2015 ANNUAL REPORT AND ACCOUNTS

mutualenergy

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

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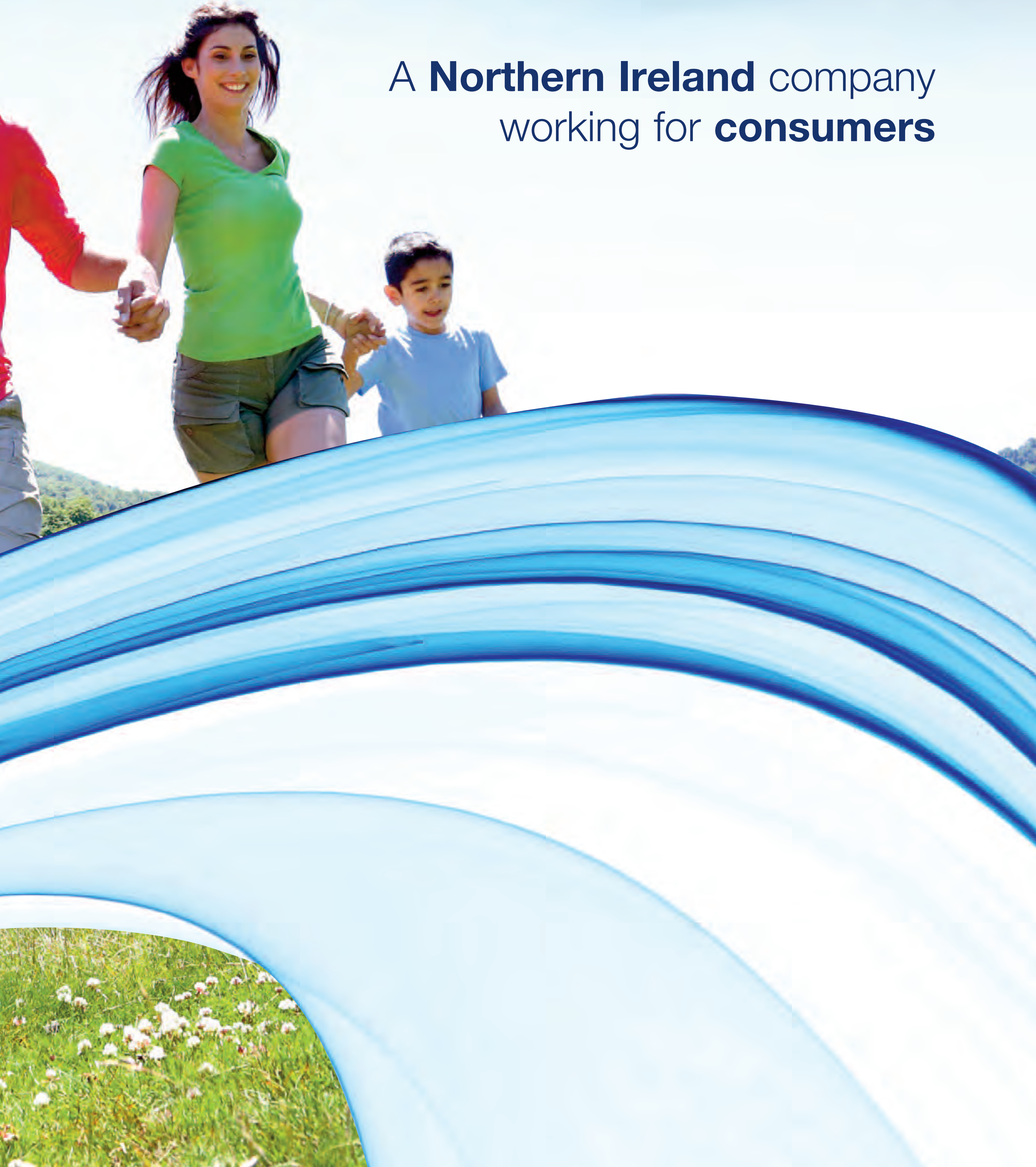

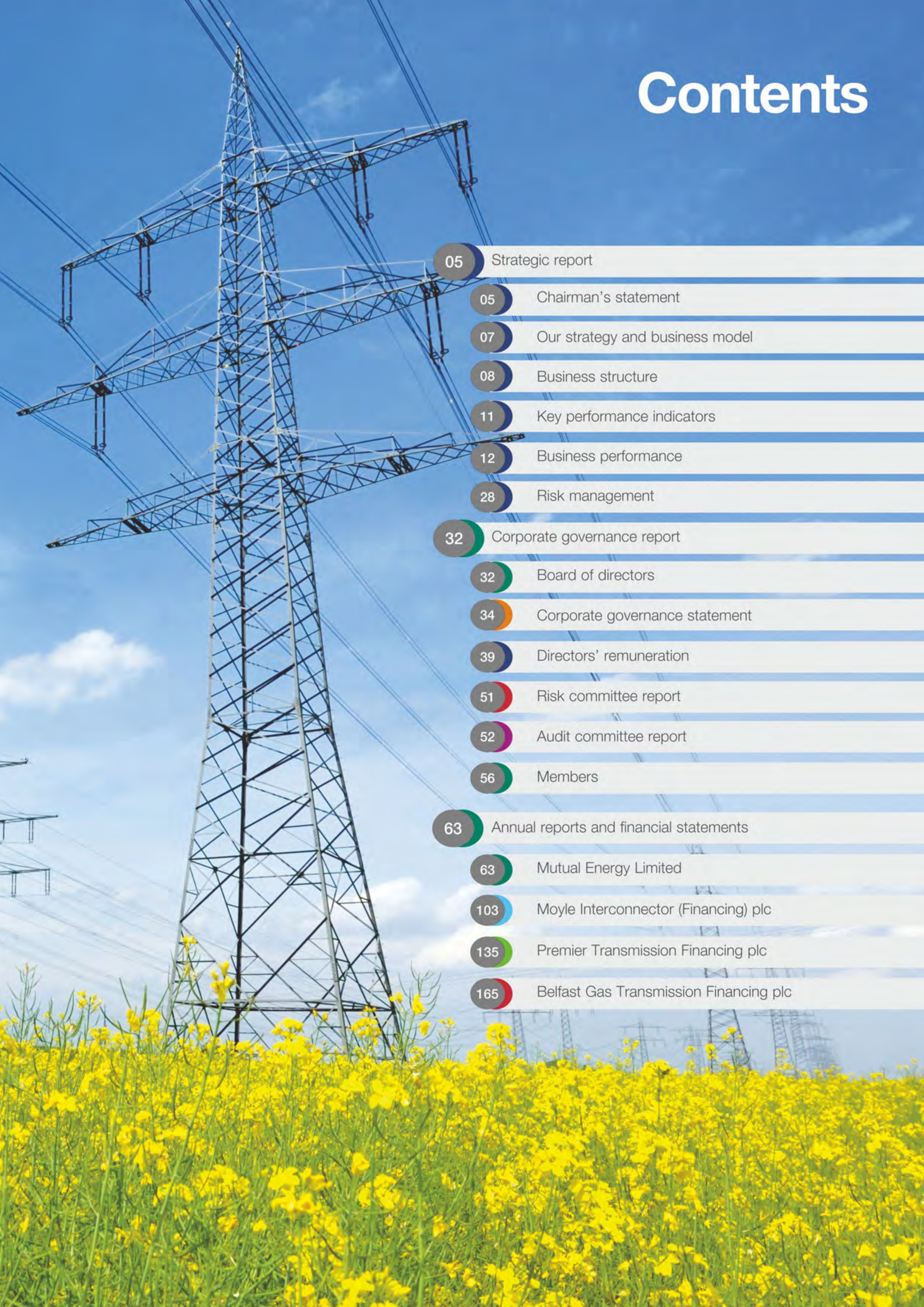

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A **Northern Ireland** company working for **consumers**

Regina Finn
Chairman

2015 has been a very successful year for Mutual Energy. We have seen significant progress across all aspects of our business – from the cable repair project for the Moyle electricity interconnector to the development of new gas infrastructure in Northern Ireland. All of our projects advance our goal of delivering the best possible deal for Northern Ireland energy consumers.

Early in 2015, after a long and technically challenging process of investigation and repairs, we entered into a contract to repair Moyle by replacing the low voltage cables, which had experienced a number of faults in recent years. We achieved contract costs and a delivery timeframe that are better than initially anticipated, meaning that Northern Ireland energy customers will benefit from an earlier restoration of security of supply at a lower cost. The first one of the two cables has already been manufactured and installation is expected to commence this summer with both cables to be brought into operation by the end of 2016.

We were delighted – along with our partner SGN – to win the competition to deliver a high pressure transmission pipeline and the downstream distribution network that will bring natural gas to the west of Northern Ireland. In February 2015 we were awarded a gas transmission licence and the first target date in the project is to deliver gas to Strabane by late 2016. We are working to achieve planning permission for the rest of the project by the end of 2016, which will allow full delivery in 2017/18. This expansion of our business is aligned with our strategy of acquiring stable energy assets and financing them through our mutual model. Our low cost of finance means that costs to Northern Ireland energy customers are kept as low as possible.

At the same time we continued to implement the very significant changes needed to ensure that Northern Ireland complies with the EU third package of regulations in both the electricity and gas markets. In the gas business we are working closely with the Northern Ireland Authority for Utility Regulation (NIAUR) and our upstream counterparties, National Grid and Gas Networks Ireland (UK), to deliver the first stage of this project in late 2015. In the electricity market we are also working closely with the regulatory authorities to implement an Integrated Single Electricity Market in Ireland and Northern Ireland by 2017.

As well as these significant developments, we continued to operate the gas and electricity businesses in the interests of consumers, including developing a new IT system for the gas business that went live in May 2015, and performing internal and external inspections of the subsea pipeline between South Cairn, Scotland and Ballylumford, Northern Ireland.

Running our gas and electricity business whilst also managing these significant new projects is both challenging and exciting. We are well placed to tackle these challenges, having grown over the year through recruiting and outsourcing – making sure we have the right skills and people in place to address them. I would like to thank the Executive team and every one of Mutual Energy's employees for their contribution to our success during this pivotal year.

I also thank my Board colleagues for their support and effort – they gave unstintingly of their time and expertise to guide the business through such significant developments. And I thank our members – old and new – for their continued challenge and support, which is so important to us.

Regina Finn

Regina Finn

22 June 2015

Our strategy and business model

Our purpose

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

Our strategy

1. Operate assets safely and cost effectively on an outsource basis
2. Manage market changes to minimise risks to the NI consumer
3. Deliver savings to all consumers evenly over the life of the assets
4. Acquire stable infrastructure assets at low cost

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

Our business model

What we do

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

- Operation of assets See pages 12 - 17
- Market environment See pages 18 - 20
- Cost savings See pages 21 - 23
- Infrastructure acquisition See page 24

How we do it

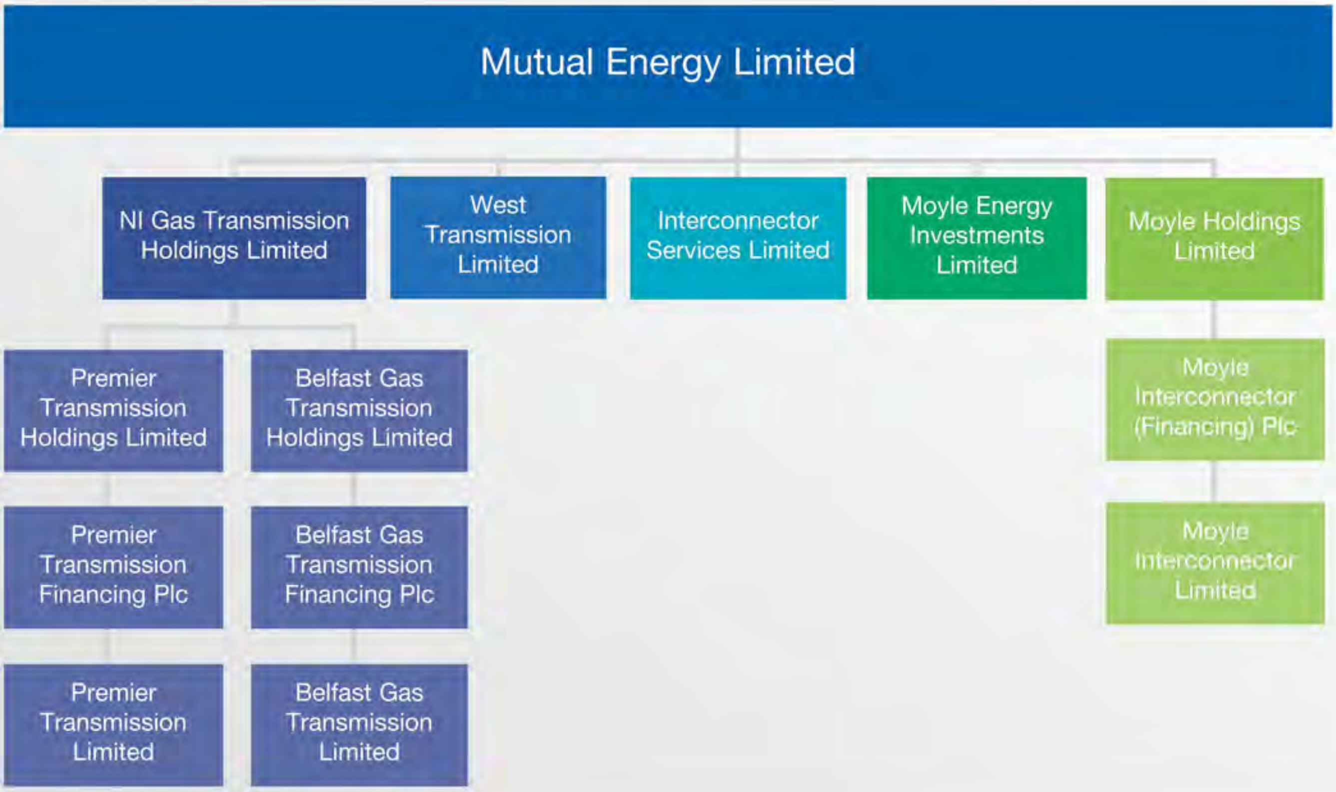
Mutual Energy operates using a mutual model to manage assets for the benefit of energy consumers in Northern Ireland.

- Business structure See page 8-9
- Governance structure See pages 34 - 38
- Risk management See pages 28 - 30
- Executive remuneration See pages 39 - 50

Business structure

Mutual Energy owns and operates the Moyle Interconnector (Moyle) which links the electricity systems of Northern Ireland and Scotland, and the Premier Transmission Pipeline System (PTPS), which consists of the Scotland to Northern Ireland natural gas transmission pipeline (SNIP) and the Belfast Gas Transmission Pipeline (BGTP). These strategically important assets provide vital energy links with Great Britain, and Mutual Energy aims to manage them to the highest standards of safety, reliability and efficiency. The group is currently engaged in a project to extend the Northern Ireland gas network to the western part of Northern Ireland.

Mutual Energy is a company limited by guarantee with no shareholders, commonly known as a mutual. The mutual model allows the assets to be financed through bonds with a low cost of capital which results in associated savings for consumers. The group's principal stakeholders are the energy consumers of Northern Ireland and the financiers of its debt-financed subsidiaries. The group's structure can be seen in the diagram below:



As well as each main operating company and their respective financing and holding companies, the group includes Moyle Energy Investments Limited and Interconnector Services Limited. Moyle Energy Investments manages the longer term cash reserves of the Moyle business and Interconnector Services provides services to the operational assets of the group where savings can be achieved by combining the provision of these services. In February 2015 West Transmission Limited (formerly Northern Ireland Energy Holdings Limited) was awarded a licence for transmission of gas to the west of Northern Ireland. More detail on this is available in the infrastructure acquisition section on page 24. West Transmission Limited was dormant prior to this licence award.

The principal risks affecting the business are discussed on page 29. More information regarding our customers, stakeholders and staff can be found on page 26-27.

Strategic objectives

Our strategy is made up of four key elements:

OUR OBJECTIVE	HOW DO WE DELIVER?	HOW DO WE MEASURE SUCCESS?
Operate assets safely and cost effectively on an outsourced basis	We provide a safe, reliable and efficient transmission service to the electricity and gas suppliers of Northern Ireland. Delivery is achieved through the competitive tendering process for key operational activities and the development of a comprehensive contracting strategy and partnership approach with key contractors. Further information on asset operation can be found on pages 13 and 16.	Our key success measures include: • Availability targets are set for assets (KPI 2); • Operational savings against forecast (KPI 3); • Detailed maintenance and contracting milestones which are monitored at contract meetings; and • Detailed monthly budgets which are monitored over a rolling five year horizon.
Manage market changes to minimise risks to the Northern Ireland consumer	Our key focus is to ensure, so far as possible, that changes driven by EU, national or other pressures do not impact negatively on our business, our financing arrangements or energy consumers in Northern Ireland. We seek to achieve this by influencing at EU stakeholder meetings, active participation in the work of the EU System operator confederation 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 18-20.	Our key 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. • The number of code modifications issued (KPI 6).
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 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 23.	Our measures of success include: • Operational savings against forecast (KPI 3); • Cash reinvested to avoid charging consumers (KPI 4); and • Cash generated from operations (KPI 5)
Acquire stable infrastructure assets at a 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 through a reduced cost of capital and improved 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 24.	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 1).

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. Annual Debt Service Cover Ratio The ability to acquire infrastructure at low cost to the consumer is critically dependent upon our track record with the existing asset financing. As well as compliance with the respective financing covenants, the principal requirements of all financiers are the maintenance of Annual Debt Service Cover Ratios (ADSCR) of greater than 1.15 for Moyle, 1.25 for Premier Transmission and 1.20 for Belfast Gas Transmission. Graphs showing these ratios can be found in the financial performance sections on pages 12 and 15.	**Annual Debt Service Cover Ratio** The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the bonds for each operational company. The basis of calculation is Available Cash / Debt Service in the next 12 months. In each case Available Cash = the difference between income and expenses in the period + cash in designated bank accounts, where cash in the designated bank accounts is limited to 1x Debt Service.
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 in the physical operations sections on pages 13 and 16.	**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 22.	**Operational savings against forecast** The KPI for gas business operational savings is calculated by subtracting the actual agreed revenue for the gas year before tax, calculated in accordance with the gas companies licences, from the forecast required revenue submitted in advance of the year.
4. Cash reinvested to avoid charging consumers Cash reinvested in the business to avoid directly charging consumers for the provision of the Moyle Interconnector asset. Cash reinvested to avoid charging consumers can be seen on page 23.	**Cash reinvested to avoid charging consumers** The Moyle Interconnector can charge consumers for the benefit of the interconnector through their electricity bill, in a similar way that other electricity infrastructure is charged. The KPI is the cash actually transferred into the current account to avoid making a charge on consumers.
5. Cash generated from operations Cash generated in each of the businesses which will be used to avoid future charges to consumers. Cash generated in the gas and electricity businesses can be seen in the graphs on page 23.	**Cash generated from operations** Cash generated in each of the businesses post tax.
6. Code modifications made The number of gas code modifications issued are monitored as these are a measure of progress in implementing the changes required by EU legislation. Code modifications issued can be seen in the graph on page 19.	**Cash generated from** Code modifications made is the sum of the code modifications made to each of the Premier Transmission Limited (PTL) and Belfast Gas Transmission (BGTL) codes.

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

Strategic objective: Operate assets cost effectively on an outsourced basis

Strategic objective:

Operate assets cost effectively on an outsourced basis

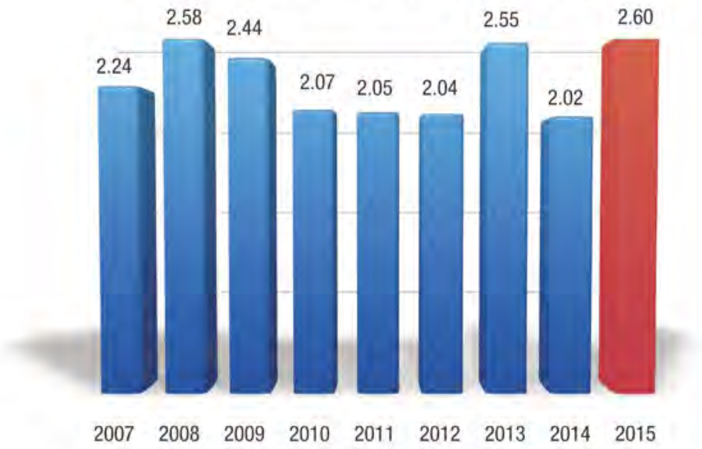
Gas Business Performance

Financial performance

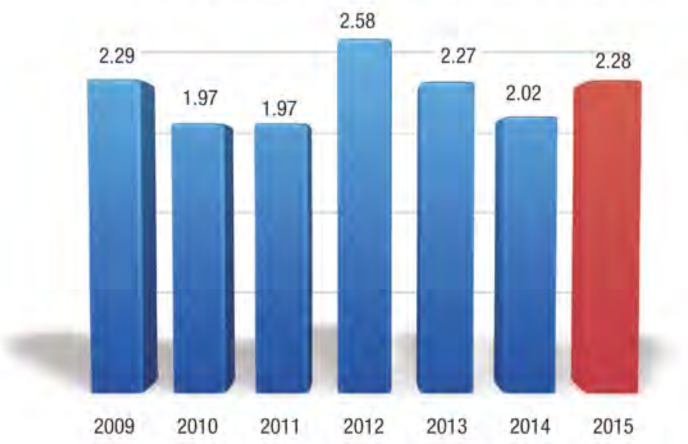
Premier Transmission Financing plc and Belfast Gas Transmission Financing recorded revenue in the year of £32.7m (2014: £25.2m). Under our gas business licences, each company's revenue is regulated to match each gas company's debt service costs and operating expenditure in cash terms, with an annual reconciliation of actual to forecast being agreed with the Northern Ireland Utility Regulator at the end of each gas year (30th September). In the reconciliation carried out in the 2014/15 financial year, the combined gas businesses costs were £1.0m below forecast (2013/14: £0.1m below). No savings were retained in the business. Being regulated in this way, the Premier Transmission and Belfast Gas Transmission groups collect only the cash required to meet their costs. The cash collected in respect of debt servicing is the cash required for bond repayments in the period, and is not related to the interest charged in the period. Although the businesses are cash generative and able to meet their debt service obligations, because of the bond structures they are not expected to be profitable in the earlier years of the bonds when interest costs incurred are in excess of debt repayments - this situation will then reverse in later years. The Premier Transmission group is now profitable, excluding the impact of the derivatives revaluation, but Belfast Gas is not expected to be profitable for some years.

In terms of the Annual Debt Service Cover (ADSCR) both gas groups will tend to average towards 2.0. Over-performance by Premier Transmission above 2.0 in the 2006 to 2009 period and again in 2013, when cash was retained, will reverse in the future and will result in future ADSCR below 2.0 when this cash is released to the benefit of consumers. Premier Transmission's 2015 ADSCR is higher than usual due to differences in the timing of tax payments. The ADSCRs for both companies can be seen in the graphs below.

KPI 1: Premier Transmission ADSCR



KPI 1: Belfast Gas Transmission ADSCR



Physical operation

All routine site maintenance and statutory examinations were completed in the year. Two major statutory examinations included the internal (online PIG) and external (marine survey) inspections of the subsea pipeline between South Cairn, Scotland and Ballylumford, Northern Ireland. Both were completed satisfactorily and did not highlight any areas of concern.

Mutual Energy made a major contribution to the revision of the Gas Supply Emergency arrangements in Northern Ireland this year, culminating in the acceptance of the Northern Ireland Network Emergency Coordinator Safety Case by the HSE(NI) and a successful simulation exercise.

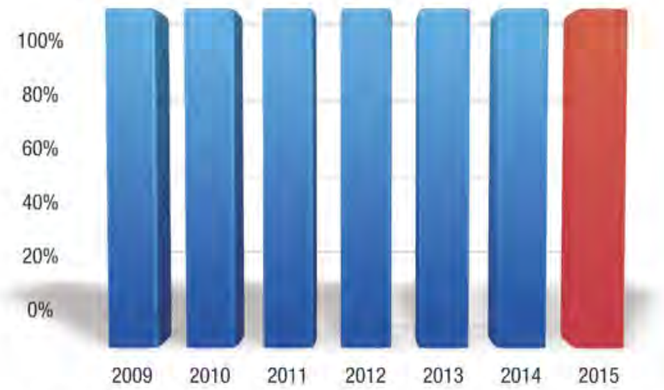
The Safety Case for the Premier Transmission Pipeline System (PTPS) was also re-submitted and accepted by the HSENI and HSE in GB.

A number of non-routine upgrade and inspection projects were undertaken to enhance the integrity and continued operation of the pipeline system including the revalidation of the pipeline maximum operating pressure, support in the design of new fiscal meters at Twynholm AGI which currently record all metered gas in Northern Ireland, progression of site electrical and security enhancements on the Above Ground Installations and the corrosion protection enhancements of the system through re-application of below and above ground coating.

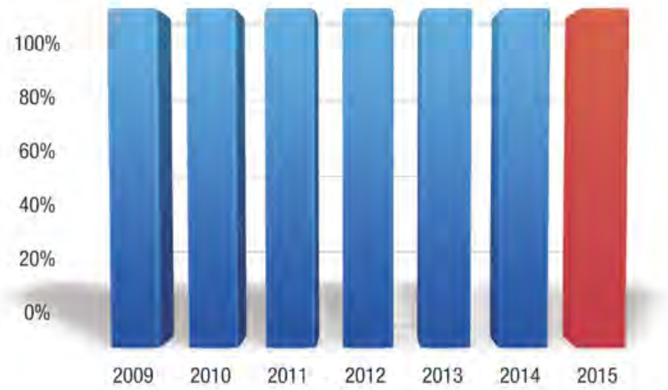
During the year a new commercial system to manage customer gas flow nominations and billing was designed and developed, as the previous Gas Transportation Management and Billing System had been in place for over 10 years and support for the product was due to cease in 2015. System enhancements are also required as a result of new EU network code requirements, including the ability to integrate with PRISMA, the platform for European gas capacity booking. The new system was brought into operation in May 2015. The second phase of this project is also underway which will deliver the enhanced functionality required by the EU network codes, including integration with PRISMA, and delivery of this phase is expected by the end of 2015.

The gas businesses again maintained their record of 100% availability.

KPI 2: Premier Transmission availability



KPI 2: Belfast Gas Transmission availability



Future development

The 2014/15 winter was comparatively mild and no restrictions on gas throughput were required. As noted in previous years the annual Gaslink Winter Outlooks, which consider the pipelines immediately upstream of our own, continue to highlight the potential for reduced flexibility to accommodate within-day shipper nominations and the expectation that pressures will reduce towards the contractual minimum. In February 2014 a code modification was implemented to require either of the gas fired electricity power stations to cease using gas from our system in the event that the system within-day shipper nominations could not be met. The relatively mild winter meant this situation was avoided this year, but we fully expect such a situation to occur in the future. Based on the Northern Ireland Gas Capacity Statement published by the Utility Regulator in the year, the Scotland to Northern Ireland Pipeline ("SNIP") has sufficient capacity to meet Northern Ireland's firm gas demand until 2019/20, assuming no new gas fuelled power generation.

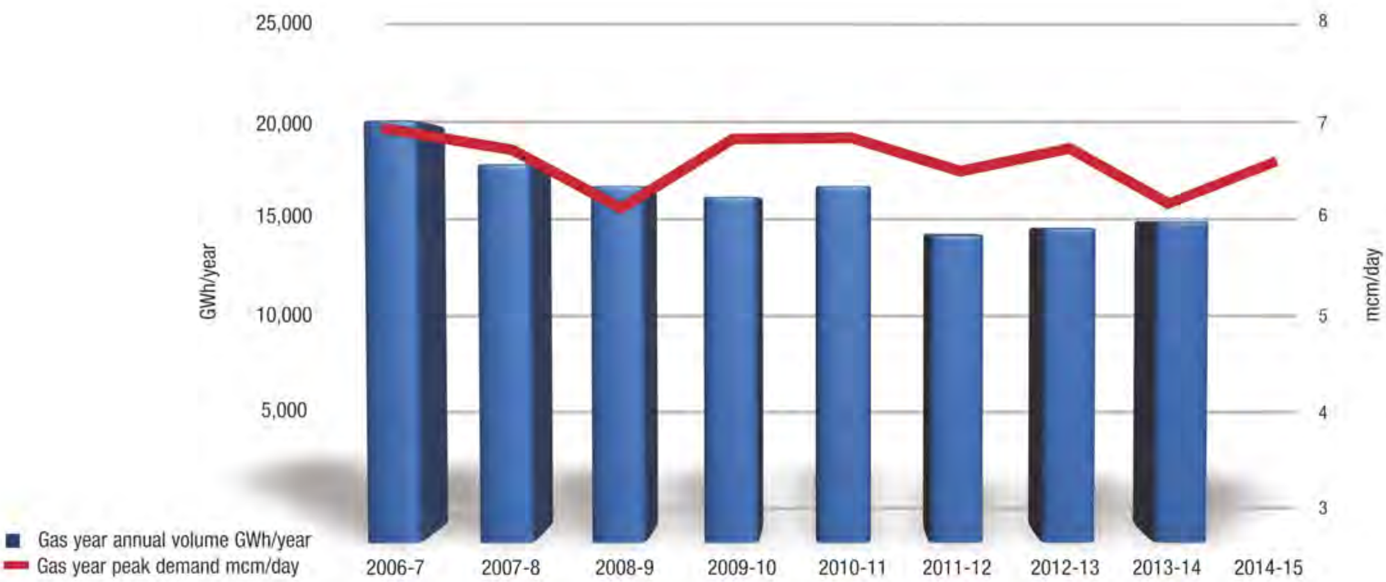
Gas Business Performance (continued)

Beyond 2019/20 additional capacity could be provided by the North South pipeline or reinforcement of SNIP, however, reinforcement options require significant lead times that could extend beyond 2019. While conceptual studies on the reinforcement options have been undertaken, more detailed work is on hold awaiting either increased bookings from shippers or a request from the regulator to progress this work.

As a result of power generation dispatch moving from Northern Ireland to the Republic of Ireland and to renewable energy sources, total annual gas demand in Northern Ireland declined from 2006 to 2010 but has remained relatively stable since the 2011/12 gas year (see graph below). As volumes of gas transported fall this results in increased transportation tariffs per unit. Our expectations are for a continued decrease in annual power demand, but with an increase in distribution demand. Overall the forecast gas demand for Northern Ireland is relatively stable, with a slight upward trend in volumes supported by expected Gas to the West volumes from 2016/17. Although no significant increase in annual demand is expected, the annual peak demand is forecast to rise most notably with the increased use of gas generation on the no-wind days and the growth of the domestic gas sector. The changing needs of the power generation shippers, married with upstream pressure reductions is likely to require investment in the NI gas transmission network over the next 10 years.

If gas storage is to be built in Northern Ireland in the future, physical reverse flow from Northern Ireland into GB will be required. This would mean changes to the existing gas compression facilities on the South West of Scotland pipeline. In addition to this the Premier Transmission Pipeline System would need to be uprated to 85 barg from the current maximum operating pressure of 75 barg, to maximise the benefits of gas storage. This uprating would bring our system in line with the maximum operating pressure of the Gas Networks Ireland (UK) system in Scotland, the North West Pipeline and the soon to be constructed Gas to the West pipeline. This would establish a single pressure network in Northern Ireland. A preliminary assessment for the uprating of the Premier Transmission Pipeline System has been completed.

Northern Ireland gas year annual demand and peak day demand



The Corrib gas field is now expected to land supplies this year (2015). This could seriously reduce the gas flowed from GB to Ireland and consequently the capacity bookings on linking pipelines. SNIP, however, is expected to have sufficient capacity booked by shippers in the medium term.

Electricity Business Performance

Financial performance

The group's electricity business centres on the Moyle Interconnector which has a different charging mechanism to the gas businesses. The charging arrangement provides for Moyle to charge all electricity suppliers (and thereby consumers) an annual use of system fee, known as CAIRt, to cover the costs of operating the interconnector. The fee is reduced by any revenue which Moyle earns through its capacity allocation auctions, such auction revenue being proportional to the electricity price difference between the Ireland and GB electricity markets. It is this mechanism that has enabled Moyle to secure low cost borrowing on the asset.

Prior to 2012/13 Moyle had accumulated sufficient revenue from its capacity auctions to fully cover all its operating costs and use of system charges (CAIRt) were waived. Lower availability due to the cable faults and expected lower unit prices in capacity auctions as a result of the East West Interconnector, led to the first tariff charge being made in the 2012/13 year (£14.5m). A further £19.8m call was made in 2013/14 in relation to the financial year with a zero call being made for the 6 months to 30 September 2014, in order to align the CAIRt call period with the electricity tariff year. A CAIRt call of £24m was made in the current year for the 12 months to 30th September 2015. This call was for approximately 44% of the costs forecast for the period as at the CAIRt request date. Page 23 provides more explanation on our historic use of reserves to waive CAIRt calls in order to deliver savings to consumers evenly over the life of the asset.

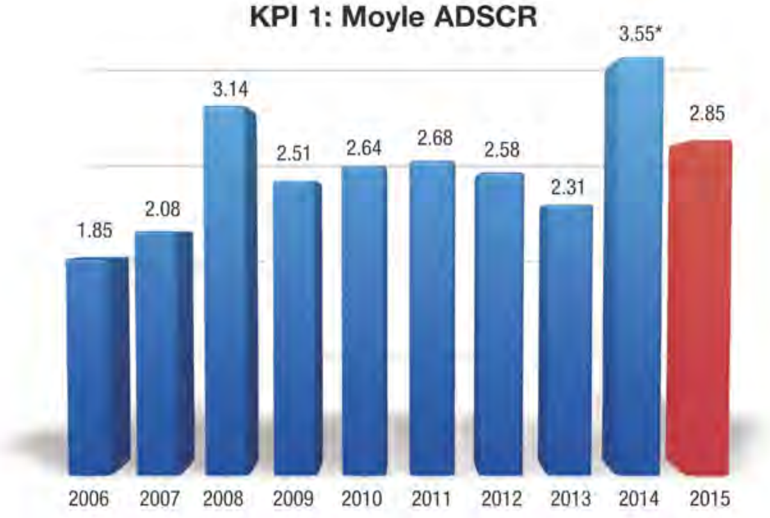
In the prior year Moyle recognised £14.0m of insurance proceeds in relation to previous cable faults. This consisted of £10.0m of insurance proceeds received in the prior year and £4.0m which was in negotiation in the prior year but not received until June 2014. The company continues to pursue additional claims in respect of these faults.

Moyle capacity is sold to electricity traders in annual, bi-annual, quarterly, monthly and daily explicit auctions, on contracts ranging from one day to one year. Additional unused capacity is implicitly allocated within the electricity market trading day and a charge applied after use. The capacity products offered resulted in contracted capacity being satisfactory in volume terms, at 100% (east-west) (2014: 100%) and 100% (west-east) (2014: 100%) of offered transmission capacity. Long term capacity auctions in the 2014/15 financial year resulted in some £5.39 per MWh contracted sales revenue for 2014/15 and future years. This compares with the long term capacity auctions in the 2013/14 financial year, which realised £6.42 per MWh for 2013/14 and future years. Additional revenue was earned from capacity sales to the system operators in Ireland for system reserve.

The fault on the Moyle north cable reduced revenue by an estimated £8.5m (2013/14: £9.0m), and incurred £13.8m (2013/14: £1.5m) of costs in relation to fault location, potential interim repair solutions and long term repair of the cables through replacement of the low voltage conductor (this project is currently in progress).

The directors consider that the performance of the Moyle group is shown by its earnings before interest, taxation, depreciation and amortisation, cable repair costs and insurance proceeds (adjusted EBITDA) of £20.0m (2014: £28.0m). The group made an operating profit of £10.9m (2014: £36.1m). Strong cash revenues enabled the business to maintain its ADSCR comfortably over 2.0 (see below).

KPI 1: Moyle ADSCR



** The 2014 ADSCR has been recalculated to reflect the change in tariff year and to apportion rebate account releases in line with the costs to be covered in each period.*

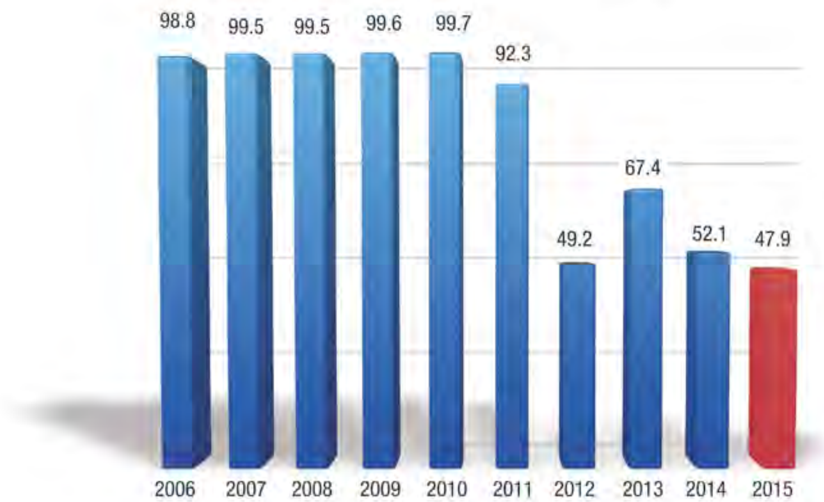
Physical operation

The Moyle Interconnector continued to operate at 250MW during the year, instead of its current connection to Northern Ireland of 450MW, due to the subsea cable fault which occurred on the North cable in June 2012.

Because of established weakness in the cable system, conventional repair techniques which involve cutting and lifting the cable from the seabed were not considered prudent and it was agreed with the Utility Regulator that, even though there was a low chance of success, it was in the interests of Northern Ireland consumers that a seabed repair be attempted. During the year Moyle completed the development and testing of a sub sea repair method. This method has the potential to be used on future faults as long as the depths are shallow enough to be accessible to divers.

During the year the Moyle Interconnector was unavailable for 64 days due to a planned outage on the Scottish Power line supplying the Interconnector. Scottish Power removed the line from service for reconfiguration works to the Coylton substation in order to facilitate additional connections to the Scottish Power overhead line in Scotland to which Moyle is connected.

KPI 2: Moyle availability (%)



Future development

Moyle Interconnector has been operating at half capacity since June 2012 when it experienced its 4th fault in 2 years. These faults were all related to an electrical breakdown of the polyethylene outer insulation which insulates and waterproofs the return conductor. In order to remove reliance on this incident prone insulation the company has entered into a contract to repair the cable by replacing the sub-sea return conductor. Cable manufacture commenced in February 2015 and installation is expected to commence in summer 2015 with both cables to be brought into operation by the end of 2016.

The key determinant of auction prices is expected to continue to be the price differential between GB prices and those in Ireland. The GB Market has a higher proportion of coal plant than the Single Electricity Market (SEM) in Ireland, and also has a significant level of nuclear generation. The price of coal is currently low and nuclear power plants have low short-run marginal costs therefore there is a lower cost of generating electricity in GB relative to SEM. Also in SEM generators receive capacity payments which increases this price differential between GB and Ireland. Under the Electricity Market Reform capacity payments are being introduced in Britain, with the general principle being that generators are paid for availability, particularly during 'system stress' events. While one would expect this to exert downward pressure on GB wholesale electricity prices it is uncertain how this might affect trading between the two markets, given the extent of change in the coming years. It has been decided that interconnectors will directly participate in this capacity market from 2015 (for 2020 delivery). This therefore may represent an additional revenue stream but will be subject to the rules applied and the efficient functioning of the interconnector and electricity markets in 2020. The revenue may be modest as the GB authorities appear to be keen to incentivise interconnection to markets with very different characteristics (and lower prices) such as Norway.

In 2013 the UK Electricity Market Reform introduced a Carbon Price Floor mechanism which taxes carbon dioxide produced through generating electricity. Costs were set at £9.55 per tonne of carbon dioxide for 2014 /15 and will rise to £18.08 per tonne from 1st April 2015 and remain at that level until the end of the decade. This tax increases the production price of electricity in GB but Northern Ireland electricity generators operating in the SEM are exempt. As a result the GB to NI price differential will reduce, which will adversely affect the auction prices for this interconnector capacity. We have already seen this impact in auction prices for GB-NI capacity sold for periods post April 2015.

Members of the project team for the Moyle Return Cables Project.

Partners and contractors

The Mutual Energy group companies carefully assess the level of both work carried out internally and outsourced, with the objective of remaining a lean and cost efficient operation.

Moyle Interconnector

The operation of the Moyle Interconnector and the administration of capacity auctions are contracted to the System Operator for Northern Ireland (SONI) under the Operating and Agency Agreement. The long term maintenance agreement for Moyle's converter stations is placed with Siemens plc and was renewed in December 2011 for a further five years.

Mutual Energy colleagues aboard repair ship Siem Stork in Belfast, October 2014.

Premier Transmission Pipeline System

Premier Transmission works in partnership with major established utilities as its contractors, to provide operations and maintenance activities. This has worked well, providing a consistent, cost effective operations and maintenance regime. The main contractor is Scotia Gas Networks (SGN) who carries out routine maintenance and emergency response and also monitors our system from their gas control centre in London.

Emmet McFadden, Gas Operations Manager, conducting a site visit at Torytown, May 2014.

Belfast Gas Transmission Pipeline System

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

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

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European energy regulation

Regulatory changes continue to be a key focus for both the gas and electricity businesses. The Third Package remains the key piece of EU legislation driving the changes in European gas and electricity markets. The Third Package created a regulatory framework to support a single European Energy Market by developing European-wide Network Codes. These Network Codes will form a legally binding set of common technical and commercial rules and obligations that govern access to and use of European energy networks.

Impact on gas business

Although the Third Package of legislation has been effective since 2011, a longer timeline for implementation exists in order to allow for the preparation of framework guidelines and network codes with sufficient stakeholder consultation throughout, along with the development of a Gas Target Model. The first major deadline for implementation for the work streams is October 2015, with others following until 2017. Following the development of the gas target model and the advancement of the network codes, the impact of these changes on the Northern Ireland market is now much clearer. As well as these major changes, the Northern Ireland Utility Regulator (NIAUR) determined that a single system operator for Northern Ireland should be put in place to facilitate the required changes from EU legislation. This is not a requirement of the legislation itself.

The table below sets out the key characteristics of the Northern Ireland gas market before the introduction of the European Parliament second and third packages of legislation and the introduction of a single system operator as

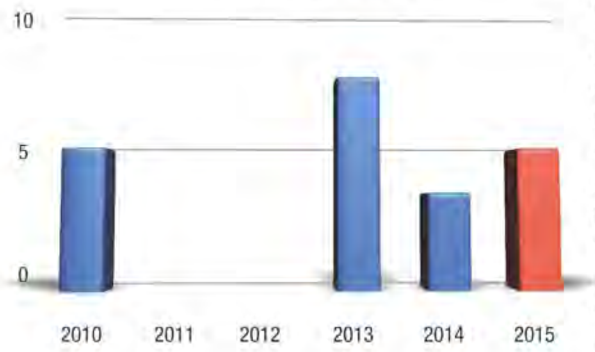
Market before EU regulations	Market following EU regulations and NIAUR conclusions
Independent Transmission System Operator "TSO" who co-operate with each other	One system operator – set up via a contractual joint venture between NI TSOs
Separate but aligned codes for each NI TSO	One code for the entire network
Separate IT systems for each TSO (combined for Premier Transmission and Belfast Gas)	One IT system for all TSOs
Northern Ireland Network Operators Agreement in place	New system operator agreement required to facilitate new market structure
Shippers book capacity and nominations at exit only and a matching booking for entry at Moffat is created automatically	Capacity and nominations are booked and charged at each entry and exit point
Shippers charged a single price for use of the network	Charging split between entry to and exit from the network
All capacity booked directly with the relevant TSO	Entry capacity auctioned by the relevant TSO using an auction platform
No secondary market exists	A secondary market for entry capacity in place
Gas day runs from 06:00-05:59	Gas day runs from 05:00-04:59
Only annual capacity products offered	New products offered including bundled products at Moffat – annual, quarterly, monthly, daily and within day

requested by NIAUR, and highlights the significant changes expected in the next few years.

These are just a few of the key changes required by the legislation and as a result of the decision by the NIAUR to require the creation of a single TSO for Northern Ireland. This fundamentally changes the market and means a considerable amount of work is needed in a very short period. The current network code is being rewritten, with a number of code modifications already consulted on and implemented, and further modifications planned. Because of the changes to business processes, the current IT system will need to be enhanced, with rigorous testing prior to October 2015. Work also has been progressing on the development of contractual agreements and licence changes.

Code modifications are required to implement these changes within our network code and the graph below shows the number of code modifications made over the last 5 years.

KPI 6: Modifications made to gas network codes



Impact on electricity business

The all-island Single Electricity Market for Ireland (SEM) has been developed in recent years to improve compliance with the EU third package of regulations. However, SEM is not compatible with the European Electricity Target Model, which is the main regulatory vehicle for achieving market integration. This means that SEM will need to be replaced by the end of 2017 to comply with the target model and compulsory network codes. A project is in progress, led by the regulatory authorities, to implement an Integrated Single Electricity Market (I-SEM) for Ireland and Northern Ireland from 2017, with the current structure being maintained until then. Following a series of consultations in which we actively engaged, a final decision on the High Level Design of the new market was published in September 2015.

The new I-SEM is expected to impact Moyle in several ways.

Previously we identified "a risk that the harmonised access rules and platform for the forwards market will lead to less efficient use of Moyle". We have been involved in the ENTSO-E development of these access rules and mitigated this risk, although the platform issue is still to be settled. There is a risk that we are forced to use a platform designed for central European AC lines that is sub-optimal so we are exploring the possibility of developing a platform for DC interconnectors with the other interconnectors connected to GB.

Firmness rules will expose Moyle to additional financial risk. The current draft of the relevant code contains mitigating provisions (caps to firmness payouts other than after the 'day-ahead firmness deadline') but the final rules could be less palatable based on ACER's input.

It is expected that the introduction of market coupling will result in more efficient use of the interconnector as it will be scheduled according to day-ahead market prices at either end. Market coupling is also expected to bring prices in the Irish and GB markets closer together and this potential lack of arbitrage could reduce the prices paid for interconnector capacity in the future. The current SEM is weak in terms of facilitating NI-GB trade but I-SEM should remove barriers and create some value to capacity in this direction.

The introduction of the intraday market is not expected to impact Moyle significantly, however it is not yet clear how charging for interconnector capacity will be facilitated. Pricing of intraday capacity is required by the network codes but this is a complex issue and has not yet been solved. We understand that Ofgem are leading a project to develop proposals for this.

Moyle will continue its involvement in these developments to try and ensure a satisfactory outcome.

Impact on electricity business (continued)

The table below sets out the key markets and characteristics of the Single Electricity Market in Ireland along with the main requirements of the proposed Integrated Single Electricity Market (I-SEM):

SEM	I-SEM
No forwards market	In I-SEM these forward contracts may be financial contracts only i.e. there is still no physical forwards market. Moyle will sell 'financial transmission rights' entitling the holder to a payment based on market spread, rather than the ability to physically flow power, between I-SEM and GB. The forwards network code requires EU wide access rules and a single capacity allocation/auction platform. This platform would be used to sell transmission rights for Moyle Interconnector and other interconnectors throughout Europe.
Day-ahead gross mandatory pool market, into which all electricity generated on or imported onto the island of Ireland must be sold, and from which all wholesale electricity for consumption on or export from the island of Ireland must be purchased. At the day-ahead stage all bids and offers are submitted by a specific time ("gate closure") for the following trading day.	Day-ahead market will be scheduled on a European wide basis with market coupling. The Irish market will be coupled with the GB market as this is the only market it is connected to and cross-border trade will be limited by the available interconnector capacity on the day. Interconnector flows will be determined by the day-ahead market prices at either end.
Intra-day market (introduced in 2014) which releases any unused interconnector capacity for reallocation to market participants at two points in time after the initial gate closure.	Intra-day market will operate using continuous implicit trading which will mean that trading will not be restricted to particular times or windows. This market will also operate on an EU-wide basis and incorporate implicit allocation of interconnector capacity.
No balancing market	Balancing market will be introduced with the purpose of reconciling any differences in supply and demand thus ensuring that the system is appropriately balanced i.e. there is enough power available to meet demand and spare capacity available to respond to unforeseen events such as a power station trip. Participants will submit incremental bids and decremental bids to the TSOs. The TSOs will in turn use these to move market participants from their nominated position if they need to do so to maintain a safe and secure system, and to ensure efficient cross border flows.
Market participants have limited responsibility for balancing due to central dispatch.	All market participants will be responsible for balancing– participants are financially responsible for the differences between traded/notified volumes and metered volumes which are settled at a single imbalance price.
Capacity market with mainly known payments for availability (or flows in the case of interconnectors).	Capacity market comprising 'centralised reliability options'. These are financial call options issued to capacity providers by a centralised party through a competitive auction. They represent an advance payment (option fee) to participants in exchange for entering into a contract that obliges them to pay back to the issuer the difference between a reference electricity price (such as day ahead market price) and a strike price in the contract.

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

Cost of capital savings

The main means by which the company delivers savings to the consumers in Northern Ireland is through providing a low cost of capital. The licence structures of the business have been designed to be attractive to long term stable investors such as pension funds and enable the companies to operate without equity investors, so allowing a much lower cost of capital than would otherwise be the case. The sum of the value of the savings to consumers was calculated at the inception of each of our transactions at some £81m. This was based upon an assumption of what the alternative cost of capital of an equity model would be.

The table below illustrates the current prevailing costs of capital allowed on a number of companies with similar types of assets. Based upon our assets the financing costs for the combined gas businesses are expected to be between £4.9m and £12.2m cheaper for 2015/16 than they would be using the cost of capital of the gas company comparators shown in the graph below. The electricity interconnector financing costs would be £1.8m to £3.2m cheaper for the same period than using the electricity company comparators. These are striking savings, particularly against the major GB companies with both a scale and market inherently much more attractive to investors than Northern Ireland.

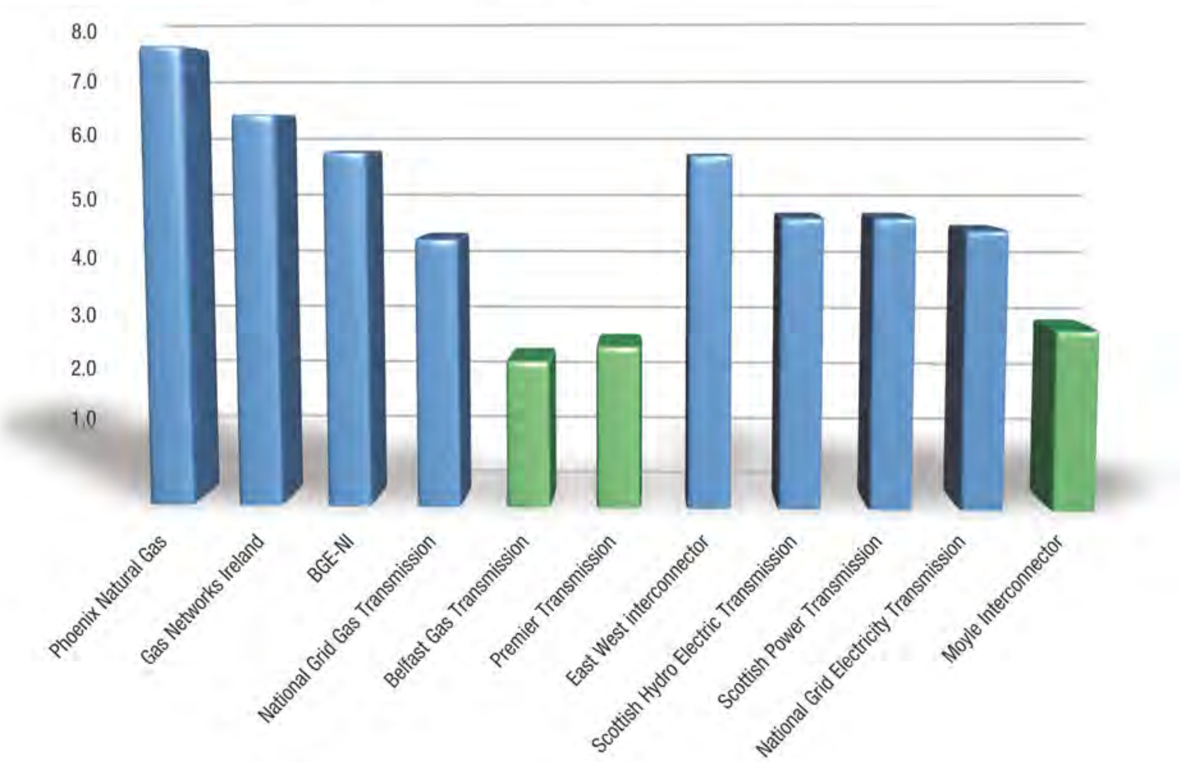
Costs charged to consumers

Gas business

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. These charges are lower than they would have been without the presence of the mutual model and its low cost of capital, thereby passing on these savings to shippers and allowing them to charge the end consumer less for their gas.

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

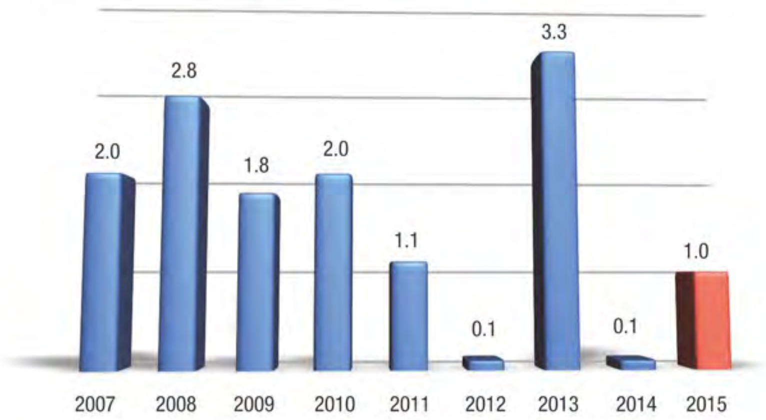
Cost of capital to consumer (%)



Costs charged to consumers - gas business (continued)

Overall gas business charges recovered from shippers in the 2013-14 gas year were 21% lower in real terms than in 2004-5. We continually seek to achieve operational savings and efficiencies. Since the gas businesses joined the Mutual Energy group costs have been reduced by bringing a number of contracts together with the electricity business, such as sub-sea surveys and site security. Year on year the business measures its progress with reference to the annual forecast provided for the tariff calculation, as shown in the following KPI.

KPI 3: Gas business operational savings vs forecast (£m)



Paddy Larkin, Gurpal Ghotra and Stephen Hemphill with a section of the new Moyle return conductor, Halden, Norway, March 2015.

Electricity business

The electricity business has a different charging mechanism to gas. Rather than automatically charge through the use of system charges to supply companies and hence on to end customers, the interconnector business has the ability to waive these charges. The alternative source of income for the Moyle business is the auction revenue it can gain by auctioning the access to the interconnector. To the extent that this reduces the profit otherwise made by shippers, this is a direct benefit to customers. Over the 12 years of operation Moyle has waived over £100m in use of system revenue it was otherwise entitled to collect. Year on year this is monitored by way of KPI on cash reinvested as part of the Collection Agency Income process to avoid charging consumers. Whilst all initial modelling and expectations forecast auction revenue to be immaterial, the prevalent market conditions and active management of the auction opportunities have resulted in this being a major source of income, to the extent that it has been possible to provide the considerable benefits of the interconnector to the Northern Ireland market for some time free of any use of system charge.

Investing to smooth costs

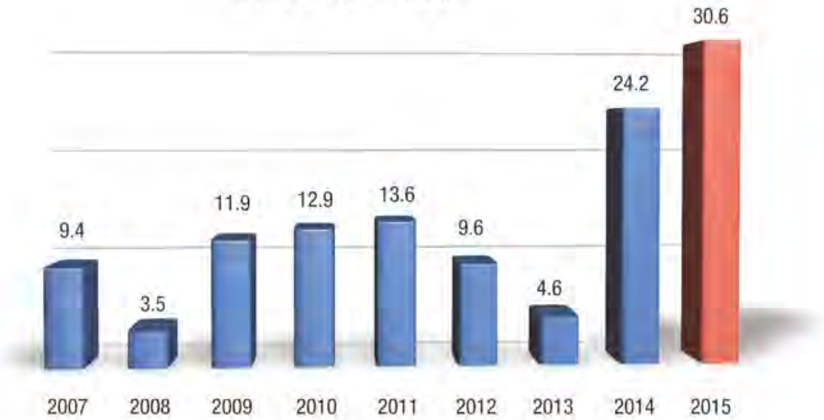
A key part of our delivery of cost savings to the consumers is an approach to smooth some of the ebbs and flows of the business cash flows before they are passed through in charges to consumers.

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

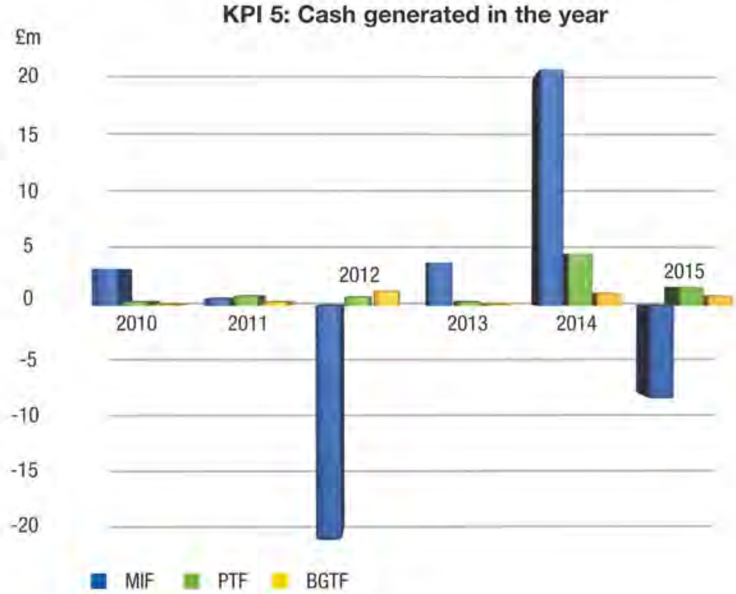
The only remaining investment is a €15m investment in a Platina renewable energy fund, PEN III, This fund invests in renewable energy, spread across Europe. Final investments are expected to be spread over approximately 15 projects in 5-6 countries. The fund has identified projects in excess of the €213m fund size and surplus projects will be sold on to other investors. Winding up of the fund must be before 31 December 2022.

On return of the proceeds from the fund, Moyle intends to apply these to lessen the impact of its financing costs on future customers. Moyle will continue to review how best to smooth its costs across generations of NI consumers.

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



KPI 5: Cash generated in the year



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

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

Gas to the West

In February 2015 the Mutual Energy group was awarded a licence for gas transmission to the west of Northern Ireland. Mutual Energy will own and operate the high pressure transmission pipeline to the west which will be constructed by SGN (the UK's second largest network company, operating across Scotland and southern England). SGN will own and operate the low pressure pipelines (the mains, services and meters) which deliver the gas within the eight towns identified in the licence.

Works are expected to commence this summer and public information events will be held in September 2015. The first gas is expected to be available in Strabane in October 2016 with the final extension of the gas network to Derrylin in late 2017/early 2018. This network extension has the prospect of bringing gas to 40,000 new customers in the West of Northern Ireland.

Mutual Energy is in a unique position to provide cost efficiency in the operation of this transmission network. We have a proven process for providing energy infrastructure at the lowest cost of capital in the UK and we have a clear track record in successfully mutualising infrastructure assets. Whilst this cost effectiveness is vital we also aim to bring significant cost synergies with our two existing gas businesses through the access to our IT systems, network control and operations and staff resources.

Gas storage

Mutual Energy continues to be closely involved in a project to develop a 500 million cubic metres natural gas salt cavity storage facility beneath Larne Lough. This project is of strategic importance to the island of Ireland which is wholly reliant on gas imported from Great Britain. This heavy reliance upon gas as the main fuel for electricity generation, combined with the steady decline of the nearby North Sea gas, make this a precarious security of supply situation. Simultaneously the increase in electricity generation from wind, with the gas plant as the main backup if the wind falls away, is forecast to put increasing pressure on the existing gas infrastructure.

The project has made significant progress to date, obtaining planning permission, land rights, and other important development consents. The quality of the project and its priority nature has also been recognised by the European Union with the designation 'Project of Common Interest' (PCI) and a grant of €2.5m secured from the Connecting Europe Facility (CEF). This grant, along with additional funds will be used for a drilling study. A drilling rig was set up in May with drilling to a depth of 1,700m having been completed mid June. The results of this study are currently being collated. Applications for the 2nd PCI list are in progress and if a place is secured this should help with the future stages of the overall project.

The group will continue to engage with the regulators, both North and South, to secure a future cross border regulatory environment suitable for gas storage and in order to allow this project to move forward.

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

Financial Highlights

Revenue, profitability and reserves

Group revenue in the period to 31 March 2015 was £57.3m (2014: £57.7m). Group operating profit before interest and tax was £10.9m, after the inclusion of cable repair costs of £13.8m (2014: £40.9m after £11.8m cable repair net income). After accounting for debt service, the group made an after-tax loss of £6.5m (2014: £30.2m profit).

Revenue from the gas businesses was £32.7m, made up of £7.0m from Belfast Gas and £25.7m from Premier Transmission (2014: £25.2m group, £6.1m Belfast Gas and £19.1m Premier Transmission).

Revenue from the electricity business was £24.7m (2014: £32.5m), with £12.8m collected through the use of system (2014: £19.8m) and £11.9m from capacity sales (2014: £12.7m).

Adjusted EBITDA has decreased from £39.8m in 2013/14 to £35.3m.

Finance charges

Included within finance costs is £15.9m (2014: £18.5m) in respect of borrowing costs arising on the group's index linked issued bonds. These borrowing costs are made up of three elements:

- actual interest charge was £9.3m (2014: £9.2m);
- £5.4m (2014: £8.3m) required to restate bond liability to latest applicable Retail Price Index; and
- bond fees, liquidity facility fees and other charges £1.2m (2014: £1.0m).

The actual interest charge is a cash amount and the restatement on the outstanding bond liability a non cash item. With the bonds in the early part of their tenor, the restatement to reflect the Retail Price Index movements is consequently particularly high. The indexation effect in Premier Transmission was achieved by issuing fixed rate bonds and simultaneously entering into two index-linked swap contracts. The combination of these instruments has the same cash effect as an indexed linked bond, and provides a 100% effective hedge against the applicable licence income. As noted in previous years, the current accounting treatment of this under International Accounting Standard 39 "Financial Instruments: Recognition and measurement" is deficient in that the hedge is not recognised as such. As a result a further non-cash finance charge is recognised, representing the movement in the fair value of these index-linked swaps.

Cash flow and liquidity position

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

Premier Transmission and Belfast Gas Transmission sub groups were cash generative during the year, with Moyle's cash levels decreasing due to the use of cash reserves to absorb some of the costs, reducing the amount passed through to the consumer. All three subgroups hold high levels of cash reserves to allow for unforeseen requirements and indeed are obliged to hold significant cash reserves as conditions of their financing arrangements. At year end cash reserves in Premier Transmission group amounted to £34.3m, Belfast Gas Transmission held £12.9m, and Moyle held operating cash reserves of £51.8m. Total cash holdings by the group at year end amounted to £102.4m (2014: £104.7m).

John Lobban, SGN, Jenny Pyper, Utility Regulator, Arlene Foster, MLA (then) Minister for Enterprise, Trade & Investment and Paddy Larkin, Mutual Energy at the Gas to the West launch in Enniskillen, March 2015.

Stakeholders, relationships and resources

Customers

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

During the year Cenergise registered as a customer and purchased Moyle Interconnector capacity for the first time. Moyle's other customers include Bord Gáis Eireann, Danske Commodities, ESB Independent Energy, Electroroute Energy Trading, Endesa Spain, Power NI, Scottish Power Energy Management Ltd, SSE Energy Supply Ltd, RWE Supply and Viridian Energy Supply Ltd. Regular communication is undertaken with the electricity suppliers and traders to try to ensure that their expectations regarding the type and quantity of capacity on offer are satisfied.

The Premier Transmission Pipeline System provides a service to shippers from Moffat in Scotland to exit points at AES Ballylumford, the connection with Gas Networks Ireland (NI) pipelines at Carrickfergus and Belfast Gas exit points in Belfast and Larne. The shippers who currently use our system are Centrica, Phoenix, AES Ballylumford, Coolkeeragh/ESB, Airtricity Gas Supply, Firmus, Electric Ireland and Vayu, along with the addition of LCC Power and Flogas in the year.

Stakeholders

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

During the year, the group continued to maintain good relations with the respective bond financiers and work with them to reflect any necessary changes arising from changes in the business environment. Our key financiers are: for Moyle, Assured Guaranty (Europe) Limited as controlling creditor and the Bank of New York Mellon as trustee; for Belfast Gas, Assured Guaranty (Europe) Limited as controlling creditor and Prudential Trustee Company Limited as trustee; and, for PTL, Financial Guaranty Insurance Company ("FGIC") as controlling creditor and Prudential Trustee Company Limited as trustee.

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.

Arlene Foster, MLA, (then) Minister for Enterprise, Trade & Investment and Paddy Larkin, Mutual Energy.

Employee diversity

The company recognises the importance of diversity amongst its employees and is committed to ensuring that employees are selected and promoted on the basis of merit and ability, regardless of age, gender, race, religion, sexual orientation or disability. The gender split across the group as at 31 March 2015 is illustrated in the table below:

	Male	Female
Board	5	2
Senior management	10	3
All employees	16	9

Employee KPIs

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

KPI	2015	2014
Training days per employee	3.7	1.7
Sickness absence days per employee	1.5	1.7
Personal Pension take up	95%	94%

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 page 10.

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 30, for the benefit of employees, contractors and the wider public. We comply with the Employments Rights Act and all other applicable UK law as an absolute minimum and recognise the importance of treating all of our employees fairly. We are committed to conducting business in an honest and ethical manner and act according to our Code of Ethics, which is integral to our business and sets out a range of principles we adhere to. We do not tolerate bribery or corruption of any kind and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships.

Members of the Mutual Energy team with the toys they donated to Cool FM's Mission Christmas campaign.

Risk Management

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

Risk management structure

The Board approves the overall risk management process, known as the group risk governance framework, and approves all the policies covered by the framework. Responsibility for ensuring compliance with the policies is divided between the Risk Committee and the Audit Committee. The Risk Committee deals with all risks that are inherently operational in nature (including Health & Safety), while the Audit Committee monitors all financial and other risks. In addition a new Moyle Project Committee was set up in March 2015 in order to manage the risks of the Moyle return cables project and to report to the Board in this respect.

The risk register records key risks identified and how they are being managed and is reviewed regularly by the board and the relevant board committees. This process has been in place for the full year ended 31 March 2015 and up to the date of approval of the annual report and financial statements.

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

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

Mutual Energy colleagues aboard repair ship Siem Stork in Belfast, October 2014.

The principal risks of the group are:

Risk description and potential impact	Mitigation
Operational risk	
Poor operational performance could result in impaired availability, damage to assets and/or reputation, loss of revenue or 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.
Inadequate management of health and safety matters could lead to third party and/or employee injury.	The group promotes a strong Health and Safety culture, has a well defined health and safety management system, follows industry standard practices and maintains regular formal interaction with key subcontractors. Site security is maintained to a standard suitable to the nature of the sites.
Financial risk	
Inadequate financing, non-compliance with covenants, market changes or failure of counterparties could lead to failure of financial structure.	Borrowing arrangements align the financing costs to the income allowances. Processes are in place to monitor covenant compliance and there is active management of market changes. Treasury policies are aimed at minimising the risks associated with the group's financial assets and liabilities and financial counterparty failure clauses are included in financing documents.
Poor financial management could result in breach of financing covenants or compliance failure.	The Board reviews and agrees policies for addressing these compliance risks and senior management are specifically delegated the task of ensuring compliance.
Liquidity risk could result in business disruption, controlling creditor intervention, default on bonds, or reputational damage.	The group has low liquidity risk due to its strong cash flows and the reserve accounts and liquidity facilities required by its financing documents. The required reserve accounts were fully funded and £28m of liquidity facilities were in place throughout the year for Moyle, Belfast Gas Transmission and Premier Transmission.
Business environment and market risk	
Market changes for gas and electricity in Northern Ireland could result in reduced volumes transported through the assets, insufficient revenue recovery, default on bonds, damage to reputation of mutual model or fines.	Licence provisions implementing a collection agency agreement in the electricity business and the postalised charges system in the gas business are designed to offset the impact of such changes. An influencing strategy is in place to positively impact market developments. Recent and future market development are discussed on pages 18-20.
Regulatory risk	
Changes in economic regulation or government policy could have an adverse effect on our financial position.	The group's relationships with the Utility Regulator for Northern Ireland and DETI are managed at senior level through frequent meetings and correspondence. A proactive approach is taken to consultations on any issue which could affect the group's business interests, with legal advice sought where appropriate.
Corporate strategy and communication risk	
The group could follow an inappropriate corporate strategy or communicate poorly with external stakeholders which 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 delays could result in financial losses, reputational damage or loss of availability.	A project governance structure exists with sufficiently qualified and trained resources. Contractors are closely monitored and stakeholder engagement plans and insurance are in place.

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

Environment and Safety

The group continues to put a high value on the Health and Safety of its operations and to recognise the importance of minimising the impact of its activities on the environment, both locally and in the global context. Our gas business runs simulated gas supply emergency exercises to ensure a robust response plan is in place and Premier Transmission and Northern Ireland Network Emergency Co-ordinator (NINEC) coordinate the exercises for the gas industry in Northern Ireland, as they would in the event of an actual Northern Ireland Gas Supply Emergency. The Northern Ireland emergency offsite plan was tested in June 2014, with gas supply emergency and gas capacity shortfall exercises being carried out in December 2014 at Mutual Energy's offices.

The group has a comprehensive Health and Safety Management System (HSMS) which is based on the Health and Safety Executive'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 as a stand-alone system. No Prohibition Notices, or Improvement Notices have been issued by the Health and Safety Executive or the Health and Safety Executive Northern Ireland and there are no known investigations by any Health and Safety enforcing body.

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

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

Greenhouse gas emissions reporting

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

	Tonnes of CO_2e	
Emissions from:	**2015**	**2014**
Usage of gas in operations	1303	1340
Electricity consumption at convertor stations	1,090	1,155
Electricity, heat, steam and cooling purchased for own use	27	20
Total emissions	2,420	2,515
Emissions per GWh energy transmission	0.16	0.17

Methodology

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

Forward looking statements

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

By order of the Board

Gerard McIlroy
Company secretary
22 June 2015

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

The Mutual Energy Board

Regina Finn (48) Chairman

Regina was appointed Chair of Mutual Energy in December 2013 having spent five years as a non-executive director of MEL and Chair of the company's Remuneration Committee. From 2006 to 2013, Regina was Chief Executive of Ofwat, the economic regulator for the water and waste water sectors in England and Wales. Before that she was a Commissioner for Energy Regulation in Dublin where she worked on the development of an all island energy market. She has also been Head of Market Operations and Deputy Director of the Office of the Director of Telecommunications (now ComReg) in Dublin, and has worked in the Channel Islands where she set up and ran the regulatory regime for electricity, post and telecommunications. Regina is currently a Director of Lucerna Partners Limited, a UK based consultancy, and holds a non-executive position on the Board of the Channel Islands Competition Authority (CICRA).

Paddy Larkin (46) Chief Executive

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

Gerard McIlroy (46) Finance Director

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

Clarke Black (61) Senior Independent Director

Clarke Black took up his role as a Director of Mutual Energy Limited in January 2011. He was Chief Executive of the Ulster Farmers' Union until his retirement in May 2015, and also served on several agri food related bodies which are closely involved in agriculture and food policy. He is a Fellow of the Royal Agricultural Societies and was previously employed by Northern Bank Limited as a Regional Agribusiness Manager, which laterally entailed a secondment to National Irish Bank, Dublin, where he established the Bank's Agribusiness segment in Ireland. Clarke is also an Independent Board Member on the Departmental Board of the Department of Justice.

Stephen Kirkpatrick (51)

Stephen Kirkpatrick has been CEO of Corbo Properties since 2010. Corbo is the largest property company in Northern Ireland and one of the leading developers/investors in retail property in the UK. Stephen previously spent 15 years with Bank of Ireland having joined the Bank in 1995 from KPMG Chartered Accountants, where he specialised in corporate finance over an eight year period. He spent his early career in corporate banking, holding a number of senior roles and culminating in his appointment in 2002 as Managing Director Corporate and Business Banking for Northern Ireland. In 2004, he was appointed head of the bank's regional business banking operations in the UK. Stephen became CEO of Bank of Ireland in Northern Ireland in 2006. In 2009 Stephen was appointed Head of Retail Credit with accountability for almost two thirds of the Bank of Ireland Group's balance sheet lending. Stephen was appointed as a non-executive Director and Chair of the Audit Committee of UTV Media plc in September 2012. Stephen joined the Mutual Energy Board in 2010.

Kate Mingay (49)

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

Chris Murray (58)

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

Corporate governance statement

The group is committed to high standards of corporate governance. The Board leads the group's governance through the Group Corporate Governance Framework and associated policies. This statement describes how, during the year ended 31 March 2015, the group has applied the main and supporting principles of corporate governance.

The only listed securities of the group are the debt securities of Moyle Interconnector (Financing) plc, Premier Transmission Financing plc and Belfast Gas Transmission Financing plc. As such the group is not obliged to comply with the provisions set out in the UK Corporate Governance Code (September 2014) (the Code). Instead the group uses its provisions as a guide to the extent considered appropriate to the circumstances of the group.

The Board

An effective board of directors leads and controls the group. The Board, is responsible for the overall conduct of the group's business and has powers and duties pursuant to the relevant laws of Northern Ireland and our articles of association. Board meetings are usually held 7 or 8 times per year, however, seventeen meetings were held this year as a result of major project milestones which required Board consideration or approval.

The Board:

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

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

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

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

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

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

In particular, non-executive directors are responsible for:

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

A procedure is in place for directors to obtain independent professional advice in respect of their duties. All directors have access to the advice and services of the Company Secretary and the company solicitors. New directors receive induction on their appointment to the board covering the activities of the group and its key business and financial risks, the terms of reference of the board and its committees and the latest financial information about the group. Non-executive directors receive on-going training in line with the Board timetable, a process overseen by the Chairman, and are encouraged to attend the annual members' day to ensure they have an understanding of the members' opinions.

The committees of Moyle Interconnector (Financing) plc, Belfast Gas Transmission Financing plc and Premier Transmission Financing plc meet concurrently with those of Mutual Energy Limited.

Board membership

The names of the directors of each of the group companies and their details appear on the first page of the Directors' Report for that company.

Throughout the year, the Chairman and the other non-executive directors were independent of management and were independent of any business relationship with the group.

The Senior Independent Director throughout the year was Clarke Black. The Senior Independent Director's responsibilities include leading the non-executive directors' annual consideration of the Chairman's performance. From time to time the non-executive directors, including the Chairman, met independently of management.

Board appointments and evaluation

All non-executive Directors joining the Board are required to submit themselves for election at the AGM following their appointment. Thereafter,

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
Clarke Black	16/17	-	2/2	4/4	-
Regina Finn	17/17	-	2/2	-	-
Stephen Kirkpatrick	17/17	-	-	4/4	-
Paddy Larkin	17/17	-	-	-	3/4
Gerard McIlroy	17/17	-	-	-	-
Kate Mingay	17/17	-	-	4/4	-
Chris Murray	17/17	-	-	-	3/3

they are subject to re-election annually. The non-executive directors are expected to serve only two terms of three years, but may be extended in exceptional circumstances up to a further three years. The process for recruiting directors is co-ordinated by the nominations committee (see below).

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

Board committees

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

Audit Committee

The Audit Committee comprised Stephen Kirkpatrick (Committee Chair), Clarke Black and Kate Mingay (from her appointment in May 2014). The Board is satisfied that the Committee Chair, Stephen Kirkpatrick, has recent and relevant financial experience as required by the code. Meetings were also attended, by invitation, by the external audit partner and the executive directors of the group.

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

Remuneration Committee

The Remuneration Committee was chaired by Clarke Black throughout the year. The committee comprises solely non-executive directors. The role of this committee and details of how the company applies the principles of the Code in respect of directors' remuneration are set out in the Remuneration Committee Report.

Nominations Committee

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

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

In the prior year Clarendon Executive and the Curzon partnership were appointed, as independent recruitment agencies, to assist with the process of recruiting two non-executive directors to fill vacancies on the Board. The Board and Committee determined again that they would not institute a gender target on Board recruitment and would recruit solely on merit. Curzon Partnership and Clarendon Executive conducted a recruitment exercise advertising for prospective non executives in the early part of 2014 and as a result Chris Murray, CEO of gas market facilitator XOserve and former CEO of Phoenix Natural Gas, and Kate Mingay, Senior Adviser to Cambridge Economics Policy Associates and former Director of Commercial and Technical Services in the UK Department of Transport (DfT), were appointed as non-executive directors on 1 May 2014 and were formally appointed by the members at the 2014 AGM.

Risk Committee

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

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

Membership Selections Committee

The Membership Selections Committee comprises two non-executive directors, two members who are not also directors of the company and two independents appointed by NIAUR. The non-executive directors on the Committee were Stephen Kirkpatrick and Clarke Black.

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

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

The Membership Selections Committee procures candidates through two routes:-

a) requests to key stakeholders and consumer groups determined by the Membership Selections Committee to put forward candidates for consideration; and

b) an open and transparent recruitment process similar to that used for public appointments

Moyle Project Committee

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

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

Internal control and risk management

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

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

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

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

Going concern

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

The group continues to be cash generative, however, it is forecast to remain cash positive over that 15 year period, has adequate banking facilities and has cash reserves of £102.4m. The group prepares a 5 year business plan annually which is approved by the Board. As part of this process the Board considers the expected cash flows for the 5 year period and the appropriateness of the adoption of the going concern basis in the preparation of the accounts. The forecast cash generated 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. Arrangements approved by the NIAUR are in place to ensure sufficient cash is available to meet bond payments.

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

Bondholders

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

Members

As Mutual Energy Limited, the holding company of the group, is a company limited by guarantee the Board of Directors are supervised in their leadership and control of the group by the members. During the year ten members retired from the company as their terms came to an end. Six new members were appointed in the year, following a recruitment exercise, in addition to the two new non-executive directors who were also appointed as members in the year.

Mutual Energy Members during 2014/15	
Clarke Black	Stephen Kirkpatrick
Ashley Boreland (retired 25/09/2014)	Robert McConnell (appointed 8/12/2014)
David Brown (retired 25/09/2014)	Colm McGarry (retired 25/09/2014)
Margaret Butler	Brendan Milligan
John Campbell (retired 25/09/2014)	Gordon Millington (retired 25/09/2014)
Bill Cherry	Kate Mingay (appointed 01/05/2014)
John Cherry	Nevin Molyneaux (appointed 8/12/2014)
Robin Davey	Chris Murray (appointed 01/05/2014)
Joe Doherty	Allister Murphy (retired 25/09/2014)
Seamus Downey (retired 25/09/2014)	Colin Oxton (appointed 8/12/2014)
Malcolm Emery (retired 25/09/2014)	Conor Quinn (appointed 8/12/2014)
Regina Finn	Niall Rafferty (retired 25/09/2014)
Brian Fitzpatrick (appointed 8/12/2014)	Robert Richmond
Andrew Frew	Ben Robinson
Trevor Greene	Georges Senninger (retired 25/09/2014)
Wesley Henderson	Gavin Thompson (appointed 8/12/2014)
Chris Horner	Gerry Walsh
Gillian Hughes	Peter Warry
Alan Jeffers	Noel Williams
Geraldine Kelly	

Directors' Remuneration Report

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

The Chairman's annual statement

Clarke Black
Chairman
Remuneration
Committee

I am pleased to present the Directors' remuneration report for the financial year which ended on 31 March 2015. The group continues to face significant challenges and opportunities and our operating environment remains ever changing, as outlined in the Strategic Report.

The senior leadership team, who have significant skills and experience essential to the business, are critical in ensuring that, in this changing environment, the optimum outcomes for Northern Ireland consumers are achieved. As a result the senior management remuneration structure is designed to reward and retain essential skilled individuals and incentivise business critical projects that span multiple years. Their remuneration therefore includes performance related pay, the majority of which is deferred in order to incentivise longer term performance in line with these business critical projects, and the remainder of which relates to in-year performance based on operational targets.

This is the second year that the group has been reporting under the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. We received positive feedback from the members in respect of these changes last year and hope that the report will continue to provide assurance that we are operating a fair and measured approach to remuneration, which is aligned with the interests of NI consumers.

The Directors' Remuneration Report includes, in addition to this statement, the Directors' remuneration policy report and the annual report on remuneration. The remuneration policy can be found on pages 40 to 45 and was approved by the members at the 2014 AGM. This policy is effective for 3 years from 1 October 2014, unless otherwise amended and approved by a further binding vote. The annual report on remuneration can be found on pages 46 to 50.

Clarke Black

22 June 2015

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

Introduction

This report summarises the activities of the remuneration committee for the period to 31 March 2015. It sets out the remuneration policy and remuneration details for the executive and non-executive directors of the company and has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended August 2013. The report is split into three main areas: the statement by the chair of the remuneration committee, the policy report and the annual report on remuneration. The policy report was approved through a binding vote at the 2014 Annual General Meeting and applies for three years from 1 October 2014, subject to any future changes approved by the members. The annual report on remuneration provides details on remuneration in the period and other information required by the Regulations.

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

The role of the Remuneration Committee

The role of the Remuneration Committee during the year was to determine and agree the remuneration policies of the company and its subsidiaries and specifically:

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

Remuneration Policy

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

Future policy table

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

Remuneration policy for executive directors

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

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Salary and fees	Part of a basic competitive package to recruit and retain individuals of the necessary calibre to execute the group's business strategy.	Reviewed annually and fixed for 12 months commencing 1 April. Decision influenced by: - role, experience or performance; - average change in broader workforce salary; - group performance and prevailing market conditions; and - external benchmarking of similar roles at comparable companies.	Increases only for inflation and in line with other employees unless there is a change in role, responsibility or to reflect market conditions.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.
All taxable benefits	Providing employee protection in interest of employee and group.	Insured healthcare cover set at suitable protection level and premiums paid monthly.	Cost of healthcare insurance as part of group scheme. Additional benefits may also be provided where they are made available to the wider workforce or to take account of any changes to general taxation rules	None	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Annual performance-related pay	Focus attention on group KPIs, incentivise outperformance of targets and provide a competitive total annual earnings opportunity.	The Remuneration Committee sets targets which are linked to operational performance and determines the percentages of salary achievable for each and at what performance level these are receivable. Performance-related pay is calculated and awarded following the financial year end to which it relates. Discretion may be used where circumstances necessitate the adjustment of targets within the year. Awards are paid in cash except where a director chooses to take all or a portion of the performance-related pay as company paid pension contributions. Where individuals receive their performance-related pay as pension this reduces the company's National Insurance Contributions and this saving is also credited to the individual's pension (currently 13.8% of the amount exchanged).	Normal annual performance-related pay is expected to be 17% of salary with a maximum annual performance-related pay potential of 25% of salary.	Performance-related pay elements are based on group KPIs for the year and include: • Availability and asset integrity improvements; • Revenue; • Costs and cost savings ; and • Compliance and Health and Safety improvements. Performance below the threshold usually results in zero payment. Payments rise from 0% to 100% of the maximum opportunity for levels of performance between the threshold and maximum. As these elements are fundamental to the business the company sets its target performance at 100% of the maximum potential performance-related pay.	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Deferred performance-related pay	Align executives with long term interests of the group and encourage retention of key employees.	Each year a predetermined % of salary is set aside for each director as deferred performance-related pay. After 3 years half of the total which has been deferred to date becomes available for payment. Payment of this performance-related pay will be linked to key deliverables in the business plan in order to align payment with longer term goals. Discretion may be used to calculate the amount payable where appropriate.	It is expected that each year up to 33% of salary will be deferred. However the maximum amount can be in the range 25-35% to give a total annual and deferred performance-related pay receivable of 50% in relation to each year. No deferred performance-related pay will be paid until the third year after being set aside, after which up to half of the amount set aside may be paid in cash or pension contributions as requested by the director.	The payment of the deferred performance-related pay is linked to the group strategic business plan and the key deliverables in that plan. Milestones for award are linked to the business plan projections. Targets are set for each of the relevant categories with the percentage of performance-related pay obtainable for each target to be determined each year by the Remuneration Committee. The categories for which targets are set include asset performance, financial and regulatory/market performance.	No recovery or withholding applies to any performance-related pay paid in cash. The deferred performance-related pay may be subject to forfeiture where the participant leaves the employment of the group prior to vesting. Forfeiture is at the discretion of the Committee.
Pensions	To provide funding for retirement.	Defined contribution plan for all Executive Directors. The group also operates a pension salary sacrifice arrangement where individuals can exchange part of their salary for Company paid pension contributions, with NIC cost savings being credited to the individual's pension.	The company pension contribution is expected to be 16% of salary but no more than 25%, excluding any employee salary sacrifice.	None	There are no provisions for the recovery of any sums paid or the withholding of any payments.

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

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

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

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

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

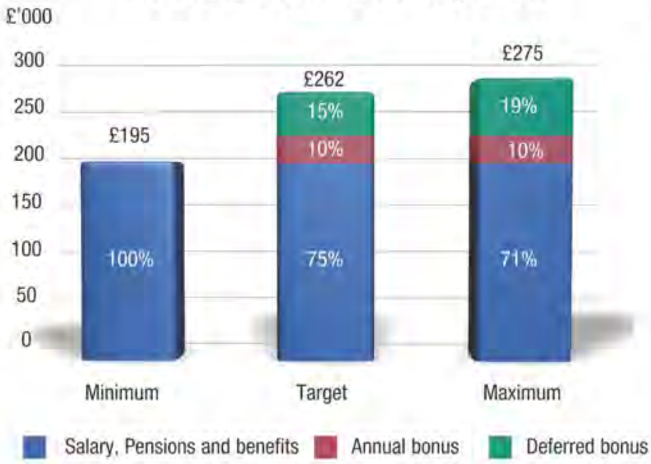
The Remuneration Committee reserves the right to make any remuneration for loss of office payments where the terms were agreed prior to an individual being appointed as a director of the company or prior to the approval of the policy.

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

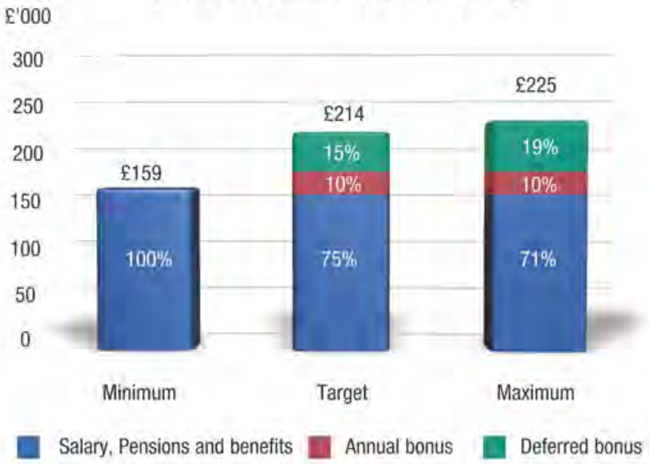
Illustrations of potential reward opportunities for the executive directors

The total remuneration for each of the executive directors that could result from the remuneration policy in 2015/16 under three different performance levels is shown below:

Total remuneration potential: Chief Executive Officer Paddy Larkin



Total remuneration potential: Finance Director Gerard McIlroy



The following assumptions have been made:

- Minimum (performance below threshold) – Fixed pay only
- Target – Fixed pay plus 100% of the in-year performance-related pay (as these are based on fundamental operational performance measures and the aim is to meet these in full) plus 75% of the potential maximum deferral.
- Maximum (performance meets or exceeds maximum) – Fixed pay plus maximum in-year performance-related pay and maximum deferred performance-related pay.

Fixed pay comprises:

- salaries – salary effective as at 1 April 2015;
- benefits – amount received by each Executive Director in the 2014/15 financial year;
- pension – amount received by each Executive Director in the 2014/15 financial year;

Service contracts and policy on payment for loss of office of the executive directors

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

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

Approach to recruitment remuneration

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

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

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

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

Policy for non-executive directors

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

Component	Purpose	Operation	Opportunity	Applicable performanc e measures	Recovery
Annual fee	Competitive fee to recruit and retain NEDs who have a broad range of experience and skills to oversee the implementation of the group strategy.	The Chairman and NEDs are paid an all-inclusive fee for all Board responsibilities. The fees are reviewed annually and fixed for 12 months commencing 1 April. NED fees are determined by the Chairman and executive directors and approved by the Board. The Chairman's fees are set by the Committee. No additional fees are payable for the chairmanship of other committees or for the additional responsibilities of the Senior Independent Director. Fees are periodically reviewed against those for NEDs in companies of similar scale and complexity and may be adjusted as appropriate. NEDs are not eligible to receive benefits and do not participate in pension plans or performance-related pay schemes.	Fee levels for incumbents for 2014/15 are as follows: Chairman £77,320p.a. NEDs £33,500p.a.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Additional fees payable for other duties to the company	To provide the group with services which it requires which do not fall within the normal duties of a director and where there are overriding reasons that make them the most suitably qualified to undertake it.	Where a director possesses skills and experience which the company requires and the director is best-placed to provide them such services may be provided at an arms length basis, in line with the company's procurement policies. The terms of engagement for such services must be approved by the Board.	Any remuneration will be at the discretion of the Board and will be reported in the annual report.	N/A.	There are no provisions for the recovery of any sums paid or the withholding of any payments.

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

Statement of consideration of employment conditions elsewhere in company

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

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

Statement of consideration of member views

The company remains committed to member dialogue and takes an active interest in voting outcomes. The Chairman of the remuneration committee presented the 2012/13 annual remuneration report and revised executive director remuneration structure for 2013/14 onwards to the members at the 2013 AGM. Questions and comments were invited and members were offered the opportunity to discuss any issues on a one-to-one basis at a later date. The revised structure and levels received unanimous support from the members. Any feedback from members received throughout the year is considered when setting the directors' remuneration policy. Members views will be sought going forward, at a minimum, in line with the 3 year policy approval cycle.

Mutual Energy Board (l-r): Gerard McIlroy, Clarke Black, Kate Mingay, Paddy Larkin, Regina Finn, Stephen Kirkpatrick and Chris Murray.

Annual report on remuneration

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

Single total figure of remuneration for each director

The remuneration of the directors for the years 2014/15 and 2013/14 is made up as follows:

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

£'000	Salary and fees[1]	All taxable benefits[2]	Annual performance-related pay[1]	Deferred performance-related pay	Pension[1]	Total for 2014/15
Executive directors						
Paddy Larkin[3]	167	1	20	46	25	259
Gerard McIlroy[4]	136	1	17	40	21	215
Non-executive directors						
Clarke Black	34	0	0	0	0	34
Regina Finn	77	0	0	0	0	77
Stephen Kirkpatrick	34	0	0	0	0	34
Kate Mingay[5]	31	0	0	0	0	31
Chris Murray[5]	31	0	0	0	0	31
	510	2	37	86	46	681

Directors' remuneration as a single figure (2013/14)

£'000	Salary and fees[1]	All taxable benefits[2]	Annual performance-related pay[1]	Deferred performance-related pay	Pension[1]	Total for 2013/14
Executive directors						
Paddy Larkin[3]	164	1	22	45	25	257
Gerard McIlroy[4]	133	1	18	36	20	208
Non-executive directors						
Clarke Black	34	0	0	0	0	34
Regina Finn[6]	48	0	0	0	0	48
Stephen Kirkpatrick	34	0	0	0	0	34
Gerry Walsh[7]	25	0	0	0	0	25
Peter Warry[8]	52	0	0	0	0	52
	490	2	40	81	45	658

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

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

3 In the year Paddy Larkin elected to exchange £19,400 of his salary (2014: £17,600) for company paid pension contributions. Under the company's salary sacrifice scheme the employer NIC savings are also credited to the individual's pension giving an additional credit of £2,677 in the year (2014: £2,429).

4 In the 2014 year Gerard McIlroy elected to exchange £8,390 of his salary for company paid pension contributions in the year. In the 2014 year NIC savings of £1,158 were credited to his pension account.

5 Appointed as Director on 1 May 2014

6 Appointed as Chairman on 1 December 2013

7 Retired from the Board on 31 December 2013

8 Retired from the Board on 1 December 2013

Determination of 2014/15 annual performance-related pay

Annual performance-related pay awards were determined with reference to performance over the financial year ending 2014/15. The performance-related pay accruing to executive directors is set out below. The particulars of the performance measures have not been disclosed as these are considered commercially sensitive.

2014/15 annual performance-related pay

	Annual performance related pay (% of salary)				Deferred performance related pay (% of salary)			
	CEO		FD		CEO		FD	
	Maximum	Actual	Maximum	Actual	Maximum	Actual	Maximum	Actual
Asset performance	12.5%	9.5%	12.5%	9.5%	11%	9.5%	5%	4.5%
Financial performance	4.5%	3.5%	4.5%	3.5%	16%	15.0%	15%	14.5%
Regulatory/market performance	-	-	-	-	6%	5.0%	13%	11.5%
	17.0%	**13.0%**	**17.0%**	**13.0%**	**33%**	**29.5%**	**33%**	**30.5%**

Payments to past directors

Gerry Walsh retired as director on 31 December 2013 in order to comply with the unbundling requirements of the EU Third Energy Package. As part of the process he was retained as an advisor to the risk committee for a period of 12 months to facilitate handover to the new directors. A payment of £10,868.50 was made to him in January 2015 in respect of these services and relating expenses incurred. A payment of £3,569.99 was also made in May 2014 in relation to expenses incurred during his period of directorship.

No other payments were made to past directors in the period.

Payments for loss of office

There were no payments for loss of office made in the year

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

CEO remuneration table

The table below sets out the details for the director undertaking the role of Chief Executive Officer.

Year	CEO single figure of total remuneration (£'000s)	Annual performance-related pay pay-out against maximum %	Deferred performance-related pay pay-out against maximum opportunity %
2009/10	48*	95%	N/A
2010/11	197	92%	N/A
2011/12	189	86%	N/A
2012/13	203	81%	N/A
2013/14	257	85%	N/A
2014/15	260	76%	N/A

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

Percentage change in remuneration of director undertaking the role of Chief Executive Officer

The table below shows the percentage change in remuneration of the director undertaking the role of Chief Executive Officer and the group's employees as a whole between the year 2014/15 and 2013/14.

	Percentage increase in remuneration in 2014/15 compared with remuneration in 2013/14	
	CEO	Group's employees as a whole*
Salary and fees	2%	4%
All taxable benefits	8%	12%
Annual performance-related pay	(8)%	0%
Total	1%	3%

* Reflects the average change in pay for employees (excluding non-executive directors) employed throughout both the year ended 31 March 2014 and the year ended 31 March 2015.

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 plus cash returned to customers via shippers. The group does not pay dividends as there are no shareholders.

	2014/15	2013/14	Change
	£'000	£'000	
Total employee costs	1,915	1,633	17%
Total debt repayments plus cash retained in the business plus cash returned to customers via shippers	22,075	49,973	(56)%

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

Statement of implementation of remuneration policy in 2015/16

The directors' salaries and fees for the 2015/16 year are as follows:

	2015/16	2014/15	Change
	£'000	£'000	
Chief Executive	169	167	1%
Financial Director	137	136	1%
Chairman	77	77	0%
Non-executive directors	34	34	0%

The annual performance-related pay for 2015/16 will operate on the same basis as for 2014/15 and will be consistent with the policy detailed in the Remuneration Policy section of this report. The measures have been selected to reflect a range of financial and operational goals that support the key strategic objectives of the group.

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

	Annual performance related pay (max % of salary)		Deferred performance related pay (max % of salary)	
	CEO	FD	CEO	FD
Asset performance	11.0%	11.0%	11.00%	8.00%
Financial performance	4.50%	4.50%	16.00%	14.00%
Regulatory/market performance	1.5%	1.5%	6.00%	11.00%
	17.00%	**17.00%**	**33.00%**	**33.00%**

The particulars of the performance targets relating to 2015/16 are considered to be commercially sensitive, however, retrospective disclosure of the targets and performance against them will be provided in next year's remuneration report to the extent that they do not remain commercially sensitive at that time.

Consideration by the directors of matters relating to directors remuneration

During the year the committee met once to consider matters relating to executive directors' remuneration. The directors who were members of the committee during these considerations were Clarke Black and Regina Finn. The CEO and Finance Director attend meetings by invitation and assist the Committee in its deliberations where appropriate. The executive directors are not involved in deciding their own remuneration. No advice or services were provided to the committee in respect of their consideration of executive director remuneration structure.

Statement of voting at general meeting

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

The following table sets out actual voting in respect of the approval of the remuneration report and remuneration policy:

	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	19	100%	-	0%	19	-
Remuneration policy	19	100%	-	0%	19	-

Approval

This report was approved by the Board of Directors on 22 June 2015 and signed on its behalf by:

Clarke Black

22 June 2015

Clarke Black, Remuneration Committee chair presenting to the Mutual Energy AGM, September 2014.

Risk Committee Report

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

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

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

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

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

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

The Committee met on four occasions during the year ended 31 March 2015 in order to review risk registers and business improvement plans, review Health and Safety policies and procedures, and to address specific issues of operational and environmental risk including the online inspection of the Belfast Transmission Pipeline and the Moyle low voltage cable replacement. Attendance was as listed in the Corporate Governance Statement.

Chris Murray
Chairman
Risk Committee

Activities in 2014/15

During the year the Committee:

- Reviewed Health and Safety performance including incidents, near-miss and good-catch reports;
- Provided oversight and review of amendments to the Health and Safety Policy Statement and Health and Safety Management System to reflect changes in Health and Safety guidance, reviewed the 2013/14 and 2014/15 Health and Safety Plans and recommended these documents to the Board for approval;
- Reviewed the risk registers for both the gas and electricity businesses;
- Reviewed the improvement plan for the gas and electricity businesses, incorporating both Health and Safety and asset performance improvement;
- Reviewed site security arrangements;
- Produced a risk register for the Moyle seabed repair project;
- Produced risk registers for the original and superseded Moyle low voltage cable replacement projects;
- Reviewed the inspection regime for the Belfast Gas Transmission Pipeline and its suitability for online inspection.

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

Audit Committee Report

Stephen Kirkpatrick
Chairman
Audit Committee

The Audit Committee was in place throughout the year ended 31 March 2015 and all its members were independent in accordance with provision B.1.1 of the UK Corporate Governance Code.

The audit committee plays a vital role in verifying the integrity of the group's processes and procedures in relation to internal control, risk management and corporate reporting. The Committee's role continues to be increasingly challenging due to the level of operational, commercial and regulatory challenges affecting the business, and the resulting increased number of projects in progress. As a result of these changes a key focus for the Committee in the year has been risk management in relation to these challenges and projects.

Principal responsibilities

The role of the Audit Committee is to:

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

Membership

The Committee was chaired by Stephen Kirkpatrick, a qualified accountant, throughout the year. The Committee also comprised Clarke Black and Kate Mingay. The requirement in the Committee's terms of reference that at least one member of the Audit Committee should have sufficient recent and relevant financial experience is fulfilled by the chairman. Members receive no additional remuneration for their service on the Committee.

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

Activities

The Committee met four times in the year ended 31 March 2015 with attendance as listed in the Corporate Governance Statement. The key areas of consideration are set out below, along with a description of the activities carried out in each area during the year.

Audit

A key role of the Committee is to monitor and manage the relationship with the Auditor. The duty to assess the effectiveness of the audit process including the qualifications, expertise and resources of the external auditors is fundamental to the Committees work. The Committee discharges this responsibility in two stages. Firstly, as part of the audit tender process, the Committee investigates the approach of the firm, the quality of the staff and expected level of effort, comparing these to the rival firms who put forward a proposal. Then, throughout the period of appointment, the Committee reviews the audit planning documentation for each audit, ensuring its consistency with the initial proposal and its ongoing suitability.

The group policy is to tender the audit contract on an approximate 5 year cycle, with consideration on the exact timing taking into account other business activities ongoing at the time. The audit tender includes other services pre-approved by the Audit Committee as a matter of policy, namely the audit of regulatory accounts and routine tax compliance work. The last tender was carried out in 2011 and PricewaterhouseCoopers LLP (PwC) were appointed. PwC have been the group's external auditors since 2007, with audit partner rotation after 5 years (2012) in line with APB Ethical Standards.

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

- meeting with the external auditor to confirm their independence and objectivity;
- meeting with the external auditor:
  - at the planning stage before the audit in order to review and approve the annual audit plan, ensuring that it is consistent with the scope of the audit engagement;
  - after the audit at the reporting stage to review the findings of the audit and discuss any major issues which arose during the audit, including any accounting and audit judgements, the levels of errors identified and the effectiveness of the audit; and
  - without management present so that any matters can be raised in confidence;
- monitoring of the statutory audit of the annual financial statements;
- considering and making recommendations to the Board, to be put to members for approval at the AGM, in relation to the re-appointment of the external auditor; pre-approving all non-audit work carried out by the external auditors above a de-minimis level of £5,000, taking into account any relevant ethical guidance on the matter. In the year total costs of £40,500 were incurred in respect of non audit services, in relation to routine tax compliance, research & development tax claims, and recruitment services (see note 3 in the financial statements). Non-audit services are provided by external auditors where it can be demonstrated as part of the approval process that the engagement is a natural extension of their existing work or there are other overriding reasons that make them the most suitably qualified to undertake it. Where non audit services are provided the Audit Committee ensures, through discussion with the external auditors, that sufficient safeguards are in place to protect auditor independence; and
- considering whether an internal audit function is required. The Committee is satisfied for the present, given the scope of the group's activities, that internal controls and risk management are adequate without such a function.

Financial reporting

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

The majority of the matters identified are effectively routine and consistent year on year. In the current year the issues the Committee consider significant were as follows:

Valuation of investments

The group's investments are not in an active market and therefore do not have a quoted market price. IAS 39 requires any such instruments be valued at fair value where reliably measurable. The range of fair values for the group's investments is wide and the probabilities of the various estimates cannot be reasonably estimated therefore IAS 39 precludes the group from measuring these at fair value. In such situations the investments must be measured at cost less impairment. The Committee does not consider there to be any impairment of these investments and these have been valued at cost within the financial statements.

The assessments of asset impairment

The accounting policy on this is outlined on page 77. The ability of the assets to generate cash is fundamental to their value and is therefore considered closely by the Committee. The ability to generate cash is derived from market conditions, asset performance and the integrity of the licence arrangements. The committee again considered the Moyle Interconnector in light of the reduced asset performance, following the cable fault. This is a trigger for impairment, however after consideration of cash flows from the licence the Committee was able to conclude that the asset, which has a carrying value of £86m as at 31 March 2015, was not impaired.

Accounting for derivatives

There is no change to the treatment for accounting for derivatives in the year, however this has such a material effect on the financial statements that it is worthy of note. During the period ended 31 March 2006 the group entered into two index-linked based swaps to hedge against index-linked revenues receivable under its agreement with the regulator. In accordance with IFRS these index-linked swaps do not qualify as an accounting hedge and are therefore accounted for as non-hedging derivative financial instruments. The fair value of these index linked swaps are recognised as a financial liability under non-current liabilities on the balance sheet with fair value movements being reported in the statement of comprehensive income under net finance costs. The statement of comprehensive income has been presented in a 6 column format in order to allow users to appreciate the impact of derivatives on the results for the year. The Directors believe that by separating gains and losses arising from applying the valuation requirements of IAS 39, the users of this financial information will better understand the underlying performance of the group.

Other key judgements and policies are included in note 1 on page 82.

The other financial reporting matters which the Committee considered included:

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

Internal controls and risk management systems

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

- reviewing the effectiveness of the group's internal controls and risk management systems including consideration of fraud risk;
- reviewing the outcome of the group's risk register process and making revisions to the risk register in line with changes to the group's business;
- reviewing and approving the statement to be included in the annual report concerning internal controls and risk management;
- reviewing the outcome of compliance reviews and recommending improvements and policy amendments in areas including: governance framework, management supervision, risk management, payment of suppliers, reporting to financiers, recruitment of staff, counterparty policies, security, accounting, invoicing and credit collection; and whistleblowing; and
- reviewing and approving policies including accounting, invoicing and credit collection, recruitment of staff, and specialist contracts.

Members and Directors' site visit to Torytown, May 2015.

Members

Margaret Butler

Margaret Butler is a retail banker with multinational experience and a career spanning 44 years in the financial services industry. She has worked in banking in Northern Ireland, England, Scotland and Australia, firstly with Northern Bank and then with National Australia Bank in Executive roles. Margaret is currently a non-executive director of AIB (UK). Margaret has leadership experience across a wide range of disciplines including human resources, business planning, strategy, operations and business transformation. Margaret has an MBA from the University of Ulster. She is a Trustee and Honorary Treasurer of the Northern Ireland Hospice.

Bill Cherry

Bill Cherry is Managing Director of Fusion Heating Limited, a specialist mechanical and electrical maintenance provider for the social housing sector within Northern Ireland. Bill is also a member of the Chartered Institute of Management, and is currently on the committee of the Northern Ireland Natural Gas Association.

John Cherry

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

Robin Davey

Robin Davey has spent a lifetime in industry and energy studies. After graduating from Queens 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

Members and Directors' site visit to Torytown, May 2015.

Management through Open Learning). He has carried out energy surveys and audits throughout the UK, many as an accredited energy manager with the Carbon Trust. He is a Chartered Scientist, a Chartered Energy Manager, Fellow of the Energy Institute and a past chairman of the Energy Institute Northern Ireland.

Joseph Doherty

Joseph Doherty works as a Curriculum Manager in the Technology Department of Southwest College. This work involves aligning the college's curriculum offer to the needs of local and regional industries (such as developments within the renewable energies fields). He is an associate Inspector with the Employment and Training Inspectorate (ETI) which reviews and evaluates the quality and standards of teaching within various educational and training organisations. He is also the Principal Moderator for CCEA in the area of ICT (Key Skills and Essential Skills).

Brian Fitzpatrick

Brian Fitzpatrick is currently the Facilities Manager for the Central Bank of Ireland. He is a Chartered Engineer with the Institution of Engineers of Ireland. Brian has worked as a Facilities Manager in Ireland for leading organisations including B/E Aerospace, Xerox Corporation, Medtronic AVE and A&L Goodbody. Brian has also worked internationally for leading organisations including AECOM (formerly Worley Consultants) in Auckland New Zealand and B&C PTY Ltd, Sydney Australia.

Andy Frew

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

Trevor Greene

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

Wesley Henderson

Wesley Henderson is a retired Director of the Consumer Council for Northern Ireland where his responsibilities included energy policy and corporate services. He is a Council Member and Non-Executive Director of the Advertising Standards Authority (ASA), an Independent Assessor with the Commissioner for Public Appointments for Northern Ireland and a Lay

Members' Day, The Arena Building, May 2015.

Representative for the Northern Ireland Medical and Dental Training Agency. He is also a Public Director with the Lagan Canal Trust and an Education Speaker for Cats Protection, the national animal charity.

Christopher Horner

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

Gillian Hughes

Gillian Hughes is Company Secretary at Northern Ireland Co-ownership Housing Association, the Northern Ireland regional body for shared ownership. She has an MSc in Management and Corporate Governance from the University of Ulster and is a graduate of the Institute of Chartered Secretaries and Administrators, which is the international qualifying and membership body for the Chartered Secretary profession and a recognised authority on governance and compliance.

Alan Jeffers

Alan Jeffers is a local government officer. He holds both Masters of Business Administration and MA in Marketing degrees and is a Fellow of the Institute of Place Management.

Geraldine Kelly

Geraldine Kelly is a professional executive with 25 years' experience in growing knowledge based companies in the software, technology and energy sectors. She has held executive and

Chris Murray and Noel Williams at the Mutual Energy AGM, September 2014.

non-executive director positions at an international level with Apple, Visio, Gartner, Thomson-NETg and ESB International. Geraldine has held non-executive director roles on a number of public and private sector boards including National Technology Park Limerick, National Research Institute Tyndall and she currently is Chair of Micro Finance Ireland and Chair of the Remuneration Committee for RICS. A graduate of University College Galway (Maths and Economics) and postgraduate of University College Dublin (MA Economics), she is also a Chartered Director with the Institute of Directors.

Nevin Molyneaux

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

Colin Oxton

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

Ben Robinson

Ben Robinson has a senior profile in the food and drink processing industry in Ireland and Europe with an extensive international, political, City network and profile. Currently heading up a new US business located in Dublin and San Diego he also sits as a non-Executive Director of a number of UK and Irish food businesses. A Director of Gilbeys of Ireland (DIAGEO) and a member of their European Board, he went on to lead Ballymoney Foods through a remarkable turnaround. He moved on to head up a major Dutch Food processor, working closely with European growers in Joint Venture and Strategic Partnership initiatives. Also leading a senior level political and academic 'think-tank' working to link our schools, businesses and children in their quest to close the future skills and careers gap in our Northern Ireland economy. Recently Ben has accepted a role chairing a Belfast community development initiative.

Gavin Thompson

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

Mutual Energy Chair Regina Finn at the AGM, September 2014.

Conor Quinn

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

Gerry Walsh

Gerry Walsh is an Advisor and Business Consultant in Strategic Management and is also an experienced Executive and Team Coach. Having graduated in Executive Coaching at Henley Business School, he combines his management experience and coaching skills to work at CEO and Director Level and with Executive Teams in a range of Irish businesses. He is a non-executive director in a number of private sector companies. He served on the Board of Mutual Energy for five years. Gerry, a UCC engineering and MBA graduate is a Fellow of Engineers Ireland. Having started his career in the construction industry, he spent over twenty years working in Bord Gáis Éireann (BGE). He filled a number of General Management and Strategic roles in BGE culminating in a seven year period as Chief Executive. He led the transformation of the state-owned business to become a highly successful all Ireland natural gas and electricity supplier and investor in electricity generation. He left BGE in 2007 to work in the private sector as a strategic business consultant, setting up Spruce Consulting Ltd.

Mutual Energy AGM, Europa Hotel, September 2014.

Peter Warry

Peter Warry is the chairman of a number of industrial companies. He was previously Chief Executive of Nuclear Electric and a director of British Energy. Peter acted as Senior Industrial Adviser to OFGEM for the 1999-2000 distribution price control review and has been a non-executive director of the Office of Rail Regulation. He graduated in Engineering and Economics and is a Fellow of the Royal Academy of Engineering as well as being a Fellow of the Institutions of Electrical Engineering and Mechanical Engineering. Peter was Chairman of Mutual Energy from 2008 to 2013.

Noel Williams

Noel Williams was formerly the Head of the Energy Saving Trust (EST) in Northern Ireland for seven years, where his remit was to maximise the effectiveness of EST's programmes and oversee its strategy in Northern Ireland. He sought to address the damaging effects of climate change, reducing Northern Ireland's greenhouse gas emissions and tackle fuel poverty. He continues to maintain relationships with key Northern Ireland partners such as government departments, Power NI (formerly NIE Energy), Phoenix Natural Gas, Firmus Energy, NI Housing Executive, Housing Associations, the oil industry, Northern Ireland local authorities and other stakeholders through the NI Fuel Poverty Forum. He is currently the Head of Operations for the Alliance Party East Antrim Constituency.

Members and Directors' site visit to Torytown, May 2015.

Engineering

Stephen Hemphill
Group Operations Manager

Emmet McFadden
Gas Operations Manager

Mark Raphael
Commercial Operations Engineer

Mick McGuckin
Electrical Operations Manager

Joseph Awodola
Energy Networks Engineer

Marcus McFarlane
Project Engineer

Gurpal Ghotra
EPC Director

Finance, admin and IT

Emma Jayne Armstrong
Accountant

Michaela Sloan
Accountant

Roisin Clarke
Office Manager

Andrew McManus
IT Manager

Helyn Rankin
Records Officer

Commercial

Paul McGuckin
Commercial Accountant

Ciara Brennan
Commercial Manager

Stephen English
Gas Contracts Manager

Lauren Skillen-Baine
Business Analyst

Claire Stewart
Gas Analyst

Mutual Energy Limited

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

Annual report for the year ended

31 March 2015

Directors

Regina Finn	Chairman	
Patrick Larkin	Executive director	
Gerard McIlroy	Executive director	
Clarke Black	Senior independent director	
Stephen Kirkpatrick	Non-executive director	
Kate Mingay	Non-executive director	(appointed 1 May 2014)
Christopher Murray	Non-executive director	(appointed 1 May 2014)

Company secretary
Gerard McIlroy

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

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

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

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

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

Registered number: NI053759

Directors' report for the year ended 31 March 2015

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2015.

General information on the company can be found on page 74 and within note 1 to the financial statements.

Results

The group's loss for the year is £2,438,000 (2014: £30,092,000 profit as restated).

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

Directors

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

Clarke Black

Regina Finn

Stephen Kirkpatrick

Patrick Larkin

Gerard McIlroy

Kate Mingay (appointed 1 May 2014)

Christopher Murray (appointed 1 May 2014)

Financial risk management

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

Directors indemnities

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

Statement of directors' responsibilities

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

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

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

Having taken advice from the Audit Committee, the directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

The directors are responsible for the maintenance and integrity of the group's website, www.mutual-energy.com. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' report for the year ended 31 March 2015 (continued)

Statement of disclosure of information to auditors

So far as each of the directors in office at the date of approval of the Directors' report is aware:

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

Independent auditors

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

By order of the Board

Gerard McIlroy
Company secretary
22 June 2015

Independent auditors' report to the members of Mutual Energy Limited

Report on the financial statements

Our opinion

In our opinion:

- Mutual Energy Limited's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2015 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Mutual Energy Limited's financial statements comprise:

- the group statement of comprehensive income for the year ended 31 March 2015;
- the group and parent company balance sheets as at 31 March 2015;
- the group and parent company statement of changes in equity for the year ended 31 March 2015;
- the group and parent company cash flow statement for the year ended 31 March 2015; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Opinion on additional disclosures

Directors' Remuneration Report

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

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 65, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Martin Pitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
26 June 2015

Group statement of comprehensive income for the year ended 31 March 2015

		2015			2014 (as restated)		
	Note	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000
Revenue - continuing operations		**57,311**	**-**	**57,311**	57,721	-	57,721
Operating costs	3	**(46,447)**	**-**	**(46,447)**	(30,737)	-	(30,737)
Other operating income	3	**-**	**-**	**-**	13,954	-	13,954
Earnings before interest, tax, depreciation and amortisation of intangible assets, and cable fault related income/costs (adjusted "EBITDA")		**35,294**	**-**	**35,294**	39,818	-	39,818
Amortisation of intangible assets		**(5,550)**	**-**	**(5,550)**	(5,550)	-	(5,550)
Depreciation (net of amortisation of government grants)		**(5,125)**	**-**	**(5,125)**	(5,096)	-	(5,096)
Exceptional item - cable fault related (costs)/income	4	**(13,755)**	**-**	**(13,755)**	11,766	-	11,766
Operating profit		**10,864**	**-**	**10,864**	40,938	-	40,938
Finance income	6	**612**	**-**	**612**	1,049	-	1,049
Finance costs	6	**(15,903)**	**-**	**(15,903)**	(18,528)	-	(18,528)
Finance income - fair value adjustment on derivative financial instruments	6	**-**	**938**	**938**	-	5,682	5,682
Finance costs - net	6	**(15,291)**	**938**	**(14,353)**	(17,479)	5,682	(11,797)
(Loss)/profit before income tax		**(4,427)**	**938**	**(3,489)**	23,459	5,682	29,141
Income tax credit/(charge)	7	**1,238**	**(187)**	**1,051**	3,574	(2,623)	951
(Loss)/profit for the year attributable to the owners of the parent	16	**(3,189)**	**751**	**(2,438)**	27,033	3,059	30,092

The notes on pages 74 to 101 are an integral part of these consolidated financial statements.

Group balance sheet at 31 March 2015

	Note	2015 £'000	2014 (as restated) £'000	2013 (as restated) £'000
Assets				
Non-current assets				
Property, plant and equipment	9	**195,649**	202,233	209,131
Intangible assets	10	**157,610**	163,160	168,710
Other investments	12	**11,076**	11,264	10,187
Deferred income tax assets	19	**8,588**	8,775	16,271
		372,923	385,432	404,299
Current assets				
Trade and other receivables	13	**18,310**	15,328	14,015
Cash and cash equivalents	14	**102,422**	104,693	78,383
		120,732	120,021	92,398
Total assets		**493,655**	505,453	496,697
Equity and liabilities				
Equity attributable to the owners of the parent				
Ordinary shares	15	-	-	-
Retained earnings	16	**(4,538)**	(2,100)	(32,192)
Total equity		**(4,538)**	(2,100)	(32,192)
Liabilities				
Non-current liabilities				
Borrowings	17	**302,084**	311,253	317,054
Provisions	18	**3,091**	3,089	3,504
Deferred income tax liabilities	19	**47,314**	49,046	58,310
Government grants	20	**65,451**	68,159	70,875
Derivative financial instruments	24	**42,939**	43,877	49,559
		460,879	475,424	499,302
Current liabilities				
Trade and other payables	21	**17,512**	13,106	10,649
Corporation tax payable		**3,748**	3,501	3,986
Borrowings	17	**13,346**	12,814	12,244
Government grants	20	**2,708**	2,708	2,708
		37,314	32,129	29,587
Total liabilities		**498,193**	507,553	528,889
Total equity and liabilities		**493,655**	505,453	496,697

The notes on pages 74 to 101 are an integral part of these financial statements.
The financial statements on pages 69 to 101 were authorised for issue by the Board of Directors on 22 June 2015 and were signed on its behalf by

Patrick Larkin
Director

Stephen Kirkpatrick
Non-executive director

Mutual Energy Limited

Registered number: NI053759

Parent company balance sheets at 31 March 2015

	Note	2015 £'000	2014 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**30**	47
Intangible assets	10	**-**	-
Investments	11	**10,250**	10,250
Other investments	12	-	-
Deferred income tax assets	19	**69**	10
		10,349	10,307
Current assets			
Trade and other receivables	13	**2,946**	2,578
Corporate tax receivables		**-**	-
Cash and cash equivalents	14	**940**	924
		3,886	3,502
Total assets		**14,235**	13,809
Equity and liabilities			
Equity attributable to the owners of the parent			
Ordinary shares	15	**-**	-
Retained earnings	16	**(3,174)**	(2,592)
Total equity		**(3,174)**	(2,592)
Liabilities			
Non-current liabilities			
Borrowings	17	**16,728**	15,794
Provisions	18	**-**	-
Deferred income tax liabilities	19	**-**	-
Government grants	20	**-**	-
Derivative financial instruments	24	**-**	-
		16,728	15,794
Current liabilities			
Trade and other payables	21	**677**	607
Corporation tax payable		**4**	-
Borrowings	17	**-**	-
Government grants	20	**-**	-
		681	607
Total liabilities		**17,409**	16,401
Total equity and liabilities		**14,235**	13,809

The notes on pages 74 to 101 are an integral part of these financial statements.
The financial statements on pages 69 to 101 were authorised for issue by the Board of Directors on 22 June 2015 and were signed on its behalf by

Patrick Larkin
Director

Stephen Kirkpatrick
Non-executive director

Mutual Energy Limited

Registered number: NI053759

Group and parent company statement of changes in equity for the year ended 31 March 2015

Group	Retained earnings £'000	Total £'000
At 1 April 2013 (as previously reported)	(28,206)	(28,206)
Restatement (*)	(3,986)	(3,986)
At 1 April 2013 (as restated)	(32,192)	(32,192)
Total comprehensive income for the year	30,092	30,092
At 31 March 2014	(2,100)	(2,100)
Total comprehensive income for the year	(2,438)	(2,438)
At 31 March 2015	**(4,538)**	**(4,538)**

Company	Retained earnings £'000	Total £'000
At 1 April 2013	(1,936)	(1,936)
Total comprehensive income for the year	(656)	(656)
At 31 March 2014	(2,592)	(2,592)
Total comprehensive income for the year	(582)	(582)
At 31 March 2015	**(3,174)**	**(3,174)**

The notes on pages 74 to 101 are an integral part of these consolidated financial statements.

(*) The restatement reflects the correction of corporation tax charges arising as a result of changes in group relief claimed and surrendered between group companies.

Group and parent company cash flow statements for the year ended 31 March 2015

	Note	Group		Company	
		2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Cash flows from operating activities					
(Loss)/profit before income tax		**(3,489)**	29,141	**(710)**	(825)
Adjustments for:					
Finance costs - net		**14,353**	11,797	**931**	881
Depreciation of property, plant and equipment		**7,833**	7,812	**38**	39
Amortisation of government grants		**(2,708)**	(2,716)	**-**	-
Amortisation of intangible assets		**5,550**	5,550	**-**	-
Movement in trade and other receivables		**(1,444)**	(1,291)	**(448)**	(190)
Movement in trade and other payables		**2,934**	1,973	**136**	293
Income tax (paid)/received		**(251)**	(1,302)	**87**	313
Non-operating element of insurance proceeds		**(4,000)**	(7,234)	**-**	-
Net cash generated from operating activities		**18,778**	43,730	**34**	511
Cash flows from investing activities					
Interest received		**420**	515	**3**	1
Purchase of property, plant and equipment		**(1,311)**	(431)	**(21)**	(8)
Purchase of other investment		**-**	(1,733)	**-**	-
Repayment of investment		**188**	658	**-**	-
Non-operating element of insurance proceeds		**4,000**	7,234	**-**	-
Net cash generated from/(used in) investing activities		**3,297**	6,243	**(18)**	(7)
Cash flows from financing activities					
Interest paid		**(7,979)**	(7,907)	**-**	-
Repayment of borrowings		**(16,367)**	(15,756)	**-**	-
Net cash used in financing activities		**(24,346)**	(23,663)	**-**	-
Movement in cash and cash equivalents		**(2,271)**	26,310	**16**	504
Cash and cash equivalents at the beginning of the year	14	**104,693**	78,383	**924**	420
Cash and cash equivalents at the end of the year	14	**102,422**	104,693	**940**	924

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

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Net cash generated from operating activities before exceptional items	**28,272**	34,923	**34**	511
Cash flows in respect of exceptional items	**(9,494)**	8,807	**-**	-
Net cash generated from operating activities	**18,778**	43,730	**34**	511

The notes on pages 74 to 101 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2015

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

General information

The group's principal activities during the year were the financing and operation through its subsidiaries of the Moyle Interconnector which links the electricity transmission systems of Northern Ireland and Scotland, the Scotland Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland, and the Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne. The company is incorporated and domiciled in Northern Ireland.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. With the exception of the group's investments, all of the group's assets and liabilities are denominated in Sterling. These financial statements were authorised for issue by the Board of Directors on 22 June 2015 and were signed on their behalf by Patrick Larkin and Stephen Kirkpatrick. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Mutual Energy Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 82.

Statement of compliance with IFRSs

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

Standards, amendments and interpretations effective in the year to 31 March 2015 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2015 and are relevant to the group's operations but have no material impact:

IAS 27 (revised 2011) 'Separate financial statements' (effective 1 January 2014)

IAS 32 (amendment) 'Financial Instruments' on asset and liability offsetting (effective 1 January 2014)

IAS 36 (amendment) 'Impairment of assets' on recoverable amount and disclosure (effective 1 January 2014)

IFRS 10 'Consolidated financial statements' (effective 1 January 2014)

IFRS 12 'Disclosure of interests in other entities' (effective 1 January 2014)

Standards, amendments and interpretations effective in the year to 31 March 2015 and that are not relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2015 but they are not relevant to the group's or parent company's operations:

IAS 28 (revised 2011) 'Associates and joint ventures' (effective 1 January 2014)

IAS 39 (amendment) ' Financial Instruments' on novation of derivatives and hedge accounting (effective 1 January 2014)

IFRIC 21 'Levies' (effective 1 January 2014)*

IFRS 10 / 12 / IAS 27 (amendment) 'Consolidation for Investment Entities' (effective 1 January 2014)

IFRS 11 'Joint arrangements' (effective 1 January 2014)

Notes to the financial statements for the year ended 31 March 2015

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

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

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

IAS 16 (amendment) 'Property, Plant and Equipment' on depreciation (effective 1 January 2016)*

IAS 19 (amendment) 'Employee benefits' on defined benefit plans (effective 1 July 2014)

IAS 38 (amendment) 'Intangible assets' on amortisation (effective 1 January 2016)*

IFRS 11 (amendment) 'Joint arrangements' on acquisition of an interest in a joint operation (effective 1 January 2016)*

IFRS 14 'Regulatory deferral accounts' (effective 1 January 2016)*

IFRS 15 'Revenue from contracts with customers' (effective 1 January 2016)*

IFRS 10 and IAS 28 (amendment) 'Consolidated financial statements' and 'Associates and joint ventures' on sale or contribution of assets and on investment entities applying the consolidation exemption (effective 1 January 2016)*

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

IAS 27 (amendment) 'Separate financial statements' (effective 1 January 2016)*

IAS 1 (amendment) 'Presentation of financial statements' on disclosure initiative (effective 1 January 2016)*

* Not yet endorsed by the EU.

Basis of consolidation

The group financial statements consolidate the financial statements of Mutual Energy Limited and its subsidiary undertakings drawn up to 31 March 2015. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

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

Notes to the financial statements for the year ended 31 March 2015

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

Presentation of statement of comprehensive income

The group has adopted a six column format to the group statement of comprehensive income to allow users to appreciate the impact of the revaluation of derivatives on the results for both the current and prior years. Such presentation is expected to assist in the future implementation of IFRS 9. Based on the current Exposure Draft on hedge accounting, the company expects the reinstatement of hedge accounting treatment for the fixed borrowings and associated derivatives if the exposure draft treatment is adopted into the standard.

Segment reporting

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

Revenue

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

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

Electricity business - revenue is recognised over the period for which the capacity and ancillary services are provided, using a straight line basis over the term of the agreement.

Exceptional items

Exceptional items have been identified separately on the statement of comprehensive income in order to provide clear and useful information on the trends in the components of the group's profit where these items are material and their inclusion would otherwise obstruct the visibility of the underlying costs.

Insurance receipts

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

Intangible assets

(a) Goodwill

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

(b) Licences

Acquired licences are shown at historical cost. Licences have a finite useful economic life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful economic lives. The estimated remaining useful economic life of the licences is 19 years for the Scotland Northern Ireland pipeline, 22 years for the Moyle Interconnector and 37 years for the Belfast Gas Transmission pipeline.

Notes to the financial statements for the year ended 31 March 2015

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

Property, plant and equipment

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

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

Gas pipelines	31 to 43 years
Electricity interconnector assets	40 years
Control equipment	20 years
Plant and machinery	15 years
Office and computer equipment	3 years

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

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

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

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

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.

Investments

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

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

Classification of financial instruments

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

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

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in

Notes to the financial statements for the year ended 31 March 2015

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

Classification of financial instruments (continued)

any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

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

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

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

Available-for-sale financial assets (financial instruments)

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

Loans and receivables (financial instruments)

(a) Trade and other receivables

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

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

(b) Cash and cash equivalents

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

Impairment of financial assets

(a) Assets held at amortised cost

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

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

- significant financial difficulty of the issuer or obligor;

Notes to the financial statements for the year ended 31 March 2015

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

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

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

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

(b) Available-for-sale financial assets

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

Other financial liabilities at amortised cost (financial instruments)

(a) Borrowings

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

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

(b) Trade and other payables

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

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

Decommissioning provision

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

Notes to the financial statements for the year ended 31 March 2015

1 Accounting policies, financial risk management & critical accounting

within the statement of comprehensive income. The estimated future costs of the decommissioning obligations are regularly reviewed and adjusted as appropriate for new circumstances or changes in law or technology. The decommissioning costs have been capitalised within property, plant and equipment and depreciated in line with group policy.

Current income tax and deferred income tax

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

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

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

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

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

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

Government grants

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

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

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

Operating lease commitments

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

Pensions and other post-retirement benefits

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

Foreign currency translation

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

Financial risk management

Financial risk factors

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

Notes to the financial statements for the year ended 31 March 2015

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

Premier Transmission Financing plc and Belfast Gas Transmission Financing plc

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

Moyle Interconnector (Financing) plc

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

(a) Market risk

The group's interest rate risk arises from its long term borrowings.

The group issued its long term borrowings to refinance its transmission assets at the lowest possible rates in order to reduce the costs of transmission to the consumers of Northern Ireland. Its long term borrowings were issued at either fixed rates or are linked to the Retail Price Index. In order to hedge against certain revenues which are linked to the Retail Price Index the group has entered into a swap transaction which converts its only fixed rate borrowing to a borrowing linked to the Retail Price Index. The group's long term borrowings are therefore susceptible to changes in the Retail Price Index. A change in the Retail Price Index by 1% would have increased/decreased finance costs, loss and equity during the year by £2,512,000.

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

(b) Credit risk

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

(c) Liquidity risk

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

Capital risk management

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

Fair value estimation

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

Notes to the financial statements for the year ended 31 March 2015

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

Fair value estimation (continued)

observable, the instrument is included in level 2. The group's only financial instruments fair valued (for recognition purposes) under level 2 is the group's derivative financial instrument. The fair value of the group's derivative financial instruments is obtained from the bankers that provided the instruments, and is based on observable market data.

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

Critical accounting estimates and judgements

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

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

(a) Estimate of useful economic life of assets

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

The remaining useful economic life of the Scotland Northern Ireland pipeline was determined as approximately 25.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 26.5 years, depreciation would have decreased by £118,000 and if the remaining useful economic life had been assessed at 24.5 years, depreciation would have increased by £128,000.

The remaining useful economic life of the Moyle Interconnector was determined as approximately 28 years at the beginning of the year. If the remaining useful economic life had been assessed at 29 years depreciation would have decreased by £109,000 and if the remaining useful economic life had been assessed at 27 years depreciation would have increased by £117,000.

The remaining useful economic life of the Belfast Gas Transmission pipeline was determined as approximately 25 years at the beginning of the year. If the remaining useful economic life had been assessed at 26 years depreciation would have decreased by £48,000 and if the remaining useful economic life had been assessed at 24 years depreciation would have increased by £52,000.

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

The decommissioning provision has been estimated at current prices and has therefore been increased to decommissioning date by an inflation factor of 3.56%. The decommissioning provision has been discounted using a rate of 2.27%. The effect of changing the discount rate and inflation factor on the decommissioning provision is disclosed in the table below.

	Increase/(decrease) in provision
	£'000
Increase in inflation factor by 1%	916
Decrease in inflation factor by 1%	(712)
Increase in discount rate by 1%	(714)
Decrease in discount rate by 1%	939

(c) Insurance claim

No insurance proceeds were recognised in the year. In the prior year insurance proceeds of £14.0m were recognised, £4.0m of which were received in June 2014. Discussions are still ongoing with the remaining insurers in respect of the 2011 cable fault insurance claims. The group has not recognised a contingent asset in respect of these outstanding claims as the insurance companies have not yet admitted liability.

Notes to the financial statements for the year ended 31 March 2015

2 Segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The group's operating businesses are organised and managed separately according to the nature of the services provided. Moyle Interconnector Limited sells capacity on an Interconnector for the transmission of electricity between Scotland and Northern Ireland, Premier Transmission Limited sells capacity on the Scotland Northern Ireland Pipeline for the transmission of gas between Scotland and Northern Ireland and Belfast Gas Transmission Limited sells capacity for the transmission of gas to Greater Belfast and Larne. All of the group's operating businesses are located in the United Kingdom and the services provided are in the United Kingdom.

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

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

Year ended 31 March 2015	Moyle Interconnector £'000	Premier Transmission £'000	Belfast Gas Transmission £'000	Other £'000	Total £'000
Segment revenue from external customers	24,652	25,676	6,982	1	57,311
Segment expenses	(4,655)	(14,894)	(2,764)	296	(22,017)
Segment results (Adjusted EBITDA*)	19,997	10,782	4,218	297	35,294
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	-	(5,550)
Depreciation (net of government grants)	(2,045)	(2,057)	(959)	(64)	(5,125)
Exceptional item – cable fault related costs	(13,755)	-	-	-	(13,755)
Finance income	1,267	217	55	(927)	612
Finance costs	(6,984)	(4,389)	(4,529)	(1)	(15,903)
Fair value adjustment on derivative financial instruments	-	938	-	-	938
(Loss)/profit before income tax	(3,181)	4,089	(3,702)	(695)	(3,489)
Income tax credit/(charge)	1,248	(574)	256	121	1,051
(Loss)/profit for the year	(1,933)	3,515	(3,446)	(574)	(2,438)
Assets					
Segment assets	185,096	157,607	135,754	15,198	493,655

*Adjusted EBITDA is calculated as EBITDA before cable fault related income/costs.

Notes to the financial statements for the year ended 31 March 2015

2 Segment information (continued)

Year ended 31 March 2014 (as restated)	Moyle Interconnector £'000	Premier Transmission £'000	Belfast Gas Transmission £'000	Other £'000	Total £'000
Segment revenue from external customers	32,478	19,122	6,121	-	57,721
Segment expenses	(4,482)	(11,486)	(1,963)	28	(17,903)
Segment results (Adjusted EBITDA*)	27,996	7,636	4,158	28	39,818
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	-	(5,550)
Depreciation (net of government grants)	(2,045)	(2,053)	(955)	(43)	(5,096)
Exceptional item – Cable fault related income	11,766	-	-	-	11,766
Finance income	1,621	250	53	(875)	1,049
Finance costs	(7,912)	(4,235)	(6,381)	-	(18,528)
Fair value adjustment on derivative financial instruments	-	5,682	-	-	5,682
Profit/(loss) before income tax	29,765	5,878	(5,612)	(890)	29,141
Income tax (charge)/credit	(4,018)	158	4,673	138	951
Profit/(loss) for the year	25,747	6,036	(939)	(752)	30,092
Assets					
Segment assets	196,900	156,730	137,687	14,706	506,023

*Adjusted EBITDA is calculated as EBITDA before cable fault related income/costs.

There are no inter-segment revenues and all revenues are generated from the group's country of domicile, the United Kingdom.

Revenues from the group's gas transmission businesses of £32,658,000 (2014: £25,243,000) are obtained under the postalised system (which is a system by which the group earns sufficient revenues to cover its operating costs and debt repayments) and cannot be attributed to individual customers.

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

	2015 £'000	2014 £'000
Customer A	**2,632**	3,303
Customer B	**2,403**	2,140
Customer C	**2,180**	3,643
	7,215	9,086

* Included in segmental revenue is a CAIRt call of £12.8m (2014: £19.8m).

Notes to the financial statements for the year ended 31 March 2015

3 Expenses by nature – operating costs

Group	2015 £'000	2014 £'000
Employee benefit expense (note 5)	**1,915**	1,633
Depreciation and amortisation	**13,383**	13,362
Amortisation of deferred government grants	**(2,708)**	(2,716)
Operating lease payments	**245**	232
Fees payable to the company's auditor in respect of the audit of the consolidated and subsidiary financial statements	**45**	44
Fees payable to the company's auditor in respect of taxation services	**24**	27
Fees payable to the company's auditor in respect of other services	**17**	-
Other expenses	**19,771**	15,967
Exceptional item – cable fault related costs (note 4)	**13,755**	2,188
Total operating costs	**46,447**	30,737

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

Group	2015 £'000	2014 £'000
Other operating income (insurance proceeds) (note 4)	**-**	(13,954)

Other operating income consists of insurance proceeds received in respect of the recent Moyle cable faults. This income has been presented separately on the statement of comprehensive income in order to provide readers with an understanding of the underlying costs.

4 Exceptional item – cable fault related costs/(income)

Exceptional items have been identified separately on the statement of comprehensive income in order to provide clear and useful information on the trends in the components of the group's profit where these items are material and their inclusion would otherwise obstruct the visibility of the underlying costs.

Group	2015 £'000	2014 £'000
Exceptional item – cable fault related costs	**13,755**	2,188
Exceptional item – insurance proceeds	**-**	(13,954)
Cable fault related costs/(income)	**13,755**	(11,766)

Notes to the financial statements for the year ended 31 March 2015

4 Exceptional item – cable fault related (income)/costs (continued)

Cable fault related costs

Cable repair costs totaling £13,755,000 (2014: £2,188,000) comprise the costs directly incurred to address the 2012 subsea fault, including fault location and investigating potential repair solutions, legal and professional costs associated with the 2011 and 2012 faults, and costs for replacing the low voltage cables, including procurement and consents.

The tax impact of this exceptional item was a current tax credit of £2,889,000 (2014: £503,000).

Insurance proceeds

No insurance proceeds were recognised in the year. In the prior year insurance proceeds of £14.0m were recognised, £4.0m of which were received in June 2014. Discussions are still ongoing with the remaining insurers in respect of the 2011 cable fault insurance claims. The group has not recognised a contingent asset in respect of these outstanding claims as the insurance companies have not yet admitted liability.

The tax impact of this exceptional item was a current tax charge of £3,209,000 in 2014.

5 Employee benefit expense

Group	2015 £'000	2014 £'000
Wages and salaries	**1,585**	1,303
Social security costs	**190**	160
Pension costs – defined contribution pension scheme	**140**	170
	1,915	1,633

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 24 (2014: 21). All staff perform asset management activities.

Directors' emoluments	2015 £'000	2014 £'000
Aggregate emoluments	**409**	394
Contributions paid to defined contribution pension scheme	**68**	75
	477	469

Pension scheme	Number	Number
Members of defined contribution pension scheme	**19**	15

Directors' emoluments represent the remuneration of the group's executive directors. The remaining directors of the group received £207,000 (2014: £193,000) for their services to the Mutual Energy group of companies. The directors do not believe that it is practicable to apportion this amount between their services as directors of the group and their services as directors of other group companies. The emoluments of the highest paid director were £215,000 (2014: £214,000) and the contributions paid to his defined contribution pension scheme were £47,000 (2014: £45,000).

Directors' emoluments include the effects of salary sacrifice arrangements and any employers NIC savings credited to the directors' pension as a result of salary sacrifices made.

Notes to the financial statements for the year ended 31 March 2015

6 Finance income and costs

Group	2015 £'000	2014 £'000
Interest expense:		
Borrowings (including borrowing fees)	**15,901**	18,528
Movement of discount on decommissioning	**2**	-
Finance costs	**15,903**	18,528
Interest income:		
Short-term bank deposits	**(612)**	(634)
Movement of discount on decommissioning provision	**-**	(415)
Fair value adjustment in respect of derivative financial statements (note 24)*	**(938)**	(5,682)
Finance income	**(1,550)**	(6,731)
Finance costs – net	**14,353**	11,797

*Fair value adjustment in respect of derivative financial instruments

The statement of comprehensive income has been presented in a 6 column format in order to allow users to appreciate the impact of derivatives on the results for the year. The group has swaps that are designed to hedge the inflation risk in revenue, however under IAS 39 this economic hedging strategy does not qualify for hedge accounting and the directors believe that by separating gains and losses arising from applying the valuation requirements of IAS 39, the user of this financial information will better understand the underlying performance of the group.

7 Income tax credit

Group	2015 £'000	2014 (as restated) £'000
Current income tax:		
Current tax on profits for the year	**564**	615
Adjustments in respect of previous periods	**(70)**	202
Total current income tax	**494**	817
Deferred income tax:		
Origination and reversal of temporary differences	**(1,720)**	(3,157)
Arising on derivative financial instruments	**187**	2,623
Adjustments in respect of previous periods	**(12)**	(1,234)
Total deferred income tax (note 19)	**(1,545)**	(1,768)
Income tax credit	**(1,051)**	(951)

Notes to the financial statements for the year ended 31 March 2015

7 Income tax credit (continued)

The income tax credit in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are reconciled below:

Group	2015 £'000	2014 (as restated) £'000
(Loss)/profit before income tax	**(3,489)**	29,141
Tax calculated at the UK standard rate of corporation tax of 21% (2014: 23%)	**(733)**	6,702
Effects of:		
Expenses not deductible	**-**	1
Reduction in corporation tax rate on deferred tax assets/liabilities	**77**	(5,976)
Treatment of indexation of borrowings	**(321)**	(558)
Decommissioning provision	**8**	(88)
Adjustments in respect of previous periods	**(82)**	(1,032)
Income tax credit	**(1,051)**	(951)

Future tax changes

The standard rate of corporation tax in the UK reduced from 23% to 21% with effect from 1 April 2014 and accordingly the company's profits for the financial year were taxed at an effective rate of 21%. From 1 April 2015, the UK main corporation tax rate will be reduced to 20%. This rate has been used to calculate the deferred tax balance.

8 Loss attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The loss dealt with in the financial statements of the parent company is £582,000 (2014: £656,000).

Notes to the financial statements for the year ended 31 March 2015

9 Property, plant and equipment

Group	Gas pipelines £'000	Electricity inter-connector £'000	Control equipment £'000	Plant and machinery £'000	Office and computer equipment £'000	Assets under construction £'000	Total £'000
Cost							
At 1 April 2013	147,064	127,899	3,938	26	459	-	279,386
Additions	-	755	-	131	28	-	914
At 31 March 2014	147,064	128,654	3,938	157	487	-	280,300
Additions	-	-	-	-	1,698	306	2,004
Disposals	-	(755)	-	-	(251)	-	(1,006)
At 31 March 2015	**147,064**	**127,899**	**3,938**	**157**	**1,934**	**306**	**281,298**
Accumulated depreciation							
At 1 April 2013	31,308	36,509	2,106	2	330	-	70,255
Provided during the year	4,388	3,180	164	2	78	-	7,812
At 31 March 2014	35,696	39,689	2,270	4	408	-	78,067
Provided during the year	4,389	3,180	189	11	64	-	7,833
Disposals	-	-	-	-	(251)	-	(251)
At 31 March 2015	**40,085**	**42,869**	**2,459**	**15**	**221**	**-**	**85,649**
Net book amount							
At 31 March 2015	**106,979**	**85,030**	**1,479**	**142**	**1,713**	**306**	**195,649**
At 31 March 2014	111,368	88,965	1,668	153	79	-	202,233
At 31 March 2013	115,756	91,390	1,832	24	129	-	209,131

Depreciation expense of £7,833,000 (2014: £7,812,000) has been fully charged to operating costs.

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

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.

9 Property, plant and equipment (continued)

Company	Office and computer equipment £'000
At 1 April 2013	123
Additions	7
At 31 March 2014	130
Additions	21
At 31 March 2015	**151**
Accumulated depreciation	
At 1 April 2013	44
Provided during the year	39
At 31 March 2014	83
Provided during the year	38
At 31 March 2015	**121**
Net book amount	
At 31 March 2015	**30**
At 31 March 2014	47
At 31 March 2013	79

Depreciation expense of £38,000 (2014: £39,000) has been fully charged to operating costs.

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

10 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2013, 31 March 2014 and **at 31 March 2015**	**2,435**	**206,535**	**208,970**
Accumulated amortisation			
At 1 April 2013	-	40,260	40,260
Provided during the year	-	5,550	5,550
At 31 March 2014	-	45,810	45,810
Provided during the year	-	5,550	5,550
At 31 March 2015	**-**	**51,360**	**51,360**
Net book amount			
At 31 March 2015	**2,435**	**155,175**	**157,610**
At 31 March 2014	2,435	160,725	163,160
At 31 March 2013	2,435	166,275	168,710

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 19 years, 37 years and 22 years respectively.

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

Amortisation expense of £5,550,000 (2014: £5,550,000) has been fully charged to operating costs.

Impairment testing for goodwill

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

The recoverable amount of the goodwill is based on discounted cash flow forecasts. The cash flow projections are over a period of 15 years, which matches the remaining duration of the group's bond and therefore reflects the period over which the group earns revenue under its licence agreement. The key assumptions and judgements, which have been determined on the basis of management experience, relate to all costs being pass-through costs and that under the terms of the licence the group can collect sufficient cash to service interest and loan repayments.

The discount rate of 3.00% (2014: 4.25%) used is based on Bank of England UK yield curve data for a debt with a remaining maturity of 15 years. The inflation rate assumption used by the group in these calculations of 3.85% (2014: 4.03%) has been obtained from Bank of England UK yield curves over a 15 year period.

Sensitivity to changes in assumptions

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

Notes to the financial statements for the year ended 31 March 2015

11 Investments

Company	Subsidiary undertakings £'000
Cost	
At 1 April 2013, 31 March 2014 and **at 31 March 2015**	**10,250**

The company's investments in its subsidiary undertakings are recorded at cost, which is the fair value of the consideration paid.

The company's subsidiary undertakings, all of which are incorporated in Northern Ireland, are:

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

* held by a subsidiary undertaking

Notes to the financial statements for the year ended 31 March 2015

12 Other investments

Group	£'000
Cost	
At 1 April 2013	10,187
Additions	1,735
Repayment of capital	(658)
At 31 March 2014	11,264
Repayment of capital	(188)
At 31 March 2015	**11,076**

Other investments are recorded at cost, which is the fair value of the consideration paid.

Other investments represent amounts contributed by Moyle Energy Investments Limited to the Platina renewable energy fund, PEN III, (formerly known as European Renewable Energy Fund Limited Partnership). Mutual Energy Limited is an initial limited partner in this limited partnership. Other investments also include a 35% interest in Islandmagee Storage which is carried at cost of £35 and a 0.9% interest in PRISMA European Capacity Platform GmbH which is carried at a cost of £1,988.

13 Trade and other receivables

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Trade receivables	**815**	4,983	**-**	-
Prepayments and accrued income	**11,308**	3,917	**51**	30
Other receivables	**6,187**	6,428	**79**	56
Amounts owed by subsidiary undertakings	**-**	-	**2,816**	2,492
	18,310	15,328	**2,946**	2,578

All of the group's and company's trade and other receivables are denominated in sterling.

None of the group's or company's trade and other receivables are impaired or past due. The group and company have no history of default in respect of its trade and other receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

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

Notes to the financial statements for the year ended 31 March 2015

14 Cash and cash equivalents

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Cash at bank and in hand	**102,422**	104,693	**940**	924

Cash and cash equivalents earn interest at a range from Bank of England base rate less 0.15% to Bank of England base rate plus 0.5%.

15 Ordinary shares

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

16 Retained earnings

Group	**£'000**
At 1 April 2013 (as previously reported)	(28,206)
Restatement (*)	(3,986)
At 1 April 2013 (as restated)	(32,192)
Total comprehensive income for the year	30,092
At 31 March 2014	(2,100)
Total comprehensive income for the year	(2,438)
At 31 March 2015	**(4,538)**

Company	**£'000**
At 1 April 2013	(1,936)
Total comprehensive income for the year	(656)
At 31 March 2014	(2,592)
Total comprehensive income for the year	(582)
At 31 March 2015	**(3,174)**

Included in the retained earnings for the group is an amount of £1,874,000 (2014: £1,874,000) which we have agreed with the regulator will be applied to costs of future EU compliance projects.

(*) The restatement reflects the correction of corporation tax charges arising as a result of changes in group relief claimed and surrendered between group companies.

Notes to the financial statements for the year ended 31 March 2015

17 Borrowings

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Non-current				
5.2022% Guaranteed secured bond	**73,993**	77,408	**-**	-
2.9376% Index linked guaranteed secured bond	**102,641**	108,554	**-**	-
2.207% Index linked guaranteed secured bond	**125,446**	125,287	**-**	-
Amounts owed to group undertakings	**-**	-	**16,728**	15,794
Other borrowings	**4**	4	**-**	-
	302,084	311,253	**16,728**	15,794
Current				
5.2022% Guaranteed secured bond	**3,415**	3,218	**-**	-
2.9736% Index linked guaranteed secured bond	**8,681**	8,465	**-**	-
2.207% Index linked guaranteed secured bond	**1,250**	1,131	**-**	-
	13,346	12,814	**-**	-
Total borrowings	**315,430**	324,067	**16,728**	15,794

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

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

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

The 2.9376% index linked bond has a fair value of £118,579,000 (2014: £114,267,000), the 5.2022% bond has a fair value of £99,794,000 (2014: £95,235,000) and the 2.207% index linked bond has a fair value of £122,712,000 (2014: £100,935,000). These fair values have been calculated by discounting the expected future cash flows using a discount rate of 2.20% (2014: 3.52%) for the 2.9376% index linked bond, a discount rate of 2.02% (2014: 3.39%) for the 5.2022% bond and a discount rate of 2.42% (2014: 3.63%) for the 2.207% index linked bond. The discount rates used reflect the maturity profile of the group's borrowings.

Notes to the financial statements for the year ended 31 March 2015

18 Provisions

	Decommissioning provision £'000
Group	
At 1 April 2013	3,504
Movement on discount during the year	(415)
At 31 March 2014	3,089
Movement of discount during the year	2
At 31 March 2015	**3,091**

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the interconnector in 27 years, at the end of its useful economic life. This provision is expected to be utilised within 27 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 2.27% (2014: 3.47%) that reflects the maturity profile of the group's provisions.

19 Deferred income tax

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

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Deferred income tax assets	**8,588**	8,775	**69**	10
Deferred income tax liabilities	**(47,314)**	(49,046)	**-**	-
Deferred income tax liabilities – net	**(38,726)**	(40,271)	**69**	10

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

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

	Group £'000	Company £'000
At 1 April 2013	(42,039)	16
Credit/(charge) for the year	1,768	(6)
At 31 March 2014	(40,271)	10
Credit for the year	1,545	59
At 31 March 2015	**(38,726)**	**69**

Notes to the financial statements for the year ended 31 March 2015

19 Deferred income tax (continued)

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

Group	Tax losses £'000	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Derivative financial instruments £'000	Total £'000
At 1 April 2013	4,873	(20,067)	(38,243)	11,398	(42,039)
(Charge)/credit for the year	(4,873)	3,166	6,098	(2,623)	1,768
At 31 March 2014	-	(16,901)	(32,145)	8,775	(40,271)
Credit/(charge) for the year	-	622	1,110	(187)	1,545
At 31 March 2015	**-**	**(16,279)**	**(31,035)**	**8,588**	**(38,726)**

It is not possible to determine the amount of the deferred tax asset arising from the group's derivative financial instruments which will fall due within 12 months as it will depend on the movement of interest rates. The group expects to utilise its tax losses within the next 12 months. The portion of the group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £29,925,000 (2014: £31,035,000). The portion of the group's deferred tax liability arising from accelerated capital allowances that is expected to fall due after more than 12 months is estimated at £14,989,000 (2014: £13,923,000).

20 Government grants

Group	£'000
At 1 April 2013	73,583
Amortised during the year	(2,716)
At 31 March 2014	70,867
Amortised during the year	(2,708)
At 31 March 2015	**68,159**

The grants were provided to the group for the purpose of its expenditure on its property, plant and equipment. The current portion of the government grants is £2,708,000 (2014: £2,708,000), and the non-current portion is £65,451,000 (2014: £68,159,000).

Notes to the financial statements for the year ended 31 March 2015

21 Trade and other payables

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Trade payables	**4,167**	1,530	**60**	53
Accruals and deferred income	**9,935**	6,635	**532**	420
Amounts owed to subsidiary undertakings	**-**	-	**33**	96
Other tax and social security	**2,246**	3,256	**52**	38
Other payables	**1,164**	1,685	**-**	-
	17,512	13,106	**677**	607

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

22 Commitments

Operating lease commitments

The group has entered into commercial leases on land and buildings and these leases have remaining lease terms of 1, 20, 37 and 85 years. There are no restrictions placed upon the lessee by entering into these leases.

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

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Not later than one year	**233**	233	**37**	40
After one year but not more than five years	**852**	814	**68**	40
After more than five years	**9,831**	9,988	**-**	-
	10,916	11,035	**105**	80

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

Other financial commitments

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

Notes to the financial statements for the year ended 31 March 2015

23 Related party transactions

The ultimate controlling party of the group are its members.

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

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

	Amount owed (to)/from related party	
Company	**2015 £'000**	2014 £'000
Subsidiary undertakings – current assets	**2,816**	2,492
Subsidiary undertakings – current liabilities	**33**	(96)
Subsidiary undertakings – non-current liabilities	**(16,728)**	(15,794)

In addition to the amounts owed to related parties as disclosed above, the company owns £10.25m of preference shares in one of its subsidiary undertakings and financed this from borrowings from another subsidiary undertaking.

		Value of transaction	
Company	Nature of transaction	**2015 £'000**	2014 £'000
Subsidiary undertakings	Interest payable	**935**	882
Subsidiary undertakings	Group relief surrendered	**(69)**	(198)
Subsidiary undertakings	Charges receivable	**2,974**	1,864

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

Group	**2015 £'000**	2014 £'000
Short term employee benefits	**530**	506
Long term employee benefits	**86**	81
Post-employment benefits	**68**	75

Notes to the financial statements for the year ended 31 March 2015

24 Financial instruments

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

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

Derivative financial instruments

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

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

Group	£'000
Liability at 1 April 2013	49,559
Fair value adjustment	(5,682)
Liability at 31 March 2014	43,877
Fair value adjustment	(938)
Liability at 31 March 2015	**42,939**

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

Notes to the financial statements for the year ended 31 March 2015

24 Financial instruments (continued)

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

At 31 March 2015 Group	Within 1 year £'000	1-2 years £'000	2-3 Years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.9376% Index linked bond	12,102	11,785	11,507	11,074	10,997	80,945	138,410
5.2022% Bond and associated derivatives	7,698	7,852	8,007	8,167	8,328	92,939	132,991
2.207% Index linked bond	4,040	4,119	4,201	4,286	4,371	165,203	186,220
Trade and other payables	15,266	-	-	-	-	-	15,266
	39,106	23,756	23,715	23,527	23,696	339,087	472,887

At 31 March 2014 Group	Within 1 year £'000	1-2 years £'000	2-3 Years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.9376% Index linked bond	12,080	11,805	11,495	11,224	10,801	89,681	147,086
5.2022% Bond and associated derivatives	7,363	7,508	7,659	7,810	7,966	98,775	137,081
2.207% Index linked bond	3,915	3,995	4,073	4,155	4,239	167,688	188,065
Trade and other payables	9,850	-	-	-	-	-	9,850
	33,208	23,308	23,227	23,189	23,006	356,144	482,082

The group's and the company's contractual undiscounted cash flows of its bonds are based on the agreed payments under the index-linked swaps.

Moyle Interconnector convertor station, Islandmagee.

Moyle Interconnector (Financing) plc

Annual report for the year ended
31 March 2015

Directors

Patrick Larkin	Executive Director
Gerard McIlroy	Executive Director

Company secretary

Gerard McIlroy

Registered office

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The Arena Building
85 Ormeau Road
Belfast
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Principal place of business

First Floor
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Solicitors

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Victoria House
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Belfast, BT1 4LS

Bankers

Barclays Bank plc
Donegall House
Donegall Square North
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BT1 5GB

Independent auditors

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

Registered number: NI045625

Directors' report for the year ended 31 March 2015

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2015.

General information on the company can be found on page 113 and within note 1 to the financial statements.

Results and dividends

The group's loss for the financial year is £1,933,000 (2014: £25,747,000 profit as restated). The directors do not recommend the payment of a dividend (2014: £nil).

Included in the profit and loss account is an exceptional item in respect of cable fault related costs of £13,755,000 (2014: income of £11,766,000).

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

Directors

The directors, who served the group during the year, and up to the date of signing the financial statements, were Patrick Larkin and Gerard McIlroy

Financial risk management

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

Directors' indemnities

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

Statement of directors' responsibilities

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

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

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

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

Having taken advice from the Audit Committee, the directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

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

Statement of disclosure of information to auditors

So far as each of the directors in office at the date of approval of the directors' report is aware:

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

Independent auditors

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

By order of the Board

Gerard McIlroy
Company secretary
22 June 2015

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

Report on the financial statements

Our opinion

In our opinion:

- Moyle Interconnector (Financing) plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2015 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Moyle Interconnector (Financing) plc's financial statements comprise:

- the group statement of comprehensive income for the year ended 31 March 2015;
- the group and parent company balance sheets as at 31 March 2015
- the group and parent company statement of changes in equity for the year ended 31 March 2015;
- the group and parent company cash flow statements for the year ended 31 March 2015; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 105, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Martin Pitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
26 June 2015

Group statement of comprehensive income for the year ended 31 March 2015

	Note	2015 £'000	2014 (as restated) £'000
Revenue – continuing operations		**24,652**	32,478
Operating costs	2	**(22,116)**	(10,376)
Other operating income (insurance proceeds)	2	**-**	13,954
Earnings before interest, tax, depreciation and amortisation of intangible assets, and cable fault related (costs)/income (adjusted "EBITDA")		**19,997**	27,996
Amortisation of intangible assets		**(1,661)**	(1,661)
Depreciation (net of amortisation of government grants)		**(2,045)**	(2,045)
Exceptional item – cable fault related (costs)/income	3	**(13,755)**	11,766
Operating profit		**2,536**	36,056
Finance income	5	**1,267**	1,621
Finance costs	5	**(6,984)**	(7,912)
Finance costs – net	5	**(5,717)**	(6,291)
(Loss)/profit before income tax		**(3,181)**	29,765
Income tax credit/(charge)	6	**1,248**	(4,018)
(Loss)/profit for the year attributable to the owners of the parent	15	**(1,933)**	25,747

The notes on pages 113 to 133 are an integral part of these consolidated financial statements.

Group balance sheet as at 31 March 2015

	Note	2015 £'000	2014 (as restated) £'000	2013 (as restated) £'000
Assets				
Non-current assets				
Property, plant and equipment	8	**86,509**	90,633	93,247
Intangible assets	9	**36,545**	38,206	39,867
Deferred income tax asset	18	**-**	-	4,873
Trade and other receivables	11	**17,652**	16,717	15,835
		140,706	145,556	153,822
Current assets				
Trade and other receivables	12	**12,193**	9,594	4,198
Corporation tax receivable		**-**	475	-
Cash and cash equivalents	13	**51,788**	58,126	38,455
		63,981	68,195	42,643
Total assets		**204,687**	213,751	196,465
Equity and liabilities				
Equity attributable to the owners of the parent				
Ordinary shares	14	**50**	50	50
Retained earnings	15	**34,672**	36,605	10,858
Total equity		**34,722**	36,655	10,908
Liabilities				
Non-current liabilities				
Borrowings	16	**102,641**	108,554	113,406
Provisions	17	**3,091**	3,089	3,504
Deferred income tax liabilities	18	**11,349**	11,425	13,979
Government grant	19	**33,109**	34,433	35,757
		150,190	157,501	166,646
Current liabilities				
Trade and other payables	20	**6,424**	5,735	5,386
Corporation tax payable		**3,346**	4,071	3,986
Borrowings	16	**8,681**	8,465	8,215
Government grant	19	**1,324**	1,324	1,324
		19,775	19,595	18,911
Total liabilities		**169,965**	177,096	185,557
Total equity and liabilities		**204,687**	213,751	196,465

The notes on pages 113 to 133 are an integral part of these consolidated financial statements.

The group financial statements on pages 108 to 133 were authorised for issue by the Board of Directors on 22 June 2015 and were signed on its behalf by:

Patrick Larkin
Director

Gerard McIlroy
Director

Moyle Interconnector (Financing) plc

Registered number: NI045625

Parent company balance sheet as at 31 March 2015

	Note	2015 £'000	2014 (as restated) £'000	2013 (as restated) £'000
Assets				
Non-current assets				
Investment in subsidiary undertaking	10	**20,950**	20,950	20,950
Trade and other receivables	11	**86,794**	91,872	96,085
		107,744	112,822	117,035
Current assets				
Trade and other receivables	12	**7,879**	7,476	7,187
Cash and cash equivalents	13	**5**	25	127
		7,884	7,501	7,314
Total assets		**115,628**	120,323	124,349
Equity and liabilities				
Equity attributable to the owners of the parent				
Ordinary shares	14	**50**	50	50
Retained earnings	15	**558**	416	747
Total equity		**608**	466	797
Liabilities				
Non-current liabilities				
Borrowings	16	**102,641**	108,554	113,406
		102,641	108,554	113,406
Current liabilities				
Trade and other payables	20	**3,006**	2,146	1,398
Corporation tax payable		**692**	692	533
Borrowings	16	**8,681**	8,465	8,215
		12,379	11,303	10,146
Total liabilities		**115,020**	119,857	123,552
Total equity and liabilities		**115,628**	120,323	124,349

The notes on pages 113 to 133 are an integral part of these consolidated financial statements.

The group financial statements on pages 108 to 133 were authorised for issue by the Board of Directors on 22 June 2015 and were signed on its behalf by:

Patrick Larkin
Director

Gerard McIlroy
Director

Moyle Interconnector (Financing) plc

Registered number: NI045625

Group and parent company statement of changes in equity for the year ended 31 March 2015

Group	Retained earnings £'000	Total £'000
At 1 April 2013 (as previously reported)	14,844	14,844
Restatement (*)	(3,986)	(3,986)
At 1 April 2013 (as restated)	10,858	10,858
Total comprehensive income for the year	25,747	25,747
At 31 March 2014	36,605	36,605
Total comprehensive income for the year	(1,933)	(1,933)
At 31 March 2015	**34,672**	**34,672**

Company	£'000	£'000
At 1 April 2013 (as previously reported)	1,280	1,280
Restatement (*)	(533)	(533)
At 1 April 2013 (as restated)	747	747
Total comprehensive income for the year	(331)	(331)
At 31 March 2014	416	416
Total comprehensive income for the year	142	142
At 31 March 2015	**558**	**558**

The notes on pages 113 to 133 are an integral part of these consolidated financial statements.

(*) The restatement reflects the correction of corporation tax charges arising as a result of changes in group relief claimed and surrendered between group companies.

Group and parent company cash flow statements for the year ended 31 March 2015

		Group		Company	
	Note	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
Cash flows from operating activities					
(Loss)/profit before income tax and finance costs		**(3,181)**	29,765	**(23)**	(13)
Adjustments for:					
Finance costs – net		**5,717**	6,291	**6,898**	7,960
Depreciation of property, plant and equipment		**4,124**	3,369	**-**	-
Amortisation of government grant		**(1,324)**	(1,324)	**-**	-
Amortisation of intangible assets		**1,661**	1,661	**-**	-
Movement in trade and other receivables		**100**	(5,381)	**5,076**	4,225
Movement in trade and other payables		**(212)**	(215)	**(11,901)**	(11,820)
Income tax liabilities paid		**(876)**	(1,879)	**(63)**	(449)
Non-operating element of insurance proceeds		**(4,000)**	(7,234)	**-**	-
Net cash generated from/(used in) operating activities		**2,009**	25,053	**(13)**	(97)
Cash flows from investing activities					
Interest received		**248**	358	**-**	-
Amounts received from related parties		**-**	-	**12,588**	12,556
Purchases of property, plant and equipments		**-**	(402)	**-**	-
Non-operating element of insurance proceeds		**4,000**	7,234	**-**	-
Net cash generated from investing activities		**4,248**	7,190	**12,588**	12,556
Cash flows from financing activities					
Interest paid (including borrowing fees)		**(3,778)**	(3,954)	**(3,778)**	(3,954)
Repayment of borrowings		**(8,817)**	(8,608)	**(8,817)**	(8,608)
Net cash used in financing activities		**(12,595)**	(12,562)	**(12,595)**	(12,562)
Net increase/(decrease) in cash and cash equivalents		**(6,338)**	19,681	**(20)**	(102)
Cash and cash equivalents at the beginning of the year	13	**58,126**	38,445	**25**	127
Cash and cash equivalents at the end of the year	13	**51,788**	58,126	**5**	25

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

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Net cash generated from operating activities before exceptional items	**11,503**	16,246	**13**	97
Cash flows in respect of exceptional items	**(9,494)**	8,807	**-**	-
Net cash generated from operating activities	**2,009**	25,053	**13**	97

The notes on pages 113 to 133 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2015

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

General information

The group's principal activity during the year was the financing and operation (through its subsidiary undertaking) of the Moyle Interconnector which links the electricity transmission systems of Northern Ireland and Scotland. The company is incorporated and domiciled in Northern Ireland. The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. All of the group and company's assets and liabilities are denominated in Sterling. These financial statements were authorised for issue by the Board of Directors on 22 June 2015 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Moyle Interconnector (Financing) plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 120.

Statement of compliance with IFRSs

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

Standards, amendments and interpretations effective in the year to 31 March 2015 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2015 and are relevant to the group's operations but have no material impact:

IAS 27 (revised 2011) 'Separate financial statements' (effective 1 January 2014)

IAS 32 (amendment) 'Financial Instruments' on asset and liability offsetting (effective 1 January 2014)

IAS 36 (amendment) 'Impairment of assets' on recoverable amount and disclosure (effective 1 January 2014)

IFRS 10 'Consolidated financial statements' (effective 1 January 2014)

IFRS 12 'Disclosure of interests in other entities' (effective 1 January 2014)

Standards, amendments and interpretations effective in the year to 31 March 2015 and that are not relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2015 but they are not relevant to the group's or parent company's operations:

IAS 28 (revised 2011) 'Associates and joint ventures' (effective 1 January 2014)

IAS 39 (amendment) ' Financial Instruments' on novation of derivatives and hedge accounting (effective 1 January 2014)

IFRIC 21 'Levies' (effective 1 January 2014)*

IFRS 10 / 12 / IAS 27 (amendment) 'Consolidation for Investment Entities' (effective 1 January 2014)

IFRS 11 'Joint arrangements' (effective 1 January 2014)

Notes to the financial statements for the year ended 31 March 2015

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

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

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

IAS 16 (amendment) 'Property, Plant and Equipment' on depreciation (effective 1 January 2016)*

IAS 19 (amendment) 'Employee benefits' on defined benefit plans (effective 1 July 2014)

IAS 38 (amendment) 'Intangible assets' on amortisation (effective 1 January 2016)*

IFRS 11 (amendment) 'Joint arrangements' on acquisition of an interest in a joint operation (effective 1 January 2016)*

IFRS 14 'Regulatory deferral accounts' (effective 1 January 2016)*

IFRS 15 'Revenue from contracts with customers' (effective 1 January 2016)*

IFRS 10 and IAS 28 (amendment) 'Consolidated financial statements' and 'Associates and joint ventures' on sale or contribution of assets and on investment entities applying the consolidation exemption (effective 1 January 2016)*

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

IAS 27 (amendment) 'Separate financial statements' (effective 1 January 2016)*

IAS 1 (amendment) 'Presentation of financial statements' on disclosure initiative (effective 1 January 2016)*

* Not yet endorsed by the EU.

Notes to the financial statements for the year ended 31 March 2015

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

Basis of consolidation

The group financial statements consolidate the financial statements of Moyle Interconnector (Financing) plc and its subsidiary undertaking drawn up to 31 March 2015. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Segment reporting

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

Revenue

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

Exceptional items

Exceptional items have been identified separately on the statement of comprehensive income in order to provide clear and useful information on the trends in the components of the group's profit where these items are material and their inclusion would otherwise obstruct the visibility of the underlying costs.

Insurance receipts

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

Intangible assets

Acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. The estimated remaining useful economic life of the licences is 22 years.

Notes to the financial statements for the year ended 31 March 2015

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

Property, plant and equipment

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

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

Interconnector	40 years
Control equipment	20 years
Office equipment	3 years

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

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

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

Investments

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

Impairment of non-financial assets

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

Classification of financial instruments

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

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

Notes to the financial statements for the year ended 31 March 2015

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

Loans and receivables (financial instruments)

(a) Trade and other receivables

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

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

(b) Cash and cash equivalents

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

Impairment of financial assets

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

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

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

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

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

Ordinary shares

Ordinary shares are classified as equity.

Notes to the financial statements for the year ended 31 March 2015

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

Other financial liabilities at amortised cost (financial instruments)

(a) Borrowings

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

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

(b) Trade and other payables

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

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

Decommissioning provision

Decommissioning costs are provided at the present value of the expenditures expected to settle the obligation, using estimated cash flows based on current prices. The unwinding of the decommissioning provision is included within the statement of comprehensive income. The estimated future costs of the decommissioning obligations are regularly reviewed and adjusted as appropriate for new circumstances or changes in law or technology. The decommissioning costs have been capitalised within property, plant and equipment and depreciated in line with group policy.

Current income tax and deferred income tax

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

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

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

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

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

Government grants

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

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

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

Notes to the financial statements for the year ended 31 March 2015

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

Operating lease commitments

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

Pensions and other post-retirement benefits

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

Financial risk management

Financial risk factors

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

(a) Market risk

The group's interest rate risk arises from its long term borrowings. These borrowings are index linked to the Retail Price Index and expose the company to interest rate risk. A change in the Retail Price Index by 1% would have increased/decreased finance costs, profit and equity during the year by £1,220,000.

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

(b) Credit risk

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

(c) Liquidity risk

As a result of the option under the group's licence agreement to call on customers in the event of any liquidity shortfall the group has limited liquidity risk. The group also retains significant cash reserves and a liquidity facility with an A – rated bank to manage any short term liquidity risk. The undiscounted contractual maturity profile of the group's borrowings is shown in note 23.

Capital risk management

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

Notes to the financial statements for the year ended 31 March 2015

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

Fair value estimation

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

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

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

Critical accounting estimates and judgements

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

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

(a) Estimate of useful economic life of assets

The group assesses the useful economic life of assets on an annual basis. The remaining useful economic life of the interconnector was determined as approximately 28 years at the beginning of the year. If the remaining useful economic life had been assessed at 29 years depreciation would have decreased by £109,000 and if the remaining useful economic life had been assessed at 27 years depreciation would have increased by £117,000.

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

The decommissioning provision has been estimated at current prices and has therefore been increased to decommissioning date by an inflation factor of 3.56%. The decommissioning provision has been discounted using a rate of 2.27%. The effect of changing the discount rate and inflation factor on the decommissioning provision is disclosed in the table below.

	Increase/(decrease) in provision £'000
Increase in inflation factor by 1%	**916**
Decrease in inflation factor by 1%	**(712)**
Increase in discount rate by 1%	**(714)**
Decrease in discount rate by 1%	**939**

(c) Insurance claim

No insurance proceeds were recognised in the year. In the prior year insurance proceeds of £14.0m were recognised, £4.0m of which was received in June 2014. Discussions are still ongoing with the remaining insurers in respect of the 2011 cable fault insurance claims. The group has not recognised a contingent asset in respect of these outstanding claims as the insurance companies have not yet admitted liability.

Notes to the financial statements for the year ended 31 March 2015

2 Operating costs and other operating income

Group	2015 £'000	2014 £'000
Employee benefit expense (note 4)	**244**	100
Depreciation and amortisation	**5,030**	5,030
Amortisation of deferred government grants (note 19)	**(1,324)**	(1,324)
Operating lease payments	**101**	101
Fees payable to the company's auditor in respect of the audit of the group and subsidiary financial statements	**15**	15
Other expenses	**4,295**	4,266
Exceptional item – cable fault related costs (note 3)	**13,755**	2,188
Total operating costs	**22,116**	10,376

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

Group	2015 £'000	2014 £'000
Other operating income (insurance proceeds) (note 3)	**-**	(13,954)

Other operating income consists of insurance proceeds received in respect of the recent Moyle cable faults. This income has been presented separately on the statement of comprehensive income in order to provide readers with an understanding of the underlying costs.

3 Exceptional item – cable fault related costs/(income)

Exceptional items have been identified separately on the statement of comprehensive income in order to provide clear and useful information on the trends in the components of the group's profit where these items are material and their inclusion would otherwise obstruct the visibility of the underlying costs.

Group	2015 £'000	2014 £'000
Exceptional item – cable fault related costs	**13,755**	2,188
Exceptional item – insurance proceeds	**-**	(13,954)
Cable fault related costs/(income)	**13,755**	(11,766)

Cable fault related costs

Cable repair costs totaling £13,755,000 (2014: £2,188,000) comprise the costs directly incurred to address the 2012 subsea fault, including fault location and investigating potential repair solutions, legal and professional costs associated with the 2011 and 2012 faults, and costs of replacing the low voltage cables, including procurement and consents.

The tax impact of this exceptional item was a current tax credit of £2,889,000 (2014: £503,000).

Insurance proceeds

No insurance proceeds were recognised in the year. In the prior year insurance proceeds of £14.0m were recognised, £4.0m of which was received in June 2014. Discussions are still ongoing with the remaining insurers in respect of the 2011 cable fault insurance claims. The group has not recognised a contingent asset in respect of these outstanding claims as the insurance companies have not yet admitted liability.

The tax impact of this exceptional item was a current tax charge of £3,209,000 in 2014.

Notes to the financial statements for the year ended 31 March 2015

4 Employee benefit expense

Group	2015 £'000	2014 £'000
Wages and salaries	217	91
Social security costs	27	9
	244	100

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 3 (2014: 2). All staff perform asset management activities.

The company had no employees other than its directors (2014: none).

The group's directors were not remunerated for their services to the company but instead received emoluments for their services to the Mutual Energy group of companies. The directors do not believe that it is practicable to apportion this amount between services as a director of the company and services as a director of other group companies.

5 Finance income and costs

Group	2015 £'00	2014 £'000
Interest expense:		
Borrowings (including borrowing fees)	6,982	7,912
Movement of discount on decommissioning provision (note 17)	2	-
Finance costs	6,984	7,912
Interest income:		
Short-term bank deposits	(332)	(324)
Movement of discount on decommissioning provision (note 17)	-	(415)
Amounts owed by related parties	(935)	(882)
Finance income	(1,267)	(1,621)
Finance costs – net	5,717	6,291

Notes to the financial statements for the year ended 31 March 2015

6 Income tax (credit)/charge

Group	2015 £'000	2014 (as restated) £'000
Current income tax:		
Current tax on profits for the year	-	615
Group relief claimed	-	720
Adjustments in respect of prior periods	**(1,172)**	364
Total current income tax	**(1,172)**	1,699
Deferred income tax:		
Origination and reversal of temporary differences	**(629)**	3,706
Adjustments in respect of prior periods	**553**	(1,387)
Total deferred income tax (note 18)	**(76)**	2,319
Income tax (credit)/charge	**(1,248)**	4,018

The income tax (credit)/charge in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are reconciled below:

	2015 £'000	2014 (as restated) £'000
(Loss)/profit before income tax	**(3,181)**	29,765
Tax calculated at the UK standard rate of corporation tax of 21% (2014: 23%)	**(668)**	6,846
Effects of:		
Expenses not deductible	**8**	(88)
Reduction in rate of corporation tax on deferred tax assets/liabilities	**31**	(1,717)
Adjustment in respect of previous periods	**(619)**	(1,023)
Income tax (credit)/charge	**(1,248)**	4,018

Future tax changes

The standard rate of corporation tax in the UK reduced from 23% to 21% with effect from 1 April 2014 and accordingly the company's profits for the financial year were taxed at an effective rate of 21%. From 1 April 2015, the UK main corporation tax rate will be reduced to 20%. This rate has been used to calculate the deferred tax balance.

7 Profit attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The profit dealt with in the financial statements of the parent company is £142,000 (2014: £331,000 loss as restated).

Notes to the financial statements for the year ended 31 March 2015

8 Property, plant and equipment

Group	Interconnector £'000	Control equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2013	127,899	3,938	16	131,853
Additions	755	-	-	755
At 31 March 2014	128,654	3,938	16	132,608
Disposals	(755)	-	(16)	(771)
At 31 March 2015	**127,899**	**3,938**	**-**	**131,837**
Accumulated depreciation				
At 1 April 2013	36,509	2,081	16	38,606
Provided during the year	3,180	189	-	3,369
At 31 March 2014	39,689	2,270	16	41,975
Provided during the year	3,180	189	-	3,369
Disposals	-	-	(16)	(16)
At 31 March 2015	**42,869**	**2,459**	**-**	**45,328**
Net book amount				
At 31 March 2015	**85,030**	**1,479**	**-**	**86,509**
At 31 March 2014	88,965	1,668	-	90,633
At 31 March 2013	91,390	1,857	-	93,247

Depreciation expense of £3,369,000 (2014: £3,369,000) has been fully charged to operating costs. Borrowings are secured on all of the property, plant and equipment of the group.

Notes to the financial statements for the year ended 31 March 2015

9 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2013, 31 March 2014 and **at 31 March 2015**	**56,477**
Accumulated amortisation	
At 1 April 2013	16,610
Provided during the year	1,661
At 31 March 2014	18,271
Provided during the year	1,661
At 31 March 2015	**19,932**
Net book amount	
At 31 March 2015	**36,545**
At 31 March 2014	38,206
At 31 March 2013	39,867

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 35 years. The group has concluded that these assets have a remaining useful economic life of 22 years as at 31 March 2015. Amortisation expense of £1,661,000 (2014: £1,661,000) has been fully charged to operating costs.

10 Investment in subsidiary undertaking

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2013, 31 March 2014 and **at 31 March 2015**	**20,950**

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

The company's subsidiary undertaking which is incorporated in Northern Ireland is:

Name of company	Holding	Proportion held	Nature of business
Moyle Interconnector Limited	Ordinary shares	100%	Operation of Moyle Interconnector

Notes to the financial statements for the year ended 31 March 2015

11 Trade and other receivables (non-current)

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Amounts owed by subsidiary undertaking	**-**	-	**94,190**	99,102
Amounts owed by related parties	**17,652**	16,717	**-**	-
	17,652	16,717	**94,190**	99,102
Amounts owed by subsidiary undertaking (current assets)	**-**	-	**(7,396)**	(7,230)
	17,652	16,717	**86,794**	91,872

All of the group's and company's loans and receivables are denominated in sterling.

None of the group and company's loans and receivables are past due. The group and company have no history of default in respect of its loans and receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair value of the group's non-current trade and other receivables is not materially different from their carrying value. The fair value of the company's loans and receivables is £102,778,000 (2014: £99,278,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 2.20% (2014: 3.52%) that reflects the maturity profile of the company's loans and receivables.

12 Trade and other receivables (current)

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Trade receivables	**-**	4,319	**-**	-
Amounts owed by related parties	**1,939**	134	**7,727**	7,326
Prepayments and accrued income	**6,317**	1,006	**150**	148
Other receivables	**3,937**	4,135	**2**	2
	12,193	9,594	**7,879**	7,476

All of the group's and company's trade and other receivables are denominated in sterling.

None of the group's or company's trade and other receivables are impaired or past due. The group and company has no history of default in respect of its trade and other receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair value of the group's and company's trade and other receivables is not materially different to their carrying values.

Notes to the financial statements for the year ended 31 March 2015

13 Cash and cash equivalents

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Cash at bank and in hand	**51,788**	58,126	**5**	25

Cash and cash equivalents earn interest at a range from Bank of England base rate less 0.15% to Bank of England base rate plus 0.5%.

14 Ordinary shares

Group and company	**2015 £'000**	2014 £'000
Allotted and fully paid		
50,000 ordinary shares of £1 each	**50**	50

15 Retained earnings

Group	£'000
At 1 April 2013 (as previously reported)	14,844
Restatement (*)	(3,986)
At 1 April 2013 (as restated)	10,858
Total comprehensive income for the year	25,747
At 31 March 2014	36,605
Total comprehensive income for the year	(1,933)
At 31 March 2015	**34,672**

Company	£'000
At 1 April 2013 (as previously reported)	1,280
Restatement (*)	(533)
At 1 April 2013 (as restated)	747
Total comprehensive income for the year	(331)
At 31 March 2014	416
Total comprehensive income for the year	142
At 31 March 2015	**558**

(*) The restatement reflects the correction of corporation tax charges arising as a result of changes in group relief claimed and surrendered between group companies.

Notes to the financial statements for the year ended 31 March 2015

16 Borrowings

Group and company	2015 £'000	2014 £'000
Non current		
2.9376% Index linked guaranteed secured bond	**102,641**	108,554
Current		
2.9376% Index linked guaranteed secured bond	**8,681**	8,465
Total borrowings	**111,322**	117,019

The 2.9376% guaranteed secured bond 2033 was issued to finance the acquisition of Moyle Interconnector Limited and to repay indebtedness owed to members of Viridian Group PLC and are indexed linked to the Retail Price Index. The bond is secured by fixed and floating charges over all the assets of the group, and also by way of an unconditional and irrevocable financial guarantee given by Assured Guaranty (Europe) Limited as to scheduled payments of principal and interest, excluding default interest. In return for this guarantee, every six months the group pays an index linked fee of 0.125% of the outstanding balance of the bond. The fair value of the bond is £118,579,000 (2014: £114,267,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 2.20% (2014: 3.52%) that reflects the maturity profile of the group's and the company's borrowings. The undiscounted maturity profile of the group's and the company's borrowings are shown in note 23.

17 Provisions

Group	Decommissioning provision £'000
At 31 March 2013	3,504
Movement on discount during the year	(415)
At 31 March 2014	3,089
Movement on discount during the year	2
At 31 March 2015	**3,091**

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the Interconnector in 27 years, at the end of its useful economic life. This provision is expected to be utilised within 27 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 2.27% (2014: 3.47%) that reflects the maturity profile of the group's provision.

Notes to the financial statements for the year ended 31 March 2015

18 Deferred income tax

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

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

Group	£'000
At 1 April 2013	9,106
Income statement charge for the year	2,319
At 31 March 2014	11,425
Income statement credit for the year	(76)
At 31 March 2015	**11,349**

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

Group	Tax losses £'000	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Total £'000
At 1 April 2013	(4,873)	4,810	9,169	9,106
Income statement charge/(credit) for the year	4,873	(1,026)	(1,528)	2,319
At 31 March 2014	-	3,784	7,641	11,425
Income statement charge/(credit) for the year	-	256	(332)	(76)
At 31 March 2015	**-**	**4,040**	**7,309**	**11,349**

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 £6,977,000 (2014: £7,309,000). The portion of the group's deferred tax liability arising from accelerated capital allowances that is expected to fall due after more than 12 months is estimated at £3,708,000 (2014: £3,189,000).

Notes to the financial statements for the year ended 31 March 2015

19 Government grant

Group	£'000
At 1 April 2013	37,081
Amortised during the year	(1,324)
At 31 March 2014	35,757
Amortised during the year	(1,324)
At 31 March 2015	**34,433**

The government grant was provided to the group for the purpose of its expenditure on its property, plant and equipment. The current portion of the government grant is £1,324,000 (2014: £1,324,000). The non-current portion is £33,109,000 (2014: £34,433,000).

20 Trade and other payables

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Trade payables	**3,521**	347	**12**	-
Amounts owed to related parties	**160**	813	**2,990**	2,142
Accruals and deferred income	**2,683**	2,909	**4**	4
Other payables	**60**	52	**-**	-
Other tax and social security	**-**	1,614	**-**	-
	6,424	5,735	**3,006**	2,146

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

21 Commitments

Operating lease commitments

The group has entered into a commercial lease on land and this lease has a remaining lease term of 85 years. There are no restrictions placed upon the lessee by entering into these leases. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 2.

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

Group	**2015 £'000**	2014 £'000
Not later than one year	**101**	101
After one year but not more than five years	**404**	404
After more than five years	**8,177**	8,278
	8,682	8,783

Notes to the financial statements for the year ended 31 March 2015

22 Related party transactions

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

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

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

	Amount owed (to)/from related party	
Group	**2015 £'000**	2014 £'000
Parent undertakings – non-current assets	**16,728**	15,794
Fellow subsidiary undertakings – non-current assets	**924**	923
Fellow subsidiary undertakings – current assets	**1,755**	38
Parent undertakings – current assets	**184**	96
Parent undertakings – current liabilities	**(151)**	(272)
Fellow subsidiary undertakings – current liabilities	**(9)**	(541)

		Value of transaction	
Group	Nature of transaction	**2015 £'000**	2014 £'000
Parent undertakings	Group relief surrendered/(claimed)	**184**	(183)
Parent undertakings	Charges payable	**(1,241)**	(746)
Parent undertakings	Interest receivable	**935**	882
Fellow subsidiary undertakings	Group relief surrendered/(claimed)	**988**	(816)
Fellow subsidiary undertakings	Survey and security costs payable	**(102)**	(15)

	Amount owed (to)/from related party	
Company	**2015 £'000**	2014 £'000
Subsidiary undertakings – current liabilities	**(2,990)**	(1,984)
Subsidiary undertakings – non-current assets	**86,794**	91,872
Subsidiary undertakings – current assets	**7,396**	7,230
Fellow subsidiary undertakings – current liabilities	**-**	(158)
Fellow subsidiary undertakings – current assets	**331**	-
Parent undertaking – current assets	**-**	96

		Value of transaction	
Company	Nature of transaction	**2015 £'000**	2014 £'000
Fellow subsidiary undertakings	Group relief surrendered/(claimed)	**166**	(159)
Subsidiary undertaking	Interest receivable	**6,891**	7,971

Notes to the financial statements for the year ended 31 March 2015

23 Financial instruments

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

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

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

At 31 March 2015 Group	**Within 1 year £'000**	**1-2 years £'000**	**2-3 Years £'000**	**3-4 years £'000**	**4-5 years £'000**	**More than 5 years £'000**	**Total £'000**
2.9376% bond	**12,102**	**11,785**	**11,507**	**11,074**	**10,997**	**80,945**	**138,410**
Trade and other payables	**6,424**	**-**	**-**	**-**	**-**	**-**	**6,424**
	18,526	**11,785**	**11,507**	**11,074**	**10,997**	**80,945**	**144,834**

At 31 March 2014 Group	Within 1 year £'000	1-2 years £'000	2-3 Years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.9376% bond	12,080	11,805	11,495	11,224	10,801	89,681	147,086
Trade and other payables	4,121	-	-	-	-	-	4,121
	16,201	11,805	11,495	11,224	10,801	89,681	151,207

At 31 March 2015 Company	**Within 1 year £'000**	**1-2 years £'000**	**2-3 Years £'000**	**3-4 years £'000**	**4-5 years £'000**	**More than 5 years £'000**	**Total £'000**
2.9376% bond	**12,102**	**11,785**	**11,507**	**11,074**	**10,997**	**80,945**	**138,410**
Trade and other payables	**3,006**	**-**	**-**	**-**	**-**	**-**	**3,006**
	15,108	**11,785**	**11,507**	**11,074**	**10,997**	**80,945**	**141,416**

At 31 March 2014 Company	Within 1 year £'000	1-2 years £'000	2-3 Years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.9376% bond	12,080	11,805	11,495	11,224	10,801	89,681	147,086
Trade and other payables	2,146	-	-	-	-	-	2,146
	14,226	11,805	11,495	11,224	10,801	89,681	149,232

Notes to the financial statements for the year ended 31 March 2015

24 Ultimate parent undertaking

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

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

Premier Transmission Financing plc

Annual report for the year ended 31 March 2015

Directors and advisers

Directors

Patrick Larkin	Executive Director
Gerard McIlroy	Executive Director

Company secretary

Gerard McIlroy

Registered office

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

Principal place of business

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

Solicitors

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

Bankers

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

Independent auditors

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

Registered number: NI053751

Directors' report for the year ended 31 March 2015

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2015. General information on the company can be found on page 144 and within note 1 to the financial statements.

Results and dividends

The group's profit for the year is £3,515,000 (2014: £6,036,000). The directors do not recommend the payment of a dividend (2014: £nil).

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

Going concern

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

Directors

The directors, who served the group during the year, and up to the date of signing the financial statements, were Patrick Larkin and Gerard McIlroy.

Financial risk management

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

Directors' indemnities

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

Statement of directors' responsibilities

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

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

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

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

Directors' report for the year ended 31 March 2015 (continued)

Having taken advice from the Audit Committee, the directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

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

Statement of disclosure of information to auditors

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

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

Independent auditors

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

By order of the Board

Gerard McIlroy
Company secretary
22 June 2015

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

Report on the financial statements

Our opinion

In our opinion:

- Premier Transmission Financing plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2015 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Premier Transmission Financing plc's financial statements comprise:

- the group statement of comprehensive income for the year ended 31 March 2015;
- the group and parent company balance sheets as at 31 March 2015;
- the group and parent company cash flow statements for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of Directors' Responsibilities set out on pages 137-138, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Martin Pitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
26 June 2015

Group statement of comprehensive income for the year ended 31 March 2015

		2015			2014		
	Note	Results before movements in the fair value of derivatives £'000	Fair value movement of derivatives £'000	Total £'000	Results before movements in the fair value of derivatives £'000	Fair value movement of derivatives £'000	Total £'000
Revenue – continuing operations		**25,676**	**-**	**25,676**	19,122	-	19,122
Operating costs	2	**(18,353)**	**-**	**(18,353)**	(14,941)	-	(14,941)
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		**10,782**	**-**	**10,782**	7,636	-	7,636
Amortisation of intangible assets		**(1,402)**	**-**	**(1,402)**	(1,402)	-	(1,402)
Depreciation (net of amortisation of government grants)		**(2,057)**	**-**	**(2,057)**	(2,053)	-	(2,053)
Operating profit		**7,323**	**-**	**7,323**	4,181	-	4,181
Finance income	4	**217**	**-**	**217**	250	-	250
Finance costs	4	**(4,389)**	**-**	**(4,389)**	(4,235)	-	(4,235)
Finance income – for fair value adjustment on derivative financial instruments	4	**-**	**938**	**938**	-	5,682	5,682
Finance (costs)/income – net	4	**(4,172)**	**938**	**(3,234)**	(3,985)	5,682	1,697
Profit before income tax		**3,151**	**938**	**4,089**	196	5,682	5,878
Income tax (charge)/credit	5	**(387)**	**(187)**	**(574)**	2,781	(2,623)	158
Profit/(loss) for the year attributable to the owners of the parent	15	**2,764**	**751**	**3,515**	2,977	3,059	6,036

The notes on pages 144-164 are an integral part of these consolidated financial statements.

There are no changes in equity other than the results shown in the statement of comprehensive income and therefore a separate statement of changes in equity has not been presented.

Group and parent company balance sheet as at 31 March 2015

		Group		Company	
		2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Assets					
Non-current assets					
Property, plant and equipment	7	**78,877**	80,412	**-**	-
Intangible assets	8	**29,060**	30,462	**-**	-
Investment in subsidiary undertaking	9	**-**	-	**51,307**	51,307
Other investments	10	**2**	2	**-**	-
Trade and other receivables	11	**-**	-	**53,296**	51,986
Deferred income tax assets	17	**8,588**	8,775	**8,588**	8,775
		116,527	119,651	**113,191**	112,068
Current assets					
Trade and other receivables	12	**6,767**	4,997	**67**	42
Corporation tax receivable		**-**	95	**-**	-
Cash and cash equivalents	13	**34,340**	31,991	**3,172**	2,999
		41,107	37,083	**3,239**	3,041
Total assets		**157,634**	156,734	**116,430**	115,109
Equity and liabilities					
Equity and attributable to the owners of the parent					
Ordinary shares	14	**13**	13	**13**	13
Retained earnings	15	**(13,290)**	(16,805)	**(21,233)**	(22,367)
Total equity		**(13,277)**	(16,792)	**(21,220)**	(22,354)
Liabilities					
Non-current liabilities					
Borrowings	16	**73,997**	77,412	**73,993**	77,408
Deferred income tax liabilities	17	**14,350**	15,122	**-**	-
Government grant	18	**25,720**	26,816	**-**	-
Derivative financial statements	22	**42,939**	43,877	**42,939**	43,877
		157,006	163,227	**116,932**	121,285
Current liabilities					
Trade and other payables	19	**8,996**	5,985	**17,303**	12,960
Corporation tax payable		**398**	-	**-**	-
Borrowings	16	**3,415**	3,218	**3,415**	3,218
Government grant	18	**1,096**	1,096	**-**	-
		13,905	10,299	**20,718**	16,178
Total liabilities		**170,911**	173,526	**137,650**	137,463
Total equity and liabilities		**157,634**	156,734	**116,430**	115,109

The notes on pages 144 to 164 are an integral part of these consolidated financial statements. The consolidated financial statements on pages 141 to 164 were authorised for issue by the Board of Directors on 22 June 2015 and were signed on its behalf by:

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

Premier Transmission Financing plc Registered number: NI053751

Group and parent cash flow statements for the year ended 31 March 2015

		Group		Company	
		2015	2014	2015	2014
	Note	£'000	£'000	£'000	£'000
Cash flows from operating activities					
Profit/(loss) before income tax		**4,089**	5,878	**1**	5,684
Adjustments for:					
Finance costs – net		**3,234**	(1,697)	**4,272**	(1,555)
Depreciation of property, plant and equipment		**3,153**	3,149	**-**	-
Amortisation of government grants		**(1,096)**	(1,096)	**-**	-
Amortisation of intangible assets		**1,402**	1,402	**-**	-
Movement in trade and other receivables		**(1,759)**	3,150	**(1,324)**	(1,175)
Movement in trade and other payables		**1,767**	1,388	**(3,060)**	(3,145)
Income tax (paid)/received		**(126)**	214	**-**	189
Net cash generated from/(used in) operating activities		**10,664**	12,388	**(111)**	(2)
Cash flows from investing activities					
Interest received		**217**	241	**10**	13
Amounts received from related parties		**-**	-	**7,774**	7,758
Purchase of property, plant and equipment		**(925)**	-	**-**	-
Net cash generated from investing activities		**(708)**	241	**7,784**	7,771
Cash flows from financing activities					
Interest paid		**(2,875)**	(2,901)	**(2,768)**	(2,806)
Repayment of borrowing		**(4,732)**	(4,358)	**(4,732)**	(4,358)
Net cash used in financing activities		**(7,607)**	(7,259)	**(7,500)**	(7,164)
Movement in cash and cash equivalents		**2,349**	5,370	**173**	605
Cash and cash equivalents at the beginning of the year	13	**31,991**	26,621	**2,999**	2,394
Cash and cash equivalents at the end of the year	13	**34,340**	31,991	**3,172**	2,999

The notes on pages 144 to 164 are an integral part of these consolidated financial statements

Notes to the financial statements for the year ended 31 March 2015

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

General information

The group's principal activity during the year was the financing and operation through its subsidiary of the Scotland Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland. The company is incorporated and domiciled in Northern Ireland.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. All of the group and parent company's assets and liabilities are denominated in Sterling.

These financial statements were authorised for issue by the Board of Directors on 22 June 2015 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Premier Transmission Financing plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 151.

Going concern

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

Statement of compliance with IFRSs

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

Standards, amendments and interpretations effective in the year ended 31 March 2015 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2015 and are relevant to the group's operations but have no material impact:

IAS 27 (revised 2011) 'Separate financial statements' (effective 1 January 2014)

IAS 32 (amendment) 'Financial Instruments' on asset and liability offsetting (effective 1 January 2014)

Notes to the financial statements for the year ended 31 March 2015

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

Standards, amendments and interpretations effective in the year to 31 March 2015 and that are relevant to the group and parent company (continued)

IAS 36 (amendment) 'Impairment of assets' on recoverable amount and disclosure (effective 1 January 2014)

IFRS 10 'Consolidated financial statements' (effective 1 January 2014)

IFRS 12 'Disclosure of interests in other entities' (effective 1 January 2014)

Standards, amendments and interpretations effective in the year to 31 March 2015 and that are not relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2015 but they are not relevant to the group's or parent company's operations:

IAS 28 (revised 2011) 'Associates and joint ventures' (effective 1 January 2014)

IAS 39 (amendment) ' Financial Instruments' on novation of derivatives and hedge accounting (effective 1 January 2014)

IFRIC 21 'Levies' (effective 1 January 2014)*

IFRS 10 / 12 / IAS 27 (amendment) 'Consolidation for Investment Entities' (effective 1 January 2014)

IFRS 11 'Joint arrangements' (effective 1 January 2014)

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

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

IAS 16 (amendment) 'Property, Plant and Equipment' on depreciation (effective 1 January 2016)*

IAS 19 (amendment) 'Employee benefits' on defined benefit plans (effective 1 July 2014)

IAS 38 (amendment) 'Intangible assets' on amortisation (effective 1 January 2016)*

IFRS 11 (amendment) 'Joint arrangements' on acquisition of an interest in a joint operation (effective 1 January 2016)*

IFRS 14 'Regulatory deferral accounts' (effective 1 January 2016)*

IFRS 15 'Revenue from contracts with customers' (effective 1 January 2016)*

IFRS 10 and IAS 28 (amendment) 'Consolidated financial statements' and 'Associates and joint ventures' on sale or contribution of assets and on investment entities applying the consolidation exemption (effective 1 January 2016)*

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

IAS 27 (amendment) 'Separate financial statements' (effective 1 January 2016)*

IAS 1 (amendment) 'Presentation of financial statements' on disclosure initiative (effective 1 January 2016)*

* Not yet endorsed by the EU.

Notes to the financial statements for the year ended 31 March 2015

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

Basis of consolidation

The group financial statements consolidate the financial statements of Premier Transmission Financing plc and its subsidiary undertaking drawn up to 31 March 2015. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

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

Presentation of statement of comprehensive income

The group has adopted a six column format to the group statement of comprehensive income to allow users to appreciate the impact of the revaluation of derivatives on the results for both the current and prior years. Such presentation is expected to assist in the future implementation of IFRS 9. Based on the current Exposure Draft on hedge accounting, the company expects the reinstatement of hedge accounting treatment for the fixed borrowings and associated derivatives if the exposure draft treatment is adopted into the standard.

Segment reporting

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

Revenue

Revenue comprises the fair value of the consideration received or receivable from the sale of capacity on the gas pipeline which links the gas transmission systems of Northern Ireland and Scotland. All revenue is generated within the United Kingdom. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. Revenue is recognised in accordance with the terms of the licence issued by the regulatory authority, namely in line with the applicable costs incurred by the company over the same period. The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Notes to the financial statements for the year ended 31 March 2015

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

Intangible assets (continued)

(b) Licences

Licences acquired on acquisitions are recognised initially at fair value. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. The estimated remaining useful economic life of the licences is 19 years.

Property, plant and equipment

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

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

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

Pipeline	43 years
Plant and machinery	15 years
Computer equipment	3 years

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An asset is derecognised upon disposal or when no future economic benefit is expected to arise from the asset.

Investments

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

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

Impairment of non-financial assets

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

Classification of financial instruments

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets,

Notes to the financial statements for the year ended 31 March 2015

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

Classification of financial instruments (continued)

except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet.

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

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

Loans and receivables (financial instruments)

(a) Trade and other receivables

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

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

(b) Cash and cash equivalents

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

Impairment of financial assets

Assets held at amortised cost

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

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

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

Notes to the financial statements for the year ended 31 March 2015

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

Impairment of financial assets (continued)

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

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

Ordinary shares

Ordinary shares are classified as equity.

Other financial liabilities at amortised cost (financial instruments)

(a) Borrowings

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

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

(b) Trade and other payables

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

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

Current income tax and deferred income tax

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

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

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Government grants

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

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

Notes to the financial statements for the year ended 31 March 2015

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

Government grants (continued)

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

Operating lease commitments

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

Pensions and other post-retirement benefits

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

Financial risk management

Financial risk factors

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

(a) Market risk

The group's interest rate risk arises from its long term borrowings. The group issued its long term borrowings to refinance its transmission assets at the lowest possible rates in order to reduce the costs of transmission to the consumers of Northern Ireland. In order to hedge against certain revenues which are linked to the Retail Price Index the group has entered into a swap transaction which converts its fixed rate borrowings to a borrowing linked to the Retail Price Index. Under the terms of its licence agreement the group receives sufficient revenue to settle its operating costs and its repayments of borrowings. Accordingly the group does not need to actively manage its exposure to interest rate risk.

(b) Credit risk

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

(c) Liquidity risk

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

Capital risk management

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

Fair value estimation

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

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

Notes to the financial statements for the year ended 31 March 2015

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

Fair value estimation (continued)

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

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

Critical accounting estimates and judgements

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

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

(a) Estimate of useful economic life of assets

The group assesses the useful economic life of assets on an annual basis. The remaining useful economic life of the pipeline was determined as approximately 25.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 26.5 years, depreciation would have decreased by £118,000 and if the remaining useful economic life had been assessed at 24.5 years, depreciation would have increased by £128,000

Notes to the financial statements for the year ended 31 March 2015

2 Expenses by nature – operating costs

Group	2015 £'000	2014 £'000
Employee benefit expenses (note 3)	**298**	237
Depreciation and amortisation	**4,555**	4,551
Amortisation of deferred government grant	**(1,096)**	(1,096)
Operating lease payments	**79**	78
Fees payable to the company's auditor in respect of the audit of the consolidated and subsidiary financial statements	**18**	18
Other expenses	**14,499**	11,153
Total operating costs	**18,353**	14,941

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

3 Employee benefit expense

Group	2015 £'000	2014 £'000
Wages and salaries	**268**	213
Social security costs	**30**	24
	298	237

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 6 (2014: 4). All staff perform asset management activities.

The company had no employees other than its directors (2014: none).

The group's directors were not remunerated for their services to the group but instead received emoluments for their services to the Mutual Energy group of companies. The directors do not believe that it is practicable to apportion this amount between services as a director of the company and services as a director of other group companies.

Notes to the financial statements for the year ended 31 March 2015

4 Finance income and costs

Group	2015 £'000	2014 £'000
Interest expense:		
Borrowings (including borrowing fees)	**4,282**	4,139
Short-term bank deposits	**107**	96
Finance costs	**4,389**	4,235
Interest income:		
Short-term bank deposits	**(217)**	(250)
Fair value adjustment in respect of financial instruments (note 22)	**(938)**	(5,682)
Finance income	**(1,155)**	(5,932)
Finance costs/(income) – net	3,234	(1,697)

Fair value adjustment in respect of derivative financial instruments

The income statement has been presented in a 6 column format in order to allow users to appreciate the impact of derivatives on the results for the year. The group has swaps that are designed to hedge the inflation risk in revenue, however under IAS 39 this economic hedging strategy does not qualify for hedge accounting and the directors believe that by separating gains and losses arising from applying the valuation requirements of IAS 39, the user of this financial information will better understand the underlying performance of the group.

5 Income tax charge/(credit)

Group	2015 £'000	2014 £'000
Current income tax:		
Current tax on profit for the year	**564**	-
Group relief claimed	**292**	126
Adjustments in respect of previous periods	**303**	(31)
Total current income tax	**1,159**	95
Deferred income tax:		
Origination and reversal of temporary difference	**(491)**	(2,906)
Arising on derivative financial instruments	**187**	2,623
Adjustments in respect of previous periods	**(281)**	30
Total deferred income tax (note 17)	**(585)**	(253)
Income tax charge/(credit)	**574**	(158)

Notes to the financial statements for the year ended 31 March 2015

5 Income tax charge/(credit) (continued)

The income tax charge/(credit) in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are reconciled below:

	2015 £'000	2014 £'000
Profit before income tax	**4,089**	5,878
Tax calculated at the UK standard rate of corporation tax of 21% (2014: 23%)	**859**	1,352
Effects of:		
Expenses not deductible for tax purposes	**-**	-
Reduction in rate of corporation tax on deferred tax assets and liabilities	**14**	(951)
Treatment of indexation of borrowings	**(321)**	(558)
Adjustments in respect of previous periods	**22**	(1)
Income tax charge/(credit)	**574**	(158)

Future tax changes

The standard rate of corporation tax in the UK reduced from 23% to 21% with effect from 1 April 2014 and accordingly the company's profits for the financial year were taxed at an effective rate of 21%. From 1 April 2015, the UK main corporation tax rate will be reduced to 20%. This rate has been used to calculate the deferred tax balance.

6 Profit attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The profit dealt with in the financial statements of the parent company is £1,134,000 (2014: £3,662,000).

Notes to the financial statements for the year ended 31 March 2015

7 Property, plant and equipment

Group	Pipeline £'000	Property, plant and equipment £'000	Computer equipment £'000	Total £'000
Cost				
At 1 April 2013	108,584	8	238	108,830
Additions	-	69	-	69
At 31 March 2014	108,584	77	238	108,899
Additions	-	-	1,618	1,618
Disposals	-	-	(235)	(235)
At 31 March 2015	**108,584**	**77**	**1,621**	**110,282**
Accumulated depreciation				
At 1 April 2013	25,100	-	238	25,338
Provided during the year	3,148	1	-	3,149
At 31 March 2014	28,248	1	238	28,487
Provided during the year	3,148	5	-	3,153
Disposals	-	-	(235)	(235)
At 31 March 2015	**31,396**	6	**3**	**31,405**
Net book amount				
At 31 March 2015	**77,188**	**71**	**1,618**	**78,877**
At 31 March 2014	80,336	76	-	80,412
At 31 March 2013	83,484	8	-	83,492

Depreciation expense of £3,153,000 (2014: £3,149,000) has been fully charged to operating costs.

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

Notes to the financial statements for the year ended 31 March 2015

8 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2013, 31 March 2014 and **at 31 March 2015**	**2,435**	**40,645**	**43,080**
Accumulated depreciation			
At 1 April 2013	-	11,216	11,216
Provided during the year	-	1,402	1,402
31 March 2014	-	12,618	12,618
Provided during the year	-	1,402	1,402
At 31 March 2015	**-**	**14,020**	**14,020**
Net book amount			
At 31 March 2015	**2,435**	**26,625**	**29,060**
At 31 March 2014	2,435	28,027	30,462
At 31 March 2013	2,435	29,429	31,864

Amortisation expenses of £1,402,000 (2014: £1,402,000) have been fully charged to operating costs.

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 29 years. The group has concluded that these assets have a remaining useful economic life of 19 years.

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

Impairment testing for goodwill

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

The recoverable amount of the goodwill is based on fair value less costs to sell calculation which has been determined using discounted future cash flows. The cash flow projections are over a period of 15 years, which matches the remaining duration of the group's bond. The key assumptions, which have been determined on the basis of management experience, relate to all costs being pass-through costs and that under the terms of the licence the group can collect sufficient cash to service interest and loan repayments.

The discount rate of 3.00% (2014: 4.25%) used is based on Bank of England gilt yield curve data for a debt with a remaining maturity of 15 years. The inflation rate assumption used by the group in these calculations of 3.85% (2014: 4.03%) has been obtained from Bank of England yield curves over a 15 year period.

Sensitivity to changes in assumptions

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

Notes to the financial statements for the year ended 31 March 2015

9 Investment in subsidiary undertakings

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2013, 31 March 2014 and **at 31 March 2015**	**51,307**

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

The company's subsidiary undertaking, which is incorporated in Northern Ireland, is:

Name of company	Holding	Proportion held	Nature of business
Premier Transmission Limited	Ordinary shares	100%	Operation of the Scotland to Northern Ireland pipeline

10 Other investments

	Other investments £'000
Cost	
At 1 April 2013	-
Additions	2
At 31 March 2014 and **at 31 March 2015**	**2**

Other investments represent an amount the company invested in a 0.9% share in PRISMA European Capacity Platform GmbH, at a cost of £1,988.

The investments are recorded at cost, which is the fair value of the consideration paid.

11 Trade and other receivables (non-current)

Company	**2015 £'000**	2014 £'000
Amounts owed by related parties	**53,296**	51,986

None of the company's loans and receivables are impaired or past due. The company has no history of default in respect of its loans and receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair values of the company's loans and receivables are £59,766,000 (2014: £49,352,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 2.02% (2014: 3.39%) that reflects the maturity profile of the company's loans and receivables.

Notes to the financial statements for the year ended 31 March 2015

12 Trade and other receivables (current)

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Trade receivables	**590**	429	**-**	-
Amounts owed by related parties	**27**	2	**10**	1
Prepayments and accrued income	**4,139**	2,566	**46**	41
Other receivables	**2,011**	2,000	**11**	-
	6,767	4,997	**67**	42

All of the group's and company's trade and other receivables are denominated in sterling.

None of the group's or company's trade and other receivables are impaired or past due. The group and company have no history of default in respect of its trade and other receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair value of the group's and company's trade and other receivables is not materially different to their carrying values.

13 Cash and cash equivalents

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Cash at bank and in hand	**34,340**	31,991	**3,172**	2,999

Cash and cash equivalents earn interest at a range from Bank of England base rate less 0.15% to Bank of England base rate plus 0.5%.

14 Ordinary shares

Group and Company	2015 £'000	2014 £'000
Allotted and fully paid		
12,500 ordinary shares of £1 each	**13**	13

Notes to the financial statements for the year ended 31 March 2015

15 Retained earnings

Group	£'000
At 1 April 2013	(22,841)
Total comprehensive income for the year	6,036
At 31 March 2014	(16,805)
Total comprehensive income for the year	3,515
At 31 March 2015	**(13,290)**

Company	£'000
At 1 April 2013	(26,029)
Total comprehensive income for the year	3,662
At 31 March 2014	(22,367)
Total comprehensive income for the year	1,134
At 31 March 2015	**(21,233)**

Included in the retained earnings for the group is an amount of £1,874,000 (2014: £1,874,000) which we have agreed with the regulator will be applied to costs of future EU compliance projects.

16 Borrowings

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Non current				
5.2022% Guaranteed secured bond	**73,993**	77,408	**73,993**	77,408
Other borrowings	**4**	4	**-**	-
	73,997	77,412	**73,993**	77,408
Current				
5.2022% Guaranteed secured bond	**3,415**	3,218	**3,415**	3,218
	77,412	80,630	**77,408**	80,626

The 5.2022% Guaranteed secured bond 2030 was issued to finance the acquisition of Premier Transmission Limited and to repay indebtedness owed to members of British Gas and Keyspan. The bond is secured by fixed and floating charges over all the assets of the group, and also by way of an unconditional and irrevocable financial guarantee given by Financial Guaranty Insurance Company as to scheduled payments of principal and interest, including default interest. The fair value of the bond is £99,794,000 (2014: £95,235,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 2.02% (2014: 3.39%) that reflects the maturity profile of the group's and the company's borrowings. The undiscounted maturity profile of the group's and the company's borrowings are shown in note 22.

Notes to the financial statements for the year ended 31 March 2015

17 Deferred income tax

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

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Deferred income tax assets	**8,588**	8,775	**8,588**	8,775
Deferred income tax liabilities	**(14,350)**	(15,122)	**-**	-
Deferred income tax (liabilities)/assets - net	**(5,762)**	(6,347)	**8,588**	8,775

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

	Group £'000	Company £'000
At 1 April 2013	(6,600)	11,398
Income statement credit/(charge) for the year	253	(2,623)
At 31 March 2014	(6,347)	8,775
Income statement credit/(charge) for the year	585	(187)
At 31 March 2015	**(5,762)**	**8,588**

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

Group	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Derivative financial instruments £'000	Total £'000
At 1 April 2013	(11,230)	(6,768)	11,398	(6,600)
Income statement credit/(charge) for the year	1,713	1,163	(2,623)	253
At 31 March 2014	(9,517)	(5,605)	8,775	(6,347)
Income statement credit/(charge) for the year	492	280	(187)	585
At 31 March 2015	**(9,025)**	**(5,325)**	**8,588**	**(5,762)**

Company	Derivative financial instruments £'000
At 1 April 2013	11,398
Income statement charge for the year	(2,623)
At 31 March 2014	8,775
Income statement charge for the year	(187)
At 31 March 2015	**8,588**

Notes to the financial statements for the year ended 31 March 2015

17 Deferred income tax (continued)

The group and company have £nil (2014: £5,136,000) tax losses available for carry forward against future taxable profits. The related deferred tax asset of £nil (2014: £1,027,000) has not been recognised as it is more likely than not that the group and company will make sufficient taxable profits from which the tax losses can be deducted.

It is not possible to determine the portion of the deferred tax asset arising from the group's and company's derivative financial instruments that will fall due within 12 months as it will depend on the movement of interest rates. The portion of the group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £5,045,000 (2014: £5,325,000). The portion of the group's deferred tax liability arising from accelerated capital allowances that is expected to fall due after more than 12 months is estimated at £8,308,000 (2014: £8,151,000).

18 Government grant

Group	£'000
At 1 April 2013	29,008
Amortised during the year	(1,096)
At 31 March 2014	27,912
Amortised during the year	(1,096)
At 31 March 2015	**26,816**

The government grant was provided to the group for the purpose of its expenditure on its property, plant and equipment. The current portion of the government grant is £1,096,000 (2014: £1,096,000) and the non-current portion is £25,720,000 (2014: £26,816,000).

19 Trade and other payables

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Trade payables	**577**	560	**7**	33
Amounts owed to related parties	**1,132**	732	**16,373**	11,997
Accruals and deferred income	**5,235**	2,596	**3**	3
Other tax and social security	**941**	579	**-**	7
Other payables	**1,111**	1,518	**920**	920
	8,996	5,985	**17,303**	12,960

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

Notes to the financial statements for the year ended 31 March 2015

20 Commitments

Operating lease commitments - group as lessee

The group has entered into a commercial lease on land and this lease has a remaining lease term of 20 years. There are no restrictions placed upon the lessee by entering into these leases. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 2.

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

Group	2015 £'000	2014 £'000
Not later than one year	**81**	78
After one year but not more than five years	**323**	313
After more than five years	**1,210**	1,252
	1,614	1,643

21 Related party transactions

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

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

	Amount owed (to)/from related party	
Group	2015 £'000	2014 £'000
Parent undertakings – current liabilities	**(363)**	(101)
Fellow subsidiary undertaking – current liabilities	**(769)**	(631)
Fellow subsidiary undertaking – current assets	**27**	2

		Value of transaction	
Group	Nature of Transaction	2015 £'000	2014 £'000
Parent undertakings	Charges payable	**(1,031)**	(690)
Fellow subsidiary undertaking	Charges payable	**(1,442)**	(774)
Parent undertakings	Group relief claimed	**(252)**	(160)
Fellow subsidiary undertakingassets	Group relief (claimed)/surrendered	**(414)**	139

	Amount owed (to)/from related party	
Company	2015 £'000	2014 £'000
Fellow subsidiary undertaking – current assets	**10**	1
Fellow subsidiary undertaking – current liabilities	**-**	(1)
Subsidiary undertakings – non-current assets	**53,296**	51,986
Subsidiary undertaking – current liabilities	**(16,373)**	(11,996)

Notes to the financial statements for the year ended 31 March 2015

21 Related party transactions (continued)

Company	Nature of transaction	Value of transaction 2015 £'000	2014 £'000
Subsidiary undertaking	Group relief surrendered	**382**	601
Subsidiary undertaking	Interest receivable	**(4,331)**	(4,187)

22 Financial instruments

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

Assets and liabilities	**Category of financial instrument**
Trade and other receivables	Loans and receivables
Cash and cash equivalents	Loans and receivables
Borrowings	Financial liabilities at amortised cost
Derivative financial instruments	Fair value through profit or loss
Trade and other payables	Financial liabilities at amortised cost

Derivative financial instruments

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

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

Group and company	£'000
Liability at 1 April 2013	49,559
Fair value adjustment	(5,682)
Liability at 31 March 2014	43,877
Fair value adjustment	(938)
Liability at 31 March 2015	**42,939**

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

Notes to the financial statements for the year ended 31 March 2015

22 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 2015 Group	Within 1 year £'000	1-2 years £'000	2-3 Years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
5.2022% bond and associated derivative	**7,698**	**7,852**	**8,007**	**8,167**	**8,328**	**92,939**	**132,991**
Trade and other payables	**8,055**	-	-	-	-	-	**8,055**
	15,753	**7,852**	**8,007**	**8,167**	**8,328**	**92,939**	**141,046**

At 31 March 2014 Group	Within 1 year £'000	1-2 years £'000	2-3 Years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
5.2022% bond and associated derivative	7,363	7,508	7,659	7,810	7,966	98,775	137,081
Trade and other payables	5,406	-	-	-	-	-	5,406
	12,769	7,508	7,659	7,810	7,966	98,775	142,487

At 31 March 2015 Company	Within 1 year £'000	1-2 years £'000	2-3 Years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
5.2022% bond and associated derivative	**7,698**	**7,852**	**8,007**	**8,167**	**8,328**	**92,939**	**132,991**
Trade and other payables	**17,303**	-	-	-	-		**17,303**
	25,001	**7,852**	**8,007**	**8,167**	**8,328**	**92,939**	**150,294**

At 31 March 2014 Company	Within 1 year £'000	1-2 years £'000	2-3 Years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
5.2022% bond and associated derivative	7,363	7,508	7,659	7,810	7,966	98,775	137,081
Trade and other payables	12,953	-	-	-	-	-	12,953
	20,316	7,508	7,659	7,810	7,966	98,775	150,034

The group's and the company's contractual undiscounted cash flows of its bonds are based on the agreed payments under the index-linked swaps.

23 Ultimate parent undertaking

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

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

belfast gas

TRANSMISSION

Belfast Gas Transmission Financing plc

Annual report

for the year ended 31 March 2015

Directors

Patrick Larkin	Executive Director
Gerard McIlroy	Executive Director

Company secretary

Gerard McIlroy

Registered office

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

Principal place of business

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

Solicitors

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

Bankers

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

Independent auditors

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

Registered number: NI067348

Directors' report for the year ended 31 March 2015

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2015.

General information on the company can be found on page 174 and within note 1 to the financial statements.

Results and dividends

The group's loss for the year is £3,446,000 (2014: £939,000). The directors do not recommend the payment of a dividend (2014: £nil).

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

Going concern

The group has recurring accounting losses and accordingly net liabilities. In view of the structure of the group from its initial set up, including the acquisition of Belfast Gas Transmission Limited and the issuing of a bond, this is a situation which will prevail for potentially 15 years. However the group is cash generative and is forecast to remain cash positive over that 15 year period. The forecast cash generated is adequate to meet the group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the group being short of adequate cash to service the bond the market arrangements approved by the Northern Ireland Authority for Utility Regulation would ensure bond payments are made. Accordingly in view of the above the directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

Directors

The directors who served the group during the year, and up to the date of signing the financial statements, were Patrick Larkin and Gerard McIlroy

Financial risk management

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

Directors' indemnities

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

Directors' report for the year ended 31 March 2015 (continued)

Statement of directors' responsibilities

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

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

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

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

Having taken advice from the Audit Committee, the directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

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

Statement of disclosure of information to auditors

So far as each of the directors in office at the date of approval of the directors report is aware:

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

Independent auditors

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

By order of the Board

Gerard McIlroy
Company secretary
22 June 2015

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

Report on the financial statements

Our opinion

In our opinion:

- Belfast Gas Transmission Financing plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2015 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Belfast Gas Transmission Financing plc's financial statements comprise:

- the group statement of comprehensive income for the year ended 31 March 2015;
- the group and parent company balance sheets as at 31 March 2015;
- the group and parent company cash flow statements for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 168, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Martin Pitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
26 June 2015

Group statement of comprehensive income for the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Revenue – continuing operations		**6,982**	6,121
Operating costs	2	**(6,210)**	(5,405)
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		**4,218**	4,158
Amortisation of intangible assets		**(2,487)**	(2,487)
Depreciation (net of amortisation of government grants)		**(959)**	(955)
Operating profit		**772**	716
Finance income	4	**55**	53
Finance costs	4	**(4,529)**	(6,381)
Finance costs – net	4	**(4,474)**	(6,328)
Loss before income tax		**(3,702)**	(5,612)
Income tax credit	5	**256**	4,673
Loss for the year attributable to the owners of the parent	13	**(3,446)**	(939)

The notes on pages 174 to 191 are an integral part of these consolidated financial statements.

There are no changes in equity other than the results shown in the statement of comprehensive income and therefore a separate statement of changes in equity for the group and company has not been presented.

Group and parent company balance sheets as at 31 March 2015

		Group		Company	
	Note	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Assets					
Non-current assets					
Property, plant and equipment	7	**29,862**	31,109	**-**	-
Intangible assets	8	**92,006**	94,493	**-**	-
Investment in subsidiary undertaking	9	**-**	-	**112,384**	112,384
		121,868	125,602	**112,384**	112,384
Current assets					
Trade and other receivables	10	**1,449**	1,300	**23,865**	21,603
Cash and cash equivalents	11	**12,899**	11,619	**1**	751
		14,348	12,919	**23,866**	22,354
Total assets		**136,216**	138,521	**136,250**	134,738
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	12	**50**	50	**50**	50
Retained earnings	13	**(23,074)**	(19,628)	**8,520**	8,119
Total equity		**(23,024)**	(19,578)	**8,570**	8,169
Liabilities					
Non-current liabilities					
Borrowings	14	**125,446**	125,287	**125,446**	125,287
Deferred income tax liabilities	15	**21,694**	22,507	**-**	-
Government grant	16	**6,622**	6,910	**-**	-
		153,762	154,704	**125,446**	125,287
Current liabilities					
Trade and other payables	17	**3,940**	1,976	**984**	151
Borrowings	14	**1,250**	1,131	**1,250**	1,131
Government grant	16	**288**	288	**-**	-
		5,478	3,395	**2,234**	1,282
Total liabilities		**159,240**	158,099	**127,680**	126,569
Total equity and liabilities		**136,216**	138,521	**136,250**	134,738

The notes on pages 174 to 191 are an integral part of these consolidated financial statements.

The group financial statements on pages 171 to 191 were authorised for issue by the Board of Directors on 22 June 2015 and were signed on its behalf by:

Patrick Larkin
Director

Gerard McIlroy
Director

Belfast Gas Transmission Financing plc — Registered No. NI067348

Group and parent company cash flow statements for the year ended 31 March 2015

		Group		Company	
	Note	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Cash flows from operating activities					
Loss before income tax		**(3,702)**	(5,612)	**-**	-
Adjustments for:					
Finance costs/(income) - net		**4,474**	6,328	**(13)**	(14)
Depreciation of property, plant and equipment		**1,247**	1,243	**-**	-
Amortisation of government grant		**(288)**	(288)	**-**	-
Amortisation of intangible assets		**2,487**	2,487	**-**	-
Movement in trade and other receivables		**(511)**	980	**(1,370)**	(242)
Movement in trade and other payables		**1,125**	848	**(8)**	138
Income tax received		**644**	58	**644**	58
Net cash generated from/(used in) operating activities		**5,476**	6,044	**(747)**	(60)
Cash flows from investing activities					
Interest received		**55**	53	**4**	2
Amounts received from related parties		**-**	-	**4,191**	4,044
Net cash generated from investing activities		**55**	53	**4,195**	4,046
Cash flows from financing activities					
Interest paid		**(3,106)**	(2,958)	**(3,053)**	(2,911)
Repayment of borrowings		**(1,145)**	(1,026)	**(1,145)**	(1,026)
Net cash used in financing activities		**(4,251)**	(3,984)	**(4,198)**	(3,937)
Movement in cash and cash equivalents		**1,280**	2,113	**(750)**	49
Cash and cash equivalents at the beginning of the year	11	**11,619**	9,506	**751**	702
Cash and cash equivalents at the end of the year	11	**12,899**	11,619	**1**	751

The notes on pages 174 to 191 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2015

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

General information

The group's principal activity during the year was the financing and operation through its subsidiary of the Belfast Gas Transmission Pipeline which transports gas from Ballylumford to Greater Belfast and Larne. The company is incorporated and domiciled in Northern Ireland.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. All of the group and company's assets and liabilities are denominated in Sterling. These financial statements were authorised for issue by the Board of Directors on 22 June 2015 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Belfast Gas Transmission Financing plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 180.

Going concern

The group has recurring accounting losses and accordingly net liabilities. In view of the structure of the group on its initial set up, including the acquisition of Belfast Gas Transmission Limited and the issuing of a bond, this is a situation which will prevail for potentially 15 years. However the group is cash generative and is forecast to remain cash positive over that 15 year period. The forecast cash generated is adequate to meet the group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the group being short of adequate cash to service the bond the market arrangements approved by the Northern Ireland Authority for Utility Regulation would ensure bond payments are made. Accordingly in view of the above the directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

Statement of compliance with IFRSs

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

Standards, amendments and interpretations effective in the year to 31 March 2015 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2015 and are relevant to the group's operations but have no material impact:

IAS 27 (revised 2011) 'Separate financial statements' (effective 1 January 2014)

IAS 32 (amendment) 'Financial Instruments' on asset and liability offsetting (effective 1 January 2014)

IAS 36 (amendment) 'Impairment of assets' on recoverable amount and disclosure (effective 1 January 2014)

Notes to the financial statements for the year ended 31 March 2015

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

Standards, amendments and interpretations effective in the year to 31 March 2015 and that are relevant to the group and parent company (continued)

IFRS 10 'Consolidated financial statements' (effective 1 January 2014)

IFRS 12 'Disclosure of interests in other entities' (effective 1 January 2014)

Standards, amendments and interpretations effective in the year to 31 March 2015 and that are not relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2015 but they are not relevant to the group's or parent company's operations:

IAS 28 (revised 2011) 'Associates and joint ventures' (effective 1 January 2014)

IAS 39 (amendment) ' Financial Instruments' on novation of derivatives and hedge accounting (effective 1 January 2014)

IFRIC 21 'Levies' (effective 1 January 2014)*

IFRS 10 / 12 / IAS 27 (amendment) 'Consolidation for Investment Entities' (effective 1 January 2014)

IFRS 11 'Joint arrangements' (effective 1 January 2014)

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

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

IAS 16 (amendment) 'Property, Plant and Equipment' on depreciation (effective 1 January 2016)*

IAS 19 (amendment) 'Employee benefits' on defined benefit plans (effective 1 July 2014)

IAS 38 (amendment) 'Intangible assets' on amortisation (effective 1 January 2016)*

IFRS 11 (amendment) 'Joint arrangements' on acquisition of an interest in a joint operation (effective 1 January 2016)*

IFRS 14 'Regulatory deferral accounts' (effective 1 January 2016)*

IFRS 15 'Revenue from contracts with customers' (effective 1 January 2016)*

IFRS 10 and IAS 28 (amendment) 'Consolidated financial statements' and 'Associates and joint ventures' on sale or contribution of assets and on investment entities applying the consolidation exemption (effective 1 January 2016)*

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

IAS 27 (amendment) 'Separate financial statements' (effective 1 January 2016)*

IAS 1 (amendment) 'Presentation of financial statements' on disclosure initiative (effective 1 January 2016)*

* Not yet endorsed by the EU.

Notes to the financial statements for the year ended 31 March 2015

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

Basis of consolidation

The group financial statements consolidate the financial statements of Belfast Gas Transmission Financing plc and its subsidiary undertaking drawn up to 31 March 2015. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

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

Segment reporting

The group has one business segment, the selling of capacity for the transmission of gas to Greater Belfast and Larne and one geographical segment, the United Kingdom. Accordingly segment reporting is not deemed to be applicable.

Revenue

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

Intangible assets

Licences acquired on acquisitions are recognised initially at fair value. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. The remaining estimated useful lives of the licences are 37 years.

Property, plant and equipment

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

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

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

Pipeline	31 years
Plant and machinery	15 years

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

Notes to the financial statements for the year ended 31 March 2015

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

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

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

Investments

Investments are recorded at cost less provision for impairment.

Impairment of non-financial assets

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

Classification of financial instruments

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

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

Loans and receivables (financial instruments)

(a) Trade and other receivables

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

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

(b) Cash and cash equivalents

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

Notes to the financial statements for the year ended 31 March 2015

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

Impairment of financial assets

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

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

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

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

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

Ordinary shares

Ordinary shares are classified as equity.

Other financial liabilities at amortised cost (financial instruments)

(a) Borrowings

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

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

(b) Trade and other payables

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

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

Notes to the financial statements for the year ended 31 March 2015

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

Current income tax and deferred income tax

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the statement of comprehensive income.

Government grants

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

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

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

Operating lease commitments

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

Financial risk management

Financial risk factors

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

(a) Market risk

The group's interest rate risk arises from its long term borrowings. The group issued its long term borrowings to refinance its transmission assets at the lowest possible rates in order to reduce the costs of transmission to the consumers of Northern Ireland. Its long term borrowings were issued at rates linked to the Retail Price Index. The group's long term borrowings are therefore susceptible to changes in the Retail Price Index. A change in the Retail Price Index by 1% would have increased/decreased finance costs, loss and equity during the year by £1,292,000.

Notes to the financial statements for the year ended 31 March 2015

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

(a) Market risk (continued)

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

(b) Credit risk

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

(c) Liquidity risk

Under the group's licence agreement it receives revenue that compensates the group for its operating expenses, financing costs and repayment of borrowings. Accordingly the group has limited liquidity risk. The cash reserves of the group are held in interest-bearing accounts or invested in fixed term deposits of up to one year spread across a panel of approved banks and financial institutions having high credit ratings to manage short term liquidity risk. The undiscounted contractual maturity profile of the group's borrowings is shown in note 20.

Capital risk management

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

Fair value estimation

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

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

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

Critical accounting estimates and judgements

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

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

Estimate of useful economic life of assets

The group assesses the useful economic life of assets on an annual basis. The remaining useful economic life of the pipeline was determined as approximately 25 years at the beginning of the year. If the remaining useful economic life had been assessed at 26 years depreciation would have decreased by £48,000 and if the remaining useful economic life had been assessed at 24 years depreciation would have increased by £52,000.

Notes to the financial statements for the year ended 31 March 2015

2 Expenses by nature – operating costs

Group	2015 £'000	2014 £'000
Depreciation and amortisation	**3,734**	3,730
Amortisation of deferred government grant	**(288)**	(288)
Operating lease payments	**14**	13
Fees payable to the company's auditor in respect of the audit of the group and subsidiary financial statements	**10**	10
Other expenses	**2,740**	1,940
Total operating costs	**6,210**	5,405

Other expenses include costs for engineering works, licence fees, maintenance and emergency response, rates, insurance, regulatory work and group overheads, together with administrative costs.

3 Employee benefit expense

The group and company have no employees other than its directors (2014: none). The group's directors were not remunerated for their services to the group (2014: £nil) but instead received emoluments for their services to the Mutual Energy group of companies. The directors do not believe that it is practicable to apportion this amount between services as a director of the group and services as a director of other group companies.

4 Finance income and costs

Group	2015 £'000	2014 £'000
Interest expense:		
Short term bank deposits	**53**	49
Borrowing (including borrowing fees)	**4,476**	6,332
Finance costs	**4,529**	6,381
Interest income:		
Short-term bank deposits	**(55)**	(53)
Finance income	**(55)**	(53)
Finance costs – net	**4,474**	6,328

Notes to the financial statements for the year ended 31 March 2015

5 Income tax credit

Group	2015 £'000	2014 £'000
Current income tax:		
Group relief surrendered	**(188)**	(644)
Adjustments in respect of previous periods	**745**	(151)
Total current income tax	**557**	(795)
Deferred income tax:		
Origination and reversal of temporary differences	**(561)**	(4,023)
Adjustments in respect of previous periods	**(252)**	145
Total deferred income tax (note 15)	**(813)**	(3,878)
Income tax credit	**(256)**	(4,673)

The income tax credit in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are reconciled below:

	2015 £'000	2014 £'000
Loss before income tax	**(3,702)**	(5,612)
Tax calculated at the UK standard rate of corporation tax of 21% (2014: 23%)	**(777)**	(1,291)
Effects of:		
Reduction in rate of corporation tax on deferred tax liabilities	**28**	(3,376)
Adjustments in respect of previous periods	**493**	(6)
Income tax credit	**(256)**	(4,673)

Future tax changes

The standard rate of corporation tax in the UK reduced from 23% to 21% with effect from 1 April 2014 and accordingly the company's losses for the financial year were taxed at an effective rate of 21%. From 1 April 2015, the UK main corporation tax rate will be reduced to 20%. This rate has been used to calculate the deferred tax balance.

6 Profit attributable to members of the parent company

As permitted by Section 408 the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The profit dealt with in the financial statements of the parent company is £401,000 (2014: £1,459,000).

Notes to the financial statements for the year ended 31 March 2015

7 Property, plant and equipment

Group	Pipeline £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 April 2013	38,480	17	38,497
Additions	-	63	63
At 31 March 2014 and **at 31 March 2015**	**38,480**	**80**	**38,560**
Accumulated depreciation			
At 1 April 2013	6,206	2	6,208
Provided during the year	1,242	1	1,243
At 31 March 2014	7,448	3	7,451
Provided during the year	1,241	6	1,247
At 31 March 2015	**8,689**	**9**	**8,698**
Net book amount			
At 31 March 2015	**29,791**	**71**	**29,862**
At 31 March 2014	31,032	77	31,109
At 31 March 2013	32,274	15	32,289

Depreciation expense of £1,247,000 (2014: £1,243,000) has been fully charged to operating costs. Borrowings are secured on the property, plant and equipment of the group.

Notes to the financial statements for the year ended 31 March 2015

8 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2013, 31 March 2014 and **at 31 March 2015**	**109,413**
Accumulated amortisation	
At 1 April 2013	12,433
Provided during the year	2,487
At 31 March 2014	14,920
Provided during the year	2,487
At 31 March 2015	**17,407**
Net book amount	
At 31 March 2015	**92,006**
At 31 March 2014	94,493
At 31 March 2013	96,980

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 44 years. The group has concluded that these assets have a remaining useful economic life as at 31 March 2015, of 37 years.

Amortisation expense of £2,487,000 (2014: £2,487,000) has been fully charged to operating costs.

9 Investment in subsidiary undertakings

Company	Subsidiary undertaking £'000
Cost	
At 1 April 2013, 31 March 2014 and **at 31 March 2015**	**112,384**

Investments in subsidiary undertakings are recorded at cost, which is the fair value of the consideration paid.

The company's subsidiary undertaking, which is incorporated in Northern Ireland, is:

Name of company	Holding	Proportion held	Nature of business
Belfast Gas Transmission Limited	Ordinary shares	100%	Operation of Belfast Gas Transmission pipeline

Notes to the financial statements for the year ended 31 March 2015

10 Trade and other receivables

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Trade receivables	**254**	235	**-**	-
Amounts owed by related parties	**462**	834	**23,743**	21,479
Prepayments and accrued income	**733**	231	**122**	124
	1,449	1,300	**23,865**	21,603

All of the group's and company's trade and other receivables are denominated in sterling.

None of the group's or company's trade and other receivables are impaired or past due. The group and company have no history of default in respect of its trade and other receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair value of the group's and company's trade and other receivables is not materially different to their carrying values.

11 Cash and cash equivalents

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Cash at bank and in hand	**12,899**	11,619	**1**	751

Cash and cash equivalents earn interest at a range of Bank of England base rate less 0.15% to Bank of England base rate plus 0.1%.

12 Ordinary shares

Group and company	2015 £'000	2014 £'000
Allotted and fully paid		
50,000 ordinary shares of £1 each	**50**	50

Notes to the financial statements for the year ended 31 March 2015

13 Retained earnings

Group	£'000
At 1 April 2013	(18,689)
Total comprehensive income for the year	(939)
At 31 March 2014	(19,628)
Total comprehensive income for the year	(3,446)
At 31 March 2015	**(23,074)**

Company	£'000
At 1 April 2013	6,660
Total comprehensive income for the year	1,459
At 31 March 2014	8,119
Total comprehensive income for the year	401
At 31 March 2015	**8,520**

14 Borrowings

Group and company	2015 £'000	2014 £'000
Non-current		
2.207% Index linked guaranteed secured bond	**125,446**	125,287
Current		
2.207% Index linked guaranteed secured bond	**1,250**	1,131
Total borrowings	**126,696**	126,418

The 2.207% Index linked guaranteed secured bonds 2048 were issued to finance the acquisition of Belfast Gas Transmission Limited and are linked to the Retail Price Index. The bond is secured by fixed and floating charges over all the assets of the group, and also by way of an unconditional and irrevocable financial guarantee given by Assured Guaranty (Europe) Limited as to scheduled payments of principal and interest, including default interest. In return for this guarantee, every six months the group pays an index linked fee of 0.18% of the outstanding balance of the bond. The fair value of the bond is £122,712,000 (2014: £100,935,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 2.42% (2014: 3.63%) that reflects the maturity profile of the group's and the company's borrowings. The undiscounted maturity profile of the group's and the company's borrowings are shown in note 20.

Notes to the financial statements for the year ended 31 March 2015

15 Deferred income tax liabilities

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

Group	£'000
At 1 April 2013	26,385
Income statement credit for the year	(3,878)
At 31 March 2014	22,507
Income statement credit for the year	(813)
At 31 March 2015	**21,694**

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

Group	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Total £'000
At 1 April 2013	4,080	22,305	26,385
Income statement credit for the year	(471)	(3,407)	(3,878)
At 31 March 2014	3,609	18,898	22,507
Income statement credit for the year	(316)	(497)	(813)
At 31 March 2015	**3,293**	**18,401**	**21,694**

The group and company have £5,711,310 (2014: £3,798,131) of tax losses available for carry forward against future taxable profits arising from the same trade. The related deferred tax asset of £1,142,262 (2014: £759,626) has not been recognised as it is more likely than not that the group and company will not make sufficient taxable profits from the same trade, from which the tax losses can be deducted.

The portion of the group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £17,903,000 (2014: £18,401,000). The portion of the group's deferred tax liability arising from accelerated capital allowances that is expected to fall due after more than 12 months is estimated at £1,773,000 (2014: £3,129,000).

Notes to the financial statements for the year ended 31 March 2015

16 Government grant

Group	£'000
At 1 April 2013	7,486
Amortised during the year	(288)
At 31 March 2014	7,198
Amortised during the year	(288)
At 31 March 2015	**6,910**

The government grant was provided to the group for the purpose of its expenditure on its property, plant and equipment. The current portion of the government grant is £288,000 (2014: £288,000) and the non-current portion is £6,622,000 (2014: £6,910,000).

17 Trade and other payables

	Group		Company	
	2015 £'000	2014 £'000	2015 £'00	2014 £'000
Trade payables	**6**	16	**-**	8
Amounts owed to related parties	**2,417**	566	**980**	139
Other tax and social security	**1,248**	1,022	**-**	-
Other payables	**5**	128	**-**	-
Accruals and deferred income	**264**	244	**4**	4
	3,940	1,976	**984**	151

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

18 Commitments

Operating lease commitments

The group has entered into a commercial lease on land which expires on 31 December 2051. There are no restrictions placed upon the lessee by entering into these leases. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 2.

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

Group	2015 £'000	2014 £'000
Not later than one year	**14**	14
After one year but not more than five years	**57**	57
After five years	**444**	458
	515	529

Notes to the financial statements for the year ended 31 March 2015

19 Related party transactions

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

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

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

	Amount owed (to)/from related party	
	2015	2014
Group	£'000	£'000
Parent undertakings – current assets	**50**	50
Fellow subsidiary undertakings – current assets	**412**	784
Parent undertakings – current liabilities	**(18)**	(31)
Fellow subsidiary undertakings – current liabilities	**(2,399)**	(535)

		Value of transaction	
		2015	2014
Group	Nature of transaction	£'000	£'000
Parent undertakings	Charges payable	**(257)**	(298)
Fellow subsidiary undertakings	Group relief (claimed)/surrendered	**(557)**	795
Fellow subsidiary undertakings	Charges payable	**(1,503)**	(739)

	Amount owed (to)/from related party	
	2015	2014
Company	£'000	£'000
Subsidiary undertaking – current assets	**23,281**	20,645
Fellow subsidiary undertaking – current liabilities	**(980)**	(139)
Parent undertaking – current assets	**50**	50
Fellow subsidiary undertakings – current assets	**412**	784

		Value of transaction	
		2015	2014
Company	Nature of transaction	£'000	£'000
Fellow subsidiary undertakings	Group relief (claimed)/surrendered	**(557)**	795
Subsidiary undertaking	Group relief surrendered	**959**	644
Subsidiary undertaking	Interest receivable	**4,485**	6,343

Notes to the financial statements for the year ended 31 March 2015

20 Financial instruments

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

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

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

At 31 March 2015 Group	Within 1 year £'000	1-2 years £'000	2-3 Years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.207% bond	**4,040**	**4,119**	**4,201**	**4,286**	**4,371**	**165,203**	**186,220**
Trade and other payables	**2,962**	**-**	**-**	**-**	**-**	**-**	**2,962**
	7,002	**4,119**	**4,201**	**4,286**	**4,371**	**165,203**	**189,182**

At 31 March 2014 Group	Within 1 year £'000	1-2 years £'000	2-3 Years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.207% bond	3,915	3,995	4,073	4,155	4,239	167,688	188,065
Trade and other payables	954	-	-	-	-	-	954
	4,869	3,995	4,073	4,155	4,239	167,688	189,019

At 31 March 2015 Company	Within 1 year £'000	1-2 years £'000	2-3 Years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.207% bond	**4,040**	**4,119**	**4,201**	**4,286**	**4,371**	**165,203**	**186,220**
Trade and other payables	**984**	**-**	**-**	**-**	**-**	**-**	**984**
	5,024	**4,119**	**4,201**	**4,286**	**4,371**	**165,203**	**187,204**

At 31 March 2014 Company	Within 1 year £'000	1-2 years £'000	2-3 Years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.207% bond	3,915	3,995	4,073	4,155	4,239	167,688	188,065
Trade and other payables	151	-	-	-	-	-	151
	4,066	3,995	4,073	4,155	4,239	167,688	188,216

Notes to the financial statements for the year ended 31 March 2015

21 Ultimate parent undertaking

The immediate parent undertaking is Belfast Gas Transmission Holdings Limited, a company incorporated in Northern Ireland. Group financial statements for this company are not prepared.

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

Notes