusted)	36,369
Total comprehensive income for the year	5,515
At 31 March 2020	**41,884**

Company	£'000
At 1 April 2018	(7,315)
Total comprehensive income for the year	1,537
At 31 March 2019 (as previously reported)	(5,778)
Impact of change in accounting policy (see note 28)	2
At 1 April 2019 (as adjusted)	(5,776)
Total comprehensive income for the year	594
At 31 March 2020	**(5,182)**

Included in the retained earnings for the Group is an amount of £1,874,000 (2019: £1,874,000) which we have agreed with the regulator will be applied to costs of future EU compliance projects.

18. INTEREST BEARING LOANS AND BORROWINGS

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Non-current				
5.2022% Guaranteed secured bond	53,626	58,169	-	-
2.9376% Index linked guaranteed secured bond	68,360	75,184	-	-
2.207% Index linked guaranteed secured bond	133,680	132,218	-	-
Index linked guaranteed secured notes	189,835	191,403	-	-
Lease liabilities	5,362	-	29	-
Amounts owed to group undertakings	-	-	-	10,250
	450,863	456,974	29	10,250
Current				
5.2022% Guaranteed secured bond	4,543	4,297	-	-
2.9376% Index linked guaranteed secured bond	8,929	9,535	-	-
2.207% Index linked guaranteed secured bond	2,088	1,895	-	-
Index linked guaranteed secured notes	8,797	6,109	-	-
Lease liabilities	270	-	69	-
Amounts owed to group undertakings	-	-	10,250	-
	24,627	21,836	10,319	-
Total borrowings	475,490	478,810	10,348	10,250

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 23), as these are repayable upon demand.

18. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

Group	Group £'000	Company £'000
Balance at 1 April 2018	290,119	10,250
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	10,250
Changes from financing cash flows		
Repayment of borrowings	(20,656)	-
Lease payments	(302)	(59)
Interest paid	(8,961)	-
Total changes from financing cash flows	(29,919)	(59)
Non cash changes		
Lease recognised upon implementation of IFRS16 (see note 28)	5,485	158
Increased lease payments	474	-
Lease interest	(24)	(1)
Interest expense	20,664	-
Total non cash changes	26,599	157
Balance at 31 March 2020	**475,490**	**10,348**

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 listed on the London Stock Exchange and 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 listed on the London Stock Exchange and 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.

18. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

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 listed on the London Stock Exchange and 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 £92,917,000 (2019: £103,469,000), the 5.2022% bond has a fair value of £70,192,000 (2019: £75,240,000), the 2.207% index linked bond has a fair value of £194,067,000 (2019: £213,625,000) and the index linked notes have a fair value of £181,254,000 (2019: £204,841,000). These fair values have been calculated by discounting the future contracted interest cash flows using a discount rate of -0.26% (2019: -0.37%) for the 2.9376% index linked bond, a discount rate of 1.82% (2019: 2.16%) for the 5.2022% bond, a discount rate of -0.20% (2019: -0.78%) for the 2.207% index linked bond and a discount rate of 0.00% (2019: -0.73%) for the index linked notes. The discount rates used reflect the maturity profile of the Group's borrowings. The prior year discount rate and fair value for the 5.2022% bond have been restated to present an appropriate stand-alone fair value of the bond which excludes all economic impacts of Premier Transmission Financing plc's related derivative which were previously considered in the discounting mechanism for the bond fair value. The current effective interest rate, inclusive of interest and Retail Price Index indexation, for the 2.9376% index linked bond is 3.28%, the 5.2022% bond is 5.49%, the 2.207% index linked bond is 2.18% and the index linked notes is -0.59%. 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% (2019: 3.52%) and are repayable by 31 March 2033.

Lease liabilities represent future payments in respect of non-cancellable Crown Estate and property leases and were initially recognised using the modified retrospective approach at 1 April 2019 upon the implementation of IFRS 16: Leases (see note 28). Further information on these leases can be found within note 19.

19. LEASES

The Groups hold a number of Crown Estate leases which gives exclusive right to use and maintain the cables and pipelines which are on or under the seabed.

Moyle Interconnector Limited's Crown Estate lease was entered into in 2001 and runs to 31 March 2100, with a right to cancel with 12 months' notice from 31 March 2031. Lease payments are subject to review in 2027 and 2057. The lease provides for uplifts on rent payments every 5 years in line with changes in the Retail Prices Index. There are no extension options for any period after 31 March 2100. The Group is restricted from entering into any sub-lease arrangements in relation to this lease.

Premier Transmission Limited's Crown Estate lease was entered into in 1996 and runs to 30 September 2035 but allows for further extension, with terms to be agreed upon extension. The Group is reasonably certain these contracts will be extended in line with the useful life of its pipeline and costs for this extended term have been assumed in line with the current costs. The lease provides for uplifts on rent payments every 3 years in line with changes in the Producer Price Index. The Group is restricted from entering into any sub-lease arrangements in relation to this lease.

19. LEASES (CONTINUED)

Belfast Gas Transmission Limited's Crown Estate leases were entered into in 2008 and run to 31 December 2051 but allow for further extension, with terms to be agreed upon extension. The Group is reasonably certain these contracts will be extended in line with the useful life of its pipeline and costs for this extended term have been assumed in line with the current costs. Lease payments are subject to review in 2031 and 2043. The lease provides for uplifts on rent payments every 3 years in line with changes in the Retail Prices Index. The Group is restricted from entering into any sub-lease arrangements in relation to these leases.

Mutual Energy Limited holds separate property leases for two floors in its office building. These leases were entered into in 2016 and 2017 and run to 31 July 2016 and 31 December 2022. Both leases include termination options at 31 July 2021 and non-cancellable periods after this date have not been recognised within right-of use assets or liabilities as there is insufficient certainty that the leases will continue past this date.

These leases were previously classified as operating leases under IAS 17.

The Group leases parking spaces and wayleaves which are short-term and has elected not to recognise right-of-use assets and lease liabilities for these leases.

Leases were initially recognised upon the implementation of IFRS 16, using the modified retrospective approach, at 1 April 2019: Leases (see note 28). Information about leases for which the Group is a lessee is presented below.

RIGHT-OF-USE ASSETS

The right-of-use assets, as presented in property, plant and equipment (see note 8), relate to the Crown Estate and property leases noted above. A breakdown of the movements by category is presented above right.

Company	Crown Estate Leases £'000	Property Leases £'000	Total £'000
Cost			
At 1 April 2019	5,424	161	5,585
Additions	474	-	474
Depreciation	(255)	(69)	(324)
At 31 March 2020	**5,643**	**92**	**5,735**

AMOUNTS RECOGNISED IN THE PROFIT OR LOSS

The following amounts have been recognised in profit or loss for which the Group is a lessee:

2020 - Leases under IFRS 16	£000
Depreciation expense in respect of right-of-use assets	324
Lease liabilities interest income	(24)
Expenses relating to short-term leases	12

2019 - Operating leases under IAS 17	£000
Lease expense	323

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

	2020 £000
Total cash outflow for leases	302

20. PROVISIONS

Group	Decommissioning provision £'000
At 1 April 2018	3,008
Cost adjustments through property, plant and equipment	55
Unwinding of discount during the year	49
At 31 March 2019	3,112
Cost adjustments through property, plant and equipment	(71)
Unwinding of discount during the year	29
At 31 March 2020	**3,070**

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the interconnector in 12 years, at the end of its useful economic life. This provision is expected to be utilised within 12 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 0.50% (2019: 1.22%) that reflects the maturity profile of the Group's provisions.

21. 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	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Deferred tax assets	**7,096**	7,172	**48**	46
Deferred tax liabilities	**(40,652)**	(37,467)	**-**	-
Deferred tax (liabilities)/assets – net	**(33,556)**	(30,295)	**48**	46

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 2018	(31,693)	52
Recognised in profit and loss	1,398	(6)
At 31 March 2019 (as reported)	(30,295)	46
Impact of change in accounting policy (see note 28)	(7)	(1)
At 1 April 2019 (as adjusted)	(30,302)	45
Recognised in profit and loss	(3,254)	3
At 31 March 2020	**(33,556)**	**48**

21. 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 2018	-	(14,776)	(23,549)	6,632	(31,693)
Recognised in profit and loss	248	197	661	292	1,398
At 31 March 2019 (as reported)	248	(14,579)	(22,888)	6,924	(30,295)
Impact of change in accounting policy (see note 28)	-	(7)	-	-	(7)
At 1 April 2019 (as adjusted)	248	(14,586)	(22,888)	6,924	(30,302)
Recognised in profit and loss	(248)	(1,394)	(1,784)	172	(3,254)
At 31 March 2020	**-**	**(15,980)**	**(24,672)**	**7,096**	**(33,556)**

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 £23,142,000 (2019: £21,946,000). 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.

22. GOVERNMENT GRANTS

Group	£'000
At 1 April 2018	57,931
Amortised during the year	(3,409)
At 31 March 2019	54,522
Additions	28,106
Amortised during the year	(3,900)
At 31 March 2020	**78,728**

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 with the exception of West Transmission Limited where works which are grant aided are ongoing. The current portion of the government grants is £4,063,000 (2019: £3,409,000), and the non-current portion is £74,665,000 (2019: £51,113,000).

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Trade payables	6,632	1,353	32	40
Accruals	7,237	5,591	836	779
Deferred income	534	492	-	-
Taxation and social security	1,638	1,937	89	66
Other payables	132,386	158,474	-	-
Trade payables due to related parties	-	-	7,997	7,387
	148,427	167,847	8,954	8,272
Less amounts falling due after one year: Other payables	(123,950)	(121,713)	-	-
	24,477	46,134	8,954	8,272

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 €1,579,000 owed (£1,411,000 Sterling equivalent) (2019: €1,605,000 owed (£1,380,000 Sterling equivalent)); and ii) deferred income includes €786,000 owed (£699,000 Sterling equivalent) (2019: €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.

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	
	2020 £'000	2019 £'000
Subsidiary undertakings – current assets	1,867	1,488
Subsidiary undertakings – current liabilities	(18,247)	(7,387)
Subsidiary undertakings – non-current liabilities	-	(10,250)

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 current liabilities shown above (2019: within non-current liabilities).

Company	Nature of transaction	Value of transaction	
		2020 £'000	2019 £'000
Subsidiary undertakings	Interest payable	(611)	(594)
Subsidiary undertakings	Group relief surrendered	85	88
Subsidiary undertakings	Charges receivable	3,816	3,749

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

Group	2020 £'000	2019 £'000
Short term employee benefits	617	598
Long term employee benefits	135	106
Post-employment benefits	31	37

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	Financial liabilities at amortised cost
Derivative financial instruments	Fair value through profit or loss
Trade and other payables	Financial liabilities at amortised cost

DERIVATIVE FINANCIAL INSTRUMENTS

During the period ended 31 March 2006 the Group entered into two index-linked based swaps, 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 2018	40,920
Fair value adjustment	1,544
Liability at 31 March 2019	42,464
Fair value adjustment	(3,557)
Liability at 31 March 2020	**38,907**

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.

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 2020 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	11,265	10,780	8,675	7,833	7,383	45,607	91,543
5.2022% Bond and associated derivatives	9,606	9,797	9,990	10,188	10,390	55,130	105,101
2.207% Index linked bond	5,074	5,175	5,280	5,385	5,492	161,571	187,977
Index linked notes	7,762	5,175	5,175	5,175	5,175	152,658	181,120
Lease liabilities	248	273	243	234	234	4,104	5,336
Trade and other payables	22,305	123,950	-	-	-	-	146,255
	56,260	155,150	29,363	28,815	28,674	419,070	717,332

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

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 2020 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
Lease liabilities	68	30	-	-	-	-	98
Trade and other payables	8,865	-	-	-	-	-	8,865
	19,183	30	-	-	-	-	19,213

25. FINANCIAL INSTRUMENTS (CONTINUED)

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

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 FINANCING PLC

The group operates the high pressure gas transmission pipeline which supplies the gas distribution network in the West of Northern Ireland and a gas transmission offtake at Maydown.

The licence arrangement allows full recovery of its operating expenses, financing costs and repayment of borrowings. 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 for the construction of the pipeline 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 £4,040,000 (2019: £3,483,000).

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.

25. FINANCIAL INSTRUMENTS (CONTINUED)

(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 within this note.

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 sum of the fund managers independent valuations of the remaining assets within the fund in accordance with EVCA valuation guidelines. These unrealised investments are recognised at fair value considering the levels of uncertainty associated with the investment and are valued using one or a combination of the following methods:

1 The price or cost of recent investments; 2 Industry valuation benchmarks; 3 Recent offers received; and 4 Contractual commitments; and adjusted to account for fund managers fees. As the investments are now expected to mature in the coming year, no discounting was required. In the prior year, the valuation was based on our share of the projected cash flows for each individual project which combine to constitute the financial instrument. The cash flows were derived from the IRRs estimated by the fund manager. The project cash flows were 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 1.125 in the current year.

25. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE ESTIMATION (CONTINUED)

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

26. ULTIMATE CONTROLLING PARTY

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

27. SUBSEQUENT EVENTS

During the first quarter of 2020/21 COVID-19 impacted more widely on society. This gave rise to many businesses temporarily closing.

The once in a lifetime COVID-19 event has had and will continue to have a significant impact on society and the economy. Some energy customers have been placed in particular hardship, having lost business revenue or lost employment. In light of this and having fully considered its required cash reserves, Moyle Interconnector Limited proposed releasing £3.8m of cash reserves to assist energy customers and is currently working with the regulator to determine the process of applying this cash to reduce electricity tariffs.

Remote working arrangements are in place for all office staff. Field operations have been temporarily reduced to essential maintenance and surveillance. Practices have been updated as appropriate to enable seamless continuation of critical operations and ensure social distancing and appropriate PPE is in place. The changing demand on the transmission system has been navigated with minimal impact on operations.

There were no other subsequent events that need to be brought to the attention of the users of the financial statements.

28. CHANGES IN ACCOUNTING POLICIES

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated interim financial statements.

The Group applied IFRS 16 with a date of initial application of 1 April 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

The Group applied IFRS 16 using the modified retrospective approach. The details of the changes in accounting policies are disclosed below.

DEFINITION OF A LEASE

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease as explained in Note 1.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed to determine whether there is a lease.

AS A LESSEE

As a lessee, the Group previously classified leases as operating or financing leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases i.e. these leases are included on the balance sheet.

28. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

LEASES CLASSIFIED AS OPERATING LEASES UNDER IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental rate of borrowing as at 1 April 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued payments.

As a practical expedient to applying IFRS 16 the Group used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

IMPACTS ON FINANCIAL STATEMENTS

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities, recognising the difference in prepayments or retained earnings. The impact on transition is summarised below:

Group	1 April 2019	
	Group £'000	Company £'000
Right-of-use asset presented in plant, property and equipment	5,585	161
Lease liabilities	(5,485)	(158)
Prepayments	(63)	-
Retained earnings	(30)	(2)
Deferred tax	(7)	(1)

When measuring lease liabilities the Group discounted lease payments using its incremental borrowing rate at 1 April 2019. The incremental borrowing rates applied to the leases within the Group companies ranged from -0.41% to -0.93%.

	1 April 2019	
	Group £'000	Company £'000
Operating lease commitment at 31 March 2019 as disclosed in the Group's consolidated financial statements	12,015	194
Termination options reasonably certain to be exercised	(8,508)	(42)
Prior year adjusted non-cancellable lease liabilities	3,507	152
Extension options reasonably certain to be exercised	1,650	-
Additional leases recognised	36	-
Effect of discounting at each company's incremental borrowing rate at 1 April 2019	292	6
Lease liabilities recognised at 1 April 2019	5,485	158

Termination options reasonably certain to be exercised relate to cancellable periods under the lease which extend beyond the useful life of the Group's assets. It is considered reasonably certain that the lease will be terminated at the end of the useful life of the Group's assets. The opening operating lease commitment has been reduced to correctly amend the non-cancellable period as previously disclosed to the first available break clause in the lease.