mutualenergy

2021
ANNUAL REPORT

Annual Report & Financial Statements
for the year ended 31 March 2021

mutual-energy.com

A Northern Ireland company **working for consumers**

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DIRECTORS & ADVISERS

DIRECTORS

Patrick Anderson	Non-Executive Director
David Gray	Chair
Patrick Larkin	Executive Director
Gerard McIlroy	Executive Director
Michael McKernan	Non-Executive Director
Kate Mingay	Senior Independent Director
Christopher Murray	Non-Executive Director
Ceri Richards	Non-Executive Director

COMPANY SECRETARY

Gerard McIlroy

REGISTERED OFFICE

First Floor
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85 Ormeau Road
Belfast, BT7 1SH

PRINCIPAL PLACE OF BUSINESS

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Belfast, BT7 1SH

SOLICITORS

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

BANKERS

Barclays plc
Donegall House
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INDEPENDENT AUDITORS

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

CHAIR'S STATEMENT

The 2020/21 year proved to be a challenging year for everyone and Mutual Energy was no exception, as we were faced with the COVID-19 pandemic, Brexit uncertainty and the start of the Department for the Economy ('DfE') process to begin the reshaping of energy policy in Northern Ireland to transform the economy to a net zero future. Despite these challenges, I am pleased to report that the business performed very well, both operationally and financially.

COVID-19

The COVID-19 crisis impacted our workforce, contractors, work scheduling, customer demand profiles, energy market prices and ultimately the price difference between GB and Ireland that drives electricity flows between the two markets. Our staff coped admirably and their preparation work on business continuity planning paid off, with a seamless move to home working, and our contractors executed the planned segregation of control room staff shifts from all other employees. Whilst on-site maintenance work was affected, delaying reinstatement in the Gas to the West asset for example, the majority of planned maintenance work was completed in the year or rescheduled if this were more appropriate. Throughout the period the gas network maintained its 100% availability and the electricity interconnector continued its excellent performance, recording 99.7% availability in the year.

Safety standards were maintained throughout the pandemic, with the safety risk of infection added to our risk assessment and changes to our working patterns implemented accordingly. Our staff experienced no "lost time incidents" in 2020/21 and we continued our drive for improved safety in our own operations and the operations of our contractors. The Risk Committee interacted very positively with the Health and Safety Management committee through the year, providing a clear link to the main Board for all these matters.

MARKET DISRUPTION

COVID-19 greatly disrupted the energy markets. Demand for electricity and gas from industry, the leisure and hospitality sectors fell. Demand for transport also fell significantly, driving lower oil and gas prices which fed back to the energy sector.

Throughout the period the gas network maintained its 100% availability and the electricity interconnector continued its excellent performance, recording 99.7% availability in the year.

In our gas business there was an initial fall in demand, but later in the year the increase in domestic demand driven by working from home coupled with strong gas demand in the generation sector led to our record demand day of over 79GWh on 10th February 2021.

In our electricity business the low demand led to low and converging prices in the GB and Ireland markets, with the interconnector switching directions frequently as the market with the higher price kept changing. The low demand meant that the proportion of wind generation in Ireland was higher and the interconnector was needed, both to export the wind power to GB and to provide support services to the grid on both sides.

As we approached the end of our financial year this disruption was compounded by the change in trading arrangements between GB and Ireland driven by the late agreement of the Trade and Cooperation Agreement between the UK and the EU. As a result the interconnector flows are now determined by "within day" markets, rather than the "day ahead" markets until a new enduring arrangement, as envisaged by the Trade and Cooperation Agreement, is put in place in 2022 or 2023. As the within day market is much less liquid it has, as we anticipated, not been as efficient as the day ahead market at determining interconnector flows.

CHAIR'S STATEMENT (CONTINUED)

Despite these headwinds the multi-faceted ability of the interconnector, as both a provider of grid support services, which we refer to as "ancillary services", and a transporter of power from one market to another, enabled the electricity business to deliver for customers. Indeed the increased revenue from ancillary services more than offset the effects of the disruptions to power transfer revenue and the electricity business recorded a second consecutive year of record commercial income.

RESHAPING THE ENERGY MARKETS OF NORTHERN IRELAND

The Board completed its long-term review of strategy in January 2021 by formally agreeing to add a decarbonisation objective to our work. Our existing objectives, encompassing running the assets efficiently, delivering savings to consumers, managing market change and acquiring new assets to the benefit of customers have all been retained with some minor modifications. More detail is contained on pages 8 to 41 and, as you can see, despite the strategy change being agreed quite late in the year, a significant amount of work is underway already. The process of changing our strategy was two years in the making and I would like to thank the executive and my Board colleagues for all their input. Throughout we have been concentrating on what was best for the Northern Ireland consumer, and have focussed on the cost and achievability of various options.

We fully recognised the difficulties faced by families and businesses in the face of the measures taken to combat COVID-19 and we concluded that we were in a position to return some of our cash resources to consumers.

We believe wholeheartedly that both electricity and gas networks can and should be decarbonised and that the industry must reach out to provide solutions to new customers in areas such as transport, agriculture and heavy industries.

Ultimately the policy will be decided by the Department for the Economy and the implementation frameworks by the Utility Regulator, and these will guide the areas we become involved with, but ultimately we intend to apply the expertise existing in our business to collaborate as appropriate to deliver progress on what are very challenging targets.

LOOKING OUT FOR CUSTOMERS

In the long term, the Group's effort to try to influence the discussions on energy transition are one of the most important aspects of looking after the interests of consumers. With many vested interests and the sheer scale and cost of the various initiatives needed to progress decarbonisation it is important that the Mutual Group participate fully and provide an industry voice acting for consumers rather than shareholders.

As indicated last year, we fully recognised the difficulties faced by families and businesses in the face of the measures taken to combat COVID-19 and 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. There was no immediately available mechanism to achieve this but we were able to agree a way forward to allow a tariff reduction which results in c£3.8m to be returned to customers. This came into effect in October 2020 and the 2020/21 financial year saw a £2.0m rebate to customers as a result, with the remainder to flow between April and September 2021. The Board keep a close eye on the level of cash reserves needed to fulfil our financing commitments, provide liquidity against unexpected events and meet future capital replacement programs. We are pleased that for most years we have been able to provide the services of Moyle Interconnector without charging a tariff to consumers and will look for the opportunity to contribute to actually reducing customer tariffs in the future.

CHAIR'S STATEMENT (CONTINUED)

STAFF & STAKEHOLDERS

The strong financial results and operating availability outlined in this report could not have been achieved without the efforts and achievements of a highly motivated staff and a positive interaction with our key stakeholders. I would like to thank all members of staff for their hard work and commitment. The ethos of performing with the interests of Northern Ireland energy consumers our central focus is well established and will be of utmost importance in our engagement with both the DfE and the Utility Regulator as the key challenges and choices to achieve decarbonisation are faced in the next decade and beyond. We look forward to working with these key stakeholders to rise to the challenges in this era of change.

Finally, I would like to thank the members of the Group and my colleagues on the Board for their commitment and support. Our members provide both a valuable sounding board to determine priorities for the Northern Ireland consumer and an overall oversight function. The key strategic decisions rest with the Board, and we are very fortunate to have highly experienced and very capable Directors, both Executive and Non-Executive. In particular I would like to thank Kate Mingay, our Senior Independent Director, who retires from the Board before this year's AGM for her insightful input to all Board discussions and participation in a number of Board committees during her period of membership. Chris Murray will take on the role of Senior Independent Director, while Ceri Richards will become Chair of the Remuneration Committee. Ceri joined the board a year ago and the handover period this allowed has been invaluable in helping Ceri become familiar with the main processes of the committee.

David Gray
Chair
1 July 2021

OUR STRATEGY AND BUSINESS MODEL

Over the last two years the business has conducted an extensive review of its role in what we refer to as the energy transition – the change to an energy system that has net zero carbon emissions by 2050. Whilst the Department for the Economy ('Dfe') is determining policy in this area and is targeting September 2021 for proposing the overall policy framework, the business decided that a change in strategic direction was needed before then.

Having consulted with staff and members, the business formally revised its strategy in January 2021 to explicitly include a new objective to collaborate with key stakeholders in the acceleration of decarbonisation.

The existing strategy aims were retained with minor modifications and the following diagram explains the strategy as adopted in the year:

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 current and future Northern Ireland consumers over the life of the assets

3. Collaborate with key stakeholders in the acceleration of decarbonisation

4. Manage market change and regulatory developments to minimise risk to the Northern Ireland consumer

5. Over the long term to acquire stable energy infrastructure assets at low cost to benefit the Northern Ireland consumer

Our strategy and performance measures are discussed in more detail on pages 14-19.

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 21-22 & 31-33)
Cost savings (see pages 24 & 35)
Decarbonisation (see pages 26-27 & 37)
Market environment (see pages 29 & 39)
Infrastructure acquisition (see page 41)

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 44-46)
Governance structure (see pages 52-57)
Financial Statements (see pages 92-135)

2020/21 HIGHLIGHTS

OPERATE ASSETS SAFELY AND COST EFFECTIVELY, OUTSOURCING WHERE APPROPRIATE

16.6TWh

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

1.1TWh

14.5% of Northern Ireland's electricity demand supplied by Moyle Interconnector

0.9TWh

Electricity exported by Moyle

100%

Gas asset availability

99.7%

Availability on the Moyle Interconnector

24

Moyle fast responses to support the NI electricity system

DELIVER SAVINGS TO CURRENT AND FUTURE NORTHERN IRELAND CONSUMERS OVER THE LIFE OF THE ASSETS

c£3.8m

To be returned to customers from Moyle over the 2020/21 electricity tariff year

£2.0m

Returned to gas shippers in January 2021

0

Continuation of zero direct tariff charges to customers from Moyle, whilst investing £11.1m to improve the interconnector's ability to serve the customers' needs

TAKE AN ACTIVE ROLE IN COLLABORATION WITH KEY STAKEHOLDERS IN THE ACCELERATION OF DECARBONISATION THROUGH INTERVENTIONS AND INVESTMENTS WHICH BENEFIT NORTHERN IRELAND ENERGY CONSUMERS

CORE ACTIVITY

New domestic gas connections facilitated, resulting in lifetime saving of over 150,000 tonnes CO_2

Industrial and commercial gas customers saved over 200,000 tonnes CO_2 in the year compared to using oil

Over 51,000 tonnes of carbon emissions avoided in the year due to the use of Moyle to allow connected Transmission System Operators ('TSOs') to access cleaner generation in the neighbouring market[1]

PREPARING FOR THE FUTURE

Energy Transition team appointed to lead the Group's contribution to Net Zero

Gas industry stakeholders group formed to co-ordinate decarbonisation efforts

DEMONSTRATION PROJECTS

Active participation in Hylight program to research the path to a hydrogen economy in Ireland

Participation in Belfast Power to X project

[1] Source: electricityMap, © tmrow.com

MANAGE MARKET CHANGE AND REGULATORY DEVELOPMENTS TO MINIMISE THE RISK TO THE NORTHERN IRELAND CONSUMER

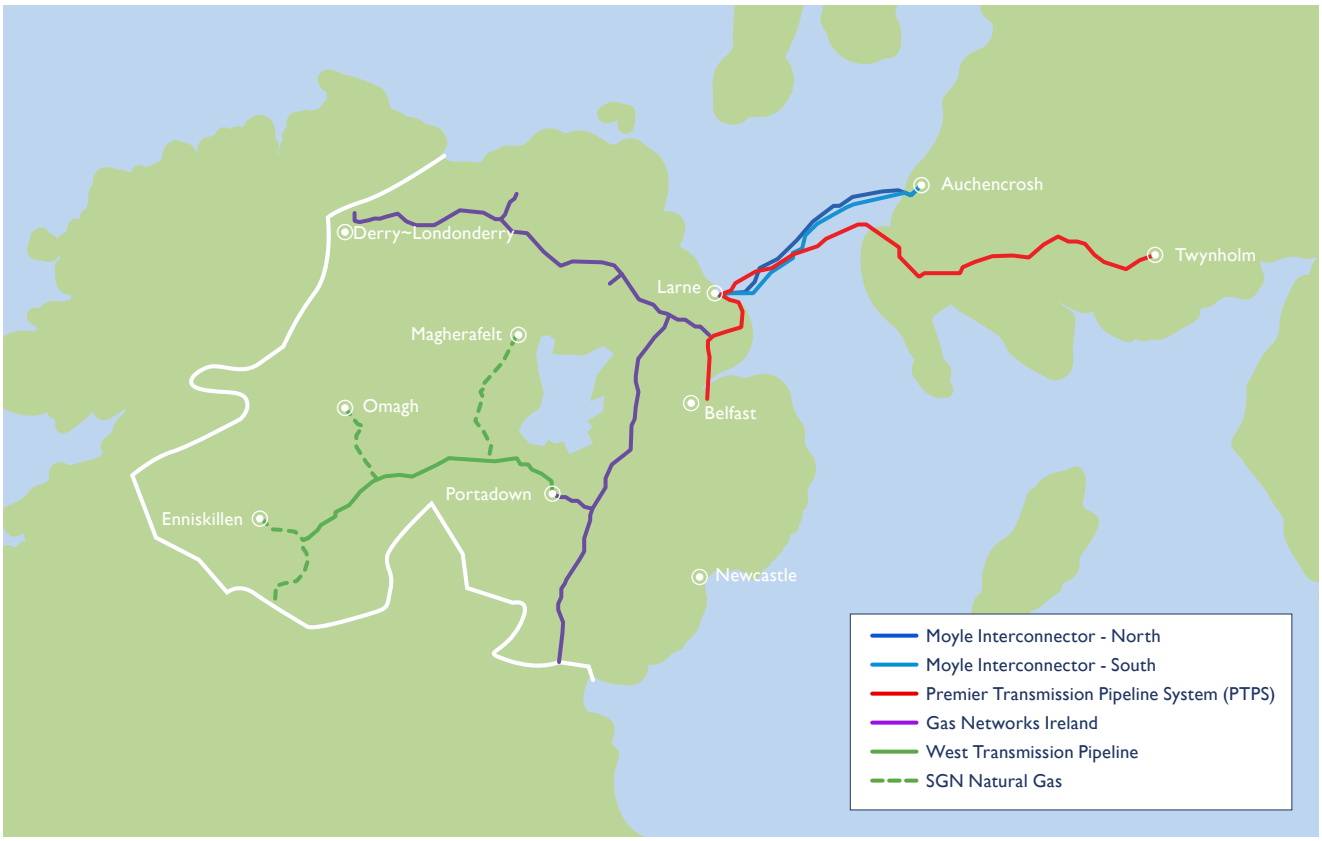
Post Brexit fallback arrangements implemented to maintain price coupling between SEM and GB.

Work underway to develop new trading arrangements as required by the EU-UK Trade and Cooperation Agreement

Capacity market contracts secured and delivered upon to support security of supply in both SEM and GB out to 2025

OVER THE LONG TERM TO ACQUIRE OR DEVELOP STABLE ENERGY INFRASTRUCTURE ASSETS AT LOW COST TO THE CONSUMER TO BENEFIT THE NORTHERN IRELAND CONSUMER

Gas to the West asset integrated into existing network



BUSINESS STRUCTURE

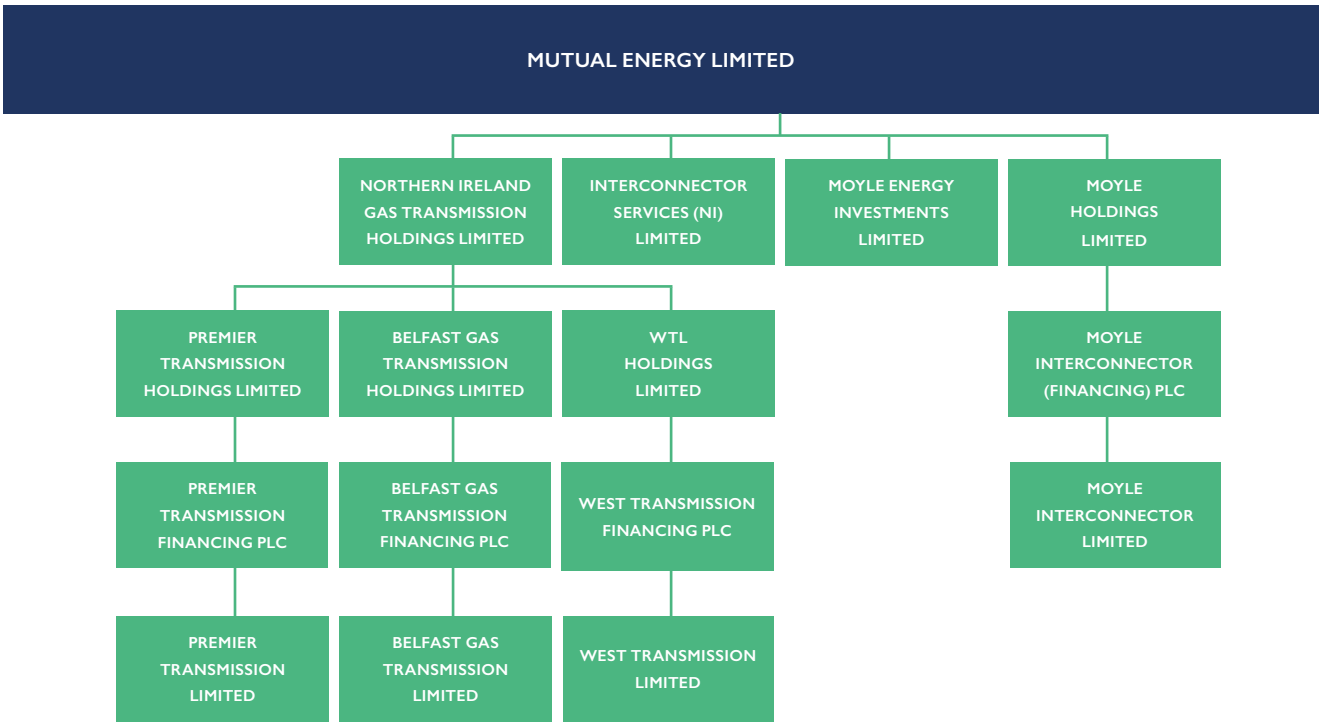
Mutual Energy owns the strategically important energy links between Northern Ireland (NI) and Great Britain (GB) along with a substantial portion of the Northern Ireland gas transportation network. The extent of our network is shown in the diagram above.

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 borrowings held by the Group have competitive real interest rates with the overall average WACC of the Group currently circa 1.2%. The Group is structured with its gas assets held by subsidiaries of Northern Ireland Gas Transmission Holdings and its electricity assets held by subsidiaries of Moyle Holdings Limited. Other subsidiaries facilitate the provision of common services throughout the Group and the management of some of the reserves.

BUSINESS STRUCTURE (CONTINUED)

The Group's structure can be seen in the diagram below:



The Group is financed by borrowings made at the level of the four plcs in the diagram. The Group's principal stakeholders are the energy consumers of Northern Ireland and the financiers of its debt-financed subsidiaries.

The principal risks affecting the business are discussed on pages 44 to 46. More information regarding our customers, stakeholders and staff can be found on pages 42 and 43.

STRATEGIC OBJECTIVES

Our strategy is made up of five 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 21-22 and 31-33.	Our success measures include: • availability targets for our assets (KPI 2); • operational savings against forecast (KPI 3); • lost time incidents (KPI 4) 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 35.	Our measures of success include: • operational savings against forecast (KPI 3); • cost of capital of Mutual Energy vs NI comparator (KPI 5); and • cash generated from operations (KPI 6).

STRATEGIC OBJECTIVES (CONTINUED)

Strategy		How We Deliver	How We Measure Success
	**Decarbonise** Take an active role in collaboration with key stakeholders in the acceleration of decarbonisation through interventions and investments which benefit NI energy consumers	The Group's strategy is to adapt its structure and focus of the business to rise to the challenge of facilitating the decarbonisation of both the gas and electricity networks in Northern Ireland and facilitating customers who wish to use the networks as a means of decarbonising other sectors. We will also target the CO_2 content of the electricity and gas transported on our networks, playing our part in reducing this by facilitating the connection of both customers and producers. Decarbonisation is discussed in more detail on pages 26-27 and 37.	A key factor to enable decarbonisation is the ability of system operators to balance the network and generators to respond flexibly to changes in renewable generation. Success is measured by the flexibility we will be able to supply our customers. In electricity this is the volume and type of services we provide to the grid (see page 31). In our gas businesses the flexibility we provide is measured by the rate of change we facilitate, and the volume of capacity we can make available. We also monitor the domestic connections made to the transmission network and calculate the CO_2 saving (KPI 1) made by these connections over a 15 year period, as well as monitoring the annual CO_2 savings made by industrial consumers compared to using oil (see page 26). Finally, we aim to reduce the emissions in our own business by determining a baseline and targeting reductions.
	**Manage market change** Manage market changes to minimise risks to NI 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 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 29 and 39.	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 7).

STRATEGIC OBJECTIVES (CONTINUED)

Strategy		How We Deliver	How We Measure Success
	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 41.	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 8).

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. CO_2 Savings The Group can contribute to the reduction in CO_2 by facilitating changes on its network to allow: 1. consumers to move from higher CO_2 emitting fossil fuel to lower emitting fossil fuels; 2. lower or zero emission fuels to transport through the networks; and 3. different industry types, such as transport, to access electricity or natural gas to lower their CO_2 emissions. In addition the Group will seek to minimise the emissions from its own operations, encompassing operational activity, transport and other activities ancillary to running the business. The total of the CO_2 savings is the KPI for this activity and a graph showing the results can be found on page 26.	**CO_2 savings from moving to lower emitting fossil fuels** ***Domestic heating*** The lifetime saving associated with a connection is calculated using Northern Ireland average consumption and applying CO_2 conversion factors for oil vs gas based on UK government figures over an assumed 15 year life. The total for the year is calculated by multiplying by the number of new domestic gas connections in the year using figures from the Utility Regulator ('NIAUR') Quarterly Transparency Reports. ***Industrial and commercial*** The annual CO_2 saving from industrial and commercial customers burning natural gas compared to CO_2 emissions which would have been generated had the customers been operating on oil. The annual consumption from medium and large industrial and commercial customers on the Northern Ireland network is taken from the quarterly transparency report from NIAUR and the CO_2 savings are calculated by applying CO_2 conversion factors for oil vs gas based on UK government figures. ***Power generation*** The annual CO_2 saving of connecting a unit to the gas network is the emissions of the gas burned in a year compared to the emissions that would have been generated had that unit been operating on another fuel. The comparison fuel is power station specific, and dependent on its historic fuel and the calculation uses the UK Government GHG Conversion factors as appropriate. Where the capacity of a unit has changed as part of the gas conversion process, we only compare new emissions to the lower of the old and new generation capacity. Only plant connected in the timeframe Mutual Energy owned the pipelines are included.

KEY PERFORMANCE INDICATORS ("KPIs") (CONTINUED)

Key Performance Indicator	Definition of KPI
1. CO_2 Savings (continued)	**Lower or zero emission fuels to transport through the networks** ***Biomethane injection*** CO_2 savings from connecting low CO_2 gas producers are calculated by comparing the CO_2 content of gas from the UK Government to the content of the gas injected. ***Electricity interconnector*** To calculate the CO_2 savings associated with the Moyle Interconnector, the calculation determines the carbon intensity of each system by weighting the carbon emissions per MW of the marginal unit by the proportion of non-renewable generation on the system in each hour time period. It then multiplies this difference in the carbon emissions per MW by the actual flow on Moyle. This gives the total carbon savings of Moyle each hour. We then sum these hourly figures across the year to give total CO_2 savings resulting from Moyle. **CO_2 saved in Group operations** These are calculated in accordance with guidance provided by the Department of Business, Energy and Industrial Strategy ('BEIS'), for conversion of different fuel types, to calculate the CO_2 usage.
2. 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 21 and 33.	**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.
3. 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 24.	**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.
4. Lost time incidents Our safety is measured by the safe operation of our staff and contractors as noted on pages 21 and 33.	**Lost time incidents** Lost time incidents are calculated as the number of lost time incidents per 100,000 hours worked by staff and contractors.

KEY PERFORMANCE INDICATORS ("KPIs") (CONTINUED)

Key Performance Indicator	Definition of KPI
5. 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 35.	**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.
6. 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 24 and 35.	**Cash generated from operations** Cash generated in each of the businesses post tax.
7. 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 29.	**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.
8. 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 22 and 32.	**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)

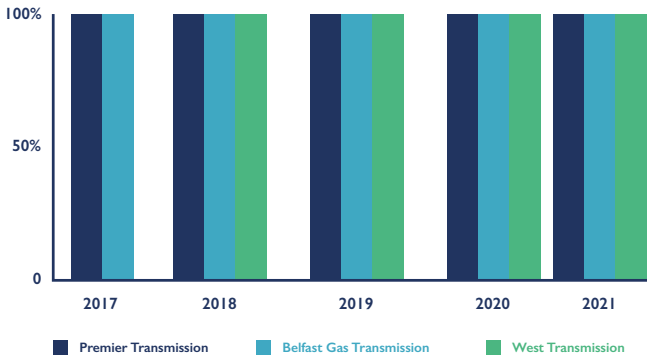
OPERATIONAL PERFORMANCE

The current year saw the daily gas demand exceed the previous peak on three separate days with the new peak day demand now set at 7.08mscm/day on 10th February 2021.

There were no supply issues in GB and no operational issues with our gas transmission network so we are very pleased to have maintained the availability of the gas system through the year at 100% (KPI 2). The expansion of the distribution sector continues apace with over 10,000 additional domestic connections in the 9 months to 31 December 2020 (Q1 2021 was not available at the time of writing) with an approximate lifetime CO_2 emissions saving of over 100,000 tonnes. Although the distribution sector is growing, the annual consumption of gas for the power generation sector has decreased with intermittent renewables contributing more to the electricity mix. That said, the peak daily requirement for power generation remains at the same levels on the days the renewables are not available. Our gas network must remain flexible to provide fuel for the power generation needed to complement the intermittent renewables. This flexibility will be tested further with the increasing reliance which will be placed upon the use of gas as a back-up fuel in the future, as seen by the formal connection request for circa 650MW of gas-powered plant at Kilroot. This will start to contribute to peak daily gas requirements from 2023 at which stage we envisage NI's peak day demand will exceed 8.08mscm/day, which our network makes available, and the second supply point into NI will be utilised on a commercial basis.

There were no lost time incidents in the year (KPI 4).

The restrictions resulting from the COVID-19 pandemic at the start of the financial year did cause some maintenance and inspections to be rescheduled, but all were completed by year end. Surveys of the submarine pipelines including the Belfast and Larne Lough crossings were unaffected and we actually employed a new more cost effective and innovative technique. We continued the roll out of the replacement control computers on the sites and completed detail design and procurement of the materials necessary to decommission the pre-heat and regulating equipment that supplied the now retired Ballylumford 'B Station'. The Gas to the West assets have been fully operational and available for just under two years. The reinstatement of the ground along the pipeline corridor and return to the landowners was delayed by the initial COVID-19 restrictions; relying upon dry weather, this work was deferred to 2021 and is now ongoing.



KPI 2: Gas business availability

GAS BUSINESS REVIEW (CONTINUED)

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 £2.0m below the forecasts used for predicting tariffs (September 2019: £3.6m below) (KPI 3).

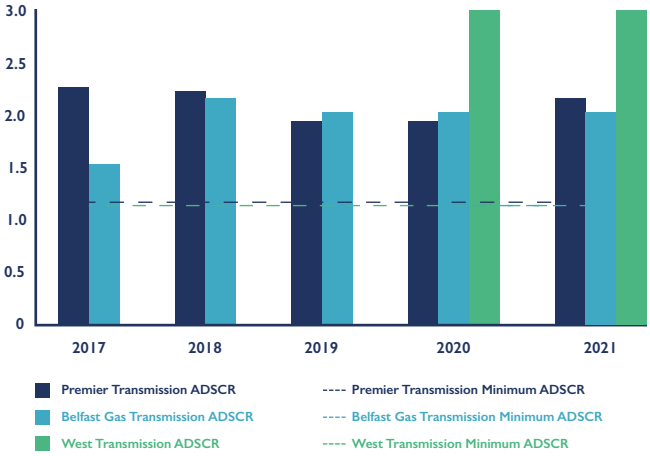
The businesses are cash generative and able to meet their debt service obligations, though because of the debt structures they are not expected to be profitable in the earlier years when interest costs incurred are in excess of debt repayments. This situation will then reverse in later years.

For Premier Transmission and Belfast Gas Transmission, 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 began servicing its debt in the gas year ended 30 September 2019, so its ADSCR was first calculated in the year ending 31 March 2020.The ADSCRs for the gas businesses can be seen in the following graph.

FUTURE DEVELOPMENT - ASSET PERFORMANCE AND UTILISATION

As we continue through our mid-life repair and refurbishment program we have replaced all the essential pre-heating systems on the network, with just one less critical system at Larne planned for 2023, as well as continuing the roll out of replacement of on-site control systems (which capture data from site and relay it to the control room), due to be completed 2022.

As noted above, as the network changes we will begin to see a need for connections to our system for the first time under our ownership, starting with the new gas-fired power station at Kilroot.



KPI 8: Gas business ADSCRs

		2017	2018	2019	2020	2021
-	Premier Transmission ADSCR	2.17	2.06	1.95	2.15	2.24
-	Belfast Gas Transmission ADSCR	1.45	1.93	2.06	2.17	2.18
-	West Transmission ADSCR				3.09	2.88
--	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	1.20

GAS BUSINESS REVIEW (CONTINUED)

Strategic Objective:

DELIVER SAVINGS TO CURRENT AND FUTURE CONSUMERS OVER THE LIFE OF THE ASSETS

GAS BUSINESS REVIEW (CONTINUED)

The COVID-19 pandemic was clearly a challenge to society as a whole, and gas shippers and customers were no exception. In the gas year 2019-20 the Utility Regulator (NIAUR) agreed to set aside £2.7m saved by the gas businesses to assist in the cash flow of our shippers should any shipper default in its payment obligations. We have agreed with NIAUR to review this reserve in 2023 to assess whether it should be retained.

Whilst savings against the forecasts and the use or return of these to shippers are very welcome, the main means by which the company delivers savings to the consumers in Northern Ireland is through providing a low cost of capital. The costs of the gas transmission assets are charged to the respective shippers through a "use of system" charge which happens automatically through the postalised transmission system charging methodology. The savings achieved due to our low costs of capital are therefore passed on to shippers, allowing them to charge the end consumer less for their gas. Overall gas business charges recovered from shippers in the 2019-20 gas year (excluding the new West Transmission assets) were 13% lower (2018-19: 20% lower) in real terms than in 2004-05, before the mutualisation of Mutual Energy's gas assets. We continually seek to achieve operational savings and efficiencies.

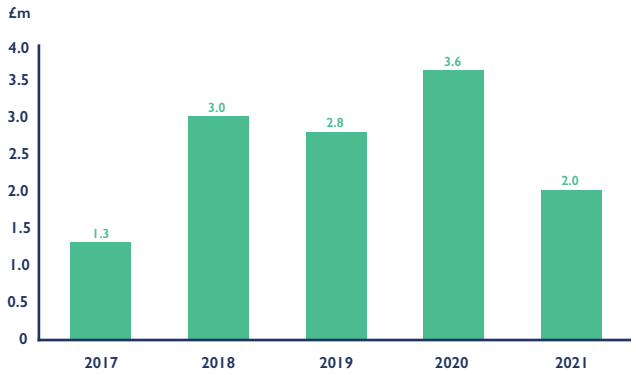
Year on year the business measures its progress with reference to the annual forecast provided for the tariff calculation, as shown in the following chart (KPI 3).

KPI 6 shows the movement in the cash balance (including deposits and investments with maturity of less than 1 year) from the previous year. The cash flows shown exclude cash flows in relation to the financing of the West Transmission business.

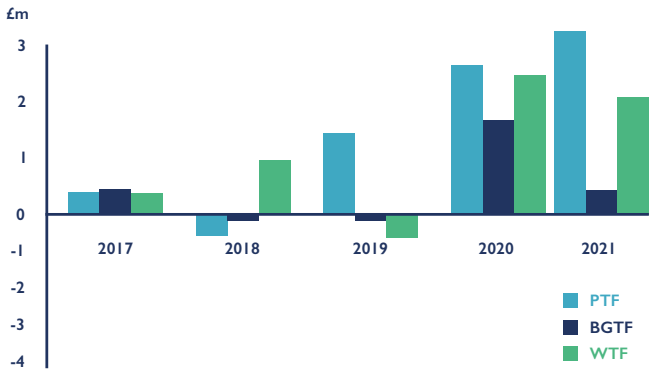
The cash generated in 2021 reflects the agreement with NIAUR to set aside the additional reserve to help shipper liquidity in the event of a shipper defaulting. In 2017/18, £1.25m of funds retained from Premier Transmission's previous outperformance against targets were provided to West Transmission to assess the opportunity of a preconstruction financing.

As a result, West Transmission was financed in July 2018 at a very low rate, resulting in significant benefit to customers.

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.



KPI 3: Gas business operational savings vs forecast



KPI 6: Cash generated in the year

GAS BUSINESS REVIEW (CONTINUED)

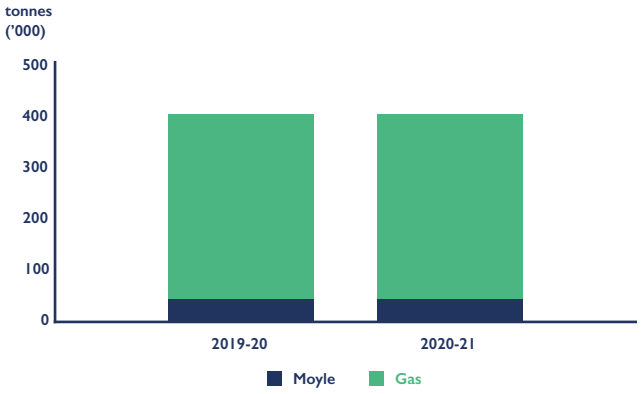
Strategic Objective:

TAKE AN ACTIVE ROLE IN COLLABORATION WITH KEY STAKEHOLDERS IN THE ACCELERATION OF DECARBONISATION THROUGH INTERVENTIONS AND INVESTMENTS WHICH BENEFIT NORTHERN IRELAND ENERGY CONSUMERS

GAS BUSINESS REVIEW (CONTINUED)

FUTURE DEVELOPMENT - ENERGY TRANSITION

In recognition of the newly adopted strategy, the Group has developed a new KPI which measures the CO_2 savings which are facilitated by the business as outlined in the graph below (KPI 1). The facilitation of CO_2 savings by others is the key contribution the Group can make to achieving net zero. The direction of our efforts to facilitating replacement of higher CO_2 emitting fuels with lower CO_2 emitting fuels and transporting lower carbon energy, as measured by this KPI, will provide a benefit of many multiples the savings we can make in our own energy use.



KPI 1: CO_2 savings

Whilst the objective was only formally approved in January 2021, the business was already actively promoting decarbonisation and reducing CO_2. Our approach is to look first to facilitate higher CO_2 emitting sectors converting to lower CO_2 emitting gas and to progressively reduce the CO_2 content of the gas provided. During the year the gas system contributed over 360,000 tonnes saving out of the total monitored by KPI 1. We continue to follow the initiatives in GB and elsewhere to facilitate the energy transition.

As Northern Ireland is still in the process of developing an energy strategy, the Utility Regulator has no legal framework to support regulated entities in making any substantive progress. We have, however, been working with other gas utilities in Northern Ireland to assist the regulator in catching up to provide a regime which will allow biogas to be injected onto the Northern Ireland network. This is relatively commonplace in GB and many European countries, and we are hopeful NIAUR will have a regime in place in 2021. We also recognise the long-term potential for the gas network to become key contributors to hard-to-decarbonise transport, such as HGVs or other heavy vehicles with prolonged daily use and are assisting developers in their discussions with NIAUR on prospective connections to the network for compressed natural gas (CNG) stations.

Ultimately, we expect the gas networks to decarbonise over time with biogas and/or hydrogen and it is heartening to see the first projects coming on stream, with NI Water's hydrogen electrolyser near our site at Knocknagoney and Translink's first four hydrogen buses. Whilst these are small steps and funded from the public sector we do hope that the Energy Strategy will facilitate the regulated utilities becoming involved and contributing their expertise in the near future.

There are four gas transportation companies in Northern Ireland (three of which are owned by Mutual Energy) and three gas distribution companies. The companies have come together to coordinate initiatives to promote decarbonisation and each now have dedicated energy transition teams. Such coordination will allow the siting of any facilities to support the reduction of transport emissions and receive biogas to be located on the most suitable network, whether that be transmission or distribution level. The companies have been able to work together to support NIAUR on the technical side of introducing biogas onto the network and each have been looking to identify suitable test sites for the deployment of hydrogen or hydrogen blends.

GAS BUSINESS REVIEW (CONTINUED)

FUTURE DEVELOPMENT - ENERGY TRANSITION (CONTINUED)

Looking further afield the Mutual Group has signed up to the Hylight collaboration, bringing together research expertise from Dublin City University, National University of Ireland, Galway and University College Cork and practical expertise from key companies to assess the potential for hydrogen in Ireland.

Hylight Project

The Group is involved in a collaborative research project involving three Irish universities and a number of industrial partners, all part funded by a grant from Science Foundation Ireland. The project will run for three years and cover a number of key areas essential to the hydrogen energy transition:

Hydrogen Production

Developing a description and business model for green hydrogen production on the Island of Ireland, from both a technical and economic perspective. It will identify suitable technologies, electrical grid services that can be provided, suitable production locations and scales. Technical barriers concerning the electricity grid, including constraints and curtailment, and the opportunity to overcome them with hydrogen will be examined.

Hydrogen Storage and Delivery

Documenting the engineering and economic descriptions of the means for storing and delivering hydrogen on the island of Ireland. Storage options include geological and pressurised/cryogenic tank storage, and conversion to hydrogen carriers (ammonia, liquid organics, power to gas, methanol). Delivery options include the natural gas network and trucks. With respect to the gas grid, constraints on hydrogen concentration limits in the grid will be explored, preferred gas grid injection sites will be identified and a technical hydrogen safety framework developed. For truck transport, optimal supply chains will be devised for large potential users.

Hydrogen Demand

Determining the evolving market and potential demand for hydrogen in Ireland in all energy applications, but especially the hard-to-abate sectors. This includes road transport (heavy goods vehicles, bus fleets, other fleet vehicles), trains, maritime and air transport (pure hydrogen and synthetic liquid fuels), high-temperature industrial heat, industrial chemical (including oil refining), feedstock, data centre backup and/or on-site generation, heat for residential and commercial applications for which direct electrification is not feasible, electrical demand-side management and export.

Hydrogen in the Irish Energy System

Examining the role of hydrogen in the Irish energy system as a whole, and specifically its potential to enable deep energy system sector integration. The relationships between hydrogen and onshore and offshore variable renewable capacities, electrification scenarios, future energy system demand, all-island greenhouse gas (GHG) emissions, all-island energy security, and future economic growth.

Hydrogen Policies, Social and Economic Aspects

Determining the policy environment necessary to maximise Irish energy system decarbonisation. Incentives, the role of carbon pricing, and the EU and global energy and environmental policy outlook will be considered. Issues of public perception and adoption will be incorporated. The national economic costs (infrastructure) and benefits (jobs, new industries) of large-scale hydrogen rollout will be explored.

GAS BUSINESS REVIEW (CONTINUED)

Strategic Objective:

MANAGE MARKET CHANGE AND REGULATORY DEVELOPMENTS TO MINIMISE RISK TO THE NORTHERN IRELAND CONSUMER

GAS BUSINESS REVIEW (CONTINUED)

EUROPEAN ENERGY REGULATION

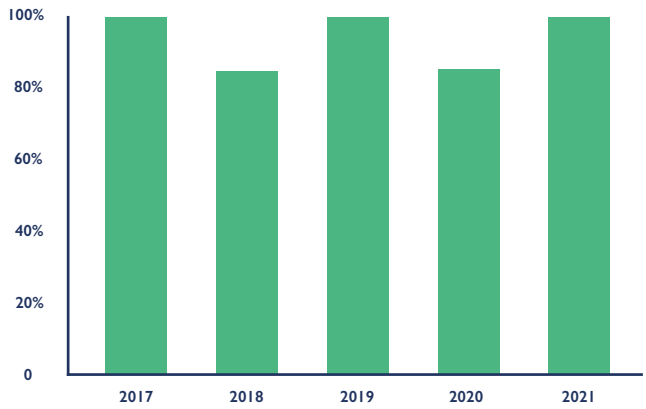
European legislation continues to be a driver for changes in our market arrangements and contracts with shippers. The relevant EU legislation has been transposed into UK legislation meaning that the gas businesses still have the obligation to implement the rules introduced as the part of the EU Gas Target Model. The first major deadline for implementation was October 2015, with others following until 2019. The gas businesses have achieved further compliance with the Balancing Network Code this year by reducing imbalance tolerances and aligning the charges shippers pay for imbalances with the specified limits. The gas businesses are awaiting a decision from the Utility Regulator on the approval of the Interim Measures Second Update Report submitted in 2018 and subsequently updated in 2019 and 2020. The lack of liquidity in Northern Ireland means that it not possible to introduce a trading platform as required under the Balancing Network Code without shippers incurring significant costs and receiving minimal benefit in return. Given the NI market's proximity to the GB market and that currently there is only one utilised source of gas, it is not anticipated there will be changes to the liquidity until there are major market changes such as a storage facility or frequent use of the South North Interconnection Point. 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. Future adoption of changes to the existing regulations and new harmonised rules will be dependent on the outcome of the cooperation arrangements currently being put in place between the UK and EU.

IMPACT OF BREXIT

The Brexit transition period ended on 31st December 2020. As a result of the Northern Ireland protocol the business now has to report on the movement of gas between GB and Northern Ireland. The company continues to adopt an approach of complying fully with all EU obligations as transposed into UK legislation. In practice there is little change in ongoing operations flowing from Brexit.

The UK gas companies' membership of European Network of Transmission System Operators for Gas (ENTSOG) will cease in 2021 as required under the Trade and Cooperation Agreement (TCA). The TCA has outlined specific areas where all parties are obligated to cooperate. These include gas markets, security of supply and the efficient use of interconnectors. The long term relationship between UK gas companies and ENTSOG is being coordinated in collaboration with all the UK gas transmission companies with formal arrangements expected to be in place by the end of 2021. The graph below shows the percentage of market changes which were implemented on time in each financial year (KPI 7).

2018 market changes included 3 connected tasks in relation to a Cost Benefit Analysis (CBA) in relation to 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. In 2021, the imbalance tolerances and changes to imbalance prices were completed within the timescales outlined to industry and the Utility Regulator. There continue to be delays in the final stage milestones: the Utility Regulator has not yet approved of the Interim Measures Second Update Report (ongoing).



KPI 7: % of market change date milestones met

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

Market arrangements continue to change frequently and the business is required to adapt to the changes flowing from system operator initiatives, EU regulations, and latterly the arrangements driven by Brexit. The Integrated Single Electricity Market ('I-SEM') arrangements (the new electricity market arrangements in Ireland) were only introduced in September 2018 and already these have changed significantly with the removal of the day-ahead market trading between GB and Ireland. These will change again, likely in 2022/23, to comply with the arrangements allowed for in the Trade and Cooperation Agreement between the UK and EU.

Within Commercial revenues there are three distinct streams:

- **Auction revenue/market difference revenue:** 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. Previously for the majority of our capacity, Moyle sold the right to this revenue via forward auctions. From 1 January 2021 all of these auctions have ceased and Moyle retains the value of the price difference between the two markets for the volume of energy flowed. Pre-Brexit these flows were mostly in the day ahead market, but from 1 January 2021 the SEM interconnectors no longer participate in the day ahead market, operating exclusively in the intra-day market instead. The Group has had three months' experience of this market, which is too short a period to make firm judgements on the impact.

- **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 too have the requirements of those systems 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, but this may be balanced if the interconnector can expand the range of services it offers.

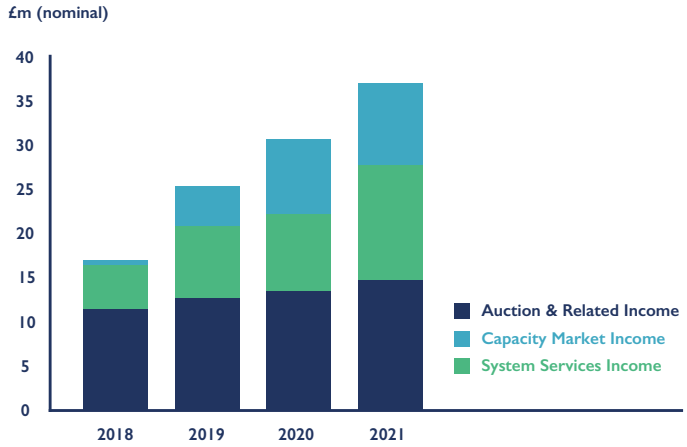
- **Capacity market revenue:** This revenue stream recognises Moyle's contribution to security of supply on both islands with payments from both GB and Ireland markets. Moyle receives significant additional revenue from these markets, but penalties are very high in the I-SEM where there is non-performance at a time of system stress.

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. Whereas previously the majority of Moyle capacity was sold to electricity traders in annual, half-yearly, quarterly, monthly and daily explicit auctions, on contracts ranging from one day to one year, from 1 January 2021 revenue flows directly to the interconnector based upon the flows and market prices.

ELECTRICITY BUSINESS REVIEW (CONTINUED)

FINANCIAL PERFORMANCE (CONTINUED)

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

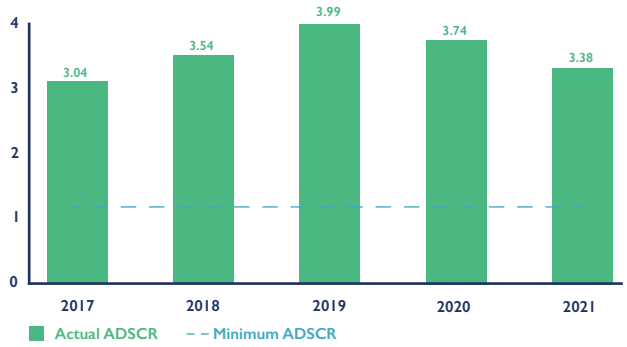


Commercial income trend

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 2020/21 electricity year, being 12 months to 30 September 2021 (year to 30 September 2020: £Nil). Page 35 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 £18.6m (2020: £14.2m). The ADSCR for the year was 3.38 due to continued strong revenues under the new market arrangements.

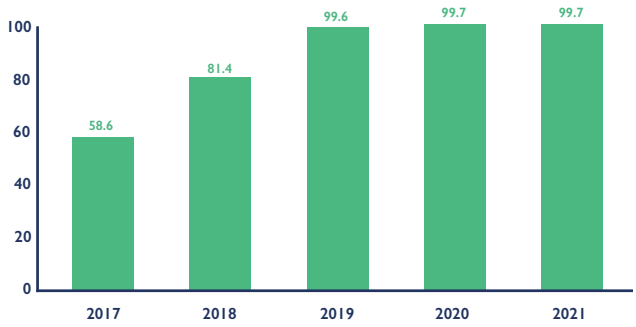


KPI 8: Moyle ADSCR

ELECTRICITY BUSINESS REVIEW (CONTINUED)

OPERATIONAL PERFORMANCE

Moyle's availability through the year has been high at 99.7% (KPI 2) (2020: 99.7%), and this year outages upstream on the Scottish Power system, further restricted the effective availability of the asset by 0.1% (2020: 2%).



KPI 2: Moyle Availability (%)

There were no lost time incidents in the year (KPI 4). 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 and played an important part in enabling SONI to increase its limit on non-synchronous generation to 75%. These services represent an increased source of revenue, and their reliability is an equally important measure as availability. In 2020/21 the reliability of these services was 90.5% (2019/20: 95.3%).

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, which is exported when Northern Ireland has a surplus. During the year Moyle exports totalled 0.9TWh, mostly when there were high wind conditions, which was equivalent to c38% of the total wind generation in Northern Ireland. We continue to work with the system operators in Northern Ireland and GB to improve the levels of capacity they can accept and the capacity limitation was reduced to increase our firm capacity for export to Scotland from 80MW to 250MW. We look forward to National Grid ESO fulfilling its commitment for 500MW from 2022 and to completely removing our capacity constraints in the future.

The control system upgrade project (CSUP) continues to progress well and in line with expectations. All cubicles have now been delivered to the Siemens factory test area, connected up and are being readied for the start of extensive functional testing. The project is on track and Siemens have confirmed that they can meet the envisaged outages dates next year, which have now been booked with the system operator for Northern Ireland (SONI).

Following testing, the equipment will be delivered to site later this year and early next year with site works and commission planned in 2022. Although Siemens have reiterated that factory testing is not impacted by restrictions due to COVID, we continue to monitor the situation and are keeping a close eye on any future potential impacts.

[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)

Strategic Objective:

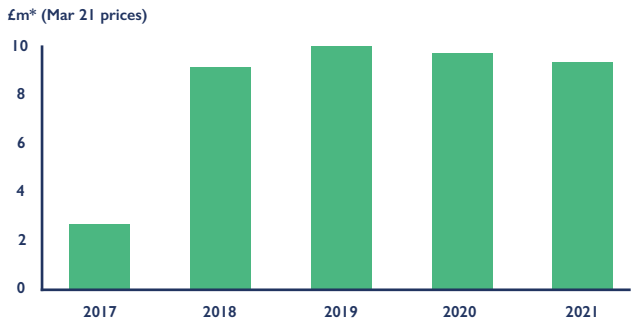
DELIVER SAVINGS TO ALL CURRENT AND FUTURE CONSUMERS OVER THE LIFE OF THE ASSETS

ELECTRICITY BUSINESS REVIEW (CONTINUED)

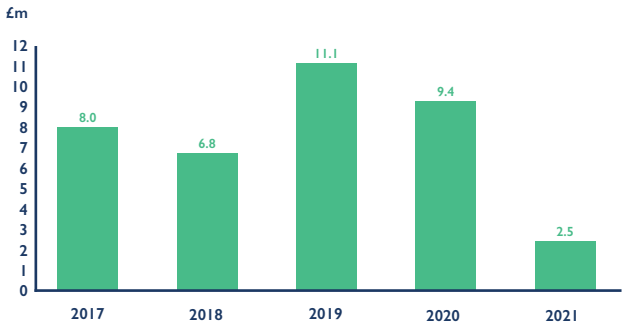
The COVID-19 pandemic has been endured by customers throughout the year and its impact on society and the economy will last for many years. In particular, some energy customers have endured hardship, having lost business revenue or lost employment. In light of this and, having fully considered our required cash reserves, Moyle utilised c£3.8m of cash reserves to assist energy customers via an adjustment to the tariff mechanism, allowing SONI to reduce electricity tariffs for the tariff year to 30th September 2021.

This direct contribution is in addition to the interconnector business continuing not to require use of system charges. In its operation to date Moyle has avoided collecting over £280m (2020: £250m) in use of system revenue it was otherwise entitled to collect. Whilst all initial modelling and expectations 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 2020/21 tariff year, or are proposed for the 2021/22 year.

In addition to the absence of tariff charges, 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 5). The chart below shows the annual savings in March 2021 prices over the last 5 years. Cumulative savings to 31 March 2021 have exceeded £140m (2020: £120m).



KPI 5: Mutual Energy group annual cost of capital savings vs comparator



KPI 6: Moyle cash generated in the year

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.

Ongoing business performance has enabled the business to invest in the control system replacement project without the need to collect money from tariffs.

Cash generated in the business in recent years can be seen in the previous graph (KPI 6). 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. The 2021 year remained cash positive despite investing over £10m in the control system project.

ELECTRICITY BUSINESS REVIEW (CONTINUED)

Strategic Objective:

TAKE AN ACTIVE ROLE IN COLLABORATION WITH KEY STAKEHOLDERS IN THE ACCELERATION OF DECARBONISATION THROUGH INTERVENTIONS AND INVESTMENTS WHICH BENEFIT NORTHERN IRELAND ENERGY CONSUMERS

ELECTRICITY BUSINESS REVIEW (CONTINUED)

Electricity interconnectors continue to be recognised as having a fundamental role in the decarbonisation of the electricity system, with Aurora research for BEIS in October 2020 highlighting the link between increased interconnection and decreased CO_2 emissions. In the 2020/21 year the operation of our interconnector saved an estimated 51,233 tonnes of CO_2, equivalent to taking 11,000 cars off the road. Interconnectors contribute to the reduction of CO_2 in a number of ways including by facilitating export of excess low marginal cost renewables to adjacent markets, which would otherwise be curtailed if interconnection was not available. This tends to happen automatically, with increased renewables, because they are largely capital cost based and are supported by subsidies, driving lower marginal costs which increase the likelihood of exports across interconnectors to displace more expensive and less clean technologies in the adjacent market.

Over the last few years we have worked to encourage the system operators to increase the amount they will allow to flow across our interconnector. In 2015 we were restricted to 80MW West to East and between 410MW and 450MW East to West depending on the time of year. By 2020 we have increased this to 250MW West to East, plus up to 160 MW additional capacity at day ahead stage and 450MW all year round East to West. This increase in West to East capacity has trebled the average monthly CO_2 savings resulting from exports on Moyle.

The second mechanism by which interconnectors support decarbonisation is by providing "ancillary services". Ancillary services are a range of actions which support the stability of the electricity grid. As more intermittent renewables are integrated onto the network these become more and more important. Over the last few years we have worked to optimise the ability of our interconnector to provide these services. The first service provided was a very fast injection of power in response to frequency falling on the network and we then developed the sister product, accepting power in fast time frames in response to high frequency on the network.

These products are of vital importance to the system operators and we have worked with both National Grid on the GB side and SONI in Northern Ireland to provide workable solutions. Over time we have improved the interconnector's speed of response and changed from a simple "on/off" response to a dynamic response which provides different levels of power in line with the system needs, measured in milliseconds. The ongoing investment in the new control system for the interconnector will not only replace a part of the asset which is approaching the end of its useful life but will also further the capability and improve reliability of the ancillary services we provide.

The Northern Ireland network increased the level of non-synchronous power it could accept up to 70% during the 2020/21 year, and this will put downward pressure on wholesale prices resulting in more interconnector exports and increased reliance on ancillary services to keep the electricity grid stable. In the near term we expect to explore opportunities to increase the range of services we can provide to system operators to facilitate the increased use of renewable power in both networks.

ELECTRICITY BUSINESS REVIEW (CONTINUED)

Strategic Objective:

MANAGE MARKET CHANGE AND REGULATORY DEVELOPMENTS TO MINIMISE RISK TO THE NORTHERN IRELAND CONSUMER

ELECTRICITY BUSINESS REVIEW (CONTINUED)

The largest market change in the year was also the change with least predictability - the outcome of post-Brexit trade negotiations. Since October 2018, the SEM has been part of the EU's Single Day Ahead Coupling "SDAC" arrangements, which meant that Moyle's capacity was implicitly allocated, and the interconnector flow largely determined at the day ahead stage as part of SDAC. Since 1st January 2021, the SEM has remained part of SDAC[2] but GB has left these arrangements so Moyle cannot participate in SDAC and there is no allocation of its capacity at day ahead. Instead, Moyle's capacity is now solely made available and allocated in intraday auctions which are held later in the day and see lower levels of participation.

Whilst Moyle's revenues from these fallback arrangements have remained strong, their efficiency is sub-optimal, and we are working to re-establish market access at the day ahead stage. The EU-UK Trade and Cooperation Agreement envisages alternative day ahead trading arrangements being developed by April 2022 and we are currently engaged in a programme of work with EU and UK Transmission System Operators ('TSOs') to progress this work, though delivery is more likely to be 2023.

The UK and Ireland have either set testing targets for levels of renewable energy or are in the process of doing so, all as part of a drive to achieve lower carbon emissions. For this to happen the system operators require a suite of tools to manage the unpredictability of the electricity generation. In recent years on the SEM side Moyle has also provided system support services to SONI as part of their DS3 initiative which seeks to provide these tools (see page 33). The services needed under DS3 continue to develop, with new procurement rounds taking place approximately every six months. On the GB side Moyle has bilateral contracts with National Grid to provide services and is liaising with the process to introduce auctions for a variety of services.

Whilst many of the services can be provided using the existing interconnector, we continue to evaluate the need for additional capital expenditure on or connected to the interconnector to enhance the services we provide. In particular the Group is assessing the National Grid initiatives such as the stability pathfinder project, with a view to improving the long term reliability of our connection in Scotland, providing a new revenue stream and supporting the long term strategic imperative of decarbonisation.

[2] For NI this is facilitated by the Northern Ireland Protocol to the EU-UK Withdrawal Agreement

GROUP BUSINESS REVIEW

Strategic Objective:

OVER THE LONG TERM TO ACQUIRE OR DEVELOP STABLE ENERGY INFRASTRUCTURE ASSETS AT LOW COST TO BENEFIT THE NORTHERN IRELAND CONSUMER

GROUP BUSINESS REVIEW (CONTINUED)

GAS TO THE WEST

The latest major asset addition to the Group via Mutual Energy's subsidiary, West Transmission Limited, is the West Gas Transmission System which 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 their program for the reinstatement of land is still ongoing having been severely delayed by the COVID-19 pandemic.

The pipeline supplies the SGN Natural Gas low pressure pipelines (the mains, services and meters) which deliver the gas to customers and continue to build out the network across the towns identified in the licence: Strabane, Dungannon, Coalisland, Cookstown, Magherafelt, Omagh, Enniskillen and Derrylin. The first major payments for construction were made throughout the year, with £155.4m in total remitted to SGN, of which £29.4m was grant received from the Department for the Economy.

GROUP FINANCIAL HIGHLIGHTS

CASH FLOW AND LIQUIDITY POSITION

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

The Group had a net cash outflow in the period of £117.3m, which was largely driven by £126.0m net payments, excluding grant receipts passed through, to SGN for the Gas to the West construction. 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 2021, cash reserves in Premier Transmission group amounted to £14.4m with a further £26.5m cash held on short-term deposit (2020: £5.2m cash reserves with a further £32.5m cash held on deposit), Belfast Gas Transmission group held £11.4m (2020: £11.1m) and West Transmission group held £6.5m (with a further £39.5m held in short term deposits) (2020: £4.5m (with a further £165.4m held on deposit)). At 31 March 2021, Moyle Interconnector group held operating cash reserves of £69.5m (2020: £67.0m). Total cash holdings (including cash held on deposit which is classified as financial assets) by the Group at year end amounted to £173.0m (2020: £290.3m).

REVENUE, PROFITABILITY AND RESERVES

After accounting for debt service, the Group made an after-tax profit of £10.5m (2020: £5.5m).

FINANCE EXPENSES

Included within finance expenses is £15.4m (2020: £20.7m) 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 £8.1m (2020: £8.0m);
- £6.4m (2020: £11.6m) required to restate debt liabilities to latest applicable Retail Price Index; and
- bond fees and other charges and credits £0.9m (2020: £1.1m).

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) ('GNI') 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's pipelines. A total of 18 shippers (2020: 18) 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. 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.

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 majority noteholder and Law Debenture Trust Corporation plc as trustee.

STAFF

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

STAKEHOLDERS, RELATIONSHIPS AND RESOURCES (CONTINUED)

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:

	2021		2020	
	Male	Female	Male	Female
Board	6	2	6	2
Senior Management	9	3	9	3
All employees & Board	25	12	25	11

EMPLOYEE KPIS

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

KPI	2021	2020
Training days per employee	3.4	4.9
Sickness absence per employee	1.7%	0.8%

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.

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 9 to 41.

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 47, 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. The Group is a member of Business in the Community and continues to explore 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 Subcommittee 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 Subcommittee 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 2021 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 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 completed a comprehensive review of the risk processes in use throughout the businesses for 2020/21 as part of our normal approach to drive improvements in all areas of the business, and will be implementing some changes during 2021/22. These changes will better record group risk appetite and change the allocation of responsibility between the Risk and Audit Committees.

RISK MANAGEMENT (CONTINUED)

The principal risks of the Group are:

Risk description and potential impact	Mitigation	Assessment of risk movement from March 2020
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.	⇨
The failure to effectively manage talent, ensure appropriate training and resourcing, and plan for leadership succession could impede the realisation of strategic objectives. Ineffective processes or procedures could compromise the functioning of the business or affect the reliability of the assets.	The business operates a performance based culture with competitive pay and conditions benchmarked against the market, engaging closely with staff and utilising performance management and development programmes and succession planning.	⇨
Extraneous events such as damage caused by landowners or contractors, malicious interference such as cyber-attack or other outside factors including natural disasters which adversely affect the running of the business.	A business continuity plan is in place, with key tasks identified and more than one individual trained in each. Helicopter and submarine surveys carried out at regular intervals to inspect the assets and cyber resilience testing carried out frequently with periodic engagement with relevant security organisations.	⇨
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.	⇨

RISK MANAGEMENT (CONTINUED)

Risk description and potential impact	Mitigation	Assessment of risk movement from March 2020
Business environment and market risk, including Brexit risk		
Market changes for gas and electricity in Northern Ireland could result in reduced volumes transported through the assets, insufficient revenue recovery, default on debt, damage to reputation of mutual model or fines.	Licence provisions implementing a collection agency agreement in the electricity business and the postalised charges system in the gas business are designed to offset the impact of such changes. An influencing strategy is in place to positively impact market developments. Recent and future market development are discussed on pages 29 and 39. Risk has increased in the period due to the need for market changes to meet decarbonisation targets.	⇧
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 stabilised with the return of government in NI. Whilst this has had no direct adverse impact in the period the risk assessment is a recognition of potential unforeseen issues in the future.	⇨
Corporate strategy and communication risk		
Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.	The Board retains responsibility for strategy as a reserved matter and manages communications directly in line with its communication plan, using outsourcing as appropriate.	⇨
Project delivery risk		
Poor contracting or management, insufficient resources or extreme weather could cause project delays resulting in financial losses, reputational damage, damage to assets or loss of availability.	A project governance structure exists with sufficiently qualified and trained resources. Contractors are closely monitored and stakeholder engagement plans and insurance are in place.	⇨

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

ENVIRONMENT AND SAFETY

The Group continues to put a high value on the Health and Safety of its operations and to recognise the importance of minimising the impact of its activities on the environment, both locally and in the global context. The wellbeing of the Group's staff is considered extremely important to the business and particular focus was paid to this area in the year, given the potential impact of the COVID-19 pandemic on employees.

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 the year, with an improvement having been obtained on the strong result from the previous audit in 2018/19. A plan is being put into place to address improvements identified.

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 table below sets out our greenhouse gas (GHG) emissions, energy use and energy intensity ratio for the current and prior year:

	2021	2020
Usage of gas (GWh)	4.0	3.2
Usage of electricity (GWh)	2.8	2.9
Total annual energy usage (GWh)	**6.8**	6.1
Emissions from:		
Usage of gas in operations (tCO_2e)	737	588
Electricity consumption at convertor stations (tCO_2e)	659	740
Electricity, heat, steam and cooling purchased for own use (tCO_2e)	8	12
Total annual emissions (tCO_2e)	**1,404**	1,340
Electricity intensity ratio - emissions per GWh electricity transmitted	**0.33**	0.40
Gas intensity ratio - emissions per GWh gas transmitted to distribution networks	**0.10**	0.08

METHODOLOGY

We have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 and Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Emissions have been calculated using UK Government guidelines for conversion of natural gas and grid electricity. Scope 3 emissions have not been reported. 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. All energy usage and emissions are in respect of UK operations.

In the prior year, reporting included emissions for a site, owned by Gas Networks Ireland, which supplies our network, however, since we do not have control over this site (either financial, operational or equity share), these figures are no longer included and have been removed from the prior year figures within the table above.

Intensity ratios are influenced by a range of factors including ambient temperatures and pressures.

ENERGY EFFICIENCY MEASURES

During the year the Group continued to invest in energy efficiency measures including the installation of LED lighting and thermostatic temperature controls, and switching the main electricity supplies to green energy.

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
1 July 2021

THE MUTUAL ENERGY BOARD

DAVID GRAY (69)

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 (52)

CHIEF EXECUTIVE

Paddy Larkin joined, what was then, Northern Ireland Energy Holdings in 2007 as an Executive Director and Managing Director of Moyle Interconnector Ltd and in 2010 took over as Chief Executive of the Group. Previously, Paddy was the Chief Executive of Premier Power, a subsidiary of the BG Group and owner of Ballylumford Power Station, having spent time in Engineering and Commercial roles with the Company.

He is an Engineering Graduate from Queen's University Belfast and started his career with Northern Ireland Electricity in 1991, just prior to privatisation. Paddy is a Fellow of the Irish Academy of Engineering and also serves as a Non-Executive Director of Northern Ireland Water.

GERARD MCILROY (52)

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.

Gerard is also a Non-Executive Director of the Low Carbon Contracts company and Electricity Settlements Company. Between them these companies manage the contracts for difference that support GB energy transition aims by guaranteeing low carbon generators a minimum electricity price, and oversee the settlement of the capacity market to ensure that regular payments are made to capacity providers who have agreed to make capacity available in times of market stress.

THE MUTUAL ENERGY BOARD (CONTINUED)

PATRICK ANDERSON (47)

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 and chairs its Infrastructure Sub-Committee, is 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 (61)

NON-EXECUTIVE DIRECTOR

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

KATE MINGAY (55)

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. She is also currently supporting Ofgem on RAB based funding models for investment in the Nuclear and Carbon Capture Storage sectors, having previously supported the Horizon Nuclear Power Chief Executive, and Hitachi, its shareholder, to build a nuclear power station in Anglesey. She is an independent Non-Executive Director at Wessex Water and a Trustee of the British Science Association, having previously been a Non-Executive Director of Ansaldo STS S.p.A., the listed Italian rail systems engineering company (now Hitachi Rail STS).

THE MUTUAL ENERGY BOARD (CONTINUED)

CHRIS MURRAY MBE (65)

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 Chairman of Water Resources South East, 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 (62)

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, RoJo 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 and committee member, helping a range of industrial, transport and finance companies achieve excellence including 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 2021, 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.

GOVERNANCE STRUCTURE

Mutual Energy has a governance model which is unique in the energy industry. Mutual Energy's mutual status means it does not have any shareholders. Instead, Members have been appointed to represent the stakeholders and fulfil many of the roles of shareholders in other companies, although they do not have any financial interest in the Company or receive any remuneration.

The Board is accountable to Members for its management of the business of Mutual Energy. Members therefore play a role in scrutinising the performance of the Mutual Energy Group. Performance is scrutinised against commercial, regulatory and other targets, as well as against energy industry benchmarks for quality of service and cost efficiency.

Accordingly, the role of Members is similar to that of shareholders in a public limited company, save that Members have no financial interest in the Company. Members perform this corporate governance role by receiving regular reports on the performance of Mutual Energy and by participating in Members' conferences and in general meetings of Mutual Energy. Further information on Mutual Energy's Members can be found on page 56 and 80-85.

THE BOARD

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

The Board:

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

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

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

Directors are sent papers for meetings of the Board and those committees of which they are a member, whether they are able to attend the meeting or not. If a director is unable to attend a meeting, they are able to relay their views and comments via another committee or Board member.

The Board also receives presentations and oral updates at the meetings which are minuted, as well as regular updates on changes and developments to the business, legislative and regulatory environments.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

THE BOARD (CONTINUED)

This ensures that all directors are aware of, and are in a position to monitor, major issues and developments within the Group. In the event that specific business arises requiring Board discussion or action between scheduled meetings, special Board meetings are held.

The Executive and Non-Executive Directors are equal members of the Board and have collective responsibility for the Group's direction.

In particular, Non-Executive Directors are responsible for:

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

A procedure is in place for Directors to obtain independent professional advice in respect of their duties. All Directors have access to the advice and services of the Company Secretary and the company solicitors. New Directors receive induction on their appointment to the Board covering the activities of the Group and its key business and financial risks, the terms of reference of the Board and its committees and the latest financial information about the Group. 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	8/8	3/3	4/4	-	-	-	-
Patrick Anderson	8/8	-	-	5/5	-	2/2	3/3
Michael McKernan	8/8	-	-	5/5	-	2/2	-
Kate Mingay	8/8	3/3	4/4	5/5	-	-	2/2
Chris Murray	8/8	3/3	4/4	-	5/5	-	3/3
Ceri Richards	8/8	3/3	4/4	5/5	5/5	-	-
Paddy Larkin	8/8	-	-	-	5/5	-	3/3
Gerard McIlroy	8/8	-	-	-	-	-	-

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 & 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. Ceri Richards was appointed as Non-Executive Director on 1 March 2020, and was elected at the September 2020 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 54).

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD APPOINTMENTS & EVALUATION (CONTINUED)

The Board conducted an evaluation of its own performance and that of its committees and individual Directors in respect of the year. In the prior year, an independent external consultancy firm, On Board Training and Consultancy Limited, led an external evaluation of the Board and its Committees.

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. Recommended improvements have now been implemented. 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. Details are set out on the following page.

NOMINATIONS COMMITTEE

The Nominations Committee is chaired by Kate Mingay. The Nominations Committee also comprised David Gray, Chris Murray and Ceri Richards. The Committee is comprised solely of Non-Executive Directors.

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.

During the year, the Committee carried out a tender for head-hunter services for Director appointments. As a result 5 parties were appointed to our panel of advisors to cover a period of up to 8 years. The Committee has rescheduled its Non-Executive Directorship replacement as part of their succession planning process so that these are more evenly distributed, with recruitment exercises expected in most years.

The Group is currently in the process of selecting another Non-Executive Director who is expected to join the Board in September 2021.

AUDIT COMMITTEE

Patrick Anderson is Audit Committee Chair. The Audit Committee also comprised Kate Mingay, Michael McKernan and Ceri Richards. 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 77 and 79.

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Kate Mingay. The Remuneration Committee also comprised David Gray, Chris Murray and Ceri Richards. 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 58 to 74.

RISK COMMITTEE

The Risk Committee is chaired by Chris Murray and also comprises Ceri Richards and Paddy Larkin, Chief Executive. Additionally, regular attendees include those with operational responsibility for the company's assets. 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 pags 75 to 76.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

MOYLE CONTROL SYSTEM UPGRADE COMMITTEE

The 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 comprised Patrick Anderson and Paddy Larkin, throughout the year, and Kate Mingay, until 31 December 2020.

The Committee, which met three times during the year to monitor progress, provides guidance and advice on the main project contract including support during key stages of Contract formation. 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 approval on budgets and variations.

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 twice during the year ended 31 March 2021 where it considered membership renewals, the adequacy of the representation of various stakeholders within the group of Members and reviewed members applications, making recommendations to the Board for appointments. The Committee attendance was as listed in the table on page 53.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 there were no resignations of members. 7 new members were appointed in the period as set out below. The individuals who were members of the Company for some part of the year are listed below:

Patrick Anderson	Peter Hayes	Dr Bernard Mulholland
Declan Billington	Chris Horner	Chris Murray
Nikita Brijpaul (appointed 30/03/21)	David Jenkins	Tim Nelson
David Cunningham	Scott King (appointed 30/03/21)	Muiris O'Ceidigh (appointed 30/03/21)
Robin Davey	Andrew Kirke	Aodhan O'Donnell (appointed 30/03/21)
Jamie Delargy	Helen Kirkpatrick	Colin Oxton
Connor Diamond	Noel Lavery (appointed 11/12/21)	Conor Quinn
Joe Doherty	Gavin McBride	Ceri Richards
Stephen Ellis	Colin McClements (appointed 30/03/21)	Ken Simpson
Gail Fryer (appointed 30/03/21)	Brian McFarland	Mark Wishart
Kathy Graham	Michael McKernan	Ed Wright
David Gray	Kate Mingay	
Trevor Greene	Nevin Molyneaux	

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 44 to 46.

During the year, the Board carried out a review of its risk management process, with changes to be implemented in 2021/22.

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 2026, taking account of the Group's current position and the potential impact of the principal risks documented in the strategic report on pages 45 to 46, including the impact of COVID-19 and Brexit. 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

LONG TERM VIABILITY (CONTINUED)

The Directors have determined that the five-year period to March 2026 is an appropriate period over which to provide its viability statement, as this aligns with the period for which detailed business plans, and the associated scenarios, 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 and Brexit on budgeted cashflows.

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 and the impact of Brexit are 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

As this is my last Directors' remuneration report as chair of the Remuneration Committee, I am particularly pleased to present a positive report reflecting both the strong performance of the business and the well-being of the staff in the most challenging of times for everyone.

The Committee took a particularly keen interest in wider employee welfare issues as well as business performance as the Group moved to a home working environment. We were pleased to receive an employee engagement review carried out by an external third party in October 2020 which was strong and improved on the previous exercise two years ago. This, together with an annual review considering pay gaps and gender balance within the organisation gave a positive context for Executive remuneration in respect of workload and employee experience of the wider workforce. The Group also undertook an annual review of succession planning during the year.

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 current policies have a consistency of approach which 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.

This year we commissioned PWC to carry out a benchmarking exercise on our behalf with companies of a similar size to Mutual Energy and to provide commentary on how the benchmarked pay structures and amounts compared to those of Mutual Energy. This exercise covered the Directors and senior managers in the Group. Whilst this is the most robust dataset available, the Committee also commissioned PWC to collect data on a more bespoke range of companies encompassing other gas and interconnector businesses, local competitors for employees, relevant large private sector companies in Northern Ireland and public sector organisations in both Northern Ireland and the Republic of Ireland.

THE REMUNERATION COMMITTEE CHAIR'S ANNUAL STATEMENT (CONTINUED)

The level of data published is more restricted and the data set small, but this too provided the Committee with a wider lens through which to consider remuneration. I was happy to present the outcome of PWC's work at the members day in May 2021 and the Committee will look to recommend the policy to be voted on at the September 2021 AGM to the members. The outcome of this review is that the Committee is not recommending any material change to the Group's remuneration policy for Directors and senior management. The policies were last updated in 2018 to reflect the wider senior remuneration market trends, and include a greater emphasis on medium term performance.

As I noted at the start, performance of the business in the year to 31 March 2021 was very strong: for the second consecutive year 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. The market disruption in both gas and electricity flowing from the COVID-19 shutdowns and latterly Brexit were well managed and maintenance work, despite some disruption, continued apace. In determining the performance related remuneration, the Committee assesses the performance of the executive team as a whole, reflecting the closely integrated 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 Group.

Kate Mingay
Remuneration Committee Chair
1 July 2021

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

This report summarises the activities of the Remuneration Committee for the year to 31 March 2021 and sets out remuneration details for the executive and Non-Executive Directors of the Group, 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 (pages 58 to 59), the policy report (pages 61 to 68) and the annual report on remuneration (pages 69 to 74). The previous policy, which can be found on the Group's website at www.mutual-energy.com, was approved by a binding vote at the 2018 Annual General Meeting and applies for three years from 1 October 2018, subject to any future changes approved by the members. The proposed policy on pages 60 to 68 will be presented to the members for approval at the 2021 AGM, and is unchanged from the previous one save for minor drafting changes to make the policy intent clearer and the report easier to follow. The annual report on remuneration provides details on remuneration in the period and other information required by the Regulations.

The Companies Act 2006 requires the auditor 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)

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

MUTUAL ENERGY REMUNERATION POLICY

The Remuneration Policy set out herein is to be voted on at the 2021 AGM and is materially unchanged from the previous policy that came into effect on 1 October 2018. The policy is kept under review to ensure it remains suitable as the business or wider markets change.

FUTURE POLICY TABLE

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

POLICY FOR EXECUTIVE DIRECTORS

The following table provides a summary of the key components of the remuneration package for Executive Directors:

Component	Purpose and Operation	Opportunity	Applicable performance measures	Recovery
Salary and fees	**Why:** Part of a basic competitive package to recruit and retain individuals of the necessary calibre to execute the group's business strategy. **How:** Reviewed annually and fixed for 12 months commencing 1 April. Decision influenced by: • role, experience or performance; • average change in broader workforce salary; • group performance and prevailing market conditions; and • external benchmarking of similar roles at comparable companies.	Increases only for inflation and in line with other employees unless there is a change in role, responsibility or to reflect market conditions.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Taxable benefits	**Why:** Providing employee protection in interest of employee and group. **How:** Insured healthcare cover set at suitable protection level and premiums paid monthly.	Cost of healthcare insurance as part of group scheme. Additional benefits may also be provided where they are made available to the wider workforce or to take account of any changes to general taxation rules.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

POLICY FOR EXECUTIVE DIRECTORS (CONTINUED)

Component	Purpose and Operation	Opportunity	Applicable performance measures	Recovery
Annual performance-related pay	**Why:** Focus attention on group KPIs, incentivise outperformance of targets and provide a competitive total annual earnings opportunity. **How:** The Remuneration Committee sets targets which are linked to operational performance and determines the percentages of salary achievable for each and at what performance level these are receivable. Performance-related pay is calculated and awarded based on the financial year end to which it relates. Discretion may be used where circumstances necessitate the adjustment of targets within the year. Awards are paid in cash except where a Director chooses to take all or a portion of the performance-related pay as company paid pension contributions. Where individuals receive their performance-related pay as pension this reduces the company's National Insurance Contributions and this saving is also credited to the individual's pension (currently 13.8% of the amount exchanged).	The total performance-related pay receivable is 75% of salary in relation to each year. This is split in a ratio between 20:55 and 30:45 (annual : deferred) at the discretion of the Committee, with the presumption being 20% will be annual performance-related pay and 55% deferred.	Performance-related pay elements are based on group KPIs for the year and include: • Availability and asset integrity improvements; • Revenue; • Costs and cost savings; and • Compliance and health and safety improvements Performance below the threshold usually results in zero payment. Payments rise from 0% to 100% of the maximum opportunity for levels of performance between the threshold and maximum. The company expects 'on target' performance to achieve 60-70% of the maximum potential performance-related pay.	There are no provisions for the recovery of any sums paid or the withholding of any payments.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

POLICY FOR EXECUTIVE DIRECTORS (CONTINUED)

Component	Purpose and Operation	Opportunity	Applicable performance measures	Recovery
Deferred performance-related pay	**Why:** Align executives with long term interests of the group and encourage retention of key employees. **How:** Each year a predetermined % of salary is set aside for each Director as deferred performance-related pay. After the first 3 years half of the total which has been deferred to date became available for payment. Each year thereafter the deferred bonus awarded in the year is added to the brought forward previously deferred bonus. The amount paid in any year is half of this total. Payment of this performance-related pay will be linked to key deliverables in the business plan in order to align payment with longer term goals. Discretion may be used to calculate the amount payable where appropriate.	The total performance-related pay receivable is 75% of salary in relation to each year. This is split in a ratio between 20:55 and 30:45 (annual : deferred) at the discretion of the Committee, with the presumption being 20% will be annual performance-related pay and 55% deferred.	The payment of the deferred performance-related pay is linked to the group strategic business plan and the key deliverables in that plan. Milestones for award are linked to the business plan projections. Targets are set for each of the relevant categories with the percentage of performance-related pay obtainable for each target to be determined each year by the remuneration committee. The categories for which targets are set currently include asset performance, financial and regulatory/ market performance, and business resilience and development. The categories are reviewed by the Committee as part of the annual process reviewing performance.	The deferred performance-related pay may be subject to forfeiture where the participant leaves the employment of the group prior to vesting. Forfeiture is at the discretion of the Committee. The Remuneration Committee may adjust an award before it is paid, for example by lapsing part or all of it, reducing the value which would otherwise vest, by imposing additional conditions on it, or imposing a new holding period. Award adjustments may be made as a result of an individual's misconduct or misconduct through the individual's direction or non-direction, which influenced the metrics and outcomes used in determining the individual's annual performance-related pay outcome; any material breach of health and safety or environment regulations; or material failure of risk management. For a further two years after payment, clawback adjustments may be made as a result of an individual's misconduct which influenced the metrics and outcomes used in determining the individual's annual or deferred bonus included in that payment.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

POLICY FOR EXECUTIVE DIRECTORS (CONTINUED)

Component	Purpose and Operation	Opportunity	Applicable performance measures	Recovery
Pension related benefits	**Why:** To provide funding for retirement. **How:** A pension allowance is provided to Executive Directors which may be taken as a defined contribution allowance. The group also operates a pension salary sacrifice arrangement where individuals can exchange part of their salary or this pension allowance for Company paid pension contributions and vice versa. NIC cost savings for taking additional into pension are credited to the individual's pension. Any additional NIC costs from reducing amounts paid into pension are deducted from the Director's pension allowance.	The company pension allowance is a percentage of salary. This percentage of salary is aligned to the percentage of salary available to the average employee as an employer's pension contribution, adjusted down to reflect the employers NIC burden. In 2020/21 the allowance is 8.35% of salary based upon the standard employers contribution available to the wider workforce of 9.5% of salary.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.

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

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

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

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

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

POLICY FOR EXECUTIVE DIRECTORS (CONTINUED)

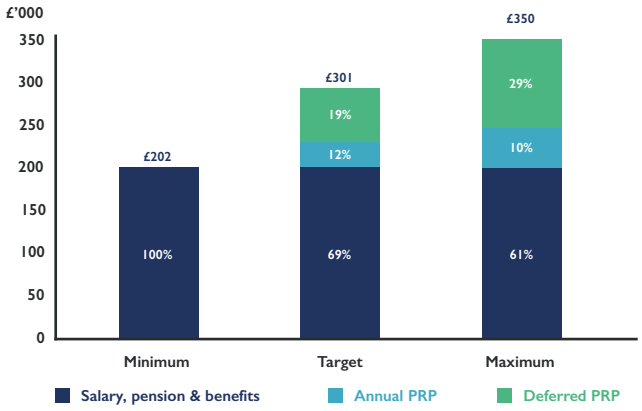
In relation to both the Company's annual and deferred performance-related pay plan, the Committee retains the ability to adjust the targets and/or set different measures if events occur (e.g. material acquisition and/or divestment of a Group business) which cause it to determine that the conditions are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

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

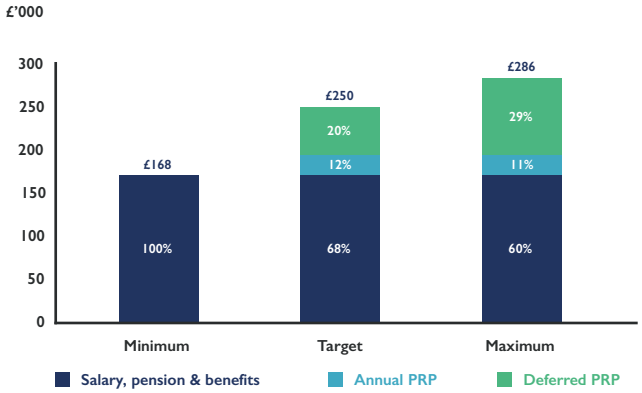
All employees are entitled to base salary, benefits, pension and annual performance-related pay. The remuneration policy for the Executive Directors is more heavily weighted towards variable pay than for other employees to make a greater part of their pay conditional on the successful delivery of the business strategy. The maximum performance-related pay opportunity available is based on the seniority and responsibility of the role with the employee average potential performance-related pay being 13% at the time of policy setting.

ILLUSTRATIONS OF POTENTIAL REWARD OPPORTUNITIES FOR THE EXECUTIVE DIRECTORS

The total remuneration for each of the Executive Directors that could result from the remuneration policy in 2021/22 under three different performance levels is shown below.



Chief Executive Officer - Paddy Larkin



Finance Director - Gerard McIlroy

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

POLICY FOR EXECUTIVE DIRECTORS (CONTINUED)

The following assumptions have been made:

- Minimum (performance below threshold) - Fixed pay only, with salary sacrifice elements in line with 2021/2022 commitment;
- Target - Total performance-related pay (PRP) is expected to be c65% of the potential maximum award for within year and 75% of the potential maximum award for the deferred award, with salary sacrifice elements in line with expectation; and
- Maximum (performance meets or exceeds maximum) - Fixed pay plus maximum in-year performance-related pay and maximum deferred performance-related pay, with no salary sacrifice included and pension allowance taken as a pension contribution.

Fixed pay comprises:

- salaries - salary effective as at 1 April 2021;
- benefits - amount receivable by each Executive Director in the 2021/22 financial year; and
- pension allowance - amount receivable by each Executive Director in the 2021/22 financial year, assumed taken as pension in the maximum case only.

SERVICE CONTRACTS AND POLICY ON PAYMENT FOR LOSS OF OFFICE OF THE EXECUTIVE DIRECTORS

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

There is no entitlement to payments in relation to deferred performance-related pay, however, payments may be made at the discretion of the Committee. Any performance-related pay (either in-year or deferred) paid would be subject to the normal performance-related pay targets, tested at the end of the year.

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

APPROACH TO RECRUITMENT REMUNERATION

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

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

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

APPROACH TO RECRUITMENT REMUNERATION (CONTINUED)

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

Non-Executive Director appointments will be through letters of appointment. Non-Executive Directors' fees, including those of the Chair, will be set in line with the policy for Non-Executive Directors' remuneration.

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN COMPANY

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

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

STATEMENT OF CONSIDERATION OF MEMBER VIEWS

The Company remains committed to member dialogue and takes an active interest in understanding voting outcomes. The Chair of the Remuneration Committee presents the remuneration policy to the members at the AGM, prior to approval. Questions and comments are invited and members are offered the opportunity to discuss any issues on a one-to-one basis. Any feedback received from members is considered when setting the Directors' remuneration policy. Members views will be sought going forward, at a minimum, in line with the 3-year policy approval cycle. The policy is to be presented for approval at the September 2021 AGM.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

POLICY FOR NON-EXECUTIVE DIRECTORS

The following table provides a summary of the key components of the remuneration package for Non-Executive Directors:

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Annual Fee	Competitive fee to recruit and retain NEDs who have a broad range of experience and skills to oversee the implementation of the Group strategy.	The Chair and NEDs are paid an all-inclusive fee for all Board responsibilities. The fees are reviewed annually and fixed for 12 months commencing 1 April. NED fees are determined by the Chair and Executive Directors and approved by the Board. The Chair's fees are set by the Committee. No additional fees are payable for the chairmanship of other committees or for the additional responsibilities of the Senior Independent Director. Fees are periodically reviewed against those for NEDs in companies of similar scale and complexity and may be adjusted as appropriate. NEDs are not eligible to receive benefits and do not participate in pension plans or performance-related pay schemes.	Fee levels for incumbents for 2021/22 are as follows: Chair £77,320p.a. NEDs £33,500p.a.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Additional fees payable for other duties to the company	To provide the Group with services which it requires which do not fall within the normal duties of a Director and where there are overriding reasons that make them the most suitably qualified to undertake it.	Where a Director possesses skills and experience which the company requires and the Director is best-placed to provide them such services may be provided at an arms-length basis, in line with the company's procurement policies. The terms of engagement for such services must be approved by the Board.	Any remuneration will be at the discretion of the Board and will be reported in the annual report.	N/A	There are no provisions for the recovery of any sums paid or the withholding of any payments.

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

DIRECTORS' REMUNERATION REPORT (CONTINUED)

ANNUAL REPORT ON REMUNERATION

The annual report on remuneration which follows shows the outturn for the year ending 31 March 2021, 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 2020/21 and 2019/20 is made up as follows:

DIRECTORS' REMUNERATION AS A SINGLE FIGURE (2020/21)

£'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]	184	1	32	79	17	313
Gerard McIlroy[5]	153	1	26	66	14	260
Non-Executive Directors						
Paddy Anderson	34	-	-	-	-	34
David Gray	77	-	-	-	-	77
Michael McKernan	34	-	-	-	-	34
Kate Mingay	34	-	-	-	-	34
Chris Murray	34	-	-	-	-	34
Ceri Richards	34	-	-	-	-	34
	584	2	58	145	31	820

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	34	-	-	-	-	34
David Gray	77	-	-	-	-	77
Michael McKernan	34	-	-	-	-	34
Kate Mingay	34	-	-	-	-	34
Chris Murray	34	-	-	-	-	34
Ceri Richards[6]	3	-	-	-	-	3
	553	2	62	135	31	783

[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 £15,958 pension for £14,023 salary (2020: £16,760 pension exchanged for £14,728 salary), with the difference being used to pay additional employer NIC costs incurred as a result.

[5] During the year Gerard McIlroy elected to exchange £4,734 pension for £4,160 salary (2020: £9,490 pension exchanged for £8,339 salary), with the difference being used to pay additional employer NIC costs incurred as a result. In the prior year Gerard McIlroy also elected to exchange £12,000 of the 2019/20 annual performance-related pay for company paid pension contributions. This amount, along with £1,656 NIC savings, was credited to his pension account in April 2020. No such election was made in the current year in respect of the 2020/21 performance-related pay.

[6] Appointed as Director on 1 March 2020.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

ANNUAL REPORT ON REMUNERATION (CONTINUED)

DETERMINATION OF 2020/21 ANNUAL PERFORMANCE-RELATED PAY

Annual performance-related pay awards were determined with reference to performance over the financial year ending 2020/21. 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	8.75%	7.8%	8.75%	7.8%	17.5%	12.5%	17.5%	12.5%
Financial performance	6.50%	6.1%	6.5%	6.1%	-	-	-	-
Markets and Regulatory change management	2.75%	1.85%	2.75%	1.85%	21.0%	18.5%	21.0%	18.5%
Business Resilience and Development	2.00%	1.75%	2.00%	1.75%	16.5%	13.0%	16.5%	13.0%
	20.0%	17.5%	20.0%	17.5%	55.0%	44.0%	55.0%	44.0.%

In respect of the within year targets a second consecutive year of outstanding availability flowed through to a second consecutive record year of commercial revenues and cash generated without the requirement to charge customers via the CAIRt mechanism, and the outcomes correctly reflected this performance. There was substantial market change which was managed in line with expectation and the business resilience stood up well to the COVID-19 and wider challenges.

Longer term there was 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. The award in respect of the longer term objectives reflects a strong performance throughout. The long term targets to improve asset performance, including the new control system project which progresses on time and on budget, and good progress on updating the asset management system and integrating the gas to the west assets, are reflected in the Asset performance targets. In respect of the Market change metrics, the developments on the long-term commercial position of Moyle have been very favourable, with improvements in the capacity we are able to export to GB and the other services we provide and the clarity on the long term post Brexit trading arrangements.

In the gas business the extension of the Transportation Agreement has developed to our satisfaction. Finally under the business resilience and development targets the business has engaged effectively to adjust its strategy for the energy transition and to develop a pipeline of opportunities once the Northern Ireland Energy Strategy is in place.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

ANNUAL REPORT ON REMUNERATION (CONTINUED)

DETERMINATION OF 2020/21 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 2020/21 and, as foreseen last year, saw no reason to adjust the targets downwards for COVID-19. Business resilience and the ability to continue working effectively were viewed as an important aspect sufficiently covered in the targets originally set.

PAYMENTS TO PAST DIRECTORS

No payments were made to past Directors in the year (2020: £Nil).

PAYMENTS FOR LOSS OF OFFICE

There were no payments for loss of office made in the year (2020: £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 % *
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%
2020/21	313	88%	80%

* 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)

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

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 2020/21 and 2019/20.

	Percentage increase in remuneration in 2020/21 compared with remuneration in 2019/20	
	CEO	Group's Employees as a Whole*
Salary and fees	-1.5%	2.2%
All taxable benefits	-1.2%	-3.5%
Annual performance-related pay	-5.7%	0.5%

* Reflects the change in pay for an average employee (excluding Non-Executive Directors) employed throughout both the year ended 31 March 2020 and the year ended 31 March 2021.

As part of its normal annual schedule, 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 continues 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.

	2020/21 £'000	2019/20 £'000	% change
Total employee costs	3,067	2,875	6.7%
Total debt repayments plus cash retained in the business plus cash returned to customers	45,126	46,025	-2.0%

Total employee costs variances include movements in headcount.

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.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

ANNUAL REPORT ON REMUNERATION (CONTINUED)

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN 2021/22

The Directors' salaries and fees for the 2021/22 year reflect the effect of the agreed inflationary increase and any other adjustments to terms and conditions, and are as follows:

	2021/22 £'000	2020/21 £'000	Change
Chief Executive	186	184	0.9%
Financial Director	155	153	1.0%
Chair	77	77	0%
Non-Executive Directors	34	34	0%

The annual performance-related pay for 2021/22 will operate on the same basis as for 2020/21 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	7.5%	7.5%	19.5%	19.5%
Financial performance	8.0%	8.0%	-	-
Markets and Regulatory change management	2.5%	2.5%	20.5%	20.5%
Business Resilience and Development	2.0%	2.0%	15.0%	15.0%
	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.

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

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

ANNUAL REPORT ON REMUNERATION (CONTINUED)

CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

During the year, the Committee met four 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, Ceri Richards 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 carried out in the year by PWC.

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 (2020 AGM)	26	100%	-	0%	26	-
Remuneration policy (2018 AGM)	27	96%	1	4%	28	-

APPROVAL

This report was approved by the Board of Directors on 1 July 2021 and signed on its behalf by:

Kate Mingay
Remuneration Committee Chair
1 July 2021

RISK COMMITTEE REPORT

The Risk Committee is a Committee established by the Board of Directors of Mutual Energy Limited to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to business and operational risks and compliance with technical and legal requirements (other than financial 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:

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

The Committee is chaired by Chris Murray, Non-Executive Director, and also comprises Ceri Richards, Non-Executive Director, and Paddy Larkin, Chief Executive. Additionally, regular attendees include those with operational responsibility for the Group's assets, led by Stephen Hemphill, Operations Director. Other attendees are invited to contribute to the Committee as and when appropriate.

RISK COMMITTEE REPORT (CONTINUED)

ACTIVITIES IN 2020/21

The Committee met on five occasions during the year ended 31 March 2021. Attendance was as listed in the Corporate Governance Statement.

During the year, the Committee:

- Reviewed performance against the 2019/20 Health and Safety Plan, monitored performance against the 2020/21 Health and Safety Plan and reviewed and recommended to the Board for approval the 2021/22 Health and Safety Policy Statement, Health and Safety Management System and Health and Safety Plan;
- Monitored the progress against the 2019 external (RoSPA) Quality Safety Audit recommendations and reviewed the terms of reference and programme for the 2021 external RoSPA Quality Safety Audit;
- Maintained an oversight in how the Group has dynamically managed the impact of the Coronavirus pandemic;
- Reviewed the Security Policy and annual Security Plan and recommended these documents to the Board for approval;
- Reviewed the Environmental Policy, Management System/Annual Plan and recommended these documents to the Board for approval;
- Reviewed the operational risk registers for both the gas and electricity businesses twice per year;
- Considered risks and mitigation options for onshore and submarine pipelines critical to Greater Belfast gas security of supply;
- Monitored progress against the Gas to the West snagging programme;
- Approved the Asset Management Policy and monitored progress on the ISO 55001 implementation programme; and
- Reviewed the annual Risk Committee Effectiveness Questionnaire, Terms of Reference, membership of the Risk Committee and proposals for Risk Management review.

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 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 2021. There were no changes to financial reporting standards which significantly impacted the Group in the year, or other significant issues. During the year, the Group's risk management process was reviewed and refreshed, with the support of Deloitte. The revised risk management process was developed at Board level, with significant input by the Audit Committee. The revised process will come into effect for the year ending 31 March 2022. The Committee continues to review the effectiveness of the Group's financial reporting and internal control systems. Bespoke training was provided by PWC to the Audit Committee and attendees during the year, to ensure the Committee remains up-to-date with best practice.

Patrick Anderson
Audit Committee Chair
1 July 2021

The Audit Committee was in place throughout the year ended 31 March 2021 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, Michael McKernan and Ceri Richards. 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 five times in the year ended 31 March 2021 with attendance as listed in the Corporate Governance Statement. The key areas of consideration are set out in pages 77 to 79, along with a description of the activities carried out in each area during the year.

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.

AUDIT COMMITTEE REPORT (CONTINUED)

FINANCIAL REPORTING (CONTINUED)

The majority of the matters identified are effectively routine and consistent year on year, with no new significant matters arising in the year. The final cost of West Transmission's assets has yet to be finalised. The valuation of these assets has been based on an initial determination issued by the Regulator in March 2021 which covers c84% of the anticipated expenditure. More details on the calculation of this valuation, along with information on other key judgements and policies are included in note 1 on pages 106 to 109.

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;
- working with the Board and Risk Committee to shape the new Risk Management framework which is to come into effect in 2021/22;
- 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; and
- reviewing and approving a range of Group policies, in line with the Group's compliance review schedule.

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 auditor 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 COMMITTEE REPORT (CONTINUED)

AUDIT (CONTINUED)

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;
- reviewing audit materiality and approval of the change in basis for its calculation to reflect the asset intensive nature of the business;
- 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 2021 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 was awarded an MBE in May 2019 for services to the economic development of Northern Ireland. He is the Chief Executive of John Thompson & Sons Ltd, Northern Ireland's largest animal feed processor. Over the last seventeen years he has been heavily involved with the Northern Ireland region of CBI, and was Chair of its Economic Affairs Committee and subsequently Chairman of CBI NI. Declan sat on the Ministerial Energy and Manufacturing Advisory Group and currently Chairs the CBI NI Energy Sub-Group. Keen on playing a strong role in driving forward the Agri-Food agenda, Declan plays an active role on several NI and UK Government Brexit Advisory bodies and has provided advice to departments such as NI Office, DAERA, and DfE to a wider remit at UK level, such as Dept. for Exiting the EU and the Cabinet Office, in particular, in respect of the NI protocol and also sits on the HMRC Joint Customs Consultative Group which is working through the finer details post transition. Declan sits on the Boards of the Agricultural Industries Confederation (AIC), is a member of the Institute of Global Food Security Industry Advisory Board, the Executive Committee of the NI Grain Trade Association and is Chair of the NI Poultry Federation. He previously held the post of Chair and Vice Chair of the Northern Ireland Food and Drinks Association and was a former member of the Agri Food Strategy Board (AFSB) up until the end of its tenure in 2017. Aside from his MBE, 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.

NIKITA BRIJPAUL

Nikita Brijpaul has accumulated over 20 years in progressive business development experience working across a variety of sectors including pharmaceuticals, telecommunications and most recently the construction sector. In his current role at the as Business Development Manager for the Belfast Metropolitan College he funds innovation strategy for start ups, scale ups and established businesses. Nikita is an MBA graduate of the Adam Smith Business School University of Glasgow.

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 recognised 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.

ROBIN DAVEY

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

MUTUAL ENERGY MEMBERS (CONTINUED)

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.

GAIL FRYER

Gail Fryer was an Accountant with the Northern Ireland Civil Service before retiring in Oct 2018. A Fellow of the Association of Chartered Certified Accountants, she worked in several of the NI Departments throughout her career including Rates Collection, Water Service and Department of Justice. Since retiring Gail has been working as a consultant with the Department for Economy within Energy Branch. During this time Gail was involved in issues such as Brexit in relation to the Single Energy Market (SEM), Consumer perception of energy bills, the Gas to the West Project and was most recently involved in the NIE Networks price control process.

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 is highly experienced in stakeholder engagement, strategic development and public policy with a career spanning over 20 years working with public, private, community and voluntary organisations. Prior to establishing KG 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 Non-Executive Member of the Driver Vehicle Agency Board and is Chair of its Audit and Risk Assurance Committee. She is also a Trustee and Non-Executive Director of Age NI, a member of the Ofcom Advisory Committee for Northern Ireland, 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.

DR SCOTT KING

Dr Scott King is an award-winning business growth advisor, entrepreneur, investor, published author, lean practitioner and Chartered Engineer. For nearly 20 years Scott has worked and travelled across the globe providing direction, assistance and leadership to an ever-expanding list of multi-sectoral organisations, ranging from new start's to SME's and globally recognised brands. Scott utilises his library of accumulated knowledge, experience, skills and International business network to provide a pragmatic approach to supporting organisations to achieve their vision and potential.

ANDREW KIRKE

Andrew is a Partner 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 has worked with Tughans for a number of years, having trained with another Belfast firm and spent some time working offshore in a corporate finance role. He is currently on a second year-long secondment to SONI Ltd, the transmission system operator for Northern Ireland, as the sole in-house counsel, and is on the committee of 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 and of Origin Enterprises plc, Chairman of Neueda and a Non-Executive Director of Displaynote Technologies. Helen is a member of the Queen's University Belfast Audit Committee and a Non-Executive Director of QUBIS. 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 and a Non-Executive Director of Wireless Group/ UTV Media plc. Helen was awarded a MBE in 2012 for services to the community in Northern Ireland. She holds a B.A. (Hons) degree in Business Studies from Ulster University and is a Fellow of the Institute of Chartered Accountants and a Fellow of the Institute of Directors.

NOEL LAVERY CB

Between March 2013 and November 2019, Noel held the position of Permanent Secretary in three Northern Ireland Executive departments. He has nearly 20 years of experience of economic development working in public sector policy, delivery and governance roles. Noel trained as a chartered accountant with PriceWaterhouse and the first 15 years of his career were in the private sector. He has been a Fellow of the Institute of Chartered Accountants in Ireland since 1995.

GAVIN MCBRIDE

Gavin McBride is a qualified solicitor (non-practising) 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.

COLIN MCCLEMENTS

Colin McClements works with Belfast Harbour as Commercial Manager and helps to manage existing and new business within the port, including energy related matters. Prior to joining the organisation, he worked in a property consultancy in North West England and spent 12 years in a commercial role in the renewable energy industry. His experience extends to corporate finance, development and customer management. Colin holds a degree in Land and Estate Management, qualified as a Chartered Surveyor in 2003 and gained an MBA from Queens University in 2017.

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 over 20 years of experience in electronics and embedded software.

DR BERNARD MULLHOLLAND

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

MUTUAL ENERGY MEMBERS (CONTINUED)

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.

DR MUIRIS O'CEIDIGH

Dr Muiris O'Ceidigh is CEO of the National Milk Agency. Muiris was recently appointed by the North South Council of Ministers to the Advisory Committee of Safefood, also known as The Food Safety Promotion Board (FSPB), the North-South body responsible for raising consumer awareness concerning food. Muiris is a member of the Veterinary Council of Ireland. He served for many years as a Non-Executive Director of the Economic Research Institute of Northern Ireland. He holds a Doctorate in Governance from Queens University Belfast, is the Chair of the Irish Council for Civil Liberties, and is a Non-Executive Director of the Faculty of Pathology of the Royal College of Physicians. He was appointed as member of Property Services Regulatory Authority in 2016 and he is a Director of the Irish Architecture Foundation. Muiris has previously been a Trustee of the Institute for Conflict Research in Belfast, Northern Ireland, served as a Director and as national secretary of An Taisce – The National Trust for Ireland and was a public interest member of the of the Medical Scientists Registration Board before moving to be a chair on the Education Review Panel of CORU. O'Ceidigh, holds many qualifications including a BA in law and sociology from NUIG, followed with an LLB, an MBA from Trinity College, an MSc (Economics) from Trinity and an MA in Public Management from the Institute of Public Administration. He successfully completed the Oxford University Fintech program in 2018 and more recently an Executive Leadership program at the University of Cambridge. Muiris practiced as a commercial lawyer with A & L Goodbody for several years and has several legal and other publications.

AODHAN O'DONNELL

Aodhan is an experienced Consumer and Professional Services Consultant focusing on consumer engagement, stakeholder management, research and evaluation, policy development and public affairs. Previously, Aodhan was Interim Chief Executive at the Northern Ireland Consumer Council (and formerly Director of Policy) ensuring the organisation represented consumers across a range of markets, including energy. Aodhan is founder of 'Power to Switch' (NI and ROI), an 'all of market' service helping energy consumers compare deals, become informed and feel confident being active in the market. In addition to a BSc (Hons) Environmental Health from Leeds Metropolitan University, Aodhan has an MBA (with Distinction) from Ulster University.

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.

MUTUAL ENERGY MEMBERS (CONTINUED)

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.

MARK WISHART

Mark Wishart works as a Strategic Adviser for the Strategic Investment Board. He is a member of the team responsible for developing the NI Executive's Investment Strategy for Northern Ireland (ISNI). Mark is currently undertaking a baseline review of Northern Ireland's economic and social infrastructure, which will assess current stock, condition, operational costs, ownership and funding models, capacity, exogenous drivers of changes and investment requirements. The baseline review will inform the development of the next iteration of the Executive's Investment Strategy for Northern Ireland.

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 2021

The Directors present their annual report and the audited financial statements of the Group and Parent Company for the year ended 31 March 2021.

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

RESULTS
The Group's profit for the year is £10,471,000 (2020: £5,515,000).

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

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.

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.

POST BALANCE SHEET EVENTS
There were no subsequent events that need to be brought to the attention of the users of the financial statements.

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 year (2020: £nil).

OTHER INFORMATION
An indication of likely future developments in the business have been included in the Strategic Report on pages 5 to 48.

CORPORATE GOVERNANCE
Further details in respect of the Group's corporate governance statement is set out on pages 52 to 57.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS
So far as each of the Directors in office at the date of approval of these financial statements is aware:

- there is no relevant audit information of which the Group and Parent Company's 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.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

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 accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law, and have elected to prepare the Company financial statements on the same basis.

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 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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
1 July 2021

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') and its consolidated undertakings ('the Group') for the year ended 31 March 2021 set out on pages 92 to 135, 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 statement 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 accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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.

CONCLUSIONS RELATING TO 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").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group and the Parent Company's business model and analysed how those risks might affect the Group and the Parent Company's financial resources or ability to continue operations over the going concern period.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

CONCLUSIONS RELATING TO GOING CONCERN (CONTINUED)

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Parent Company's ability to continue as a going concern for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

DETECTING IRREGULARITIES INCLUDING FRAUD

We identified the areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements and risks of material misstatement due to fraud, using our understanding of the entity's industry, regulatory environment and other external factors and inquiry with the directors. In addition, our risk assessment procedures included: inquiring with the directors as to the Group's policies and procedures regarding compliance with laws and regulations and prevention and detection of fraud; inquiring whether the directors have knowledge of any actual or suspected non-compliance with laws or regulations or alleged fraud; inspecting the Group's regulatory and legal correspondence; and reading Board and audit committee minutes.

We discussed identified laws and regulations, fraud risk factors and the need to remain alert among the audit team.

The Group is subject to laws and regulations that directly affect the financial statements including companies and financial reporting legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items, including assessing the financial statement disclosures and agreeing them to supporting documentation when necessary.

The Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, employment law, environmental law, Government utility regulations and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these non-direct laws and regulations to inquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

We assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. As required by auditing standards, we performed procedures to address the risk of management override of controls. On this audit we do not believe there is a fraud risk related to revenue recognition.

In response to risk of fraud, we also performed procedures including: identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation; evaluating the business purpose of significant unusual transactions; assessing significant accounting estimates for bias; and assessing the disclosures in the financial statements.

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

DETECTING IRREGULARITIES INCLUDING FRAUD (CONTINUED)

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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 2021/21 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.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

Based solely on our work on the other information undertaken during the course of the audit:

- 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 87, 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, other irregularities or error, and to issue an opinion in an auditor's report. 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, other irregularities 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 Parent 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 Parent 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 Parent Company and the Parent Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Poole
for and on behalf of KPMG
Statutory Auditor

The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

2 July 2021

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2021

		2021			2020		
	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	2	**80,041**	**-**	**80,041**	72,044	-	72,044
Revenue rebate	2	**(1,953)**	**-**	**(1,953)**	-	-	-
Net revenue - continuing operations	2	**78,088**	**-**	**78,088**	72,044	-	72,044
Operating expenses	3	**(43,322)**	**-**	**(43,322)**	(43,003)	-	(43,003)
Operating profit		**34,766**	**-**	**34,766**	29,041	-	29,041
Finance income	5	**1,811**	**-**	**1,811**	3,401	3,557	6,958
Finance expenses	5	**(21,777)**	**(1,631)**	**(23,408)**	(24,839)	-	(24,839)
Finance (expenses)/income - net	5	**(19,966)**	**(1,631)**	**(21,597)**	(21,438)	3,557	(17,881)
Profit/(loss) before income tax		**14,800**	**(1,631)**	**13,169**	7,603	3,557	11,160
Taxation	6	**(3,041)**	**343**	**(2,698)**	(5,817)	172	(5,645)
Profit/(loss) and total comprehensive income/(expense) for the year attributable to the owners of the parent	17	**11,759**	**(1,288)**	**10,471**	1,786	3,729	5,515

All results arise from continuing operations.

The notes on pages 96 to 135 are an integral part of these consolidated financial statements.

CONSOLIDATED AND PARENT COMPANY BALANCE SHEET

AT 31 MARCH 2021

		Group		Company	
	Note	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Non-current assets					
Property, plant and equipment	8	291,245	292,723	304	117
Intangible assets	9	199,810	207,861	-	-
Investments in subsidiaries	10	-	-	9,644	8,263
Other investments	11	399	2,662	-	-
Deferred tax assets	21	7,439	7,096	43	48
		498,893	510,342	9,991	8,428
Current assets					
Trade and other receivables	12	33,578	25,358	1,718	1,975
Inventories	13	113	113	-	-
Tax receivable		-	1,029	-	-
Financial assets	14	69,152	200,994	3,135	3,016
Cash and cash equivalents	15	103,882	89,322	1,139	701
		206,725	316,816	5,992	5,692
Total assets		705,618	827,158	15,983	14,120
Equity and liabilities					
Equity attributable to the owners of the parent					
Share capital	16	-	-	-	-
Retained earnings	17	52,355	41,884	(4,168)	(5,182)
Total equity		52,355	41,884	(4,168)	(5,182)
Non-current liabilities					
Other payables	23	-	123,950	-	-
Interest bearing loans and borrowings	18	434,205	450,863	196	29
Provisions	20	3,199	3,070	-	-
Deferred tax liabilities	21	38,999	40,652	-	-
Government grants	22	73,298	74,665	-	-
Derivative financial instruments	25	40,538	38,907	-	-
		590,239	732,107	196	29
Current liabilities					
Trade and other payables	23	36,635	24,477	9,633	8,954
Tax payable		365	-	-	-
Interest bearing loans and borrowings	18	22,530	24,627	10,322	10,319
Government grants	22	3,494	4,063	-	-
		63,024	53,167	19,955	19,273
Total liabilities		653,263	785,274	20,151	19,302
Total equity and liabilities		705,618	827,158	15,983	14,120

The notes on pages 96 to 135 are an integral part of these financial statements.

The financial statements on pages 92 to 135 were authorised for issue by the Board of Directors on 1 July 2021 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 2021

Group	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2019	-	36,369	36,369
Total comprehensive income for the year	-	5,515	5,515
At 31 March 2020	-	41,884	41,884
Total comprehensive income for the year	-	10,471	10,471
At 31 March 2021	**-**	**52,355**	**52,355**

Company	Share capital £'000	Retained earnings £'000	Total £'000
At 1 April 2019	-	(5,776)	(5,776)
Total comprehensive income for the year	-	594	594
At 31 March 2020	-	(5,182)	(5,182)
Total comprehensive income for the year	-	1,014	1,014
At 31 March 2021	**-**	**(4,168)**	**(4,168)**

The notes on pages 96 to 135 are an integral part of these financial statements.

CONSOLIDATED AND PARENT COMPANY CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

		Group		Company	
	Note	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Cash flows from operating activities					
Profit before tax		13,169	11,160	928	506
Adjustments for:					
Finance costs - net	5	21,597	17,881	615	579
Depreciation of property, plant and equipment	8	14,527	14,031	87	88
Loss on disposal of property, plant and equipment		39	327	-	-
Reversal of impairment on investment	10	-	-	(1,381)	(942)
Amortisation and release of government grants	22	(3,460)	(3,900)	-	-
Amortisation of intangible assets	9	8,051	8,064	-	-
Fair value adjustment of investment	11	(889)	(624)	-	-
Movement in trade and other receivables		(11,902)	(7,181)	274	(320)
Movement in trade and other payables		8,373	7,002	33	71
Income tax (paid)/received		(3,300)	(4,341)	85	-
Net cash from/(used in) operating activities		46,205	42,419	641	(18)
Cash flows from investing activities					
Interest received		5,200	1,373	20	30
Returns from financial asset		131,961	32,004	-	-
Purchase of property, plant and equipment		(88,262)	(29,133)	(26)	(12)
Maturity of financial assets		(119)	(36,352)	(119)	(3,016)
Return of capital on other investments		3,152	3,323	-	-
Purchase of intangible assets		(50,000)	(32,149)	-	-
Receipt of grants		1,524	28,106	-	-
Net cash from/(used in) investing activities		3,456	(32,828)	(125)	(2,998)
Cash flows from financing activities					
Interest paid		(9,193)	(9,283)	-	-
Repayment of borrowings		(25,584)	(20,656)	-	-
Lease payments		(324)	(302)	(78)	(59)
Net cash used in financing activities		(35,101)	(30,241)	(78)	(59)
Movement in cash and cash equivalents		14,560	(20,650)	438	(3,075)
Cash and cash equivalents at the 1 April	15	89,322	109,972	701	3,776
Cash and cash equivalents at 31 March	15	103,882	89,322	1,139	701

The notes on pages 96 to 135 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

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 1 July 2021 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 Group financial statements have been prepared and approved by the Directors in accordance with Companies Act 2006 and international accounting standards in conformity with the requirements of the Companies Act 2006 ('Adopted IFRSs') and have elected to prepare the Company financial statements on the same basis. 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 Adopted IFRSs 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 106 to 109.

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

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

NEW STANDARDS, AMENDMENTS OR INTERPRETATIONS

NEWLY ADOPTED STANDARDS

The Group has adopted the following IFRSs in these financial statements:

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform has been adopted from 1 April 2020.
- Amendments to IFRS 3: Definition of a Business has been adopted from 1 April 2020.
- Amendments to References to the Conceptual Framework in IFRS Standards.
- Amendments to IAS 1 and IAS 8: Definition of Material.

The adoption of these amendments to IFRSs did not result in material changes to the Group or Parent Company financial statements.

ADOPTED IFRS NOT YET APPLIED

The following Adopted IFRSs have been issued but have not been applied by the Group or Parent Company in these financial statements. Their application is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 17 Insurance Contracts (effective date 1 January 2023)
- Deferred tax related to assets and liabilities arising from a single transaction (effective date 1 January 2023)
- Definition of accounting estimates (effective date 1 January 2023)
- Disclosure of accounting policies (amendments to IAS 1 and IFRS Practice Statement 2) (effective date 1 January 2023)
- Annual improvements to IFRS 2018-2020 (effective date 1 January 2022)
- Onerous contracts - cost of fulfilling a contract (effective date 1 January 2022)
- Property plant and equipment: proceeds before intended use (effective date 1 January 2022)
- Reference to the conceptual framework (effective date 1 January 2022)
- Classification of liabilities as current or non-current (effective date 1 January 2023)
- COVID-19 - related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) (effective date 1 April 2021)

There has been an IFRIC agenda decision on Hedging Variability in Cash Flows due to Real Interest Rates (IFRS 9) under consideration for a number of months and a decision has recently been sent to the International Accounting Standards Board for its approval. The agenda decision states that IFRIC do not believe that inflation can be identified as a distinct component of the interest cash flows in an instrument and, therefore, cannot be separated out for cashflow hedging purposes. We believe this decision may impact the Group's use of a real interest rate curve for estimating the fair value of the inflation linked bonds. The impact of the agenda decision is currently being considered and the Group's methodology for arriving at fair value is being reassessed to identify whether or not there is a more appropriate methodology that should be applied.

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

BASIS OF CONSOLIDATION

The consolidated financial statements consolidate the financial statements of Mutual Energy Limited and its subsidiary undertakings drawn up to 31 March 2021. 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. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. They are deconsolidated from the date that control ceases.

TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

PRESENTATION OF STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

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

GOING CONCERN

The Company has net liabilities, however, the Company and Group are cash generative and the forecast cash generated is adequate to meet the liabilities as they fall due over the 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.

FOREIGN EXCHANGE

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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.

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

REVENUE (CONTINUED)

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

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. The revenues are accounted for in line with the delivery of the services provided under the overarching market arrangements. In the current year a revenue rebate of £1,953,000 was paid (2020: £nil), see note 2 for further details.

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.

TARIFF REVENUE REBATE

When there is an agreement in place to rebate revenue via a tariff reduction, tariff revenue rebates are recognised in line with the rebates passed through to Northern Ireland electricity tariffs by SONI, on Moyle's behalf.

FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income on funds invested, negative interest on leases and fair value gains on financial instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance expenses comprise interest expense on borrowings, impairment losses recognised on financial assets and fair value losses on financial instruments. 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.

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.

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

INTANGIBLE ASSETS (CONTINUED)

(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 13 years for Premier Transmission, 16 years for Moyle Interconnector and 31 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. 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 2021, of 33.5 years.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises purchase cost plus any costs directly attributable to bringing the asset into operation and an estimate of any decommissioning costs. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognised. An asset is derecognised upon disposal or when no future economic benefit is expected to arise from the asset.

All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

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

Gas pipelines	43 - 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.

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.

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

LEASES

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.

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.

At commencement or on modification 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.

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 underlying 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 'interest bearing loans and borrowings' in the balance sheet (see notes 8 and 18 respectively).

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

LEASES (CONTINUED)

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

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. 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; or fair value through other comprehensive income (FVOCI) - equity investment.

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.

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

FINANCIAL INSTRUMENTS (CONTINUED)

(II) CLASSIFICATION AND SUBSEQUENT MEASUREMENT (CONTINUED)

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.

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.

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

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

(b) Subsequent measurement and gains and losses

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.

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

FINANCIAL INSTRUMENTS (CONTINUED)

(II) CLASSIFICATION AND SUBSEQUENT MEASUREMENT (CONTINUED)

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.

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

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort.

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.

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

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. 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

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in

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

TAXATION (CONTINUED)

subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates.

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.

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 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.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

ESTIMATES

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

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

(A) ESTIMATE OF USEFUL ECONOMIC LIFE OF ASSETS

The Group assesses the useful life of assets on an annual basis.

The remaining useful economic life of the Moyle Interconnector was determined as approximately 12 (2020: 13) years at the beginning of the year. If the remaining useful economic life had been assessed at 13 (2020: 14) years depreciation would have decreased by £633,000 (2020: £588,000) and if the remaining useful economic life had been assessed at 11 (2020: 12) years depreciation would have increased by £748,000 (2020: £686,000).

The useful economic life of Moyle's tangible fixed assets above is currently deemed to cease in 2032 in line with the design life of the asset. The useful economic life of intangible assets is deemed to cease five years later in 2037 when the wider economic benefit accruing under Moyle Interconnector's direction and licence agreements will have been materially exhausted. These useful economic lives are subject to change if both the expected physical operation and revenue generating value is forecast beyond this date.

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

ESTIMATES (CONTINUED)

(A) ESTIMATE OF USEFUL ECONOMIC LIFE OF ASSETS (CONTINUED)

The useful economic life of the intangible and tangible fixed assets will therefore be subject to ongoing assessment however, in the absence of further longer term clarity on the future activities of the Moyle Interconnector business, it is currently deemed appropriate to depreciate assets to the shortest period of related economic benefit based upon the design life of the asset.

The remaining useful economic life of Premier Transmission's Pipeline was determined as approximately 34.5 (2020: 35.5) years at the beginning of the year. If the remaining useful economic life had been 35.5 (2020: 36.5) years, depreciation would have decreased by £51,000 (2020: £50,000) and if the remaining useful economic life had been assessed at 33.5 (2020: 34.5) years, depreciation would have increased by £54,000 (2020: £52,000).

The remaining useful economic life of the Belfast Gas Transmission pipeline was determined as approximately 34.5 (2020: 35.5) years at the beginning of the year. If the remaining useful economic life had been assessed at 35.5 (2020: 36.5) years depreciation would have decreased by £19,000 (2020: £19,000) and if the remaining useful economic life had been assessed at 33.5 years (2020: 34.5) years depreciation would have increased by £20,000 (2020: £20,000).

The remaining useful economic life of the West Transmission pipeline was determined as approximately 40.25 (2020: 41.25) years at the beginning of the year. If the remaining useful economic life had been assessed at 41.25 (2020: 42.25) years depreciation would have decreased by £52,000 (2020: £35,000) and if the remaining useful economic life had been assessed at 39.25 (2020: 40.25) years depreciation would have increased by £54,000 (2020: £36,000).

The remaining useful economic life of Moyle Interconnector's licence was determined as approximately 17 (2020: 18) years at the beginning of the year. If the remaining useful economic life had been assessed at 18 (2020: 19) years amortisation would have decreased by £92,000 (2020: £87,000) and if the remaining useful economic life had been assessed at 16 (2020: 17) years amortisation would have increased by £104,000 (2020: £98,000).

The remaining useful economic life of Premier Transmission's licence was determined as approximately 14 (2020: 15) years at the beginning of the year. If the remaining useful economic life had been assessed at 15 (2020: 16) years, amortisation would have decreased by £93,000 (2020: £88,000) and if the remaining useful economic life had been assessed at 13 (2020: 14) years, amortisation would have increased by £108,000 (2020: £100,000).

The remaining useful economic life of Belfast Gas Transmission's licence was determined as approximately 32 (2020: 33) years at the beginning of the year. If the remaining useful economic life had been assessed at 33 (2020: 34) years amortisation would have decreased by £75,000 (2020: £73,000) and if the remaining useful economic life had been assessed at 31 (2020: 32) years amortisation would have increased by £80,000 (2020: £78,000).

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

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 3.81% (2020: 3.28%) based on expected time of expenditure of 11 years (2020: 12 years). The decommissioning provision has been discounted using a rate of 0.97% (2020: 0.50%). The effect of changing the discount rate and inflation rate on the decommissioning provision is disclosed in the table below.

	Increase/(decrease) in provision	
	2021 £'000	2020 £'000
Increase in inflation rate by 1%	356	376
Decrease in inflation rate by 1%	(323)	(338)
Increase in discount rate by 1%	(329)	(344)
Decrease in discount rate by 1%	370	391

(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 calculating the fair value, certain assumptions are required to be made in respect of highly uncertain matters. Changing the assumptions selected by management could significantly affect the Group's impairment evaluation and hence results. The Company's review includes the key assumptions related to sensitivity in the cash flow projections. The calculation assumes a GBP/EUR rate of 1.174. 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

Tangible fixed assets consist of the West 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 incorporating the decision of the Utility Regulator. The valuation of these assets is based on an initial regulatory decision covering 84% of the anticipated expenditure on the asset and 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 of -1.28% at the Company's lease modification date.

(F) CONTRACTUAL ARRANGEMENTS UNDER EU MARKET COUPLING

Market arrangements were introduced in October 2018 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, these market arrangements are very different.

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

JUDGEMENTS (CONTINUED)

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

The movement of power across the interconnector is effectively predefined by the market rules and will move from the lower priced market to the higher priced market in accordance with a schedule provided by the System Operator in Northern Ireland (SONI), unless this is inconsistent with a system support contract in which case the power will move for a short period in line with separate contractual arrangements with National Grid or SONI.

We do not 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 day ahead market coupling process to produce a coupled market and interconnector schedule. Any residual unallocated capacity is also made available by SEMOpx in two further 'intraday' auctions which are bilaterally coupled with the GB market but are not part of EU market coupling.

Prior to 1st January 2021, the market arrangements obliged us to offer what are known as Financial Transmission Rights (FTRs) to an auction process run by the Joint Allocation Office. In return for a fixed fee per MWh the FTRs obliged us to pay the value of the difference in day ahead market price between the two markets multiplied by the amount of capacity sold after adjusting for losses.

We do not have a direct contract with end customers, rather a contract with SEMOpx and the Joint Allocation Office.

Since 1st January 2021, UK parties are no longer permitted to participate in EU market coupling and EU laws governing this process and the offering of FTRs are no longer applicable to Moyle. Since that point Moyle's capacity has been solely made available and allocated in the coupled intraday auctions with GB. Moyle is currently involved in a long-term project as required by the EU-UK Trade and Cooperation to develop new day ahead market coupling arrangements between the UK and the EU, the targeted go-live date of which is 1st April 2022, but may well be in 2023. It is envisaged that Moyle may recommence offering of FTRs from that point.

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 FTRs.

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 2021	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	36,442	28,126	8,278	7,195	-	80,041
Revenue rebate	(1,953)	-	-	-	-	(1,953)
Net revenue	34,489	28,126	8,278	7,195	-	78,088
Segment (expenses)/income	(7,742)	(13,552)	(2,231)	(2,033)	465	(25,093)
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	(2,501)	-	(8,051)
Depreciation (net of government grants)	(6,503)	(1,334)	(658)	(2,487)	(85)	(11,067)
Fair value adjustment on investment	-	-	-	-	889	889
Finance income	345	247	12	1,303	(96)	1,811
Finance costs	(4,123)	(5,285)	(5,176)	(7,228)	35	(21,777)
Fair value adjustment on derivative financial instruments	-	(1,631)	-	-	-	(1,631)
Profit/(loss) before tax	14,805	5,169	(2,262)	(5,751)	1,208	13,169
Tax (charge)/credit	(2,831)	(1,217)	430	983	(63)	(2,698)
Profit/(loss) for the year	11,974	3,952	(1,832)	(4,768)	1,145	10,471
Assets						
Segment assets	209,231	140,928	115,537	237,005	2,917	705,618
Capital expenditure	11,084	93	306	789	26	12,298
Segment liabilities	112,465	137,424	160,141	244,082	(849)	653,263

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021 (CONTINUED)

2. SEGMENT INFORMATION (CONTINUED)

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 income 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)

DISAGGREGATION OF REVENUE

Group	2021 £'000	2020 £'000
Electricity business revenue:		
Commercial revenue		
Revenue from power transfers	13,521	12,608
System services	13,021	10,005
Capacity market	9,856	7,978
Total commercial revenue	36,398	30,591
Tariff revenue	-	22
Other	44	28
Total electricity business revenue	36,442	30,641
Gas business revenue	43,599	41,403
Total revenue	80,041	72,044
Electricity tariff revenue rebate	(1,953)	-
Net revenue	78,088	72,044

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

The tariff revenue rebate relates to a rebate of revenue previously recovered through the tariff mechanism in order to reduce costs for energy consumers during the COVID-19 pandemic.

Revenues from the Group's gas transmission businesses of £43,599,000 (2020: £41,403,000) 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 109, 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:

	2021 £'000	2020 £'000
Customer A	17,774	14,389
Customer B	5,103	1,639

3. OPERATING EXPENSES

Group	2021 £'000	2020 £'000
Staff numbers and costs (note 4)	3,067	2,875
Depreciation and amortisation (excluding right-of-use assets)	22,233	21,771
Loss on disposal of property, plant and equipment	39	327
Depreciation of right-of-use assets	345	324
Fair value adjustment on investment	(889)	(624)
Amortisation of deferred government grants	(3,460)	(3,900)
Auditors' remuneration:	2	2
Audit of these financial statements	50	50
Audit of financial statements of subsidiary	10	10
Other services	5,754	5,413
Other expenses	16,171	16,755
Total operating expenses	43,322	43,003

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

4. STAFF NUMBERS AND COST

Group	2021 £'000	2020 £'000
Wages and salaries	2,616	2,432
Social security costs	297	289
Pension costs	154	154
	3,067	2,875

The average monthly number of employees during the year (including Directors holding contracts of service with the Group) was 30 (2020: 30). All staff perform asset management activities.

	2021 Number	2020 Number
Members of defined contribution pension scheme	30	29

	2021 £'000	2020 £'000
Directors' emoluments		
Aggregate emoluments	790	752
Contributions paid to defined contribution pension scheme	31	31
	821	783

Directors' emoluments represent the remuneration of the Group's Executive and Non-Executive Directors. The emoluments of the highest paid Director were £296,000 (2020: £296,000) and the contributions paid to his defined contribution pension scheme were £17,000 (2020: £17,000). 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	2021 £'000	2020 £'000
Interest expense:		
Borrowings (including borrowing fees)	**15,443**	20,664
Bank charges	**285**	283
Movement of discount on decommissioning provision	**15**	29
Fair value adjustment in respect of derivative financial instruments (note 25)	**1,631**	-
Other finance expenses	**6,034**	3,863
Finance expense	**23,408**	24,839
Interest income:		
Short-term bank deposits	**(1,752)**	(3,377)
Fair value adjustment in respect of derivative financial instruments (note 25)	**-**	(3,557)
Lease interest	**(59)**	(24)
Finance income	**(1,811)**	(6,958)
Finance expense - net	**21,597**	17,881

Fair value adjustment in respect of derivative financial instruments

The consolidated statement of profit and loss and other comprehensive income has been presented in a 6 column format in order to allow users to appreciate the impact of derivatives on the results for the year. The Group has swaps that are designed to hedge the inflation risk in revenue, however 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	2021 £'000	2020 £'000
Current income tax:		
Current tax on profit for the year	**4,694**	2,393
Adjustments in respect of prior years	**-**	(2)
Total current income tax	**4,694**	2,391
Deferred income tax:		
Origination and reversal of temporary differences	**(1,996)**	(307)
Adjustments in respect of prior years	**-**	(3)
Impact of change in deferred tax rate	**-**	3,564
Total deferred income tax (note 21)	**(1,996)**	3,254
Taxation	**2,698**	5,645

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% (2020: 19%). The differences are reconciled below:

Group Reconciliation of effective tax rate	2021 £'000	2020 £'000
Profit before income tax	**13,169**	11,160
Tax calculated at the UK standard rate of corporation tax of 19% (2020: 19%)	**2,502**	2,120
Effects of:		
Non deductible expenses	**196**	213
Income not taxable	**-**	(247)
Adjustments in respect of prior years	**-**	(5)
Impact of change in deferred tax rate	**-**	3,564
Taxation	**2,698**	5,645

FUTURE TAX CHANGES

The Finance Bill 2020 confirmed that the rate of corporation tax would remain at the rate of 19% from 1 April 2020 and this is the rate at which deferred tax has been provided. The Finance Bill 2021 announced an increase in the rate of corporation tax from April 2023 to 25%. This Finance Bill was substantively enacted on 24 May 2021 and does not impact these accounts as this was post the balance sheet date. Deferred tax balances are likely to increase significantly in 2022 as a result of this change (see note 21).

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 profit and loss and other comprehensive income has not been included in these financial statements. The profit dealt with in the financial statements of the Parent Company is £1,014,000 (2020: £594,000).

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 2019	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
Additions	117	-	-	1,071	26	11,084	429	12,727
Lease modification	-	-	-	-	-	-	248	248
Disposals	(66)	-	(11)	-	-	-	-	(77)
Movement in decommissioning provision	-	113	-	-	-	-	-	113
At 31 March 2021	**233,464**	**176,325**	**3,890**	**18,092**	**593**	**11,084**	**6,736**	**450,184**
Accumulated depreciation								
At 1 April 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
Depreciation charge for the year	4,552	8,238	153	1,209	30	-	345	14,527
Disposals	(38)	-	-	-	-	-	-	(38)
At 31 March 2021	**65,666**	**85,680**	**3,559**	**2,805**	**560**	**-**	**669**	**158,939**
Net book value								
At 31 March 2021	**167,798**	**90,645**	**331**	**15,287**	**33**	**11,084**	**6,067**	**291,245**
At 31 March 2020	172,261	98,770	495	15,425	37	-	5,735	292,723
At 1 April 2019	91,762	107,084	568	1,620	59	68,842	5,585	275,520

Assets under construction at 1 April 2019 related to costs incurred in relation to the gas transmission project to transport gas to the West of Northern Ireland. These assets were brought into use during the year ending 31 March 2020. Asset under construction at 31 March 2021 relate to costs incurred in relation to the replacement of Moyle Interconnector's control system.

The Group has capital commitments in respect of the construction of the Gas to the West project. The value of these commitments is dependent upon the final determination by the Utility Regulator which is expected in 2021/2022, at the earliest. Payment in respect of these commitments is not due until a decision is made.

At 31 March 2021, the Group also had capital commitments of €12,643,000 (£10,771,000 Sterling equivalent) and £3,474,000 in relation to the new control system (31 March 2020: £nil).

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Depreciation expense of £14,527,000 (2020: £14,031,000) has been fully charged to operating expenses.

As noted on page 109, 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 2019	268	161	429
Additions	12	-	12
At 31 March 2020	280	161	441
Additions	26	-	26
Lease Modifications	-	248	248
At 31 March 2021	**306**	**409**	**715**
Accumulated depreciation			
At 1 April 2019	236	-	236
Depreciation charge for the year	19	69	88
At 31 March 2020	255	69	324
Depreciation charge for the year	18	69	87
At 31 March 2021	**273**	**138**	**411**
Net book value			
At 31 March 2021	**33**	**271**	**304**
At 31 March 2020	25	92	117
At 1 April 2019	32	161	193

Depreciation expense of £87,000 (2020: £88,000) has been fully charged to operating expenses.

The lease modifications represent an increase in the term of the leases following a decision not to exercise the termination options existing in the leases (see note 19).

9. INTANGIBLE ASSETS

Group	Goodwill £'000	Licences £'000	Other Intangibles £'000	Total £'000
Cost				
At 1 April 2019	2,435	206,535	82,272	291,242
De-recognised in the year	-	-	(123)	(123)
At 31 March 2020 and at 31 March 2021	**2,435**	**206,535**	**82,149**	**291,119**
Accumulated amortisation				
At 1 April 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
Amortisation for the year	-	5,550	2,501	8,051
At 31 March 2021	**-**	**84,660**	**6,649**	**91,309**
Net book value				
At 31 March 2021	**2,435**	**121,875**	**75,500**	**199,810**
At 31 March 2020	2,435	127,425	78,001	207,861
At 1 April 2019	2,435	132,975	80,638	216,048

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 13 years, 31 years and 16 years respectively at 31 March 2021 (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 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 2021, of 33.5 years (34.5 years at 31 March 2020).

Amortisation expense of £8,051,000 (2020: £8,064,000) has been fully charged to operating expenses.

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 fair value less costs to sell calculation which has been determined using discounted cash flow forecasts. The cash flow projections are over a period of 9 years (2020: 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.

9. INTANGIBLE ASSETS (CONTINUED)

IMPAIRMENT TESTING FOR GOODWILL (CONTINUED)

The discount rate of 1.71% (2020: 1.00%) used is based on Bank of England gilt yield curve data for a debt with a remaining maturity of 9 years (2020: 10 years). The inflation rate assumption used by the Group in these calculations of 3.84% (2020: 3.27%) has been obtained from Bank of England yield curves over a 9 year period (2020: 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 2019	7,321
Reversal of impairment	942
At 31 March 2020	8,263
Reversal of impairment	1,381
At 31 March 2021	**9,644**

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 2019	5,361
Repayment of capital	(3,323)
Fair value adjustment	624
At 31 March 2020	2,662
Repayment of capital	(3,152)
Fair value adjustment	889
At 31 March 2021	**399**

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 has been applied (2020: nil). The present value was determined to be £185,000 at 31 March 2021 (2020: £2,448,000), resulting in the reversal of previous impairments of £889,000 (2020: £624,000) which was recognised in operating expenses in the profit and loss account (see note 3).

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 held at fair value which equates to the cost paid.

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Trade receivables	**6,365**	5,797	**-**	-
Prepayments	**2,504**	2,149	**60**	68
Accrued income	**6,278**	9,060	**-**	-
Other receivables	**18,431**	8,352	**28**	40
Trade receivables due from subsidiary undertakings	**-**	-	**1,630**	1,867
	33,578	25,358	**1,718**	1,975

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 €363,000 due (£314,000 Sterling equivalent) (2020: €403,000 due (£337,000 Sterling equivalent)); and ii) accrued income includes includes €2,059,000 due (£1,754,000 Sterling equivalent) (2020: €646,000 due (£574,000 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 (2020: £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. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair value of the Group's and Company's trade and other receivables is not materially different to their carrying values.

The fair value of the Group and Company's trade and other receivables is not materially different from their carrying values. Trade receivables due from subsidiary undertakings are unsecured, interest free and are repayable on demand.

13. INVENTORIES

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Spares	**113**	113	**-**	-

14. FINANCIAL ASSETS

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Cash deposits	**69,152**	200,994	**3,135**	3,016

Cash deposits earn interest at a range from Bank of England base rate less 0.07% to Bank of England base rate plus 1.25%.

Other payables falling due after one year are secured on the Group's cash deposits. Other payables falling due within one year include £6,416,000 (2020: £3,494,000) due to SGN Commercial Services Ltd in relation to tangible assets which are also secured on the Group's cash deposits.

15. CASH AND CASH EQUIVALENTS

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Cash and cash equivalents	**103,882**	89,322	**1,139**	701

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 1.25%, or nil if higher.

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 2019	36,369
Total comprehensive income for the year	5,515
At 31 March 2020	41,884
Total comprehensive income for the year	10,471
At 31 March 2021	**52,355**

Included in the retained earnings for the Group is an amount of £1,874,000 (2020: £1,874,000) which we have agreed with the regulator will be applied to costs of future EU compliance projects.

Company	£'000
At 1 April 2019	(5,776)
Total comprehensive income for the year	594
At 31 March 2020	(5,182)
Total comprehensive income for the year	1,014
At 31 March 2021	**(4,168)**

18. INTEREST BEARING LOANS AND BORROWINGS

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Non-current				
5.2022% Guaranteed secured bond	**48,830**	53,626	**-**	-
2.9376% Index linked guaranteed secured bond	**60,615**	68,360	**-**	-
2.207% Index linked guaranteed secured bond	**133,225**	133,680	**-**	-
Index linked guaranteed secured notes	**185,966**	189,835	**-**	-
Lease liabilities	**5,569**	5,362	**196**	29
	434,205	450,863	**196**	29
Current				
5.2022% Guaranteed secured bond	**4,796**	4,543	**-**	-
2.9376% Index linked guaranteed secured bond	**8,863**	8,929	**-**	-
2.207% Index linked guaranteed secured bond	**2,267**	2,088	**-**	-
Index linked guaranteed secured notes	**6,247**	8,797	**-**	-
Lease liabilities	**357**	270	**72**	69
Amounts owed to group undertakings	**-**	-	**10,250**	10,250
	22,530	24,627	**10,322**	10,319
Total borrowings	**456,735**	**475,490**	**10,518**	**10,348**

Amounts owed to group undertakings relate to loans for which no interest has been paid. Interest accrued at 5.75% 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			Company		
	Loans and borrowings £'000	Lease liabilities £'000	Total £'000	Loans and borrowings £'000	Lease liabilities £'000	Total £'000
Balance at 1 April 2019	478,810	-	478,810	10,250	-	10,250
Changes from financing cash flows						
Repayment of borrowings	(20,656)	-	(20,656)	-	-	-
Lease payments	-	(302)	(302)	-	(59)	(59)
Interest paid	(8,961)	-	(8,961)	-	-	-
Total changes from financing cash flows	(29,617)	(302)	(29,919)	10,250	(59)	(59)
Non cash changes						
Lease recognised upon implementation of IFRS16	-	5,485	5,485	-	158	158
Increased lease payments	-	474	474	-	-	-
Lease interest	-	(24)	(24)	-	(1)	(1)
Interest expense	20,664	-	20,664	-	-	-
Total non cash changes	20,664	5,935	26,599	-	157	157
Balance at 31 March 2020	469,857	5,633	475,490	10,250	98	10,348
Changes from financing cash flows						
Repayment of borrowings	(25,584)	-	(25,584)	-	-	-
Lease payments	-	(324)	(324)	-	(78)	(78)
Interest paid	(8,908)	-	(8,908)	-	-	-
Total changes from financing cash flows	(34,492)	(324)	(34,816)	-	(78)	(78)
Non cash changes						
Increased lease payments	-	677	677	-	248	248
Lease interest	-	(59)	(59)	-	-	-
Interest expense	15,443	-	15,443	-	-	-
Total non cash changes	15,443	618	16,061	-	248	248
Balance at 31 March 2021	**450,808**	**5,927**	**456,735**	**10,250**	**268**	**10,518**

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 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 £87,510,000 (2020: £92,917,000), the 5.2022% bond has a fair value of £64,744,000 (2020: £70,192,000), the 2.207% index linked bond has a fair value of £212,654,000 (2020: £194,067,000) and the index linked notes have a fair value of £200,920,000 (2020: £181,254,000). These fair values have been calculated by discounting the future contracted interest cash flows using a discount rate of -1.28% (2020: -0.26%) for the 2.9376% index linked bond, a discount rate of 1.44% (2020: 1.82%) for the 5.2022% bond, a discount rate of -0.90% (2020: -0.20%) for the 2.207% index linked bond and a discount rate of -0.68% (2020: 0.00%) for the index linked notes. The discount rates used reflect the maturity profile of the Group's borrowings. Increasing/decreasing the discount rate by 0.5% would result in a fair value of £85,111,000/£90,017,000 for the 2.9376% index linked bond, £63,293,000/£66,247,000 for the 5.2022% bond, £196,861,000/£230,150,000 for the 2.207% index linked bond and £183,869,000/£220,187,000 for the index linked notes respectively.

The current effective interest rate, inclusive of interest and Retail Price Index indexation, for the 2.9376% index linked bond is 3.09%, the 5.2022% bond is 5.46%, the 2.207% index linked bond is 2.08% and the index linked notes is -0.51%. 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% (2020: 3.52%) and are repayable by 31 March 2033.

Lease liabilities represent future payments in respect of Crown Estate and property leases. 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 these leases.

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 2026 and 31 December 2022. Both leases include termination options at 31 July 2021 and non-cancellable periods after this date were not recognised within right-of use assets or liabilities in the prior year as there was insufficient certainty that the leases would continue past this date. During the year it was determined that the leases would not be terminated and as such the leases have been extended to 31 July 2026 and 31 December 2022 respectively.

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.

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 as follows.

Company	Crown Estate Leases £'000	Property Leases £'000	Total £'000
Cost			
At 1 April 2020	5,643	92	5,735
Additions	429	-	429
Lease modifications	-	248	248
Depreciation	(276)	(69)	(345)
At 31 March 2021	**5,796**	**271**	**6,067**

AMOUNTS RECOGNISED IN THE PROFIT OR LOSS

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

Group	2021 £'000	2020 £'000
Depreciation expense in respect of right-of-use assets	**345**	324
Lease liabilities interest income	**(59)**	(24)
Expenses relating to short-term leases	**10**	12

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

Group	2021 £'000	2020 £'000
Total cash outflow for leases	**324**	302

20. PROVISIONS

Group	Decommissioning provision £'000
At 1 April 2019	3,112
Cost adjustments through property, plant and equipment	(71)
Unwinding of discount during the year	29
At 31 March 2020	3,070
Cost adjustments through property, plant and equipment	113
Unwinding of discount during the year	16
At 31 March 2021	**3,199**

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the interconnector in 11 years, at the end of its useful economic life. This provision is expected to be utilised within 11 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 0.97% (2020: 0.50%).

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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Deferred tax assets	7,439	7,096	43	48
Deferred tax liabilities	(38,999)	(40,652)	-	-
Deferred tax (liabilities)/assets – net	(31,560)	(33,556)	43	48

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 2019	(30,302)	45
Recognised in profit and loss	(3,254)	3
At 31 March 2020	(33,556)	48
Recognised in profit and loss	1,996	(5)
At 31 March 2021	**(31,560)**	**43**

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 2019	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)
Recognised in profit and loss	-	748	905	343	1,996
At 31 March 2021	**-**	**(15,232)**	**(23,767)**	**7,439**	**(31,560)**

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 £22,240,000 (2020: £23,142,000). 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 2019	54,522
Additions	28,106
Amortised during the year	(3,900)
At 31 March 2020	78,728
Additions	1,524
Amortised during the year	(3,460)
At 31 March 2021	**76,792**

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 £3,494,000 (2020: £4,063,000), and the non-current portion is £73,298,000 (2020: £74,665,000).

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Trade payables	**17,289**	6,632	**16**	32
Accruals	**7,123**	7,237	**888**	836
Deferred income	**2,697**	534	**-**	-
Taxation and social security	**-**	1,638	**84**	89
Other payables	**9,526**	132,386	**-**	-
Trade payables due to related parties	**-**	-	**8,645**	7,997
	36,635	148,427	**9,633**	8,954
Less amounts falling due after one year: Other payables	**-**	(123,950)	**-**	-
	36,635	24,477	**9,633**	8,954

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) Trade payables includes €10,000 owed (£9,000 sterling equivalent) (2020: £nil) ii) other payables includes €1,953,000 owed (£1,672,000 sterling equivalent) (2020: includes €1,579,000 (£1,411,000 sterling equivalent)); and iii) deferred income €nil owed (2020: includes €786,000 owed (£699,000 sterling equivalent)).

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

Other payables include £6,416,000 (2020: £127,444,000) which is secured on West Transmission Limited and West Transmission Financing plc's cash deposits.

Trade payables due to related parties are unsecured, interest free and are repayable on demand.

Included in accruals are capital creditors of £989,000 (2020: £124,000).

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	
	2021 £'000	2020 £'000
Subsidiary undertakings - current assets	1,630	1,867
Subsidiary undertakings - current liabilities	(18,895)	(18,247)

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.

Company	Nature of transaction	Value of transaction	
		2021 £'000	2020 £'000
Subsidiary undertakings	Interest payable	(633)	(611)
Subsidiary undertakings	Group relief surrendered	91	85
Subsidiary undertakings	Charges receivable	3,814	3,816

Compensation of key management consisting of Executive Directors and Non-Executive Directors:

Group	2021 £'000	2020 £'000
Short term employee benefits	645	617
Long term employee benefits	145	135
Post-employment benefits	31	31

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 expenses.

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

Group	£'000
Liability at 1 April 2019	42,464
Fair value adjustment	(3,557)
Liability at 31 March 2020	38,907
Fair value adjustment	1,631
Liability at 31 March 2021	**40,538**

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 2021 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	10,955	8,815	7,960	7,503	7,097	39,249	81,579
5.2022% Bond and associated derivatives	9,956	10,152	10,354	10,559	10,769	45,256	97,046
2.207% Index linked bond	5,245	5,352	5,458	5,566	5,678	158,084	185,383
Index linked notes	5,246	5,246	5,246	5,246	5,246	149,505	175,735
Lease liabilities	356	346	315	312	310	4,288	5,927
Trade and other payables*	33,938	-	-	-	-	-	33,938
	65,696	29,911	29,333	29,186	29,100	396,382	579,608

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

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 2021 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	71	63	42	41	40	11	268
Trade and other payables*	9,549	-	-	-	-	-	9,549
	19,870	63	42	41	40	11	20,067

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

* The Group and Company's Trade and other payables excludes deferred income and taxation and social security.

25. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT

FINANCIAL RISK FACTORS

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

MOYLE INTERCONNECTOR (FINANCING) PLC

The group operates the interconnector which links the electricity transmission systems of Northern Ireland and Scotland under a licence agreement with the Northern Ireland Authority for Utility Regulation. The Group earns its revenue through its market arrangements which make available the capability of the interconnector to the System Operators, SONI and National Grid. This capability is provided to the System Operators via either direct contracts for services or industry wide contractual arrangements. 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 £3,973,000 (2020: £4,040,000).

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)

FINANCIAL RISK MANAGEMENT (CONTINUED)

FINANCIAL RISK FACTORS (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.

25. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE ESTIMATION (CONTINUED)

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 1.174 in the current year.

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

26. ULTIMATE CONTROLLING PARTY

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

27. SUBSEQUENT EVENTS

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

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ANNUAL REPORT

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