ANNUAL REPORT 2022

mutualenergy

Annual Report & Financial Statements
for the year ended 31 March 2022

A NORTHERN IRELAND COMPANY
WORKING FOR CONSUMERS

mutualenergy

ANNUAL REPORT FOR THE YEAR ENDED
31 MARCH 2022

CONTENTS

DIRECTORS AND ADVISERS

DIRECTORS

Patrick Anderson	Non-Executive Director	
David Gray	Chairman	
Patrick Larkin	Executive Director	
Gerard McIlroy	Executive Director	
Harold McCracken	Non-Executive Director	(appointed 1 September 2021)
Michael McKernan	Non-Executive Director	
Christopher Murray	Non-Executive Director	
Ceri Richards	Non-Executive Director	

COMPANY SECRETARY

Gerard McIlroy

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

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

SOLICITORS

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

BANKERS

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

INDEPENDENT AUDITORS

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

CHAIR'S STATEMENT

Any illusions we may have had about 2021/22 being a less eventful year, with COVID-19 and Brexit largely behind us, were duly shattered by a very turbulent year in the energy markets. Throughout the financial year it was clear that the Irish electricity system was struggling to meet demand with an unprecedented number of "amber alerts" (the warnings that generation may not be able to meet demand). There were multiple causes as low wind conditions and increased demand from data centres in the Republic of Ireland put pressure on ageing dispatchable plant, but the consequences were very high prices and large exports of power from Northern Ireland to the Republic of Ireland.

Ireland, however, was not alone in these high prices. The bounce back in gas demand in Europe outstripped the near-term supply and this, coupled with events in Ukraine later in the year, drove a very substantial increase in wholesale gas prices, and consequently electricity prices, in GB.

Such high prices are undoubtedly having an adverse impact on customers, with multiple double-digit tariff rises throughout the year and more to come next year. Large energy users and low-income customers will clearly be badly affected.

In our businesses we are far from immune from these headwinds, with large cost increases evident in many areas but particularly in gas compression costs which more than quadrupled from last year. Having said all that, the top-class availability of the Moyle electricity interconnector, and increased capacity to export to GB, allowed our electricity business to ship power from the lower priced to the higher priced market throughout this volatile period. The revenue generated from this essential activity has resulted in a record set of results in our electricity business.

Some of the resulting cash in our electricity interconnector business is above our expected requirements and we have opened discussions with stakeholders in government and our regulator on how we can best use this cash to contribute to alleviating the stress on customers. Our intention is to set a five-year plan encompassing contributions to reducing general tariffs, directed support to customers in particular need, and investment in preparatory work for the energy transition.

ONGOING OPERATIONS

Throughout the period the gas network maintained its 100% availability and the electricity interconnector continued its excellent performance, recording 98.9% availability in the year. Achieving these outcomes requires consistent forward planning, application and endeavour from all our staff. We are now well through one of our most significant capital outlays and technical challenges – the replacement of the Moyle control system. We are the first of the interconnectors built by Siemens to undertake this major renewal and, after almost

> "THROUGHOUT THIS PERIOD THE GAS NETWORK MAINTAINED ITS 100% AVAILABILITY AND THE ELECTRICITY INTERCONNECTOR CONTINUED ITS EXCELLENT PERFORMANCE, RECORDING 98.9% AVAILABILITY IN THE YEAR."

a year of work offsite in Germany, the equipment was delivered during the last quarter of the year in preparation for the installation stage in the summer of 2022. This is a complex project aimed at securing the ability of the interconnector to function in the coming decades.

Health and safety will always be a priority for the business and the extensive work at site for the control room project next year will test our ability in this area. Our staff experienced no "lost time incidents" in 2021/22 and we continued our drive for improved safety in our own operations and the operations of our contractors.

RISK MANAGEMENT

During the year the business undertook a major review of its processes for risk management and how that reports through to the Board. As part of this process the terms of reference for the Audit and Risk Committee (formerly known as the Audit Committee) and the Asset Oversight Committee (formerly known as the Risk Committee) were updated and a new Environmental Committee was formed to run alongside our existing Health and Safety Management Committee. As well as improving the flow of information through the various committees to the Board the new processes enable us to involve more of our senior personnel in the process, so widening the knowledge base in our business. I would like to give my thanks to the chairs of all of our committees, who ensure good communication and a clear link to the main Board.

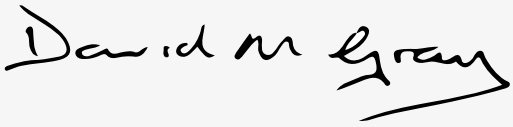
RESHAPING THE ENERGY MARKETS OF NORTHERN IRELAND

The Department for the Economy published its energy strategy in December 2021, which, while generally avoiding specific actions or targets in most areas, is a good first step in providing direction in what is a challenging field. There are a number of action plans and funding opportunities expected in the coming year and we aim to be in a position to assist the Department where required. In the meantime, we have invested in an energy transition team who are working together with multiple partners on several initiatives. The first of these to bear fruit is the Ballylumford "Power to X" project which received grant funding from BEIS during the year. The ultimate aim of the project is to produce green hydrogen from surplus renewable energy and store it in underground salt caverns for subsequent use in power generation or hydrogen-fuelled transport. The fluctuations in the electricity market over the last year only reinforce the need to investigate the possibilities for storing renewable power in a medium suitable for large volumes and we hope this project will provide some insight into this possibility.

STAFF & STAKEHOLDERS

The Group's ability to deal with the volatility in the energy markets depends heavily on the efforts and achievements of a highly motivated staff and a positive interaction with our key stakeholders. I would like to thank all members of staff for their continuing hard work and commitment. The ability to keep the interests of Northern Ireland energy consumers our central focus is well established and essential in our engagement with both the DfE and the Utility Regulator as the key challenges and choices to achieve decarbonisation in the face of rising costs are faced in the coming years. We look forward to working with these key stakeholders to rise to the challenges in this era of change.

Finally, I would like to thank the members of the Company and my colleagues on the board for their commitment and support. Our members play a vital role in the set-up of the Group, providing both a valuable sounding board to determine priorities for the Northern Ireland consumer and an overall oversight function, and we have enjoyed good engagement throughout the year. In particular I would like to thank Chris Murray who retires from the board before this year's AGM. Chris has expertly chaired the Asset Oversight Committee and his knowledgeable input to all board and board committees' discussions throughout his tenure have been invaluable. Harry McCracken, formerly Managing Director of Northern Ireland Electricity, who was appointed as a Non-Executive Director at the September 2021 AGM, will take over as Chair of the Asset Oversight Committee and I am delighted to have such an able and experienced successor to Chris in this role.



DAVID **GRAY**

CHAIR

1 July 2022

> "FINALLY, I WOULD LIKE TO THANK THE MEMBERS OF THE COMPANY AND MY COLLEAGUES ON THE BOARD FOR THEIR COMMITMENT AND SUPPORT."

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022

OUR STRATEGY AND BUSINESS MODEL

OUR PURPOSE

TO OWN AND OPERATE ENERGY INFRASTRUCTURE IN THE LONG TERM INTEREST OF NORTHERN IRELAND ENERGY CONSUMERS

OUR STRATEGY

Our strategy and performance measures are discussed in more detail on pages 16 to 22

1. Operate assets safely and cost effectively, outsourcing where appropriate
2. Deliver savings to current and future Northern Ireland consumers over the life of the assets
3. Collaborate with key stakeholders in the acceleration of decarbonisation
4. Manage market changes and regulatory developments to minimise risks to the NI consumer
5. Over the long term to acquire or develop stable energy infrastructure assets at low cost to benefit the Northern Ireland consumer

OUR BUSINESS MODEL

WHAT WE DO

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

COST SAVINGS
SEE PAGES 27-28 & 39-40

OPERATION OF ASSETS
SEE PAGES 24-26 & 35-38

DECARBONISATION
SEE PAGES 29-31 & 41-42

MARKET ENVIRONMENT
SEE PAGES 32-34 & 43-44

INFRASTRUCTURE ACQUISITION
SEE PAGES 45-46

HOW WE DO IT

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

BUSINESS STRUCTURE
SEE PAGE 15

GOVERNANCE STRUCTURE
SEE PAGES 62-67

RISK MANAGEMENT
SEE PAGES 49-55

FINANCIAL STATEMENTS
SEE PAGES 97-154

2021/2022 HIGHLIGHTS

OPERATE ASSETS SAFELY AND COST EFFECTIVELY, OUTSOURCING WHERE APPROPRIATE

100%

100% GAS ASSET AVAILABILITY ALLOWING 100% OF NORTHERN IRELANDS GAS TO BE SUPPLIED THROUGH PREMIER TRANSMISSION'S PIPELINES

98.9%

98.9% AVAILABILITY ON THE MOYLE INTERCONNECTOR

27

27 MOYLE INTERCONNECTOR FAST RESPONSES TO SUPPORT THE NI ELECTRICITY SYSTEM

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

£6M

£6M TO BE RETURNED TO CUSTOMERS FROM MOYLE OVER THE 2022/23 ELECTRICITY TARIFF YEAR

SUBJECT TO REGULATORY AGREEMENT

£0.2M

£0.2M RETURNED TO GAS SHIPPERS IN JANUARY 2022

20.0%

20.0% OF NORTHERN IRELAND'S ELECTRICITY DEMAND SUPPLIED BY MOYLE INTERCONNECTOR (1.5TWH) PROVIDING LOWER COST ENERGY

£6.3M

CONTINUATION OF ZERO DIRECT TARIFF CHARGES TO CUSTOMERS FROM MOYLE, WHILST INVESTING £6.3M TO IMPROVE THE INTERCONNECTOR'S ABILITY TO SERVE THE CUSTOMERS' NEEDS

2021/2022 HIGHLIGHTS

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

NEW DOMESTIC GAS CONNECTIONS FACILITATED, RESULTING IN LIFETIME SAVING OF c170,000 TONNES CO2 IN 2021

INDUSTRIAL & COMMERCIAL GAS CUSTOMERS SAVED OVER 225,000 TONNES CO2 IN THE YEAR COMPARED TO USING OIL

90,000 TONNES OF CO2 EMISSIONS AVOIDED IN THE YEAR DUE TO THE USE OF MOYLE INTERCONNECTOR TO ALLOW CONNECTED TRANSMISSION SYSTEM OPERATORS ('TSOs') TO ACCESS CLEANER GENERATION IN THE NEIGHBOURING MARKET[1]

34.5% OF NORTHERN IRELAND'S ELECTRICITY FROM WIND GENERATION EXPORTED BY MOYLE INTERCONNECTOR (0.8TWH) ALLOWING MORE WIND ENERGY TO BE PRODUCED AND DISPLACING HIGHER CARBON ALTERNATIVES IN GB

BALLYLUMFORD POWER TO X PROJECT STARTED WITH MULTIPLE PARTNERS AND FUNDING FROM BEIS TO TRIAL ONE SOLUTION TO DECARBONISATION OF ELECTRICITY IN LOW WIND CONDITIONS

[1] Source: electricityMap, © tmrow.com

2021/2022 HIGHLIGHTS

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

BIOMETHANE BUSINESS RULES INTRODUCED TO ALLOW RENEWABLE GASES ON THE NORTHERN IRELAND NETWORK FOR THE FIRST TIME ONCE INFRASTRUCTURE ON THE DISTRIBUTION NETWORKS IS COMPLETE

POST BREXIT FALLBACK ARRANGEMENTS IMPLEMENTED TO MAINTAIN PRICE COUPLING BETWEEN SEM AND GB OPERATING SUCCESSFULLY TO MAXIMISE TRADE AND REDUCE PRICE DIFFERENCES

WORK UNDERWAY TO DEVELOP NEW TRADING ARRANGEMENTS AS REQUIRED BY THE EU-UK TRADE AND COOPERATION AGREEMENT

CAPACITY MARKET CONTRACTS SECURED AND DELIVERED UPON TO SUPPORT SECURITY OF SUPPLY IN BOTH SEM AND GB OUT TO 2026

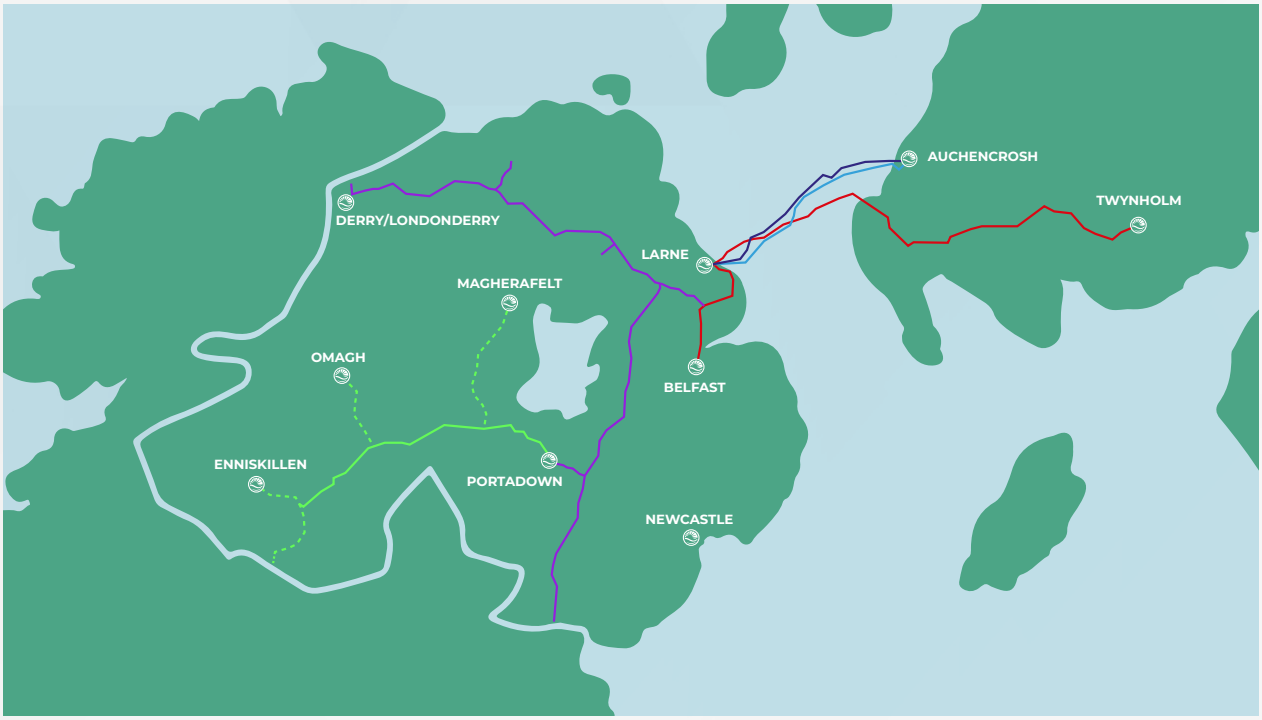
FREQUENCY SUPPORT SYSTEM SERVICES EFFECTIVELY PROVIDED TO TSOs IN SEM AND GB IN AN EVOLVING SYSTEM SERVICES MARKET

2021/2022 HIGHLIGHTS

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

MOYLE INTERCONNECTOR ACCESS TO MARKETS INCREASED TO 400MW WEST TO EAST (EXPORT) AND CONTROL SYSTEM PROJECT WELL PROGRESSED TO HELP ENABLE AN INCREASE TO 500MW

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)



- Moyle Interconnector - North
- Moyle Interconnector - South
- Premier Transmission Pipeline System (PTPS)
- Gas Networks Ireland
- West Transmission Pipeline
- SGN Natural Gas

BUSINESS STRUCTURE

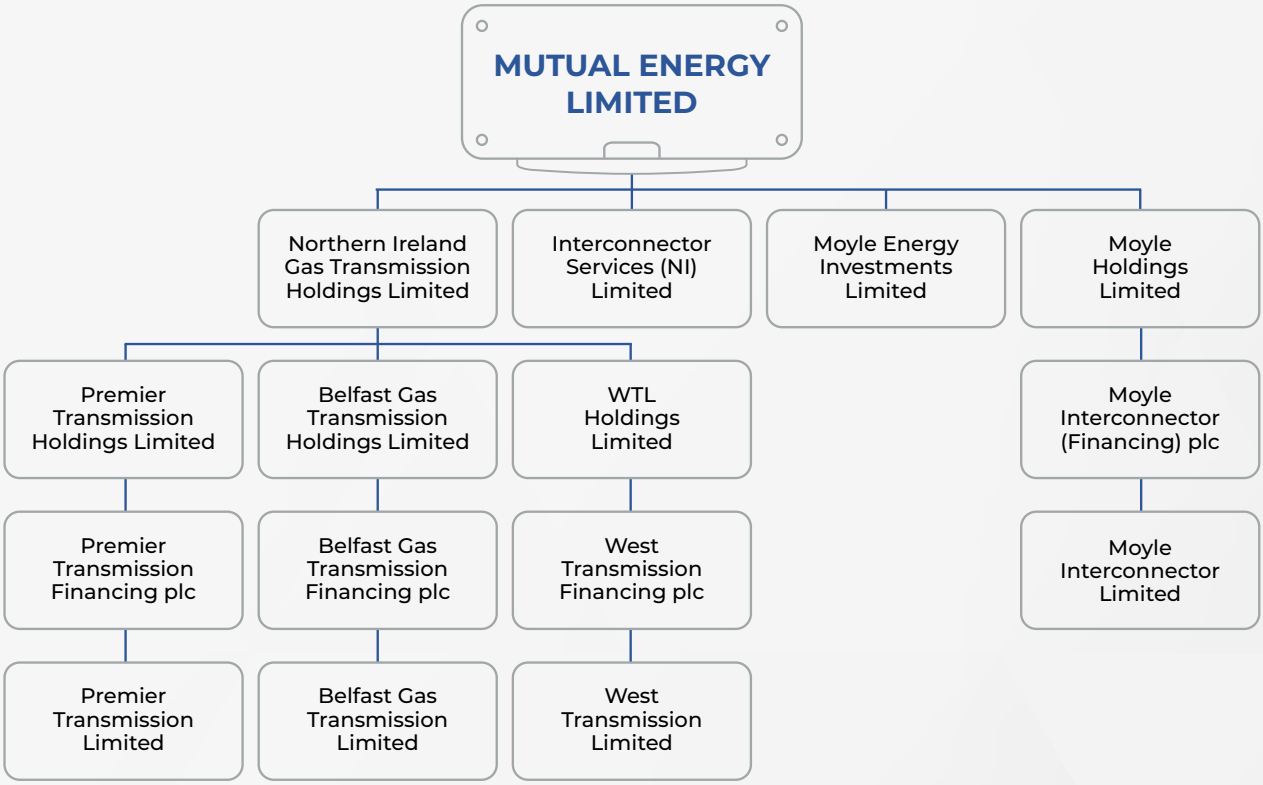
Mutual Energy owns the strategically important energy links between Northern Ireland (NI) and Great Britain (GB) along with a substantial portion of the Northern Ireland gas transportation network. In the year just finished our assets imported 16.3TWh of gas and 1.5TWh of electricity, approximately 38% of the total energy use in Northern Ireland. The extent of our network is shown in the diagram above.

Mutual Energy Limited is a company limited by guarantee with no shareholders, commonly known as a mutual, with a minimum of 30 members appointed who act as proxy shareholders. Further information on our governance structure and the role of members can be found on pages 62-67. The mutual model and our licence structures are attractive to investors looking for long-term stable cash flows, enabling the company to operate without equity and therefore allowing a lower cost of capital than would otherwise be the case.

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

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

THE GROUP'S LEGAL STRUCTURE CAN BE SEEN IN THE DIAGRAM BELOW:



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

The principal risks affecting the business are discussed on pages 49-55. More information regarding our customers, stakeholders and staff can be found on pages 47-48.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

STRATEGIC OBJECTIVES

Our strategy is made up of five key elements:

STRATEGY	HOW WE DELIVER	HOW WE MEASURE SUCCESS
SAFE, COST EFFICIENT OPERATION Operate the best model to minimise costs and overheads including outsourcing	We provide a safe, reliable and efficient transmission service to the electricity and gas suppliers of Northern Ireland. Delivery is achieved through a competitive tendering process for operational activities and the development of a comprehensive contracting strategy and partnership approach with key contractors. We operate a Health & Safety system based on the Plan, Do, Check, Act approach and have an Asset Management System which is accredited to the ISO 55001 standard. Further information on asset operation can be found on pages 25-26 & 36-38.	Our success measures include: • availability targets for our assets (KPI 1); • operational savings against forecast (KPI 2); • lost time incidents (KPI 3) and a series of detailed health & safety targets; • detailed maintenance and contracting milestones which are monitored at contract meetings; and • detailed monthly budgets which are monitored over a rolling five year horizon.
RETURN SAVINGS TO CONSUMER Deliver savings to all consumers evenly over the life of the assets	Group strategy involves returning all savings or cash surpluses to Northern Ireland consumers as evenly as possible over the life of the assets. In doing so, where possible, we seek to build up reserves to smooth future cash flows and minimise energy price increases and fluctuations associated with our assets. Where appropriate, reserves will be used to provide capital for future investments.	Our measures of success include: • operational savings against forecast (KPI 2); • cost of capital of Mutual Energy vs NI comparator (KPI 4); and • cash generated from operations (KPI 5).

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

STRATEGIC OBJECTIVES (CONTINUED)

STRATEGY	HOW WE DELIVER	HOW WE MEASURE SUCCESS
DECARBONISE Take an active role in collaboration with key stakeholders in the acceleration of decarbonisation through interventions and investments which benefit NI energy consumers	The Group's strategy is to adapt its structure and focus of the business to rise to the challenge of facilitating the decarbonisation of both the gas and electricity networks in Northern Ireland and facilitating customers who wish to use the networks as a means of decarbonising other sectors. We will also target the CO2 content of the electricity and gas transported on our networks, playing our part in reducing this by facilitating the connection of both customers and producers. Decarbonisation is discussed in more detail on pages 30-31 & 42.	A key factor to enable decarbonisation is the ability of system operators to balance the network and generators to respond flexibly to changes in renewable generation. Success is measured by the flexibility we will be able to supply our customers. In electricity this is the volume and type of services we provide to the grid (see page 36). In our gas businesses the flexibility we provide is measured by the rate of change we facilitate, and the volume of capacity we can make available. We also monitor the domestic connections made to the transmission network and calculate the CO2 saving (KPI 6) made by these connections over a 15 year period, as well as monitoring the annual CO2 savings made by industrial consumers compared to using oil (see page 30). Finally, we aim to reduce the emissions in our own business (pages 57-58.)
MANAGE MARKET CHANGE Manage market changes to minimise risks to NI consumer	Our key focus is to ensure, so far as possible, that changes driven by EU, national or other bodies do not impact negatively on our business, our financing arrangements or energy consumers in Northern Ireland. We seek to achieve this by influencing discussions at stakeholder meetings, actively participating in the work of the EU and GB system operator confederations and by assisting the regulators and relevant government departments to identify and address issues particularly relevant to Northern Ireland. The market environment is discussed in more detail on pages 33-34 & 44.	Our measures of success include: • avoidance of changes which would compromise the financing structures of the Group; • monitoring of individual projects against initial objectives and implementation plans with milestone dates; and • market improvements implemented (KPI 7).

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

STRATEGIC OBJECTIVES (CONTINUED)

STRATEGY	HOW WE DELIVER	HOW WE MEASURE SUCCESS
ACQUIRE INFRASTRUCTURE Look to acquire stable infrastructure assets at low cost to the consumer.	The Group looks to acquire stable energy infrastructure assets which it can own and operate at lower cost than otherwise would be the case to benefit consumers. We achieve lower cost through a long term reduced cost of capital and operating efficiencies. Delivery involves: • the assessment of potential assets, both acquisition and new build, on an ongoing basis; • the development of working relationships with potential partners and developers; and • continued innovation in reviewing financing and licencing structures to ensure low cost to the consumer. This objective is discussed in more detail on page 46.	Success is measured with reference to the quality of the projects brought to the Board as potential opportunities to develop. The progress of individual projects is measured against project-specific milestones. In acquiring assets the Group will not overpay the going market rate. Compliance with key covenants on our existing asset base is measured as a KPI for maintaining investor confidence (KPI 8).

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

KEY PERFORMANCE INDICATORS ("KPIs")

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

KEY PERFORMANCE INDICATOR	DEFINITION OF KPI
1. AVAILABILITY The quality of service to our direct customers is determined by the performance of our assets, of which the principal measure is the availability of transmission capacity. Graphs showing availability can be found on pages 25 and 37.	**AVAILABILITY** Availability is calculated as the number of hours available (excluding upstream outages) x capacity available ——————————— total plant capacity under connection agreements x the number of hours in the year.
2. OPERATIONAL SAVINGS AGAINST FORECAST For the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs. Operational savings vs forecasts for the gas businesses are shown on page 28.	**OPERATIONAL SAVINGS AGAINST FORECAST** The KPI for gas business operational savings is calculated by subtracting the actual required revenue for the gas year, calculated in accordance with the gas companies' licences, from the forecast required revenue submitted in advance of the year.
3. LOST TIME INCIDENTS Our safety is measured by the safe operation of our staff and contractors as noted on pages 25 and 37.	**LOST TIME INCIDENTS** Lost time incidents are calculated as the number of lost time incidents per 100,000 hours worked by staff and contractors.
4. COST OF CAPITAL OF MUTUAL ENERGY VS NI COMPARATOR Savings incurred on the Group's financing costs compared to the costs which would have been incurred if financed by a Northern Ireland energy utility comparator. This is a direct saving to consumers. Cost of capital of Mutual Energy vs NI comparator can be seen on page 40.	**COST OF CAPITAL OF MUTUAL ENERGY VS NI COMPARATOR** The Group incurs financing costs in respect of debt entered into for the purpose of the business. The Group's average cost of capital is compared to the costs which would have been incurred if financed at the rates charged by a Northern Ireland energy utility comparator over this period. The KPI is the savings made as a result of the lower cost of capital than the comparator company. The savings are calculated as the cost which would have been incurred by a comparator financing the Group's debt compared to the costs actually incurred.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

KEY PERFORMANCE INDICATORS ("KPIs") (CONTINUED)

KEY PERFORMANCE INDICATOR	DEFINITION OF KPI
5. CASH GENERATED FROM OPERATIONS Cash generated in each of the businesses which will be used to avoid future charges to consumers. Cash generated in the gas and electricity businesses can be seen in the graphs on pages 28 and 40.	**CASH GENERATED FROM OPERATIONS** Cash generated in each of the businesses post tax.
6. CO2 SAVINGS The Group can contribute to the reduction in CO2 by facilitating changes on its network to allow: 1. consumers to move from higher CO2 emitting fossil fuel to lower emitting fossil fuels; 2. lower or zero emission fuels to transport through the networks; and 3. different industry types, such as transport, to access electricity or natural gas to lower their CO2 emissions. In addition the Group will seek to minimise the emissions from its own operations, encompassing operational activity, transport and other activities ancillary to running the business. The total of the CO2 savings is the KPI for this activity and a graph showing the results can be found on page 30.	**CO2 SAVINGS FROM MOVING TO LOWER EMITTING FOSSIL FUELS** *DOMESTIC HEATING* The lifetime saving associated with a connection is calculated using Northern Ireland average consumption and applying CO2 conversion factors for oil vs gas based on UK government figures over an assumed 15 year life. The total for the year is calculated by multiplying by the number of new domestic gas connections in the year using figures from the Utility Regulator ('NIAUR') Quarterly Transparency Reports. *INDUSTRIAL AND COMMERCIAL* The annual CO2 saving from industrial and commercial customers burning natural gas compared to CO2 emissions which would have been generated had the customers been operating on oil. The annual consumption from medium and large industrial and commercial customers on the Northern Ireland network is taken from the quarterly transparency report from NIAUR and the CO2 savings are calculated by applying CO2 conversion factors for oil vs gas based on UK government figures.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

KEY PERFORMANCE INDICATORS ("KPIs") (CONTINUED)

KEY PERFORMANCE INDICATOR	DEFINITION OF KPI
6. CO2 SAVINGS (CONTINUED)	*POWER GENERATION* The annual CO2 saving of connecting a unit to the gas network is the emissions of the gas burned in a year compared to the emissions that would have been generated had that unit been operating on another fuel. The comparison fuel is power station specific, and dependent on its historic fuel and the calculation uses the UK Government GHG Conversion factors as appropriate. Where the capacity of a unit has changed as part of the gas conversion process, we only compare new emissions to the lower of the old and new generation capacity. Only plant connected in the timeframe Mutual Energy owned the pipelines are included. **LOWER OR ZERO EMISSION FUELS TO TRANSPORT THROUGH THE NETWORKS** *BIOMETHANE INJECTION* CO2 savings from connecting low CO2 gas producers are calculated by comparing the CO2 content of gas from the UK Government to the content of the gas injected. *ELECTRICITY INTERCONNECTOR* To calculate the CO2 savings associated with the Moyle Interconnector, the calculation determines the carbon intensity of each system by weighting the carbon emissions per MW of the marginal unit by the proportion of non-renewable generation on the system in each hour time period. It then multiplies this difference in the carbon emissions per MW by the actual flow on Moyle. This gives the total carbon savings of Moyle each hour. We then sum these hourly figures across the year to give total CO2 savings resulting from Moyle. **CO2 SAVED IN GROUP OPERATIONS** These are calculated in accordance with guidance provided by the Department of Business, Energy and Industrial Strategy ('BEIS'), for conversion of different fuel types, to calculate the CO2 usage.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

KEY PERFORMANCE INDICATORS ("KPIs") (CONTINUED)

KEY PERFORMANCE INDICATOR	DEFINITION OF KPI
7. MARKET IMPROVEMENTS IMPLEMENTED[2] GMO NI uses a Market Improvement Register to identify and manage changes to the gas market in Northern Ireland, and to aid with planning of work and resources. The register weights each change from minor updates to larger implementations of key regulatory changes. Market improvements implemented can be seen in the graph on page 33.	**MARKET IMPROVEMENTS IMPLEMENTED** Number of market improvements implemented within each financial year.
8. ANNUAL DEBT SERVICE COVER RATIO The ability to acquire infrastructure at low cost to the consumer is critically dependent upon our track record with the existing asset financing. As well as compliance with the respective financing covenants, the principal requirements of all financiers are the maintenance of Annual Debt Service Cover Ratios (ADSCR) of greater than 1.15 for Moyle, 1.25 for Premier Transmission, 1.20 for Belfast Gas Transmission and 1.20 for West Transmission. Graphs showing these ratios can be found on pages 26 and 37.	**ANNUAL DEBT SERVICE COVER RATIO** The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the bonds for each operational company. The basis of calculation is Available Cash / Debt Service in the next 12 months. In each case Available Cash = the difference between income and expenses in the period + cash in designated bank accounts, where cash in the designated bank accounts is limited to 1x Debt service.

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

[2] "Market change date milestones met" KPI was replaced with "Market improvements" KPI this year as the previous KPI was based on EU requirements which had fixed dates, however, this is no longer the case for many of the market improvements following Brexit

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

GAS BUSINESS REVIEW

STRATEGIC OBJECTIVE:

OPERATE ASSETS SAFELY AND COST EFFECTIVELY, OUTSOURCING WHERE APPROPRIATE

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

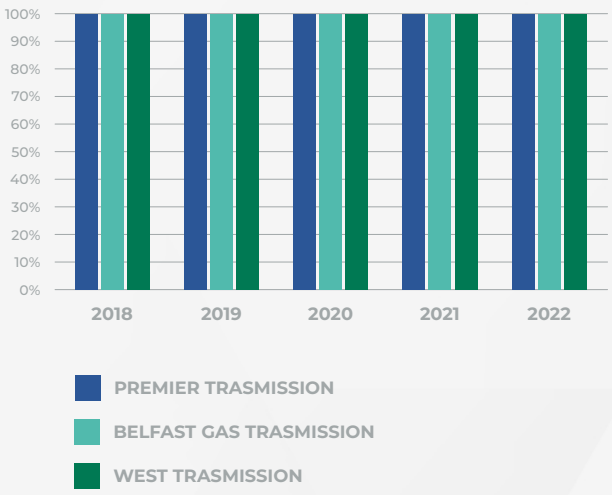
GAS BUSINESS REVIEW

OPERATIONAL PERFORMANCE

It was a relatively mild winter, the peak day gas demand occurring on 24th January 2022 6.4mscm/d, less than the forecasted 7.5mscm/d and the previous year's peak of 7.01mscm/day on 10th February 2021. Wholesale gas prices were high and Ukraine conflict occurring late February did raise concern on gas supply, but there were no supply issues in GB and no operational issues with our gas transmission network so we are very pleased to have maintained the availability of the gas system through the year at 100% (KPI 1). The expansion of the distribution sector continues apace with almost 17,000 additional domestic connections in the 2021 calendar year, creating an approximate lifetime CO2 emissions saving of c170,000 tonnes. Annual consumption of gas for the power generation sector continues to decrease with intermittent renewables contributing more to the electricity mix. That said, the peak daily requirement for power generation remains at the same levels on the days the renewables are not available and is set to take a step increase as more new connections to gas fired electricity generation come on stream.

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

KPI 1: GAS BUSINESS AVAILABILITY



We continued the roll out of the replacement control computers on the sites and working with adjacent transmission system operators began to implement changes in the operational pressures in the network in preparation for increasing peak day demands.

The West Transmission assets have been operational for almost three years and the associated demand, and hence the flow in the pipeline, had grown sufficiently to enable the internal pipeline inspection of the first section of the pipeline. The inspection provided assurance that there are no material defects in the pipeline and established a baseline for effective integrity management throughout its remaining life.

FINANCIAL PERFORMANCE

The combined gas business costs for Mutual Energy's subsidiaries (Premier Transmission, Belfast Gas Transmission and West Transmission) for the gas year ending on 30 September 2021 were £0.2m below the forecasts used for predicting tariffs (September 2020: £2.0m below) (KPI 2).

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

For Premier Transmission and Belfast Gas Transmission, the Annual Debt Service Cover Ratio (ADSCR) will tend to average towards 2.0. Over-performance above 2.0 in earlier years will reverse in the future and will result in future ADSCR below 2.0 when this cash is released to the benefit of consumers. The timing of tax payments can have a similar effect. West Transmission began servicing its debt in the gas year ended 30 September 2019, so its ADSCR was first calculated in the year ending 31 March 2020.

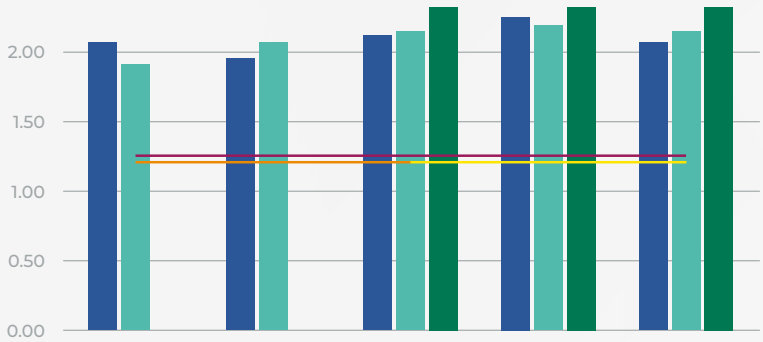
STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

GAS BUSINESS REVIEW (CONTINUED)

FINANCIAL PERFORMANCE (CONTINUED)

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

KPI 8: GAS BUSINESS ADSCRS



	2018	2019	2020	2021	2022
Premier Transmission ADSCR	2.06	1.95	2.15	2.24	2.04
Belfast Gas Transmission ADSCR	1.93	2.06	2.17	2.18	2.12
West Transmission ADSCR	-	-	3.09	2.88	3.00
Premier Transmission minimumADSCR	1.25	1.25	1.25	1.25	1.25
Belfast Gas Transmission minimumADSCR	1.20	1.20	1.20	1.20	1.20
West Transmission minimum ADSCR	-	-	1.20	1.20	1.20

FUTURE DEVELOPMENT – ASSET PERFORMANCE AND UTILISATION

We will soon connect the Kilroot Power Station to the Belfast Gas Transmission pipeline and integrate the operation of the connecting site and pipeline into the overall operation of the gas transmission assets. The renewables-based electricity system requires dispatchable flexible generation to have available for the substantial periods when intermittent renewable generation is insufficient. During the year, Kilroot submitted a formal connection request for circa 750MW of gas-powered plant at Kilroot. This will start to contribute to peak daily gas requirements from 2023. The step up in gas capacity required to fuel the 750MW electrical plant will take overall NI daily capacity beyond the 8.08mscm/d that is available through Twynholm and the SNIP pipeline, which will lead to the commercial use of the Gormanston supply point into NI as a minimum. The potential increased load, essential to keeping the electrical system functioning effectively, will push the NI gas transmission system close to the limits of its physical capacity and likely bring forward the first use of existing capacity constraint management arrangements. The NI TSOs and Gas Market Operator are seeking information on running regimes from the electrical system operators which will guide any capital expenditure or system changes to help facilitate this unprecedented increase in load. Preliminary analysis of the operating regime suggests that, in open cycle mode, the new plant may want to have offtake rates on the system in excess of all the existing gas-powered plant combined. The timeline for changes to the system will be determined in 2022 once the proposed requirements of the electrical system are confirmed, including outline timelines for any required capital expenditure.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

GAS BUSINESS REVIEW (CONTINUED)

STRATEGIC OBJECTIVE:

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

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

GAS BUSINESS REVIEW (CONTINUED)

In the gas year 2019-20 we agreed with the Utility Regulator (NIAUR) to set aside £2.7m of the money we had saved in our gas businesses to assist in the cash flow of our shippers should any shipper default in its payment obligations due to the impact of the COVID-19 pandemic. This reserve continues to be held given recent market conditions and high gas prices.

Whilst savings against the forecasts and the use or return of these to shippers are very welcome, the main means by which the businesses deliver savings to the consumers in Northern Ireland is through providing a low cost of capital. The costs of the gas transmission assets are charged to the respective shippers through a "use of system" charge which happens automatically through the postalised transmission system charging methodology. The savings achieved due to our low costs of capital are therefore passed on to shippers, allowing them to charge the end consumer less for their gas. Overall gas business charges recovered from shippers in the 2020-21 gas year (excluding the new West Transmission assets) were 20% lower (2019-20: 13% lower) in real terms than in 2004-05, before the mutualisation of Mutual Energy's gas assets. We continually seek to achieve operational savings and efficiencies.

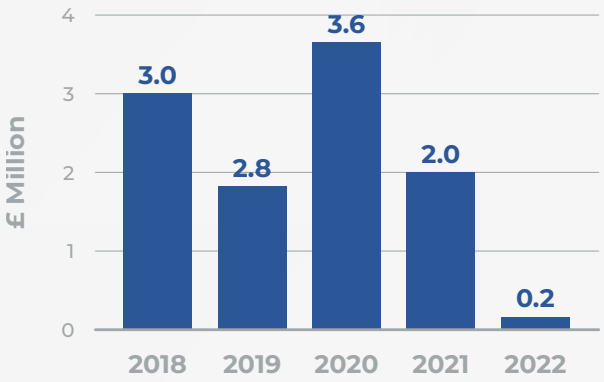
Year on year the business measures its progress with reference to the annual forecast provided for the tariff calculation, as shown in the following chart (KPI 2). Savings in the most recent year were reduced by increased spend in negotiating the upstream Transportation Agreement with GNI(UK), the outcome of which was significant future savings for NI consumers.

KPI 5 shows the movement in the cash balance (including deposits and investments with maturity of less than 1 year) from the previous year. The cash flows shown exclude cash flows in relation to the financing of the West Transmission business.

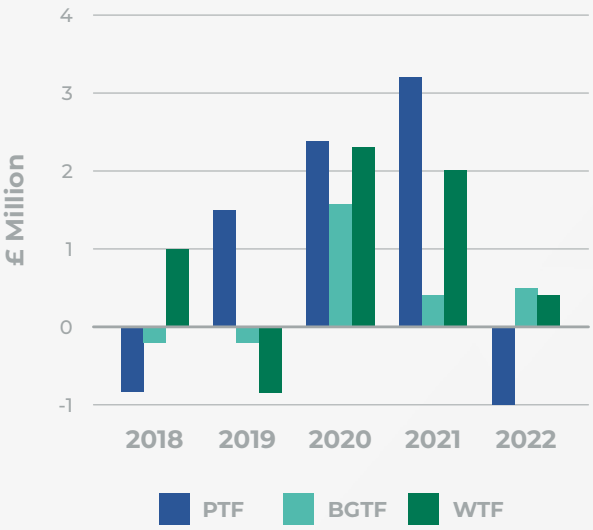
The cash generated in 2021 reflects the agreement with NIAUR to set aside the additional reserve to help shipper liquidity in the event of a shipper defaulting, but has not been required to date. In 2017/18, £1.25m of funds retained from Premier Transmission's previous outperformance against targets were provided to West Transmission to assess the opportunity of a preconstruction financing. As a result, West Transmission was financed in July 2018 at a very low rate, resulting in significant benefit to customers.

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

KPI 2: GAS BUSINESS OPERATIONAL SAVINGS VS FORECAST



KPI 5: CASH GENERATED IN THE YEAR



STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

GAS BUSINESS REVIEW (CONTINUED)

STRATEGIC OBJECTIVE:

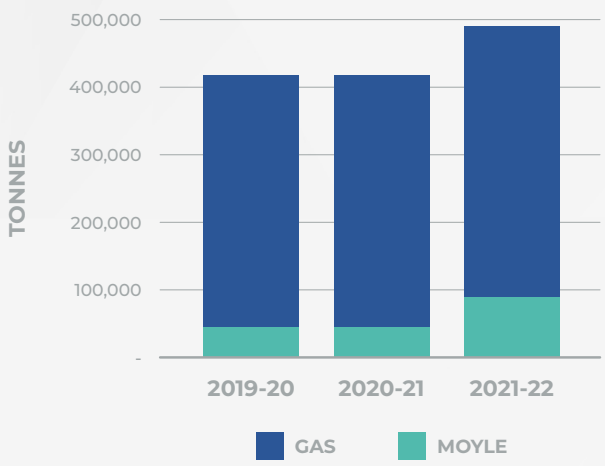
TAKE AN ACTIVE ROLE IN COLLABORATION WITH KEY STAKEHOLDERS IN THE ACCELERATION OF DECARBONISATION THROUGH INTERVENTIONS AND INVESTMENTS WHICH BENEFIT NORTHERN IRELAND ENERGY CONSUMERS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

GAS BUSINESS REVIEW (CONTINUED)

FUTURE DEVELOPMENT – ENERGY TRANSITION
The Group targets its activities to allow users of our assets to reduce their CO2 and measures the CO2 savings which are facilitated by the business as outlined in the graph below (KPI 6). The facilitation of CO2 savings by others is the key contribution the Group can make to achieving net zero. The direction of our efforts to facilitating replacement of higher CO2 emitting fuels with lower CO2 emitting fuels and transporting lower carbon energy, as measured by this KPI, will provide a benefit of many multiples the savings we can make in our own energy use.

KPI 6: CO2 SAVINGS



The most immediate way to reduce CO2 is to facilitate higher CO2 emitting sectors converting to lower CO2 emitting gas and this continues to be a core business, with domestic and commercial customers steadily moving from oil to gas for heating purposes. A key ongoing project is the connection of the Kilroot power station to the gas network, enabling the coal fired plant to be replaced by a gas fired plant. The CO2 savings from this change will be evident once the new plant comes online.

Longer term we aim to facilitate the progressive reduction of the CO2 content of the gas we transport through our assets. The first milestone in this process is the ability to accept biogas in the networks, and our Gas Market Operator has successfully adapted the commercial framework for gas transportation to facilitate this injection which will take place on the distribution networks, with first injections hopefully in the 22/23 year. Other progress continues to be difficult as Northern Ireland is still in the process of developing an energy strategy, and the Utility Regulator are not adopting any framework to support regulated entities in making any substantive progress. We continue to engage with both parties to identify areas where progress can be made.

Another complement to biogas reducing the carbon footprint of transported gas is the use of hydrogen. During the year we partnered with B9 Energy, Islandmagee Energy Storage and the Net Zero Technology centre to develop the "Ballylumford Power to X" project which aims to convert excess renewable electricity into hydrogen, store it and then use the hydrogen to create electricity when renewable electricity is not available. This project is at a very early stage, but has received funding from BEIS and will provide a practical insight into one possible solution to the fundamental problem of the intermittency of renewable energy.

On the research side the Group continue to work with the Hylight collaboration, bringing together research expertise from Dublin City University, National University of Ireland, Galway and University College Cork and a large number of interested companies to assess the potential for hydrogen in Ireland.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

GAS BUSINESS REVIEW (CONTINUED)

BALLYLUMFORD POWER-TO-X PROJECT

Our Energy Transition team worked closely with the Net Zero technology centre, Islandmagee Energy Storage and B9 Energy to identify the opportunity to address one of the core challenges in decarbonising the electricity sector: dispatchable low carbon power generation. The potential solution is to store surplus renewable electricity in the form of hydrogen and then reconvert this back to electricity when required. BEIS has awarded over £986,000 to this 12-month Power-to-X Project as part of its support for the UK's first ever Hydrogen Strategy, and this project will drive forward the commitments laid out in the UK Government's Ten Point Plan for a Green Industrial Revolution which includes the ambition to deliver 5GW of low carbon hydrogen production capacity by 2030.

Phase one of the Power-to-X Project will see the delivery of a front-end engineering design (FEED) to demonstrate the concept of innovative, first-of-a-kind, longer duration energy storage technologies which can be deployed at scale, and where green hydrogen from renewable energy sources, such as wind and solar, will be stored for later use as carbon free fuel in both the transport and power generation sectors.

Ultimately the Ballylumford Power-to-X Project seeks to create a full-cycle hydrogen economy, from production, storage and distribution to usage at the site. The FEED study will establish a set of requirements to improve the security and reliability of Northern Ireland and Ireland's power system through curtailment management and the provision of a range of system services including electrolysers and a gas turbine.

The Ballylumford power generation site has unique significance because it combines strong connection to the gas and electricity transmission networks, interconnection with Scotland through the SNIP and Moyle pipeline and cables respectively, along with power generation and salt cavern storage that allow optimum conditions for green hydrogen production, storage and use, and for delivering security of supply in a not-too-distant net zero world.

This project will provide invaluable knowledge and open opportunities – allowing the generation of real-world data and practical experience in developing a high pressure 100% hydrogen network and building an understanding of the associated legislative and regulatory framework surrounding such networks. All this will be critical both to delivering the crucially important energy transition for Northern Ireland and maintaining a robust security of energy supply in the future.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

GAS BUSINESS REVIEW (CONTINUED)

STRATEGIC OBJECTIVE:

MANAGE MARKET CHANGES AND REGULATORY DEVELOPMENTS TO MINIMISE RISKS TO THE NORTHERN IRELAND CONSUMER

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

GAS BUSINESS REVIEW (CONTINUED)

UK-EU NEW WORKING ARRANGEMENTS

As a result of Brexit, the EU legislation that drives many of our market rules were transposed into UK Law on an as-is basis, and in addition the UK transmission companies were no longer able to continue membership of the European Network of Transmission System Operators ("ENTSOG"). However, it was felt that strong working relationships need to continue to try to minimise divergence over time and to align arrangements where possible between the EU and the UK for an efficient and seamless gas market. A Working Arrangements Agreement ("WAA") has been agreed in principle between the UK TSOs and ENTSOG, with approval pending from the EU. A Task Force has been enacted and meets quarterly to discuss common items and identify any workstreams that need to be progressed between the parties. For example, the EU has recently consulted on an update to the 3rd gas package to cover renewable gases and is proposing arrangements that would impact cross border flows with the UK. This arrangement stemming from the WAA is in its infancy with the agreement being developed and the first meeting being held within the last financial year. As this work progresses it is seen as a critical forum to monitor regulatory developments and manage market change especially in areas related to the energy transition impacting on cross border flows between the EU and the UK. GMO NI has been involved in the development of this, along with the parent NI TSOs and will be attending the meetings to cover any NI gas market related activities moving forward.

BIOMETHANE IMPLEMENTATION

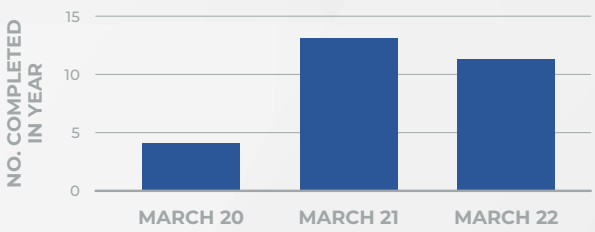
The largest market change over the last financial year has been designing and updating arrangements to accept biomethane injection within NI. At the transmission level this involves allowing injected gas to trade across to a different distribution network than where it was injected, or even virtually reverse flow the biomethane back through Moffat (the NI entry point from National Grid) to claim incentives available within GB. For these activities virtual flow on the transmission network is needed. GMO NI has worked with the distribution system operators, NIAUR, and engaged with stakeholders to develop rules to allow the potential of biomethane to be maximised and to ensure arrangements are suitable to accommodate this, mainly by the introduction of aggregate balancing across both the distribution and transmission networks. The last year has seen the design, engagement and consultation with industry on business rules along with the initial IT systemisation to accommodate this, with the final phase of IT systemisation, code modifications and full implementation to be completed later in 2022. In terms of transmission injection although no entities have made approaches to inject into the transmission grid, GMO NI has worked to progress and outline a connection process along with certain documentation and base case rules to ensure that, when an entity does request a biomethane injection connection to the transmission network, there is a defined process and necessary documentation required for the application to progress successfully.

MARKET IMPROVEMENTS IMPLEMENTED (KPI 7)

The GMO NI Market Improvement Register is reviewed quarterly and considers changes in the following areas, all weighted depending on their significance:

- **Market:** Changes which improve transparency/information provision or may increase efficiency, flexibility or liquidity and therefore directly benefit the Shipper either via cost savings or otherwise
- **Operational:** Changes that improve the operation of the network
- **External:** Includes work such as accommodating a new connection point onto the network or a regulatory change that requires updates to the business
- **Process:** Changes which are beneficial to Shippers or the transporters in their daily interactions associated with the NI gas transmission market

KPI 7: MARKET IMPROVEMENTS IMPLEMENTED



STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

GAS BUSINESS REVIEW (CONTINUED)

Changes implemented in the year ended 31 March 2022 include the transition of the Trustee and Account Bank to new providers, the design and implementation of business rules for aggregate balancing arrangements across transmission and distribution networks, amendments to the Stranraer tariffing arrangements and inclusion within the annual reconciliation process for legislative compliance, and increased stakeholder engagement with Shippers via a winter webinar series.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

ELECTRICITY BUSINESS REVIEW

STRATEGIC OBJECTIVE:

OPERATE ASSETS SAFELY AND COST EFFECTIVELY, OUTSOURCING WHERE APPROPRIATE

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

ELECTRICITY BUSINESS REVIEW

FINANCIAL PERFORMANCE

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

COMMERCIAL REVENUES

Market arrangements continue to change frequently and the business is required to adapt to the changes flowing from system operator initiatives, EU regulations, and latterly, the arrangements driven by Brexit. The Integrated Single Electricity Market ('I-SEM') arrangements (the new electricity market arrangements in Ireland) were only introduced in September 2018 and already these have changed significantly with the removal of the day-ahead market trading between GB and Ireland upon Brexit. These will change again, likely in 2023/24, to comply with the arrangements allowed for in the Trade and Cooperation Agreement between the UK and EU.

Within Commercial revenues there are three distinct streams:

- **Auction revenue/market difference revenue:** Electricity is scheduled to flow automatically from the lower priced system to the higher priced system, and Moyle is entitled to the revenue related to this price difference. Previously for the majority of our capacity, Moyle sold the right to this revenue via forward auctions. From 1 January 2021 all of these auctions have ceased and Moyle retains the value of the price difference between the two markets for the volume of energy flowed. Pre-Brexit these flows were mostly in the day ahead market, but from 1 January 2021 the SEM interconnectors no longer participate in the day ahead market, operating exclusively in the intra-day market instead.

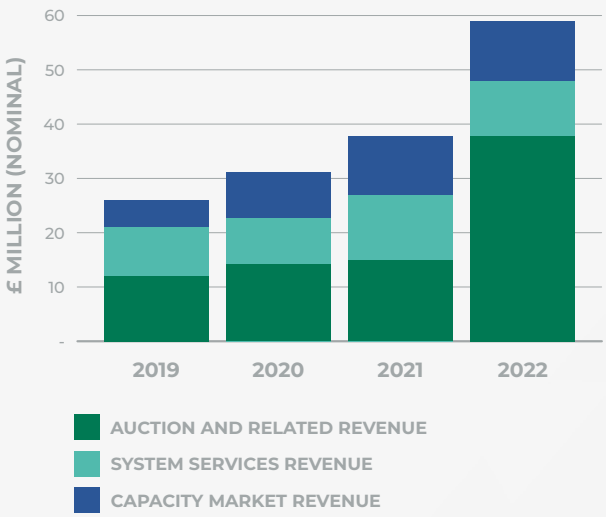
- **System services:** Moyle has historically provided a level of basic system services to the Irish and GB electricity systems, but as the need to accommodate more non dispatchable renewable energy has increased, so too have the requirements of those systems for more complex services. This has led to greater revenue flows for these enhanced services. Competition from new technologies in system services markets may result in a reduction in this revenue in future, but this may be balanced if the interconnector can expand the range of services it offers.

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

Moyle has seen a significant change in the commercial revenue flows in recent years, with more income originating from services provided to the system operators and capacity market revenue, in recognition of the value of interconnection between markets with high renewable penetration.

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

COMMERCIAL REVENUE TREND



STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

ELECTRICITY BUSINESS REVIEW (CONTINUED)

COMMERCIAL REVENUES (CONTINUED)

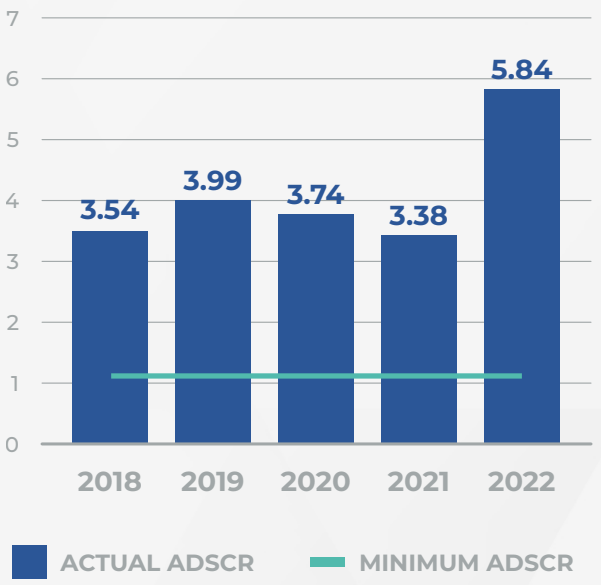
Included within 2022 auction and related revenue is an amount of €12,289,000 (£10,239,000 Sterling equivalent) which remains due from SONI in relation to capacity constraints imposed by SONI against Moyle Interconnector Limited during the period from September 2021 to March 2022. Further information on the judgements in respect of this revenue can be found within critical accounting estimates and judgements on page 118.

TARIFF MECHANISM REVENUE

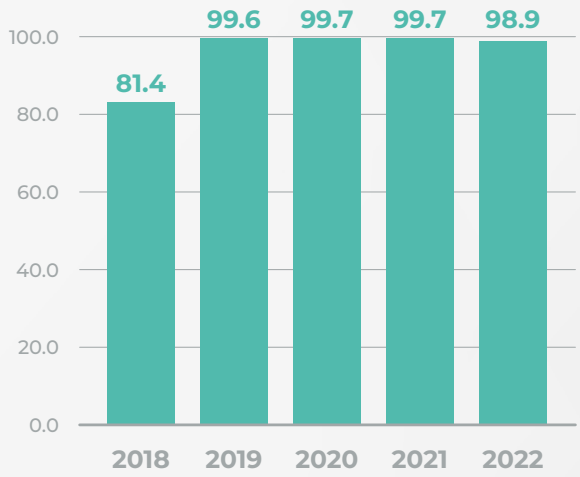
The charges through the tariff mechanism are known as the Collection Agency Income Requirement (CAIRt). No CAIRt charge was made for the 2021/22 electricity year, being 12 months to 30 September 2022 (year to 30 September 2021: £Nil). Page 40 provides more explanation of our historic use of reserves to waive CAIRt calls in order to deliver savings to consumers evenly over the life of the asset.

The Moyle Interconnector group made an operating profit of £40.3m (2020: £18.6m). The ADSCR for the year was 5.84 due to continued strong revenues under the new market arrangements.

KPI 8: MOYLE ADSCR



KPI 1: MOYLE AVAILABILITY (%)



OPERATIONAL PERFORMANCE

Moyle's availability through the year has been high at 98.9% (KPI 1) (2021: 99.7%), and this year outages upstream on the Scottish Power system, further restricted the effective availability of the asset by 1.3% (2021: 0.1%). The availability is high by HVDC standards but lower than the previous year as a result of a rise in failure of certain key components within the aging control system causing forced outages or requiring short scheduled outages to address. The replacement of these components is within the scope of the control system upgrade project "CSUP", the planning and design of which has been underway from 2018 and is being implemented 2022. There were no lost time incidents in the year (KPI 3).

Moyle has also been very reliable through the period in delivering DS3[1] ancillary services to the Irish system operator and 'Balancing and Ancillary Services' to the GB system operator. These services have become important tools for both system operators to manage the increasing levels of non-synchronous generation on their respective networks and played an important part in enabling SONI to increase its limit on non-synchronous generation to 75%. These services represent an increased source of revenue, and their reliability is an equally important measure as availability. In 2021/22 the reliability of these services was 98.2% (2020/21: 90.5%).

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

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

ELECTRICITY BUSINESS REVIEW (CONTINUED)

These reliability figures are impacted by overall interconnector availability (KPI 1) but also the speed of response of the service when called upon, which in turn is reliant on the technology type of Moyle's convertors. The control system upgrade project (CSUP) includes amendments to the functionality of the convertors to improve the reliability by improving speed of response across a wider range of operational parameters. This will also improve Moyle's system service offering, allowing the business to access more revenue.

FUTURE DEVELOPMENT

High levels of interconnection are widely accepted as a key enabler of the energy transition, allowing networks to facilitate more intermittent renewable energy, which is exported when Northern Ireland has a surplus. During the year Moyle exports totalled 0.8TWh, mostly when there were high wind conditions, which was equivalent to c34.5% of the total wind generation in Northern Ireland. We continue to work with the system operators in Northern Ireland and GB to improve the levels of capacity they can accept and the capacity limitation was reduced to increase our firm capacity for export to Scotland from 250MW to 500MW, albeit we are now constrained in export to 400MW by the characteristics of the NI transmission network; SONI are considering options which would remove this last constraint and enable unfettered import and export of the full 500MW technical capability of the link.

2022 is the implementation year of the control system upgrade project. Outages commenced in May and the two poles of the interconnector have now been decoupled, with one returned to service whilst the other is refurbished. Once refurbished the first pole will be brought into service and tested, following which the remaining pole will be refurbished, brought into service and both will then be tested together. The project remains on track for completion in Q4 2022.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

ELECTRICITY BUSINESS REVIEW (CONTINUED)

STRATEGIC OBJECTIVE:

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

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

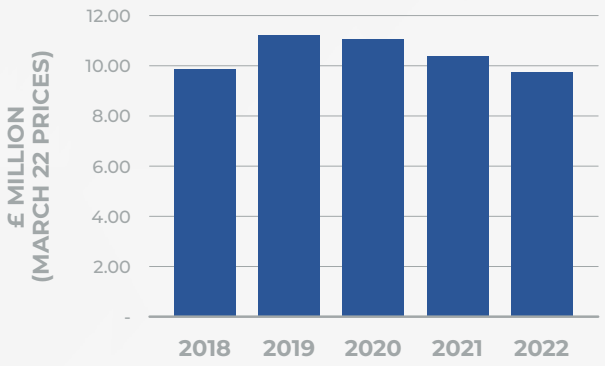
ELECTRICITY BUSINESS REVIEW (CONTINUED)

The UK and world energy markets have endured extreme volatility in the last months of 2021 and into 2022. This upheaval has driven harsh price increases and has had a significant impact on many businesses and families. As Moyle has performed well during this period the business is now in a position to implement a sustained annual contribution to customers, so as to try and alleviate some of the strain on consumers and aims to agree a five year plan with NIAUR. Our ambition is threefold: 1) to agree a plan covering tariff reductions; 2) to direct target help to the hardest hit customers; and 3) investment in energy transition costs to avoid these being placed on tariffs. Whilst the quantum would be reviewed annually in light of business conditions to allow full consideration of our required cash reserves, the objective is to target savings to customers which are sustainable over a five year period. As a first step Moyle intends to utilise c£3m of cash reserves to assist energy customers via an adjustment to the tariff mechanism, allowing SONI to reduce electricity tariffs for the tariff year to 30th September 2023.

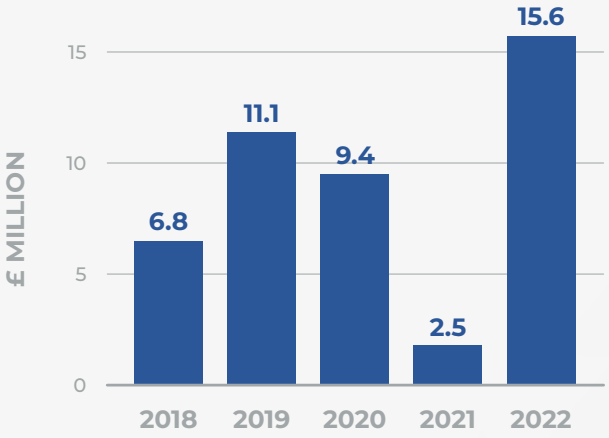
This direct contribution is in addition to the interconnector business continuing not to require use of system charges. In its operation to date Moyle has avoided collecting over £335m (2021: £280m) in use of system revenue it was otherwise entitled to collect. Whilst all initial modelling and expectations forecast commercial revenue to be minimal, the changing market conditions and active management of the auction and system services opportunities resulted in this being a major source of income, to the extent that it was possible to provide the considerable benefits of the interconnector to the Northern Ireland market for some time free of any use of system charge. No use of system charges have been applied to customers in the 2021/22 tariff year, or are proposed for the 2022/23 year.

In addition to the absence of tariff charges, the Mutual Energy group passes further savings on to consumers through its low cost of capital. A way of measuring the benefit which will flow to consumers is to calculate the cost of capital savings for the Group compared to a Northern Ireland energy utility comparator (KPI 4). The chart below shows the annual savings in March 2022 prices over the last 5 years. Cumulative savings to 31 March 2022 have exceeded £160m (2021: £150m).

KPI 4: MUTUAL ENERGY GROUP ANNUAL COST OF CAPITAL SAVINGS VS COMPARATOR



KPI 5: MOYLE CASH GENERATED IN THE YEAR



STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

ELECTRICITY BUSINESS REVIEW (CONTINUED)

STRATEGIC OBJECTIVE:

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

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

ELECTRICITY BUSINESS REVIEW (CONTINUED)

The need for an integrated approach to the decarbonisation of the electricity sector was brought to the fore with the system stresses experienced in Ireland in 2020/21. The capacity of wind installed in Ireland has now reached over 5500MW, in a system whose overall peak demand is over 6900MW[3] , meaning for large periods electricity produced from wind can provide the bulk of the demand. However when the wind does not blow the system still relies on, increasingly aged, fossil fuel plants. By time winter approached in 2021 Ireland had experienced 7 warnings that a generation shortfall could lead to blackouts ("amber alerts") in just over 15 months, compared to 11 in the previous 10 years.

Electricity interconnectors provide a core tool in managing the electrical system to accommodate intermittent generation such as wind and solar. In times of high wind in Ireland the wholesale electricity price tends to fall and the interconnectors tend to export to GB. When intermittent generation produces low levels of output, the wholesale price generally rises and the interconnectors tend to import power from GB, often essential to keeping the system operating. This process consistently results in saving CO2 emissions. We use an outside party[4] to provide data on the emissions of the plant on the electrical systems in GB and in Ireland at any point in time, from which we can determine on a 15 minutes by 15 minute basis the CO2 content and the effect the interconnector has. In the 2021/22 year the operation of our interconnector saved an estimated 89,900 tonnes of CO2, equivalent to taking over 40,000 petrol cars off the road.

Clearly, while there are differences in the GB and Ireland generation fleets, more interconnection will reduce emissions. Whilst the interconnector has always had the ability to flow 500MW in either direction, this has historically been constrained by the system operators on either side. In late 2021 our efforts to persuade National Grid to increase our export capacity culminated in an increase up to 400 MW. With our import capacity set at 450MW this concludes an overall 67% improvement from 2015.

The second mechanism by which interconnectors support decarbonisation is by providing "ancillary services". Ancillary services are a range of actions which support the stability of the electricity grid. As more intermittent renewables are integrated onto the network these become more and more important. These products are of vital importance to the system operators and we have worked with both National Grid on the GB side and SONI in Northern Ireland to provide workable solutions. Over time we have improved the interconnector's speed of response and changed from a simple "on/off" response to a dynamic response which provides different levels of power in line with the system needs, measured in milliseconds. The ongoing investment in the new control system for the interconnector will not only replace a part of the asset which is approaching the end of its useful life but will also further the capability and improve reliability of the ancillary services we provide.

The Northern Ireland network continues to increase the level of non-synchronous power it can accept, with the current limit set at 75%. There is an urgent need to address the issue of energy storage, to allow more wind on the system and provide a source of low carbon energy in low wind conditions, and we continue to work at both a policy and practical level to assess opportunities in this area.

[3] EirGrid Winter outlook 21/22 – 6904MW
[4] electricityMap, © tmrow.com

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

ELECTRICITY BUSINESS REVIEW (CONTINUED)

STRATEGIC OBJECTIVE:

MANAGE MARKET CHANGES AND REGULATORY DEVELOPMENTS TO MINIMISE RISKS TO THE NORTHERN IRELAND CONSUMER

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

ELECTRICITY BUSINESS REVIEW (CONTINUED)

The most significant market development in the year has been the unprecedented high gas prices, driven by increased global gas demand and geopolitical events, and their knock-on effect on wholesale electricity prices in both the SEM and GB. Concurrently, this has been the first whole financial year where Moyle's capacity was allocated under the fallback arrangements required as a result of Brexit. Until 1st January 2021, the SEM was part of the EU's Single Day Ahead Coupling "SDAC" arrangements, which meant that Moyle's capacity was implicitly allocated, and the interconnector flow largely determined at the day ahead stage as part of SDAC. Since 1st January 2021, the SEM has remained part of SDAC[5] but GB has left these arrangements so Moyle cannot participate in SDAC and there is no allocation of its capacity at day ahead. Instead, Moyle's capacity is now solely made available and allocated in intraday auctions which are held later in the day and see lower levels of participation. Whilst the efficiency of these interconnector trading arrangements is sub-optimal in comparison to SDAC, they have functioned well and allowed Moyle to capture the large market spreads between the high electricity prices in the SEM and GB – this has led to Moyle generating record levels of revenue from capacity allocation in the year. A further challenge in the year has been that both GB and, in particular, the SEM have experienced periods of tight generation margins leading to further upward pressure on prices and SONI often preventing Moyle from flowing power from Northern Ireland to GB. We are working to both reduce these restrictions and ensure they are properly compensated.

The EU-UK Trade and Cooperation Agreement envisaged alternative day ahead interconnector trading arrangements with GB being developed by April 2022 but this work has stalled due to concerns around the efficiency of the proposed arrangements and is expected to be revisited in the coming year. The SEM regulators are also considering whether any interim improvements to the current interconnector trading arrangements can be made so care will be needed to ensure that whatever arrangements are put in place are an improvement on what we currently have.

The UK and Ireland, and more recently Northern Ireland, have set testing targets for levels of renewable energy as part of a drive towards achieving net zero carbon emissions. For this to happen the system operators require a suite of tools to manage the increasingly volatile balance of electricity generation and demand. In recent years on the SEM side, as well as facilitating increasing exports of excess wind generation, Moyle is a major provider of system support services to SONI as part of their DS3 system services initiative. The services needed continue to develop and the regulatory authorities have recently concluded a consultation on the high-level design of future system services arrangements. This will progress into developing the detailed design of these arrangements and we will work to ensure that future arrangements provide for and appropriately value interconnector participation. On the GB side Moyle provides services through bespoke bilateral contracts with National Grid Electricity System Operator (ESO) which we expect to be phased out in favour of a more competitive procurement process for standardised products. Whilst National Grid ESO have already started moving towards that type of process, the current design does not yet facilitate interconnector participation and we are liaising with National Grid ESO to try and remove the current barriers to interconnector participation. The coming years will see a number of new interconnector projects coming online between GB and Europe, GB and SEM and so interconnectors will play an increasingly significant role in the SEM and GB markets. Whilst additional interconnectors could be seen as competition, they will lead to increasing price convergence which is good for consumers (although negative for interconnector revenues) and incentivise TSOs to ensure that their system services markets benefit from the presence of interconnector participation.

During the year Moyle assessed the potential for its participation in National Grid's stability pathfinder project and submitted a bid to build this equipment at their site in Scotland. Whilst the contract was not awarded to Moyle, its participation in this process exerted price tension on the other bidders.

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

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

GROUP

STRATEGIC OBJECTIVE:

ACQUIRE STABLE INFRASTRUCTURE ASSETS AT A LOW COST TO THE CONSUMER

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

The Group remains prepared to assess any major infrastructure acquisition which would be to the benefit of Northern Ireland consumers. The Climate Change Committee's sixth UK carbon budget highlighted the sheer scale of investment needed in the UK to meet policy objectives and, once energy strategy in Northern Ireland is properly determined, we expect there will be substantial investment required in Northern Ireland energy infrastructure. The Group's recently appointed energy transition team have been working on a number of projects in anticipation of future policy clarity, and indeed the first engineering assessment project for Power-to-X commenced this year (see pages 30-31).

GROUP FINANCIAL HIGHLIGHTS

CASH FLOW AND LIQUIDITY POSITION

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

The Group had a net cash inflow in the period of £14.9m (including movement on deposits), driven by strong revenues in the Moyle business. All four subgroups hold high levels of cash reserves to allow for unforeseen requirements and indeed are obliged to hold significant cash reserves as conditions of their financing arrangements. At 31 March 2022, cash reserves in Premier Transmission group amounted to £11.2m (2021: £14.4m) with a further £28.8m (2021: £26.5m) cash held on short-term deposit, Belfast Gas Transmission group held £11.9m (2021: £11.4m) and West Transmission group held £32.4m (2021: £6.5m) with a further £13.9m (2021: £39.5m) held in short term deposits. At 31 March 2022, Moyle Interconnector group held operating cash reserves of £85.1m (2021: £69.5m). Total cash holdings (including cash held on deposit which is classified as financial assets) by the Group at year end amounted to £187.9m (2021: £173.0m).

REVENUE, PROFITABILITY AND RESERVES

After accounting for debt service, the Group made an after-tax loss of £0.3m (2021: profit of £10.5m).

FINANCE EXPENSES

Included within finance expenses is £36.8m (2021: £15.4m) in respect of borrowing costs arising on the Group's index linked issued bonds. These borrowing costs are made up of three elements:

- actual interest charge was £8.3m (2021: £8.1m);
- £27.6m (2021: £6.4m) required to restate debt liabilities to latest applicable Retail Price Index, with the large increase from prior year being the result of the high inflation in the current year; and
- bond fees and other charges and credits £0.9m (2021: £0.9m).

The revenue entitlements in the business are linked to debt repayments made and so in any particular year the movements in revenue will be related to the interest and indexation payments payments made, not the book restatements of debt liabilities to account for indexation changes.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

STAKEHOLDERS, RELATIONSHIPS AND RESOURCES

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

CUSTOMERS

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

The Premier Transmission Pipeline System provides a service to shippers from Moffat in Scotland to exit points at EP Ballylumford, the connection with Gas Networks Ireland (NI) ('GNI') pipelines at Carrickfergus, Belfast Gas exit points in Belfast and Larne, and West Transmission's exit points at Maydown and in the West of Northern Ireland via offtakes from GNI's pipelines. A total of 19 shippers (2021: 18) are currently registered to use the Northern Ireland gas system.

PARTNERS AND CONTRACTORS

The System Operator for Northern Ireland (SONI) continues to oversee the operation and administration of the Moyle Interconnector, with Siemens plc undertaking the long-term maintenance of the electricity convertor stations. SGN carry out the routine maintenance, emergency response, and monitor our gas system from their gas control centre in Horley, outside London. This is an important partnership for the Group and we have been pleased to extend the contract for a further 10 years to 2032 following a procurement exercise under the new post Brexit procurement regulations.

REGULATORS AND GOVERNMENT DEPARTMENTS

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

BONDHOLDERS AND FINANCIERS

The Directors are very conscious of their obligations to the bondholders and noteholders in the finance documents. In addition to complying with their other reporting obligations, they make available to financiers copies of the Annual Report. Our key financiers are: for Moyle, Assured Guaranty UK Limited as controlling creditor and the Bank of New York Mellon as trustee; for Premier Transmission, Financial Guaranty Insurance Company ("FGIC") as controlling creditor and Prudential Trustee Company Limited as trustee; for Belfast Gas Transmission, Assured Guaranty UK Limited as controlling creditor and Prudential Trustee Company Limited as trustee; and for West Transmission, Legal and General Assurance Society Limited (LGAS) as majority noteholder and Law Debenture Trust Corporation plc as trustee.

STAFF

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

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

EMPLOYEE DIVERSITY

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

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

STAKEHOLDERS, RELATIONSHIPS AND RESOURCES (CONTINUED)

	2022		2021	
	Male	Female	Male	Female
Board	**7**	**1**	6	2
Senior Management	**11**	**3**	9	3
All employees & Board	**28**	**11**	25	12

EMPLOYEE KPIs

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

KPI	2022	2021
Training days per employee	4.5	3.4
Sickness absence per employee	2.3%	1.7%

Due to the Group's small number of staff a few longer-term illnesses in the period can have a significant impact on the sickness absence rate. Where such instances arise appropriate actions, such as the use of temporary staff and consultants, are taken by the business to ensure business continuity during these periods of absence. We monitor this KPI with reference to sickness absence rates in the UK which averaged 4.6 days per worker in 2021 compared to our average of 6.0 days in the year ending 31 March 2022 (2021: 4.3 days).

SOCIAL, COMMUNITY AND HUMAN RIGHTS ISSUES

The Group has a fundamental community focus through its purpose: to own and operate energy infrastructure in the long-term interest of energy consumers in Northern Ireland. This is also reflected through all of our strategic objectives which include cost effective operation to deliver savings and minimise risks of market change to Northern Ireland consumers. More information on how the Group delivers these objectives can be found on pages 9 to 46.

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 56, for the benefit of employees, contractors and the wider public. We comply with the Employments Rights Act, Modern Slavery Act and all other applicable UK law as an absolute minimum and recognise the importance of treating all of our employees fairly. We are committed to conducting business in an honest and ethical manner and act according to our Code of Ethics, which is integral to our business and sets out a range of principles we adhere to. We do not tolerate bribery or corruption of any kind and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships. The Group is a member of Business in the Community and continues to explore options for positive improvements to our environment, community and workforce.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

RISK MANAGEMENT

The Group carried out a comprehensive review of its risk processes during 2020/21. The Group's risk process was subsequently revised and changes were implemented during the year to encompass feedback from the review. These changes will ensure that risk appetite is more clearly defined and that risk assessment is fully embedded throughout all areas and levels of the business, ensuring effective risk management.

RISK MANAGEMENT STRUCTURE

The Board approves the overall risk management process and the Audit and Risk committee approves all the policies covered by the framework. The new process implemented in the year ensures that people at all levels of the Group feed into the risk assessment process. Staff from each business function meet quarterly to identify and assess the risks faced and the functional risk registers produced at these meetings are then shared with senior management. Senior management also meet quarterly to identify strategic risks, taking into consideration the functional risks reported.

As part of the new risk process implementation some changes were made to the Board's Committees, effective 1 October 2021, including changes to the composition of the Committees and updates to the names and terms of reference of the existing Audit Committee and Risk Committee. Strategic risks are now reported to the Asset Oversight Committee (formerly the Risk Committee) and Audit and Risk Committee (formerly the Audit Committee) at least twice yearly, with an annual review of these also being carried out by the Board.

Responsibility for ensuring compliance with the policies is delegated to the Audit and Risk Committee who delegate asset-related risks (including Health & Safety) to the Asset Oversight Committee. Moyle Control System Upgrade Subcommittee is responsible for managing the risks of the Control System upgrade. The Asset Oversight Committee reports to the Audit and Risk Committee after each meeting. The Moyle Control System Upgrade Subcommittee reports to the Board as appropriate.

Assessment of risk was carried out, throughout the year ended 31 March 2022 and up to the date of approval of the annual report and financial statements, in line with the risk process in effect at that time.

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

The Board, Audit and Risk Committee, and Asset Oversight Committee review the risk registers regularly and consider the approach to risk recording, management, and mitigation and how this remains appropriate in the current market environment. The Board, during its annual review of the effectiveness of the Group's internal control and risk management systems, did not identify, nor was advised of, any failings or weaknesses which it has determined to be significant.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

RISK MANAGEMENT (CONTINUED)

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.

The principal risks of the Group have changed considerably as a result of the risk process refresh, with many risks being reclassified or separately identified as a result of the changes in the process and are set out below.

OPERATIONAL RISK

The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The risk encompasses internal failures, such as poor processes or insufficient or untrained staff, and external actions such as cyber threats, or 3rd party accidental or malicious actions which restrict the ability of our assets to operate, either physically or commercially.

Risk description and potential impact	Mitigations and actions taken	Risk trend
Ineffective processes, procedures or management of third party activities enable ignorant or negligent third parties to cause catastrophic failure of the pipelines or cables onshore or offshore leading to loss of gas supply/unavailability of Moyle, costly and lengthy repairs and reputational damage.	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. As part of this process, we require the contractors to work under a set of processes and procedures which enable us to manage the associated risks of the networks.	
Reliance on 3rd Parties to supply business critical services can result in counterparty risk. Exposure to a limited number of counterparties interested in providing services could lead to uncompetitive pricing.	Contract management plans are in place which identify key deliverables and ensure regular reporting and meetings with contractors. Due diligence is performed where required to ensure financial stability. Termination rights and exit planning are in place where appropriate.	
Health & safety risk: Failure to maintain robust and effective health and safety practices, or failure to identify and manage wellbeing in the workforce may lead to injury to staff, contractor or public or have an adverse impact on the organisation's operations.	A Health & Safety policy, management system, and plans are in place which are reviewed annually. Risk assessments, method statements, audits, inspections and training are regularly performed.	

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

RISK MANAGEMENT (CONTINUED)

Risk description and potential impact	Mitigations and actions taken	Risk trend
People and HR risk: The failure to effectively manage talent, ensure appropriate training and resourcing, and plan for leadership succession could impede the realisation of strategic objectives.	The business operates a performance-based culture with competitive pay and conditions benchmarked against the market, engaging closely with staff and utilising performance management and development programmes and succession planning. Human Resources policies are in place, the operation of which mitigate risks in this area. Risk has increased in this area due to skills shortages observed in the market and difficulties recruiting staff.	
Business continuity risk: One-off events or public health emergencies, epidemics or pandemics, have the potential to significantly impact the Group's operations through a fall in demand for the Group's products/services, a reduction in staff availability and business interruption.	A business continuity plan is in place, with key tasks identified and more than one individual trained in each. This system has been thoroughly tested and is proven to work well.	
IT and cyber risk: The Group is dependent on information and operational technology systems to support its business activities. Any significant operational event, whether caused by external attack, insider threat or error, could lead to loss of access to systems or data, adversely impacting business operations across both the Information Technology and Operational Technology networks.	A business continuity plan is in place with resilient infrastructure and disaster recovery environments available. Access security and protocols are in place and penetration testing is carried out at regular intervals. The business liaises with the National Centre for Cyber Security and the Centre for the Protection of National Infrastructure and utilises security consultants as required.	
Gas system flexibility deteriorates: Either through increases or changes in demand profile or reductions in upstream pressure or changes in rules we are unable to provide the flexibility our customers expect, even if we are operating within our contractual entitlement.	Longer term systems planning is in place through annual gas capacity statement. The Northern Ireland network code and upstream Transportation Agreement with GNI(UK) define the business rules and capacity levels. Capacities and pressures are monitored to make sure they are not breached. System constraint arrangements and emergency response arrangements are in place. Risks have increased as generation load on the gas network is expected to increase significantly in the near term and this will lead to additional challenges in managing the network.	

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

RISK MANAGEMENT (CONTINUED)

FINANCIAL RISK

The risk of failing to safeguard the organisation's assets, financial impropriety or financial misreporting. Inadequate financing, liquidity problems, non-compliance with covenants, market changes or failure of counterparties could lead to failure of financial structure. It includes fraud risk which is seen as the risk of internal or external fraud leading to financial loss, service disruption and reputational damage.

Risk description and potential impact	Mitigations and actions taken	Risk trend
Poor financial management could result in breach of financing covenants, compliance failure or financial loss.	Controls are in place which cover authority limits, budgeting and financial processes and the overall governance structure. The most recent changes include implementation of a strict ring back process for payee changes.	
Inadequate financing, liquidity problems, non-compliance with covenants, market changes or failure of counterparties could lead to failure of financial structure.	Financing costs from borrowing arrangements are fully recovered through income allowances reducing the Group's exposure to inflation risk. Processes are in place to monitor covenant compliance and there is active management of market changes. Treasury policies are aimed at minimising the risks associated with the Group's financial assets and liabilities and financial counterparty failure clauses are included in financing documents. The Group has low liquidity risk due to its strong cash flows and the reserve accounts and liquidity facilities required by its financing documents. The required reserve accounts remain fully funded and £36m of liquidity facilities were in place throughout the year for Moyle, Premier Transmission, Belfast Gas Transmission and West Transmission. Business planning processes are in place to identify cash requirements in advance.	

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

RISK MANAGEMENT (CONTINUED)

BUSINESS ENVIRONMENT AND MARKET RISK

The risk to the organisation of potentially failing to meet its objectives following significant changes or negative events within the external environment in which it operates. Examples of external risk include but are not limited to: sectoral risks such as Brexit; the impact of global factors and market conditions such as economic slowdown; external political environment or 'global shocks' such as terrorist attacks; extreme weather events, third party damage to assets etc.

Risk description and potential impact	Mitigations and actions taken	Risk trend
Market changes for gas and electricity in Northern Ireland could result in reduced volumes transported through the assets, insufficient revenue recovery, default on debt, damage to reputation of mutual model or fines.	Licence provisions implementing a collection agency agreement in the electricity business and the postalised charges system in the gas business are designed to offset the impact of such changes. An influencing strategy is in place to positively impact market developments. Recent and future market development are discussed on pages 33-34 & 44. Risk has increased in the period due to the need for market changes to meet decarbonisation targets.	

POLITICAL AND REGULATORY RISK

Risks driven by regulatory or political attitudes to the industry generally or Mutual Energy in particular.

Risk description and potential impact	Mitigations and actions taken	Risk trend
As the Group consists primarily of regulated businesses it is exposed to regulatory risk. Changes in economic regulation or government policy could have an adverse impact on our financial position.	The Group's relationships with NIAUR and DfE are managed at senior level through frequent meetings and correspondence in line with the Group's communication strategy. The Group coordinates with other EU system operators on EU issues. A proactive approach is taken to consultations on any issue which could affect the Group's business interests, with legal advice sought where appropriate.	
As the Group is subject to growing number of laws and regulations, the cost of compliance or the failure to comply with current and future laws/regulations may negatively affect the Group's business and our financial position.	There is a full suite of processes in place to ensure compliance. Our asset management systems and Health and Safety management and environmental systems are essential in ensuring legislative compliance.	

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

RISK MANAGEMENT (CONTINUED)

CORPORATE STRATEGY AND COMMUNICATION RISK

The risk associated with failure to achieve the strategic and business objectives. Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.

Risk description and potential impact	Mitigations and actions taken	Risk trend
Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.	The Board retains responsibility for strategy as a reserved matter and manages communications directly in line with its communication plan, using outsourcing as appropriate. A member of staff has been appointed to have oversight of the day to day operation of Group communications and management of the external consultant.	
Risk of failure to develop brand and reputation to successfully deliver on strategic objectives.	The key control in this area is the communications plan and Board's involvement in this. As part of the execution of the current communications plan, there has been extensive recent engagement with the relevant politicians.	
Failure to prepare for energy transition and/or inadequate operating model to support the energy transition could result in significant financial, operational and reputational impacts.	The Group strategy has been amended to concentrate on this area and the Board's cycle of strategy evaluation and business planning gives explicit regard to energy transition. The refocus of the organisation structure and investment in two full time staff seeks to involve the business as much as possible in future developments and has decreased the risk in this area. Gas industry wide co-ordination is relatively new, has become more formal and progress is now being made as resources are applied from all companies.	

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

RISK MANAGEMENT (CONTINUED)

PROJECT DELIVERY RISK

The risk of an event or occurrence that may negatively impact on the delivery of a project. This could be as a result of poor contracting or management, insufficient resources or extreme weather could cause project delays resulting in financial losses, reputational damage, and damage to assets or loss of availability.

Risk description and potential impact	Mitigations and actions taken	Risk trend
Poor contracting or management, insufficient resources or extreme weather could cause project delays resulting in financial losses, reputational damage, damage to assets or loss of availability.	The Group's main project is the Control System Upgrade Project which is overseen by the Moyle Control System Upgrade Subcommittee, with sufficiently qualified and trained resources in place throughout the governance structure. Controls are project specific, but centre round project execution plans and project governance arrangements for each project. Contractors are closely monitored and stakeholder engagement plans and insurance are in place.	

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

HEALTH, SAFETY AND ENVIRONMENT

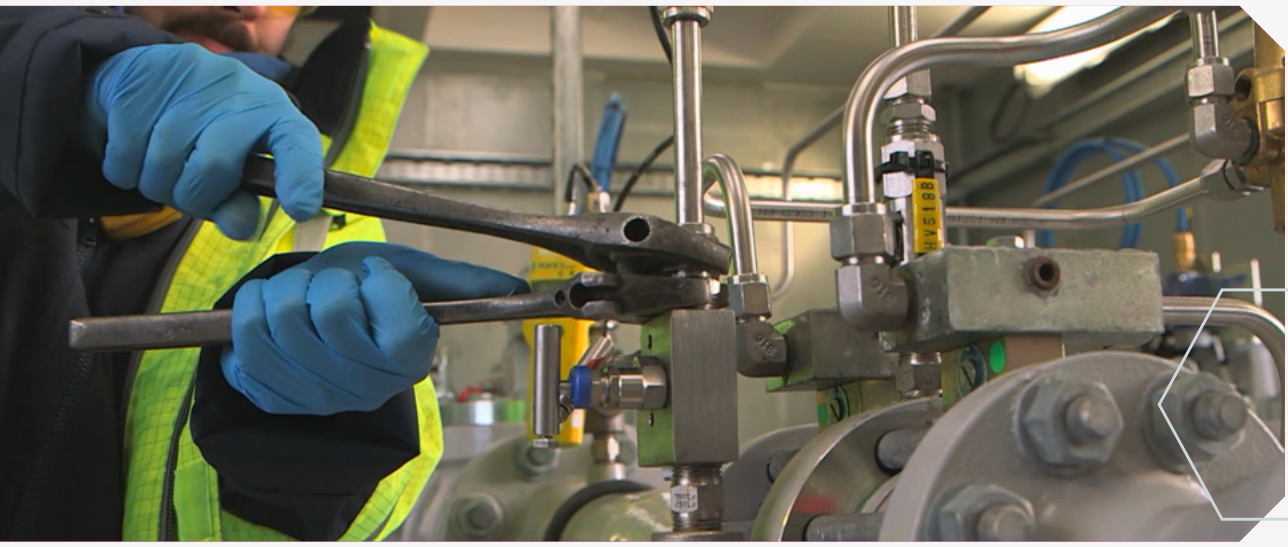
The Group continues to put a high value on the Health and Safety of its operations and to recognise the importance of minimising the impact of its activities on the environment, both locally and in the global context. The wellbeing of the Group's staff is considered extremely important to the business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

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

A Royal Society for the Prevention of Accidents (RoSPA) Quality Safety Audit was carried out in the year, with an improvement having been obtained on the already strong result from the previous audit in 2018/19. A plan is being put into place to progress the further improvements identified.

Our gas business runs simulated gas emergency exercises to ensure a robust response plan is in place to manage gas supply emergencies and pipeline incidents. Mutual Energy Limited, having taken over as the Northern Ireland Network Emergency Co-ordinator (NINEC) in November 2019, coordinated the annual Gas Supply Exercise in November, testing the response to an incident on one of the Gas Transmission Pipelines in Northern Ireland. An actual Gas Supply Emergency would be co-ordinated and managed in the same manner as that tested in the exercise.

The Group is committed to good environmental performance and holds under review its policies and strategies to monitor and deliver on this commitment, in the context of shifting societal awareness and priority on improving environmental performance. No breach of any environmental licence or permits (which included those issued for Gas to the West construction and subsea surveys) were recorded in the year.



STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

HEALTH, SAFETY AND ENVIRONMENT (CONTINUED)

GREENHOUSE GAS EMISSIONS REPORTING

The Group continues to strive to increase the scope of our carbon monitoring and reporting with a view to reduce our overall emissions by 30% by 2030, with the clear objective of achieving the net zero targets in line with Northern Ireland policy timelines as outlined in the Northern Ireland Climate Change No. 2 bill.

As part of this process in improvement in reporting we will be monitoring our emissions on both the contract-based method and the location-based method as recommended by the US environmental protection agency based on The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (GHG Protocol) developed by the World Resources Institute (WRI). The contract-based method helps support renewables on the widest viewpoint, by allowing companies to support offsetting renewable investment at the most appropriate sites rather than always at the point of use, which is rarely possible. The location-based method helps incentivise actual reductions in energy use as well as investments in self supply of electricity.

The Group has further targets to improve monitoring and estimations in areas such as emissions during maintenance activities, and to extend the scope of our monitoring to "scope 3" emissions.

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

	Location-based calculation		Contract-based calculation	
	2022	2021	2022	2021
Usage of gas (GWh)	4.7	4.0	4.7	4.0
Usage of electricity (GWh)	2.9	3.2	2.9	3.2
Total annual energy usage (GWh)	**7.6**	7.2	**7.6**	7.2
Emissions from:				
Usage of gas in operations (tCO2e)	860	737	860	737
Electricity consumption at gas sites (tCO2e)	69	76	69	76
Electricity consumption at convertor stations (tCO2e)	552	659	-	110
Electricity, heat, steam and cooling purchased for own use (tCO2e)	6	8	6	8
Total annual emissions (tCO2e)	**1,487**	1,480	**935**	931
Electricity intensity ratio - emissions per GWh electricity transmitted	**0.24**	0.33	**-**	0.05
Gas intensity ratio - emissions per GWh gas transmitted to distribution networks	**0.12**	0.11	**0.12**	0.11

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

HEALTH, SAFETY AND ENVIRONMENT (CONTINUED)

The Group has already moved to contracting for carbon neutral electricity at the convertor stations, which is reflected in the reduction in the contract-based calculation and is currently assessing self-supply renewables options which would improve the location-based measurements.

Whilst we will actively target improvements in our own emissions, our main focus will remain the emissions savings we can help achieve in the wider decarbonisation of the electricity and gas networks, where our progress to date has an impact many hundreds of times greater.

METHODOLOGY

We have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 and Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Emissions have been calculated using UK Government guidelines for conversion of natural gas and grid electricity. Scope 3 emissions have not been reported. It is not practical as yet for the company to publish information in respect of its consumption of fuel for the purposes of transport, which consists only of fuel used in personal/hire cars for business use. All energy usage and emissions are in respect of UK operations.

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

ENERGY EFFICIENCY MEASURES

During the year the Group continued to invest in energy efficiency measures including the introduction of an electric vehicle scheme which is open to all employees by way of salary sacrifice arrangements.

FORWARD-LOOKING STATEMENTS

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

By order of the Board

Gerard McIlroy
Director
1 July 2022

THE MUTUAL ENERGY BOARD

DAVID **GRAY** (70)

CHAIRMAN

David was appointed Chair of Mutual Energy on 1st January 2019. He is also Chair of The Energy Innovation Centre, a Non-Executive Director of Tokamak Energy Ltd, and a Council Member of the Regulatory Policy Institute. From 2013 to 2018 he was Chair of the Gas & Electricity Markets Authority (Ofgem) which regulates the gas and electricity sectors in Great Britain and from 2009 to 2019 he was a Non-Executive Director of the Civil Aviation Authority. In his earlier career, David spent 30 years working in financial markets as an investment analyst and subsequently in corporate finance, when he led HSBC's team in the energy sector and advised the government on the privatisation of the gas and electricity industries in Great Britain.

PADDY **LARKIN** (53)

CHIEF EXECUTIVE

Paddy joined, what was then, Northern Ireland Energy Holdings in 2007 as an Executive Director and Managing Director of Moyle Interconnector Ltd and in 2010 took over as Chief Executive of the Group. Previously, Paddy was the Chief Executive of Premier Power, a subsidiary of the BG Group and owner of Ballylumford Power Station, having spent time in Engineering and Commercial roles with the Company. He is an Engineering Graduate from Queen's University Belfast and started his career with Northern Ireland Electricity in 1991, just prior to privatisation. Paddy is a Fellow of the Irish Academy of Engineering and also serves as a Non-Executive Director of Northern Ireland Water.

GERARD **MCILROY** (53)

FINANCE DIRECTOR

Gerard joined Mutual Energy in July 2006 and was appointed Finance Director for the group in January 2010. A Fellow of the Institute of Chartered Accountants in Ireland, Gerard trained with Coopers and Lybrand in Belfast and has previous experience in the health, retail and energy sectors within Northern Ireland. He joined Mutual Energy after five years with the Viridian Group where he was Finance Manager with their unregulated energy supply business covering both the Northern Ireland and Republic of Ireland market. Gerard is also a Non-Executive Director of the Low Carbon Contracts company and Electricity Settlements Company. Between them these companies manage the contracts for difference that support GB energy transition aims by guaranteeing low carbon generators a minimum electricity price, and oversee the settlement of the capacity market to ensure that regular payments are made to capacity providers who have agreed to make capacity available in times of market stress.

THE MUTUAL ENERGY BOARD (CONTINUED)

PATRICK **ANDERSON** (48)
DIRECTOR

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

HARRY **McCRACKEN** (73)
DIRECTOR

With a career spanning over 50 years in the energy sector in Northern Ireland, Harry brings specialised industry expertise and an in-depth knowledge of local market environment to the Mutual Energy Board. He was previously Managing Director for leading local utility Northern Ireland Electricity (NIE), capping a career encompassing responsibility for corporate planning through to direct responsibility for all of NIE's operations. As well as the regulated business Harry was Managing Director of the Viridian Power and Energy Group which ran the unregulated wind and power generation business and the retail supply business in the Republic of Ireland. Harry has also held a number of industry positions, notably as Chair of Simple Power, a renewable energy company, and Chair of Winder Electrical Holdings, a Leeds based manufacturer of power transformers and small electrical generators. He also enjoyed a short spell as a Non-Executive of the Northern Ireland Authority for Utility Regulation.

MICHAEL **MCKERNAN** (62)
DIRECTOR

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

THE MUTUAL ENERGY BOARD (CONTINUED)

CHRIS **MURRAY** MBE (66)
DIRECTOR

Chris has over 45 years' experience in the energy industry and, following a career with National Grid and its predecessor companies, now holds a number of Non-Executive Director roles. During his time with National Grid, Chris chaired both National Grid Gas and National Grid Electricity after heading numerous operational directorates. These ranged from leadership of commercial areas to operation of both the national electricity and gas networks. Prior to his roles with National Grid, Chris was the founding CEO of Phoenix Natural Gas and before that worked for East Midlands Gas and British Gas. Chris is Chairman of Water Resources South East, a Board Member of the Low Carbon Contracts Company, the Electricity Settlements Company, the Leicestershire Hospice and is a Special Adviser to the Board of Energy & Utility Skills. He is a Fellow of the Energy Institute, Fellow and past President of the Institution of Gas Engineers and Managers and a member of the Institute of Directors.

CERI **RICHARDS** (63)
DIRECTOR

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

CORPORATE GOVERNANCE STATEMENT

The Group is committed to high standards of corporate governance. The Board leads the Group's governance through the Group Corporate Governance Framework and associated policies. This statement describes how, during the year ended 31 March 2022, the Group has applied the main and supporting principles of corporate governance.

The only listed securities of the Group are the debt securities of Moyle Interconnector (Financing) plc, Premier Transmission Financing plc and Belfast Gas Transmission Financing plc. As such the Group is not obliged to comply with the provisions set out in the UK Corporate Governance Code 2018 (the Code) which is publicly available at www.frc.org.uk. Instead the Group uses its provisions as a guide to the extent considered appropriate to the circumstances of the Group.

GOVERNANCE STRUCTURE

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

The Board is accountable to Members for its management of the business of Mutual Energy. Members therefore play a role in scrutinising the performance of the Mutual Energy Group. Performance is scrutinised against commercial, regulatory and other targets, as well as against energy industry benchmarks for quality of service and cost efficiency. Accordingly, the role of Members is similar to that of shareholders in a public limited company, save that Members have no financial interest in the Company. Members perform this corporate governance role by receiving regular reports on the performance of Mutual Energy and by participating in Members' conferences and in general meetings of Mutual Energy. Further information on Mutual Energy's Members can be found on pages 66 and 84-89.

THE BOARD

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

The Board:

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

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

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

THE BOARD (CONTINUED)

In particular, Non-Executive Directors are responsible for:

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

A procedure is in place for Directors to obtain independent professional advice in respect of their duties. All Directors have access to the advice and services of the Company Secretary and the company solicitors. New Directors receive induction on their appointment to the Board covering the activities of the Group and its key business and financial risks, the terms of reference of the Board and its committees and the latest financial information about the Group. Provision is made for Non-Executive Directors to receive on-going training, as required, in line with the Board timetable. Non-Executive Directors attend the annual members' day to ensure they have an understanding of the members' opinions.

BOARD MEMBERSHIP

The number of meetings attended compared to those the Director was entitled to attend are outlined in the following table:

Directors and Meetings Attended	*Board*	*Nominations Committee*	*Remuneration Committee*	*Audit and Risk Committee (formerly Audit Committee)*	*Asset Oversight Committee (formerly Risk Committee)*	*Membership Selections Committee*	*Control System Upgrade Committee*
David Gray	*7/8*	*2/2*	*5/5*	*-*	*-*	*-*	*-*
Patrick Anderson	*8/8*	*-*	*-*	*5/5*	*-*	*-*	*2/2*
Harry McCracken	*4/5*	*-*	*-*	*1/2*	*2/2*	*-*	*2/2*
Michael McKernan	*8/8*	*2/2*	*3/3*	*3/3*	*3/3*	*-*	*-*
Kate Mingay	*5/5*	*-*	*2/2*	*3/3*	*-*	*-*	*-*
Chris Murray	*8/8*	*-*	*2/2*	*2/2*	*3/3*	*-*	*2/2*
Ceri Richards	*8/8*	*2/2*	*5/5*	*5/5*	*1/1*	*-*	*-*
Paddy Larkin	*8/8*	*-*	*-*	*-*	*3/3*	*-*	*2/2*
Gerard McIlroy	*8/8*	*-*	*-*	*-*	*-*	*-*	*-*

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

Throughout the year, the Chair and the other Non-Executive Directors were independent of management and were independent of any business relationship with the Group. The Chair held one-to-one meetings with Non-Executive Directors during the year, independently of management.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD APPOINTMENTS AND EVALUATION

All Non-Executive Directors joining the Board are required to submit themselves for election at the AGM following their appointment. Thereafter, they are subject to re-election annually. Harry McCracken was appointed as Non-Executive Director on 1 September 2021, and was elected at the September 2021 AGM. The Non-Executive Directors are expected to serve only two terms of three years, but may be extended in exceptional circumstances up to a further three years. The process for recruiting Directors is co-ordinated by the Nominations Committee (see below).

The Board conducted an evaluation of its own performance and that of its committees and individual Directors in respect of the year. In addition, Chris Murray, as Senior Independent Director, held one-to-one meetings with Non-Executive Directors, Executive Directors and other regular Board attendees, to appraise the performance of the Chair.

BOARD COMMITTEES

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

The Committees were restructured during the year following a review of the group's risk management processes. Changes in the composition of the Committees have been outlined in the following pages.

NOMINATIONS COMMITTEE

The Nominations Committee was chaired by Kate Mingay until her retirement in September 2021, following which Ceri Richards became chair of this Committee. The Nominations Committee comprised David Gray, Chris Murray and Ceri Richards until September 2021 when Chris Murray stepped down from the Committee and was replaced by Michael McKernan. The Committee is comprised solely of Non-Executive Directors.

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

During the year, the Committee finalised the selection of Harry McCracken, who joined the Board as a Non-Executive Director on 1 September 2021 and will take over as Chair of the Asset Oversight Committee following Chris Murray's end of term in September 2022. The Committee also considered succession planning for Board members who are due to retire within 2 years.

AUDIT AND RISK COMMITTEE (FORMERLY AUDIT COMMITTEE)

Patrick Anderson is the Chair of the Audit and Risk Committee (formerly the Audit Committee). The Audit Committee comprised Kate Mingay, until her retirement from the Board on 23rd September 2021, and Michael McKernan and Ceri Richards until end of September 2021. From 1 October 2021 the Committee was renamed the Audit and Risk Committee and Michael McKernan was replaced by Harry McCracken and Chris Murray. The requirement for the Committee to have recent and relevant financial experience was met by the Audit Committee Chair, Patrick Anderson, being a Chartered Accountant. Audit Committee meetings were also attended, by invitation, by the Executive Directors of the Group, the external auditors, other advisors and other finance employees as considered necessary.

The role and responsibilities of the Audit and Risk Committee are set out in its terms of reference and are described in more detail in the Audit and Risk Committee Report on pages 81 to 83.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

REMUNERATION COMMITTEE

The Remuneration Committee was chaired by Kate Mingay until her retirement in September 2021, with David Gray, Chris Murray and Ceri Richards also members during this period. From 1 October 2021 the Remuneration Committee was chaired by Ceri Richards, with David Gray and Michael McKernan as members. The Committee is comprised solely of Non-Executive Directors. The role of this Committee and details of how the Group applies the principles of the Code in respect of Directors' remuneration are set out in the Remuneration Committee Report on pages 68 to 79.

ASSET OVERSIGHT COMMITTEE (FORMERLY RISK COMMITTEE)

The Asset Oversight Committee is chaired by Chris Murray and also comprised Ceri Richards and Paddy Larkin, Chief Executive, until September 2021, when Ceri Richards stepped down and was replaced by Harry McCracken and Michael McKernan. Additionally, regular attendees include those with operational responsibility for the company's assets. It is the responsibility of the Committee to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor operational non-financial risks.

The role and responsibilities of the Asset Oversight Committee are set out in its terms of reference and further information on the activities undertaken in the year can be found in the Asset Oversight Committee Report on page 80.

MOYLE CONTROL SYSTEM UPGRADE COMMITTEE

The Moyle Control System Upgrade Committee has been in place since September 2019, tasked with overseeing the upgrade of Moyle's Control System. The Committee is chaired by Chris Murray and also comprised Patrick Anderson and Paddy Larkin, throughout the year, with Harry McCracken joining the Committee upon his appointment. The Committee, which met twice during the year to monitor progress, provides guidance and advice on the main project progress, risks and variations. The Committee provided project progress updates from each meeting to the Board, sending email circulars as required, and provided advice to the Board prior to approval on budgets and variations.

MEMBERSHIP SELECTIONS COMMITTEE

The Membership Selections Committee comprises two Non-Executive Directors, two members who are not also directors of the Company, and two independents appointed by the Utility Regulator. The Committee is chaired by Michael McKernan with Patrick Anderson filling the other Non-Executive Director role throughout the year.

The role of the Membership Selections Committee is to select suitable potential members of the Company (see Members section below) and to recommend their appointment to the Board (as set out in its terms of reference). The Committee is tasked to ensure that the membership is large enough and sufficiently diverse as to:

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

The Membership Selections Committee procures candidates through two routes:

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

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

The Committee did not meet during the year ended 31 March 2022 as membership remained above the required level. A meeting of the Membership Selections Committee was held early in 2022/23 to begin the process of recruiting new members.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

MEMBERS

As Mutual Energy Limited, the holding Company of the Group, is a company limited by guarantee the Board of Directors are supervised in their leadership and control of the group by the members. During the year there were 8 resignations of members, with 6 of these having reached the end of their term, and 1 appointment as set out below. The individuals who were members of the Company for some part of the year are listed below:

Patrick Anderson	Noel Lavery (*resigned 26/01/22*)
Declan Billington	Gavin McBride (*end of term 31/10/21*)
Nikita Brijpaul	Colin McClements
David Cunningham	Harold McCracken (*appointed 01/09/21*)
Robin Davey (*end of term 13/04/21*)	Brian McFarland
Jamie Delargy	Michael McKernan
Connor Diamond	Kate Mingay
Joe Doherty (*end of term 13/04/21*)	Nevin Molyneaux
Stephen Ellis	Dr Bernard Mulholland
Gail Fryer	Chris Murray
Kathy Graham (*resigned 23/09/21*)	Tim Nelson (*end of term 31/10/21*)
David Gray	Muiris O'Ceidigh
Trevor Greene (*end of term 13/04/21*)	Aodhan O'Donnell
Peter Hayes	Colin Oxton
Chris Horner (*end of term 13/04/21*)	Conor Quinn
David Jenkins	Ceri Richards
Scott King	Ken Simpson
Andrew Kirke	Mark Wishart
Helen Kirkpatrick	Ed Wright

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness. In discharging that responsibility, the Board confirms that it has established the procedures necessary to apply the Code, as far as it is relevant, including clear operating procedures, lines of responsibility and delegated authority. A discussion of the process of identifying, evaluating and managing the significant financial, operational, compliance and general risks to the Group's business and of the key risks identified is included in the Risk Management section of the strategic report on pages 49 to 55.

In the prior year, the Board carried out a review of its risk management process, with changes implemented from 1 October 2021.

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

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

LONG TERM VIABILITY

The Directors have assessed the viability of the Group over a five-year period to March 2027, taking account of the Group's current position and the potential impact of the principal risks documented in the strategic report on pages 50 to 55, including the impact of energy transition, the Ukraine war and resulting energy price volatility. Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over this period.

The Directors have determined that the five-year period to March 2027 is an appropriate period over which to provide its viability statement, as this aligns with the period for which detailed business plans, and the associated scenarios, are prepared and this period is considered to have a greater level of certainty than could be achieved for a longer period.

In making this viability statement the Directors have considered the Group's current position, its business plan and committed borrowing facilities. The Group's five-year business plan and other forecasts includes detailed financial budgets and cashflow projections, and additional sensitivity and scenario analysis including plausible severe scenarios. The business plan includes views and assumptions on the operating of the I-SEM market in Ireland, the operation of capacity markets in both GB and Ireland and the development of arrangements for rewarding services to the grid. The forecast cash generated over this period is adequate to meet the Group's anticipated liabilities as they fall due over this period, including the scheduled partial repayment of bond capital and interest. This assessment has also considered the risks faced by the business and the potential impacts of these on the business, including the business' liquidity over the period. In making this assessment, the Directors have also taken account of the protections which exist under the Group's electricity and gas transmission licences which allow for full recovery of costs, including finance costs. The Directors consider that these arrangements, including the cross-guarantee of shippers within the gas businesses, and along with the significant level of credit held by the Joint Allocations Office in respect of electricity revenue, protect the business from material detrimental impact of energy price volatility on budgeted cashflows.

GOING CONCERN

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

DIRECTORS' REMUNERATION REPORT

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

THE REMUNERATION COMMITTEE CHAIR'S ANNUAL STATEMENT

This is my first Directors' remuneration report as Chair of the Remuneration Committee, having succeeded Kate Mingay, the previous chair of the Remuneration Committee, last year. I am pleased to present a positive report on the performance of the business during yet another challenging and difficult year for everyone and particularly our staff.

The Remuneration Committee has continued to monitor employee welfare issues alongside the performance of the Group. This was a year where the home working environment alternated with partial return to the office and where a flexible working environment has now become normal.

The policy for Directors' remuneration was reviewed during the prior year (2020/21), when a benchmarking exercise was carried out by PwC, the results of which were presented to Members in May 2021. This showed broad comparability with the market on total remuneration. The Committee recommended continuation of the policy and it was subsequently approved at the AGM in September 2021. The policy is reviewed every 3 years and so remains in place for the year 2021/22 and can be found on our website www.mutual-energy.com.

The Group's approach to senior management remuneration has been to adopt a performance related pay structure in addition to basic pay. Although there is a short-term element to this, which is related to the immediate "In Year", the larger proportion of it is deferred in order to align senior executives to the longer-term strategy of the Group and to encourage retention. Targets and KPIs are set by the Committee each year, derived from the budget and strategic business plan. The targets and KPIs for the 2022/23 year were set recently in March 2022 by the Committee. The current policy allows for consistency from year to year across the business plan which is produced with a five-year horizon. The In-Year performance related pay reflects the financial and operational performance against the annual budget, whilst the deferred performance related pay allows the board to target projects and strategic outcomes over multiple years which are in the long-term interests of Northern Ireland consumers. The business plan and strategy importantly also reflect energy transition goals and these are incorporated into the longer term Executive targets.

The Committee approved the Executive Directors' and Non-Executive Directors' remuneration for the 2021/22 year in March 2022, and the outcomes are shown later in this report. Executive In-Year revenue targets were also reviewed mid-year since the 2021/22 revenue budget was set recognising the inherent uncertainty of Moyle capacity which moved from the day ahead market to the intraday. When the targets were set, the Committee decided they would reconsider them at the half year. The targets were subsequently recalibrated upward for the second half year given the unusual market conditions generating additional income for the business.

Elsewhere the Committee reviewed the CEO historic pay ratio in October 2021 (Companies Directors' Remuneration Policy and Directors' Remuneration Report Regulations 2019) for the 2020/21 year and resolved to include this in the Annual Report. The 2020/21 CEO to average ratio was 3.8. The annual internal benchmarking and gender pay gap review was also carried out and considered positive within the context of the industry and workforce. The Committee also conducted its regular annual review of succession planning.

I am also pleased to report that a Company Electric Car Scheme was approved during the year which is open to all staff and has had a strong take up to-date.

Ceri Richards
Remuneration Committee Chair

1st July 2022

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

This report summarises the activities of the Remuneration Committee for the year to 31 March 2022 and sets out remuneration details for the executive and Non-Executive Directors of the Group, prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended August 2013. The report includes the statement by the Chair of the Remuneration Committee (page 68) and the annual report on remuneration (pages 70 to 79).

The Group's remuneration policy can be found on the Group's website at www.mutual-energy.com. The remuneration policy was approved by a binding vote at the Group's Annual General Meeting on 23 September 2021 and applies for three years from 1 October 2021, subject to any future changes approved by the members.

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

THE ROLE OF THE REMUNERATION COMMITTEE

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

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

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

ANNUAL REPORT ON REMUNERATION

The annual report on remuneration which follows shows the outturn for the year ending 31 March 2022, determined in line with the remuneration policy approved at the Group's AGM on 23 September 2021.

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR

The remuneration of the Directors for the years 2021/22 and 2020/21 is made up as follows:

DIRECTORS' REMUNERATION AS A SINGLE FIGURE (2021/22)

£'000	Salary and fees[1]	All taxable benefits[2]	Annual performance-related pay[1]	Deferred performance-related pay	Pension related benefits[3]	Total
Executive Directors						
Paddy Larkin[4]	**186**	**1**	**28**	**76**	**16**	**307**
Gerard McIlroy[5]	**154**	**2**	**23**	**63**	**13**	**255**
Non-Executive Directors						
Paddy Anderson	**34**	-	-	-	-	**34**
David Gray	**77**	-	-	-	-	**77**
Harold McCracken[6]	**20**	-	-	-	-	**20**
Michael McKernan	**34**	-	-	-	-	**34**
Kate Mingay[7]	**17**	-	-	-	-	**17**
Chris Murray	**34**	-	-	-	-	**34**
Ceri Richards	**34**	-	-	-	-	**34**
	590	**3**	**51**	**139**	**29**	**812**

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

ANNUAL REPORT ON REMUNERATION (CONTINUED)

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR (CONTINUED)

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

£'000	Salary and fees[1]	All taxable benefits[2]	Annual performance-related pay[1]	Deferred performance-related pay	Pension related benefits[3]	Total
Executive Directors						
Paddy Larkin[4]	184	1	32	79	17	313
Gerard McIlroy[5]	153	1	26	66	14	260
Non-Executive Directors						
Paddy Anderson	34	-	-	-	-	34
David Gray	77	-	-	-	-	77
Michael McKernan	34	-	-	-	-	34
Kate Mingay	34	-	-	-	-	34
Chris Murray	34	-	-	-	-	34
Ceri Richards	34	-	-	-	-	34
	584	2	58	145	31	820

[1] Figures in the table are shown before the effect of salary sacrifices which substitute salary or bonus for pension, or alternatively, pension for salary.

[2] All taxable benefits consists of healthcare benefits provided to Executive Directors and, for Gerard McIlroy, payments made in respect of leasing and maintaining an electric vehicle provided to the director under the Company's electric vehicle scheme.

[3] Pension related benefits include, as applicable, employer pension contribution or pension allowances where the Director has elected to receive salary instead of pension.

[4] Prior to 1 October 2021 and the replacement of the pension contribution with a pension allowance, Paddy Larkin elected to exchange £8,667 pension for £7,616 salary (2021: £15,958 pension exchanged for £14,023 salary), with the difference being used to pay additional employer NIC costs incurred as a result.

[5] Prior to 1 October 2021 and the replacement of the pension contribution with a pension allowance, Gerard McIlroy elected to exchange £7,173 pension for £6,303 salary (2021: £4,734 pension exchanged for £4,160 salary), with the difference being used to pay additional employer NIC costs incurred as a result.

[6] Appointed as Director on 1 September 2021.

[7] Retired as Director on 23 September 2021.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

ANNUAL REPORT ON REMUNERATION (CONTINUED)

DETERMINATION OF 2021/22 ANNUAL PERFORMANCE-RELATED PAY

Annual performance-related pay awards were determined with reference to performance over the financial year ending 2021/22. The performance-related pay accruing to Executive Directors is set out below. The detailed particulars of the performance measures, which we do share with our Members, have not been disclosed as these are considered commercially sensitive.

	Annual performance-related pay (% of salary)				Deferred performance-related pay (% of salary)			
	CEO		FD		CEO		FD	
	Maximum	Actual	Maximum	Actual	Maximum	Actual	Maximum	Actual
Asset performance	7.5%	5.50%	7.5%	5.50%	19.5%	11.75%	19.5%	11.75%
Financial performance	8.0%	6.75%	8.0%	6.75%	-	-	-	-
Markets and Regulatory change management	2.5%	2.25%	2.5%	2.25%	20.5%	17.50%	20.5%	17.50%
Business Resilience and Development	2.0%	0.90%	2.0%	0.90%	15.0%	12.50%	15.0%	12.50%
	20.0%	15.4%	20.0%	15.4%	55.0%	41.75%	55.0%	41.75%

In respect of the within year targets the recent trend of strong availability continued which, coupled with the market conditions, resulted in another record year of commercial revenues and cash generated without the requirement to charge customers via the CAIRt mechanism. As the targets set aimed for performance levels on a par with the very best interconnectors, the asset performance metric within year was adversely affected by 36 hours additional needed over our planned outage on the Moyle in July. Financial performance continued to be excellent. The Committee used its discretion in respect of the revenue targets to reflect new market conditions, making the target for commercial revenue the second half of the year exceed any previous period. All budgets were met and the shortfall against maximum award was a reflection of the stretch targets. There was substantial market change which was managed in line with expectation. Work on business resilience was running slightly behind, and, although a new risk management structure was successfully introduced, progress on the environmental action plan was later than targeted.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

ANNUAL REPORT ON REMUNERATION (CONTINUED)

DETERMINATION OF 2021/22 ANNUAL PERFORMANCE-RELATED PAY (CONTINUED)

As noted in previous years the longer term targets have no explicit financial performance target as the financial performance will be the output of the areas covered in the deferred targets, such as the asset performance and market and regulatory change management. The award in respect of the longer term objectives reflects a strong performance throughout, particularly in the areas of Markets and Regulatory change management and Business Resilience. The long term targets to improve asset performance included: the new control system project which, despite challenges arising from the weakness of the connected systems, progresses on time and on budget; good progress on updating the asset management system; and integrating the Gas to the West assets. Overall results in this area were adversely impacted by cost pressures on some of our contracts. In respect of the Market change metrics, the developments on the long-term commercial position of Moyle have been very favourable, with positive developments in the capacity we are able to utilise on the interconnector, the full benefit of which will be apparent in 2022 and beyond. In the gas business the extension of the Transportation Agreement has been concluded to our satisfaction and new connection work and changes to the network progress well. Finally, under the business resilience and development targets the business made a number of advances in developing a pipeline of opportunities once the Northern Ireland Energy Strategy is in place.

PAYMENTS TO PAST DIRECTORS

No payments were made to past Directors in the year (2021: £Nil).

PAYMENTS FOR LOSS OF OFFICE

There were no payments for loss of office made in the year (2021: £Nil).

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

ANNUAL REPORT ON REMUNERATION (CONTINUED)

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 % *
2012/13	203	81%	N/A
2013/14	257	85%	-
2014/15	260	76%	-
2015/16	265	92%	88%
2016/17	270	71%	92%
2017/18	275	97%	90%
2018/19	289	96%	82%
2019/20	313	95%	79%
2020/21	313	88%	80%
2021/22	307	77%	78%

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

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

ANNUAL REPORT ON REMUNERATION (CONTINUED)

PERCENTAGE CHANGE IN REMUNERATION OF DIRECTOR UNDERTAKING THE ROLE OF CHIEF EXECUTIVE OFFICER

The table below shows the percentage change in remuneration of the Director undertaking the role of Chief Executive Officer and the Group's employees as a whole between 2021/22 and 2020/21.

	Percentage increase in remuneration in 2021/22 compared with remuneration in 2020/21	
	CEO	Group's employees as a whole*
Salary and fees	0.9%	2.2%
All taxable benefits	4.7%	2.5%
Annual performance-related pay	-11.1%	-3.7%

* Reflects the change in pay for an average employee (excluding Non-Executive Directors) employed throughout both the year ended 31 March 2021 and the year ended 31 March 2022.

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

RELATIVE IMPORTANCE OF SPEND ON PAY

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

	2021/22 £'000	2020/21 £'000	% change
Total employee costs	3,170	3,067	3.4%
Total debt repayments plus cash retained in the business plus cash returned to customers	50,336	45,126	11.6%

Total employee costs variances include movements in headcount.

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

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

ANNUAL REPORT ON REMUNERATION (CONTINUED)

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN 2022/23

The Directors' salaries and fees for the 2022/23 year reflect the effect of the agreed inflationary increase and any other adjustments to terms and conditions, and are as follows:

	2022/23 £'000	2020/21 £'000	% change
Chief Executive	194	186	4.7%
Finance Director	156	155	1.0%
Chair	77	77	0.0%
Non-Executive Directors	34	34	0.0%

The annual performance-related pay for 2022/23 will operate on the same basis as for 2021/22 and will be consistent with the Group's remuneration policy. The measures have been selected to reflect a range of financial and operational goals that support the key strategic objectives of the Group and promote its long-term sustainable success.

The Finance Director joined the company electric vehicle scheme in January 2022 and his salary and fees reflect the reduction arising from this accession.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

ANNUAL REPORT ON REMUNERATION (CONTINUED)

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN 2022/23 (CONTINUED)

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

	Annual performance-related pay (MAX % of salary)		Deferred performance-related pay (MAX % of salary)	
	CEO	**FD**	**CEO**	**FD**
Asset performance	7.5%	7.5%	16.5%	16.5%
Financial performance	8.0%	8.0%	-	-
Markets and Regulatory change management	2.5%	2.5%	23.0%	23.0%
Business Resilience and Development	2.0%	2.0%	15.5%	15.5%
	20.0%	**20.0%**	**55.0%**	**55.0%**

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

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

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

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

The annual performance related pay allows near term targeting of milestones and performance and the deferred performance related pay uses wider measures, which address longer term business development in targeted areas over time. This allows the Committee to target successful delivery of a long-term strategy, the alignment with the core mission of acting in the interests of Northern Ireland consumers and the need for success to be sustainable.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

ANNUAL REPORT ON REMUNERATION (CONTINUED)

CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

During the year, the Committee met five times to consider matters relating to Executive Directors' remuneration. The Directors who were members of the Committee during these considerations were Kate Mingay, Chris Murray, Ceri Richards and David Gray until 30th September 2021. The Board's Committees were restructured from 1 October 2021 as part of the risk review process, which also aligned with the retirement of the previous Chair of the Committee, Kate Mingay, from the Board. From 1 October 2021 the Committee consisted of Ceri Richards (Chair), Michael McKernan and David Gray. The CEO and Finance Director attend meetings by invitation and assist the Committee in its deliberations where appropriate. The Executive Directors are not involved in deciding their own remuneration. The Committee receives information on wider workforce policies and remuneration levels, including annual inflationary increases to allow it to properly assess Executive Director remuneration, and reviews staff engagement data and other information to help ensure the alignments of incentives with positive corporate culture.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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

ANNUAL REPORT ON REMUNERATION (CONTINUED)

STATEMENT OF VOTING AT GENERAL MEETING

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

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

	Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration report (2021 AGM)	24	100%	-	0%	24	-
Remuneration policy (2021 AGM)	23	100%	-	0%	23	1

APPROVAL

This report was approved by the Board of Directors on 1 July 2022 and signed on its behalf by:

Ceri Richards
Remuneration Committee Chair

1 July 2022

ASSET OVERSIGHT COMMITTEE REPORT

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

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

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

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

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

As part of a review of how all risk is managed within the Company the Risk Committee was restructured from 1st October 2021 and was renamed the "Asset Oversight Committee". The Committee was chaired by Chris Murray, Non-Executive Director, throughout the year and comprised Paddy Larkin, Chief Executive, and (until 30th September 2021) Ceri Richards, Non-Executive Director. Harry McCracken and Michael McKernan joined the Committee in October 2021. Regular attendees also include those with operational responsibility for the company's assets, led by Stephen Hemphill, Operations Director and other attendees are invited to contribute to the Committee as and when appropriate.

ACTIVITIES IN 2021/22

The Committee met on three occasions during the year ended 31 March 2022. Attendance was as listed in the Corporate Governance Statement.

During the year, the Committee:

- Reviewed performance against the 2021/22 Health and Safety Plan and reviewed and recommended to the Board for approval the 2022/23 Health and Safety Policy Statement, Health and Safety Management System and Health and Safety Plan;
- Monitored the progress against the 2021 external (RoSPA) Quality Safety Audit recommendations and considerations;
- Maintained an oversight on how the Company has dynamically managed the impact of the Coronavirus pandemic;
- Reviewed the Security Policy and annual Security Plan;
- Reviewed the IT Security Policy and annual Security Plan;
- Reviewed the Environmental Policy, Management System/Annual Plan:
- Reviewed the operational risk registers and functional risk registers for both the gas and electricity businesses;
- Considered risks and mitigation options for pipelines critical to Greater Belfast gas security of supply;
- Reviewed the Subsea Emergency Pipeline Emergency Repair Strategy;
- Monitored progress against the Gas to the West snagging programme;
- Approved the Asset Management Policy and monitored progress on the ISO 55001 implementation programme;
- Reviewed the annual Committee Effectiveness Questionnaire, Terms of Reference, membership of the Committee and proposals for Risk Management review.

The Committee reported to the Audit and Risk Committee (formerly the Audit Committee) after each meeting through the issuance of minutes, meeting summaries and Chair-to-Chair discussions.

Proceedings are reported at the subsequent Board meeting, as necessary.

AUDIT AND RISK COMMITTEE REPORT

I am pleased to present the Audit and Risk Committee Report for the year ending 31 March 2022. During the year, the Committee approved and implemented the revised risk management process following a review and refresh exercise carried out in the prior year. As part of this refresh the Board's committees were restructured from 1 October 2021 and the Audit Committee was renamed the Audit and Risk Committee, and now takes full responsibility for all risk matters. The Audit and Risk Committee delegates risks strongly associated with the group's assets to the Asset Oversight Committee (formerly called the Risk Committee), who review these risks and report to the Audit and Risk Committee. The Committee continues to review the effectiveness of the Group's financial reporting and internal control systems.

Patrick Anderson
Audit and Risk Committee Chair
1 July 2022

The Audit and Risk Committee was in place throughout the year ended 31 March 2022 and all its members were independent in accordance with provision B.1.1 of the UK Corporate Governance Code.

PRINCIPAL RESPONSIBILITIES

The role of the Audit and Risk Committee is to:

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

The Audit and Risk Committee delegates management of certain asset-related risks to the Asset Oversight Committee who provide minutes of each meeting to the Audit and Risk Committee. Discussions are held between the Audit and Risk Committee and Asset Oversight Committee as required and reports of each Asset Oversight Committee meeting are provided to the Audit and Risk Committee.

MEMBERSHIP

The Committee was chaired by Patrick Anderson throughout the year. The Chair is a qualified accountant and fulfils the Committee's terms of reference that at least one member of the Audit and Risk Committee should have sufficient recent and relevant financial experience. The Committee also comprised Kate Mingay, Michael McKernan and Ceri Richards until September 2021, and Harry McCracken, Chris Murray and Ceri Richards from 1 October 2021. The Committee possess a range of skills, knowledge and experience and all have competence relevant to the energy sector. Members receive no additional remuneration for their service on the Committee.

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

ACTIVITIES

The Committee met five times in the year ended 31 March 2022 with attendance as listed in the Corporate Governance Statement. The key areas of consideration are set out in pages 82 to 83, along with a description of the activities carried out in each area during the year.

AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

FINANCIAL REPORTING

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

The majority of the matters identified are effectively routine and consistent year on year. During the year Moyle Interconnector was constrained on several occasions by the System Operator resulting in reductions in market revenue received. Under the market arrangements the System Operator must keep Moyle whole and calculate the amounts due as a result of their actions. We have still not received payment of this revenue which has been recognised in full within the accounts. Further information in respect of this can be found on page 118. The final cost of West Transmission's assets has yet to be finalised. The valuation of these assets has been based on an initial determination issued by the Regulator in March 2021 which covers c83% of the anticipated expenditure. More details on the calculation of this valuation, along with information on other key judgements and policies are included in note 1 on page 117.

The other financial reporting matters which the Committee considered included:

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

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

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

- reviewed the effectiveness of the Group's internal controls and risk management systems including consideration of fraud risk;
- following the Board's approval of the new risk management process during the year, the Audit and Risk Committee, in conjunction with the Asset Oversight Committee, implemented the new Risk Management framework and reviewed the Committee's Terms of Reference in light of these changes;
- reviewed the Group's Strategic Risk Register and made revisions thereto in line with changes to the Group's business;
- reviewed and approved the statement to be included in the annual report concerning internal controls and risk management;
- determined the schedule and frequency of performance of compliance reviews, reviewed the outcome of these compliance reviews and recommended improvements and policy amendments in a range of areas; and
- reviewed and approved a range of Group policies, in line with the Group's compliance review schedule.

AUDIT

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

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

AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

AUDIT (CONTINUED)

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

- meeting with the external auditor to confirm their independence and objectivity;
- meeting with the external auditor:
  - ◊ at the planning stage before the audit in order to review and approve the annual audit plan, ensuring that it is consistent with the scope of the audit engagement;
  - ◊ after the audit at the reporting stage to review the findings of the audit and discuss any major issues which arose during the audit, including any accounting and audit judgements, the levels of errors identified and the effectiveness of the audit; and
  - ◊ without management present so that any matters can be raised in confidence;
- reviewing audit materiality;
- monitoring of the statutory audit of the annual financial statements;
- monitoring of the review of Moyle's interim financial statements;
- considering and making recommendations to the Board, to be put to members for approval at the AGM, in relation to the re-appointment of the external auditor; and
- considering whether an internal audit function is required. The Group operates a risk based, cyclical compliance review programme, approved by the Audit and Risk Committee, which monitors compliance with all Group policies. On occasions the Committee will engage specialist resource where complexity of policy determines this to be appropriate. All findings from compliance reviews are presented to the Audit and Risk Committee for review, with remedial actions taken if appropriate and timely implementation monitored by the Committee. At the Committee's April 2022 meeting the Committee considered the need for an internal audit function and determined that it is satisfied for the present, given the scope of the Group's activities, that the systems of internal control and risk management are adequate without an internal audit function.

REVIEW OF COMMITTEE EFFECTIVENESS

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

MEMBERS

DECLAN **BILLINGTON MBE**

Declan Billington was awarded an MBE in May 2019 for services to the economic development of Northern Ireland. He is the Chief Executive of John Thompson & Sons Ltd, Northern Ireland's largest animal feed processor. Over the last eighteen years he has been heavily involved with the Northern Ireland region of CBI and was Chair of its Economic Affairs Committee and subsequently Chairman of CBI NI. Declan sat on the Ministerial Energy and Manufacturing Advisory Group and currently Chairs the CBI NI Energy Sub-Group. Keen on driving forward the Agri-Food agenda, Declan played an active role on several NI and UK Government Brexit Advisory bodies and has provided advice to departments such as NI Office, DAERA, and DfE to a wider remit at UK level, such as the Department for Exiting the EU and the Cabinet Office, in particular, in respect of the NI protocol and also sits on the HMRC Joint Customs Consultative Group which is working through the finer details post transition. Declan sits on the Boards of the Agricultural Industries Confederation (AIC), is a member of the Institute of Global Food Security Industry Advisory Board, the Executive Committee of the NI Grain Trade Association and is Chair of the NI Poultry Federation. He previously held the post of Chair and Vice Chair of the Northern Ireland Food and Drinks Association and was a former member of the Agri Food Strategy Board (AFSB) up until the end of its tenure in 2017. Aside from his MBE, Declan has also been recognised by the Agri Food industry for his practice and development of agriculture and received his Fellowship with Institute of Directors (FIoD), Associateship of Rural Agricultural Societies (ARAgS), and Honorary Professor of Practice from Queens University of Belfast.

NIKITA **BRIJPAUL**

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

MEMBERS (CONTINUED)

DAVID **CUNNINGHAM**

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

JAMIE **DELARGY**

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

CONNOR **DIAMOND**

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

STEPHEN **ELLIS**

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

GAIL **FRYER**

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

MEMBERS (CONTINUED)

PETER **HAYES**

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

DAVID **JENKINS**

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

DR SCOTT **KING**

Dr Scott King is an award-winning business growth advisor, entrepreneur, investor, published author (across business and advanced technology), lean practitioner, innovator, Fellow of the Institute of Mechanical Engineers and Chartered Engineer with an ability to think strategically and see the big picture. For over 20 years Scott has worked and travelled across the globe providing direction, assistance, and leadership to an ever-expanding list of multi-sectoral organisations, ranging from new starts to SME's, globally recognised brands, and public sector organisations. A strong communicator and proactive engager, Scott leverages his business, technical and commercial experience to regularly support private and public sector organisations with independent critically evaluated strategic reviews and provides them with detailed and prioritised recommendations to achieve their organisations goals. To date Scott has secured multiple millions in grant funding for numerous private and public sector projects and through his business, Pinnacle Growth Group, has helped to create over 500 jobs locally and other demonstrable examples of investment returns for public and private sector funds.

ANDREW **KIRKE**

Andrew Kirke is a Partner in the Contracts and Energy team at Tughans and works with clients in a full range of commercial matters, with a particular focus on the energy sector. Andrew has worked with Tughans for a number of years, having trained with another Belfast firm and spent some time working offshore in a corporate finance role. He recently finished a second year-long secondment to SONI Ltd, the transmission system operator for Northern Ireland, as the sole in-house counsel, and is on the committee of the Northern Ireland branch of the Energy Institute.

HELEN **KIRKPATRICK**

Helen Kirkpatrick is currently a Non-Executive Director of NTR plc and of Origin Enterprises plc and a Non-Executive Director of Displaynote Technologies. Helen is a member of the Queen's University Belfast Audit Committee and chair of QUBIS. She is a Director of the Irish Football Association. Prior to this, she was a Non-Executive Director of Dale Farm Co-operative Limited, a Non-Executive Director of the Kingspan Group plc and a Non-Executive Director of Wireless Group/ UTV Media plc. Helen was awarded a MBE in 2012 for services to the community in Northern Ireland. She holds a B.A. (Hons) degree in Business Studies from Ulster University and is a Fellow of the Institute of Chartered Accountants and a Fellow of the Institute of Directors.

COLIN **MCCLEMENTS**

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

MEMBERS (CONTINUED)

BRIAN **MCFARLAND**

Brian McFarland is the Managing Director of McFarland Consulting Ltd, a specialist Civil Engineering Consultancy. Brian is a Chartered Civil Engineer with over 30 years of experience in the inspecting, testing, assessment and remediation of structures. Brian is also a Visiting Professor, at QUB, in "Managing ageing infrastructure and structural health monitoring in Civil Engineering" as appointed by The Royal Academy of Engineering.

KATE **MINGAY**

Kate Mingay is a corporate finance specialist with experience across regulated utilities, transport and energy infrastructure. Her career started at UBS and Goldman Sachs in London before joining the Department for Transport. There she built a corporate finance capability to deal with financing and investment issues in regulated transport companies and complex, large-scale infrastructure projects. Since 2013, She has been actively involved in economic and corporate finance consulting including being a Senior Adviser at Cambridge Economics Policy Associates and advises Ofgem in the offshore transmission and nuclear sectors. Building on her infrastructure expertise she has a strong track record of non-executive directorships. Kate has recently been appointed as a Non-Executive Director to the Board of HRL Morrison and Co, a leading international infrastructure fund manager; she is also Independent Non-Executive Director for the regulated business of Wessex Water, where she chairs the Audit Committee and is a Trustee of the British Science Association. Kate was previously a Non-Executive Director of Mutual Energy from 2014 - September 2021, including being the Senior Independent Director since November 2018. Kate was also a Shareholder Director for Hitachi at Ansaldo STS SpA, the listed Italian rail system engineering company (now integrated into Hitachi's global rail business).

NEVIN **MOLYNEAUX**

Nevin Molyneaux is a Technical Specialist for Schrader Electronics Ltd, where his responsibilities are as a key contributor to the design and development of the company's range of application specific integrated circuits (ASICs) for sensor technology used in the automotive industry. Nevin is a Chartered Engineer with over 20 years of experience in electronics and embedded software.

DR BERNARD **MULLHOLLAND**

Dr. Bernard Mulholland has received a succession of qualifications from Queen's University Belfast that culminated in the award of a Ph.D. in History (2012), followed more recently by an MSc in Management (2017). Bernard is currently a member of the International Association of Patristic Studies, Society for the Promotion of Byzantine Studies, and Council of British Archaeology. He has also been a member of the high-IQ society MENSA for thirty years and has published two books about MENSA, as well as another four academic books.

DR MUIRIS **O'CEIDIGH**

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

MEMBERS (CONTINUED)

AODHAN **O'DONNELL**

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

COLIN **OXTON**

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

CONOR **QUINN**

Conor Quinn is a Chartered Electrical Engineer with a background in technology companies, Conor has extensive experience in developing collaborative R&D projects with industrial partners. He has extensive knowledge of public grant support for innovation from regional, UK and EU sources and is currently working on developing innovation funding programmes funded by the Belfast Region City Deal. He has been involved in developing project proposals to advance technologies in biogas, waste heat recovery, tidal stream turbines, energy storage and community energy systems. Conor holds a degree in Electrical Engineering from Queen's University Belfast and an MBA from Trinity College, Dublin. He was previously Chair of the Green Party in Northern Ireland and is a former SDLP councillor.

KEN **SIMPSON**

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

MARK **WISHART**

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

ED **WRIGHT**

Ed Wright is a sustainability professional specialising in the interaction of the private sector with the environment. A graduate of Queen's University, Ed has worked as a sustainability professional in industry, environmental consultancy practices and environmental NGOs. For the past number of years Ed has worked in the agri-food industry first with Lakeland Dairies (NI) and now as Head of Sustainability for Dale Farm Ltd. Ed's focus is supporting the Northern Irish agri-food sector address the carbon and biodiversity challenges from primary production to end consumer. Central to this will be the decarbonisation of energy.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2022

The Directors present their annual report and the audited financial statements of the Group and Parent Company for the year ended 31 March 2022.

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

RESULTS

The Group's loss for the year is £270,000 (2021: profit of £10,471,000).

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

DIRECTORS

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

Patrick Anderson
David Gray
Patrick Larkin
Gerard McIlroy
Harold McCracken (appointed 1 September 2021)
Michael McKernan
Kate Mingay (resigned 23 September 2021)
Christopher Murray
Ceri Richards

GOING CONCERN

The Group is cash generative and the forecast cash generated is adequate to meet the Group's liabilities as they fall due over the 12 months from the date of approval of the financial statements, including the scheduled debt payments, and to comply with financing covenants, including the required Annual Debt Service Cover Ratios. Required reserve accounts are fully funded and £36m of liquidity facilities are in place. Accordingly in view of the above the Directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

FINANCIAL RISK MANAGEMENT

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

POST BALANCE SHEET EVENTS

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

DIRECTORS INDEMNITIES

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

POLITICAL CONTRIBUTIONS

Neither the Company nor any of its subsidiaries have made any political donations or incurred any political expenditure in the current year (2021: £Nil).

OTHER INFORMATION

An indication of likely future developments in the business have been included in the Strategic Report on pages 9 to 58.

CORPORATE GOVERNANCE

Further details in respect of the Group's corporate governance statement are set out in the Corporate Governance Statement on pages 62 to 67.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITOR

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

- there is no relevant audit information of which the Group and Parent Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group and Parent Company's auditor is aware of that information.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

The Directors are responsible for preparing the annual report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with UK adopted international accounting standards and applicable law, and have elected to prepare the Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, Directors' report, and Corporate Governance Statement that complies with that law and those regulations.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL FINANCIAL REPORT

Each of the Directors, whose names and functions are listed on page 4 of this annual report, confirm that, to the best of each person's knowledge and belief:

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

AUDITOR

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

On behalf of the Board

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

1 July 2022

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MUTUAL ENERGY LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Mutual Energy Limited ('the Company') and its consolidated undertakings ('the Group') for the year ended 31 March 2022 set out on pages 97 to 154, which comprise the consolidated statement of profit and loss and other comprehensive income, consolidated and Parent Company balance sheet, consolidated and Parent Company statement of changes in equity, consolidated and Parent Company cash flow statements and related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is UK Law, UK adopted international accounting standards and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with UK adopted international accounting standards, as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

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

EMPHASIS OF MATTER – RECOVERABILITY OF UNPAID REVENUE AMOUNTS IN RELATION TO IMPOSED CAPACITY CONSTRAINTS

We draw attention to note 1(g) to the financial statements concerning the recoverability of unpaid revenue amounts in relation to imposed capacity constraints. The Directors have recognised the amounts in full within the financial statements on the basis it is more likely than not that these will be recovered. Our opinion is not modified in respect of this matter.

CONCLUSIONS RELATING TO GOING CONCERN

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

CONCLUSIONS RELATING TO GOING CONCERN (CONTINUED)

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

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

DETECTING IRREGULARITIES INCLUDING FRAUD

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

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

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

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

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

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

DETECTING IRREGULARITIES INCLUDING FRAUD (CONTINUED)

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

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

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

OTHER INFORMATION

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

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

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

DIRECTORS' REMUNERATION REPORT

The directors have voluntarily prepared a directors' remuneration report in accordance with the provisions of the Companies Act 2006, as required as if the Parent Company were a quoted company. In our opinion, the part of the directors' remuneration report to be audited, as required if the Parent Company were a quoted company, has been properly prepared in accordance with the Companies Act 2006.

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- adequate accounting records have not been kept by the 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

RESPECTIVE RESPONSIBILITIES AND RESTRICTIONS ON USE

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the directors' responsibilities statement set out on page 91, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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

Dominic Mudge, Senior Statutory Auditor
for and on behalf of
KPMG Statutory Auditor
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

4 July 2022

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2022

		2022			2021		
	Note	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000
Revenue	2	**108,328**	**-**	**108,328**	80,041	-	80,041
Revenue rebate	2	**(1,725)**	**-**	**(1,725)**	(1,953)	-	(1,953)
Net revenue - continuing operations	2	**106,603**	**-**	**106,603**	78,088	-	78,088
Operating expenses	3	**(51,790)**	**-**	**(51,790)**	(43,322)	-	(43,322)
Operating profit		**54,813**	**-**	**54,813**	34,766	-	34,766
Finance income	5	**428**	**-**	**428**	1,811	-	1,811
Finance expenses	5	**(39,453)**	**(5,936)**	**(45,389)**	(21,777)	(1,631)	(23,408)
Finance expenses – net	5	**(39,025)**	**(5,936)**	**(44,961)**	(19,966)	(1,631)	(21,597)
Profit/(loss) before income tax		**15,788**	**(5,936)**	**9,852**	14,800	(1,631)	13,169
Taxation	6	**(11,639)**	**1,517**	**(10,122)**	(3,041)	343	(2,698)
Profit/(loss) and total comprehensive income/ (expense) for the year attributable to the owners of the parent	17	**4,149**	**(4,419)**	**(270)**	11,759	(1,288)	10,471

All results arise from continuing operations.

The notes on pages 102 to 154 are an integral part of these consolidated financial statements.

CONSOLIDATED AND PARENT COMPANY BALANCE SHEET
AT 31 MARCH 2022

		Group		Company	
		2022	2021	2022	2021
	Note	£'000	£'000	£'000	£'000
Non-current assets					
Property, plant and equipment	8	**286,393**	291,245	**302**	304
Intangible assets	9	**191,774**	199,810	**-**	-
Investments in subsidiaries	10	**-**	-	**-**	9,644
Other investments	11	**398**	399	**184**	-
Deferred tax assets	21	**15,848**	7,439	**53**	43
		494,413	498,893	**539**	9,991
Current assets					
Trade and other receivables	12	**41,324**	33,578	**694**	1,718
Inventories	13	**57**	113	**-**	-
Tax receivable		**945**	-	**-**	-
Financial assets	14	**44,867**	69,152	**1,848**	3,135
Cash and cash equivalents	15	**143,057**	103,882	**1,808**	1,139
		230,250	206,725	**4,350**	5,992
Total assets		**724,663**	705,618	**4,889**	15,983
Equity and liabilities					
Equity attributable to the owners of the parent					
Share capital	16	**-**	-	**-**	-
Retained earnings	17	**52,085**	52,355	**(4,034)**	(4,168)
Total equity		**52,085**	52,355	**(4,034)**	(4,168)
Non-current Liabilities					
Interest bearing loans and borrowings	18	**438,487**	434,205	**179**	196
Provisions	20	**3,240**	3,199	**-**	-
Deferred tax liabilities	21	**51,104**	38,999	**-**	-
Government grants	22	**70,356**	73,298	**-**	-
Derivative financial instruments	25	**46,474**	40,538	**-**	-
		609,661	590,239	**179**	196
Current liabilities					
Trade and other payables	23	**37,494**	36,635	**8,664**	9,633
Tax payable		**-**	365	**-**	-
Interest bearing loans and borrowings	18	**21,916**	22,530	**80**	10,322
Government grants	22	**3,507**	3,494	**-**	-
		62,917	63,024	**8,744**	19,955
Total liabilities		**672,578**	653,263	**8,923**	20,151
Total equity and liabilities		**724,663**	705,618	**4,889**	15,983

CONSOLIDATED AND PARENT COMPANY BALANCE SHEET
AT 31 MARCH 2022 (CONTINUED)

The notes on pages 102 to 154 are an integral part of these financial statements.

The financial statements on pages 97 to 154 were authorised for issue by the Board of Directors on 1 July 2022 and were signed on its behalf by

Patrick Larkin **Director**	Gerard McIlroy **Director**

Mutual Energy Limited
Registered number: NI053759

CONSOLIDATED AND PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2022

Group	Share Capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2020	-	41,884	41,884
Profit and total comprehensive income for the year	-	10,471	10,471
At 31 March 2021	-	52,355	52,355
Loss and total comprehensive expense for the year	-	(270)	(270)
At 31 March 2022	-	**52,085**	**52,085**

Company	Share Capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2020	-	(5,182)	(5,182)
Profit and total comprehensive income for the year	-	1,014	1,014
At 31 March 2021	-	(4,168)	(4,168)
Profit and total comprehensive income for the year	-	134	134
At 31 March 2022	-	**(4,034)**	**(4,034)**

The notes on pages 102 to 154 are an integral part of these financial statements.

CONSOLIDATED AND PARENT COMPANY CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

		Group		Company	
		2022	2021	2022	2021
	Note	£'000	£'000	£'000	£'000
Cash flows from operating activities					
Profit before tax		**9,852**	13,169	**27**	928
Adjustments for:					
Finance expenses/(income)	5	**44,961**	21,597	**(11,155)**	615
Depreciation of property, plant and equipment	8	**14,823**	14,527	**93**	87
Loss on disposal of property, plant and equipment		**252**	39	**-**	-
Acquisition of ordinary shares	10	**-**	-	**(8,812)**	-
Impairment/(reversal of impairment on investment)	10	**-**	-	**18,456**	(1,381)
Amortisation and release of government grants	22	**(3,494)**	(3,460)	**-**	-
Amortisation of intangible assets	9	**8,036**	8,051	**-**	-
Fair value adjustment of investment	11	**1**	(889)	**1**	-
Movement in inventories		**56**	-	**-**	-
Movement in trade and other receivables		**(7,174)**	(11,902)	**1,464**	274
Movement in trade and other payables		**(5,148)**	8,373	**47**	33
Income tax (paid)/received		**(7,736)**	(3,300)	**91**	85
Net cash from operating activities		**54,429**	**46,205**	**212**	**641**
Cash flows from investing activities					
Interest received		**381**	5,200	**13**	20
Returns from financial asset		**26,824**	131,961	**1,287**	-
Purchase of property, plant and equipment		**(6,470)**	(88,262)	**(26)**	(26)
Investment in financial assets		**(2,538)**	(119)	**-**	(119)
Return of capital on other investments		**-**	3,152	**-**	-
Purchase of intangible assets		**-**	(50,000)	**-**	-
Receipt of grants		**-**	1,524	**-**	-
Net cash from/(used in) investing activities		**18,197**	**3,456**	**1,274**	**(125)**
Cash flows from financing activities					
Interest paid		**(9,347)**	(9,193)	**-**	-
Repayment of borrowings		**(23,787)**	(25,584)	**(746)**	-
Lease payments		**(317)**	(324)	**(71)**	(78)
Net cash used in financing activities		**(33,451)**	**(35,101)**	**(817)**	**(78)**
Movement in cash and cash equivalents		**39,175**	14,560	**669**	438
Cash and cash equivalents at the 1 April	15	**103,882**	89,322	**1,139**	701
Cash and cash equivalents at 31 March	15	**143,057**	**103,882**	**1,808**	**1,139**

The notes on pages 102 to 154 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

1 ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES/JUDGEMENTS

GENERAL INFORMATION

The Group's principal activities during the year were the financing and operation, through its subsidiaries, of the Moyle Interconnector which links the electricity transmission systems of Northern Ireland and Scotland, the Scotland Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland, the Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne, the West Transmission Pipeline which transports gas to 7 towns in the West of Northern Ireland and through its offtake at Strabane. The Company is a private company limited by guarantee which is incorporated, registered and domiciled in Northern Ireland. The registered number of the Company is NI053759 and the address of the registered office is First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.

These Group financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. All of the Group and Parent Company's assets and liabilities are denominated in Sterling with the exception of the Group's investments and certain payables and receivables in relation to Euro sales contracts.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

These financial statements were authorised for issue by the Board of Directors on 1 July 2022 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BASIS OF PREPARATION

The Group financial statements have been prepared and approved by the directors in accordance with UK adopted international accounting standard ("UK-adopted IFRSs") as applied in accordance with the provisions of the Companies Act 2006 and have elected to prepare the Company financial statements on the same basis. The financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of assets and liabilities mandatorily at fair value through profit and loss and derivative hedging instruments. The preparation of financial statements in conformity with UK Adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed on pages 114 to 118.

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

NEW STANDARDS, AMENDMENTS OR INTERPRETATIONS

NEWLY ADOPTED STANDARDS

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

- Amendments to IFRS 9: Interest Rate Benchmark Reform Phase 2 has been adopted from 1 April 2021. The Phase 2 has been applied retrospectively, however, in accordance with the exceptions permitted in the Phase 2 amendments, the Group has elected not to restate comparatives for the prior periods to reflect the application of these amendments. Since the Company has no transactions for which the benchmark rate had been replaced with an alternative benchmark as at 31 March 2021, there is no impact on the opening equity balances as a result of retrospective application. The details of the accounting policies are disclosed in note 1. See also note 25 for related disclosures about risks and hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

- Amendments to IFRS 16: Leases Covid-19 Related Rent Concessions has been adopted. The amendment introduces an optional practical expedient for leases in which the Group is a lessee. For leases to which the Group applies the practical expedient, the Group is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic are lease modifications. The Group has applied the amendment retrospectively. The details of the accounting policies are disclosed in note 1 and see also note 19 for related disclosures. The further amendment, which extended the concession period, has been early adopted.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

ADOPTED IFRS NOT YET APPLIED

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

- IFRS 17 Insurance Contracts (effective date 1 January 2023)
- Amendments to IFRS 17 (effective date 1 January 2023)
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective 1 January 2023)
- Deferred tax related to assets and liabilities arising from a single transaction (effective date 1 January 2023)
- Definition of accounting estimates (effective date 1 January 2023)
- Disclosure of accounting policies (amendments to IAS 1 and IFRS Practice Statement 2) (effective date 1 January 2023)
- Annual improvements to IFRS 2018-2020 (effective date 1 January 2022)
- Onerous contracts – cost of fulfilling a contract (effective date 1 January 2022)
- Property plant and equipment: proceeds before intended use (effective date 1 January 2022)
- Reference to the conceptual framework (effective date 1 January 2022)
- Classification of liabilities as current or non-current (effective date deferred until not earlier than 1 January 2024)

BASIS OF CONSOLIDATION

The consolidated financial statements consolidate the financial statements of Mutual Energy Limited and its subsidiary undertakings drawn up to 31 March 2022. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. They are deconsolidated from the date that control ceases.

TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

PRESENTATION OF STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

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

GOING CONCERN

The Company has net liabilities, however, the Company and Group are cash generative and the forecast cash generated is adequate to meet the liabilities as they fall due over the 12 months from the date of approval of the financial statements, including the scheduled debt payments, and to comply with financing covenants, including the required Annual Debt Service Cover Ratios. Required reserve accounts are fully funded and £36m of liquidity facilities are in place. Accordingly in view of the above the Directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

SEGMENT REPORTING

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

FOREIGN EXCHANGE

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

REVENUE

Revenue comprises the fair value of the consideration received or receivable from the sale of capacity on the Premier Transmission Pipeline which links the gas transmission systems of Northern Ireland and Great Britain, from the sale of capacity on the Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne and from the sale of capacity on the West Transmission Pipeline which transports gas to the West of Northern Ireland and through its offtake at Maydown. The Moyle Interconnector revenue is derived from fees for the transmission of electricity between Northern Ireland and Scotland and services provided to the Grid. All revenue is generated within the United Kingdom. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating income within the Group.

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

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

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

COMMERCIAL REVENUE

Commercial revenue comprises the fair value of the consideration received or receivable for making available the capability of the interconnector to the System Operators, SONI and National Grid via the overarching market arrangements. This capability is provided to the System Operators via either direct contracts for services or industry wide contractual arrangements. The revenues are accounted for in line with the delivery of the services provided under the overarching market arrangements. Commercial revenue includes an amount of €12,289,000 (£10,239,000 Sterling equivalent) which remains due from SONI in relation to capacity constraints imposed by SONI against Moyle Interconnector Limited during the period from September 2021 to March 2022. Further information on the judgements in respect of this revenue can be found within critical accounting estimates and judgements on page 118.

TARIFF REVENUE

The interconnector is entitled to collect revenue via a tariff known as the Collection Agency Income Requirement (CAIRt). CAIRt revenue is recognised in line with the income recovered by, SONI on Moyle's behalf via Northern Ireland electricity tariffs, as provided for in Moyle's Collection Agency Agreement. No CAIRt revenue was required throughout the current or prior year.

TARIFF REVENUE REBATE

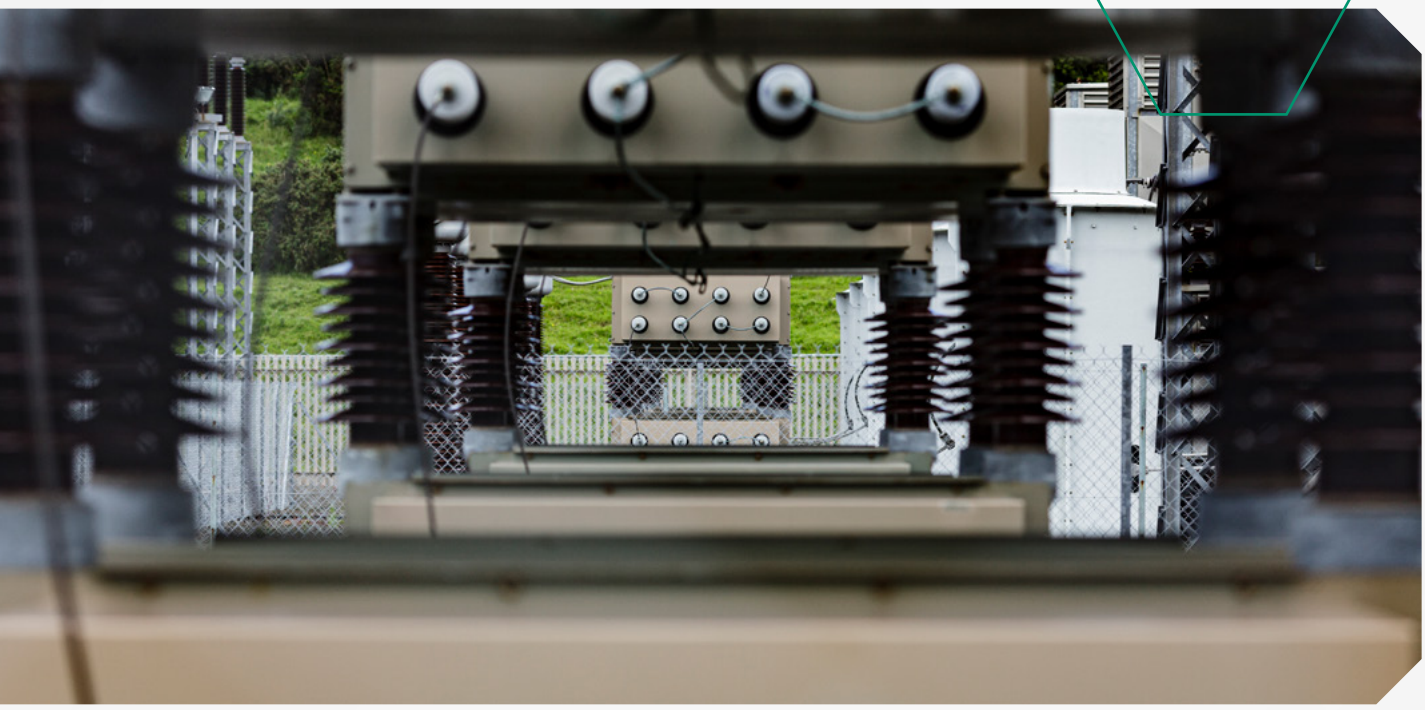
When there is an agreement in place to rebate revenue via a tariff reduction, tariff revenue rebates are recognised in line with the rebates passed through to Northern Ireland electricity tariffs by SONI, on Moyle's behalf. In the current year a revenue rebate of £1,725,000 was paid (2021: £1,953,000), see note 2 for further details.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

FINANCE INCOME AND FINANCE EXPENSES

Finance income comprises interest income on funds invested, negative interest on leases and net foreign exchange gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance expenses include interest expense on borrowings, unwinding of the discount on provisions, fair value movements on financial instruments and net foreign exchange losses. Interest expense is recognized as it accrued in profit or loss using the effective interest method. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

INTANGIBLE ASSETS

(a) Goodwill

Goodwill represents the excess of fair value of consideration paid over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Licences

Acquired licences are shown at historical cost. Licences have a finite useful economic life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful economic lives. The estimated remaining useful economic life of the licences is 12 years for Premier Transmission, 15 years for Moyle Interconnector and 30 years for Belfast Gas Transmission at the end of the financial year. The useful economic life of the licences is linked to the allowances to cover repayment of debts and is independent of the full terms of the licences or the useful lives of the assets.

(c) Other intangibles

Other intangibles relate to revenue entitlements in respect of capital contributions made to other gas network operators are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Such entitlements are amortised over the life of the debt which financed these capital contributions, which aligns with the period upon which the revenue entitlement is recovered. Revenue is recovered over the period to September 2054 and as such the Group has concluded that these assets have a remaining useful economic life as at 31 March 2022, of 32.5 years.

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

LEASES

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

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

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

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

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

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

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

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

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

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

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

SHORT-TERM LEASES AND LEASES OF LOW-VALUE ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

INVESTMENTS

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

Investments in unquoted funds and other unquoted companies are recorded at fair value, which is the consideration paid. These assets are subsequently measured at fair value. For those who do not have a quoted price on an active market and whose fair value cannot be reliably measured they are recorded at cost. Any increases in fair value are recognised in the statement of profit and loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

REVERSAL OF IMPAIRMENT LOSSES

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

FINANCIAL INSTRUMENTS

(I) RECOGNITION AND INITIAL MEASUREMENT

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

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

(II) CLASSIFICATION AND SUBSEQUENT MEASUREMENT

FINANCIAL ASSETS

(A) CLASSIFICATION

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

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

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Investments in subsidiaries are carried at cost less impairment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

FINANCIAL INSTRUMENTS (CONTINUED)

CASH AND CASH EQUIVALENTS

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

(B) SUBSEQUENT MEASUREMENT AND GAINS AND LOSSES

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

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

FINANCIAL LIABILITIES AND EQUITY

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

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

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

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

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

(III) DERIVATIVE FINANCIAL INSTRUMENTS

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

(IV) IMPAIRMENT

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets and contract assets measured at amortised cost.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

FINANCIAL INSTRUMENTS (CONTINUED)

(IV) IMPAIRMENT (CONTINUED)

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

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

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

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

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

Measurement of ECLs

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

Credit-impaired financial assets

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

Write-offs

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

Derecognition – financial assets

The Group derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
- substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Derecognition – financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

FINANCIAL LIABILITIES AT AMORTISED COST (FINANCIAL INSTRUMENTS)

(A) BORROWINGS

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

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

(B) TRADE AND OTHER PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

INVENTORIES

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

DECOMMISSIONING PROVISION

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

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

TAXATION

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

GOVERNMENT GRANTS

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

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

DEFINED CONTRIBUTION PLANS

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

SHORT-TERM BENEFITS

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

ESTIMATES

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

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

(a) Estimate of useful economic life of assets

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

The remaining useful economic life of the Moyle Interconnector was determined as approximately 11 (2021: 12) years at the beginning of the year. If the remaining useful economic life had been assessed at 12 (2021: 13) years depreciation would have decreased by £687,000 (2021: £633,000) and if the remaining useful economic life had been assessed at 10 (2021: 11) years depreciation would have increased by £824,000 (2021: £748,000).

The useful economic life of Moyle's tangible fixed assets above is currently deemed to cease in 2032 in line with the design life of the asset. The useful economic life of intangible assets is deemed to cease five years later in 2037 when the wider economic benefit accruing under Moyle Interconnector's direction and licence agreements will have been materially exhausted. These useful economic lives are subject to change if both the expected physical operation and revenue generating value is forecast beyond this date. The useful economic life of the intangible and tangible fixed assets will therefore be subject to ongoing assessment however, in the absence of further longer term clarity on the future activities of the Moyle Interconnector business, it is currently deemed appropriate to depreciate assets to the shortest period of related economic benefit based upon the design life of the asset. The Group is currently in the process of implementing a new control system which is due to be commissioned later in 2022. Upon successful commissioning of these assets the Group will reassess the useful lives of the existing interconnector assets in light of the new control system, obtaining technical advice, as required, on the condition of the existing assets and the potential to continue to run these assets past the initial design life.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

ESTIMATES (CONTINUED)

(a) Estimate of useful economic life of assets (continued)

The remaining useful economic life of Premier Transmission's Pipeline was determined as approximately 33.5 (2021: 34.5) years at the beginning of the year. If the remaining useful economic life had been 34.5 (2021: 35.5) years, depreciation would have decreased by £52,000 (2021: £51,000) and if the remaining useful economic life had been assessed at 32.5 (2021: 33.5) years, depreciation would have increased by £56,000 (2021: £54,000).

The remaining useful economic life of the Belfast Gas Transmission pipeline was determined as approximately 33.5 (2021: 34.5) years at the beginning of the year. If the remaining useful economic life had been assessed at 34.5 (2021: 35.5) years depreciation would have decreased by £20,000 (2021: £19,000) and if the remaining useful economic life had been assessed at 32.5 years (2021: 33.5) years depreciation would have increased by £21,000 (2021: £20,000).

The remaining useful economic life of the West Transmission pipeline was determined as approximately 41.25 (2021: 42.25) years at the beginning of the year. If the remaining useful economic life had been assessed at 42.25 (2021: 43.25) years depreciation would have decreased by £48,000 (2021: £47,000) and if the remaining useful economic life had been assessed at 40.25 (2021: 41.25) years depreciation would have increased by £51,000 (2021: £49,000).

The remaining useful economic life of Moyle Interconnector's licence was determined as approximately 16 (2021: 17) years at the beginning of the year. If the remaining useful economic life had been assessed at 17 (2021: 18) years amortisation would have decreased by £98,000 (2021: £92,000) and if the remaining useful economic life had been assessed at 15 (2021: 16) years amortisation would have increased by £111,000 (2021: £104,000).

The remaining useful economic life of Premier Transmission's licences was determined as approximately 13 (2021: 14) years at the beginning of the year. If the remaining useful economic life had been assessed at 14 (2021: 15) years, amortisation would have decreased by £100,000 (2021: £93,000) and if the remaining useful economic life had been assessed at 12 (2021: 13) years, amortisation would have increased by £117,000 (2021: £108,000).

The remaining useful economic life of Belfast Gas Transmission's licence was determined as approximately 31 (2021: 32) years at the beginning of the year. If the remaining useful economic life had been assessed at 32 (2021: 33) years amortisation would have decreased £78,000 (2021: £75,000) and if the remaining useful economic life had been assessed at 30 (2021: 31) years amortisation would have increased by £83,000 (2021: £80,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

ESTIMATES (CONTINUED)

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

The decommissioning provision has been estimated at current prices and has therefore been increased to decommissioning date by an inflation rate of 3.98% (2021: 3.81%) based on expected time of expenditure of 10 years (2021: 11 years). The decommissioning provision has been discounted using a rate of 1.62% (2021: 0.97%). The effect of changing the discount rate, inflation rate and timing of expenditure on the decommissioning provision is disclosed in the table below.

	Increase/(decrease) in provision	
	2022	2021
	£'000	£'000
Increase in inflation rate by 1%	**325**	356
Decrease in inflation rate by 1%	**(298)**	(323)
Increase in discount rate by 1%	**(302)**	(329)
Decrease in discount rate by 1%	**337**	370
Increase in useful economic life of the asset by one year	**79**	75
Decrease in useful economic life of the asset by one year	**(85)**	(81)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

ESTIMATES (CONTINUED)

(c) Fair value of other investments

The fair value of other investments is based on the valuation of the remaining assets within the fund by the fund manager in accordance with ECVA valuation guidelines. In calculating the fair value, certain assumptions are required to be made in respect of highly uncertain matters. Changing the assumptions selected by management could significantly affect the Group's impairment evaluation and hence results. The Company's review includes the key assumptions related to sensitivity in the cash flow projections. The calculation assumes a GBP/EUR rate of 1.1816 (2021: 1.174). Further details of the key assumptions and sensitivity in respect of the Group's Other Investments are provided in note 11.

(d) Calculation of West Transmission asset values

Tangible fixed assets consist of the West Transmission Pipeline and other associated assets. The final cost for these assets is still to be finalised with the price to be paid to the contractor, SGN, at a price based on a methodology incorporating the decision of the Utility Regulator. The valuation of these assets is based on an initial regulatory decision covering 83% of the anticipated expenditure on the asset and figures provided by the contractor for the period up to the reporting date, with adjustments being made to reflect the expected allowance in line with determinations by the Utility Regulator and estimates for any allowances yet to be determined.

JUDGEMENTS

(e) Judgements made in the implementation of IFRS 16 Leases

The remaining useful lives of the right-of-use assets in respect of the Group's Crown Estate leases were determined to be in line with the useful life of the related assets, with extensions and cancellable terminations assumed where this is probable. Property lease terms were set in line with non-cancellable periods under the leases.

(f) Contractual arrangements under EU market coupling

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

We do not sell directly to market participants, rather our base entitlement is to the value of the power flown across the interconnector, which is the difference in market price between the two markets multiplied by the amount of power moved after adjusting for losses. We are obliged to make available to Eirgrid and SONI, operating as a body known as SEMOpx, the full capacity, subject to restrictions imposed by the System Operators, of the Interconnector for this purpose. SEMOpx make the capacity available in intraday auctions bilaterally coupled with the GB market. The scheduling of the physical movement of power across the interconnector in the majority of conditions is subject to the requirements of the System Operators (albeit in accordance with pre-defined rules) and cannot be determined either by ourselves or the purchasers of FTRs. The schedule is amended in line with defined responses in certain conditions based upon independent contracts with National Grid and SONI. The activities of the interconnector are therefore subject to the requirements of Eirgrid, SONI and National Grid for the majority of time, however the Company is still exposed to the risks of financial loss from outages and to variations in revenue driven by the power price differential between GB and Ireland. Revenue recognition is therefore aligned with the services provided to the system operators in each period.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

JUDGEMENTS (CONTINUED)

(f) Contractual arrangements under EU market coupling (continued)

For part of the prior year, up to 31 December 2020, the market arrangements obliged us to offer what are known as Financial Transmission Rights (FTRs) to an auction process run by the Joint Allocation Office as part of European wide market coupling. In return for a fixed fee per MWh the FTRs obliged us to pay the value of the difference in day ahead market price between the two markets multiplied by the amount of capacity sold after adjusting for losses. These arrangements also did not include any direct contracts with end customers, rather a contract with SEMOpx and the Joint Allocation Office and so were accounted for in the same manner.

g) Recoverability of unpaid amounts in relation to revenue constraints

Included within Group revenue and trade and other receivables is an amount of €12,289,000 (£10,239,000 Sterling equivalent) excluding VAT which is due from SONI in relation to capacity constraints imposed by SONI against Moyle Interconnector Limited during the period from September 2021 to March 2022. The commercial agreements in place require SONI, as causer, to keep Moyle whole for the lost revenue and set out how this should be calculated. SONI has not, to date, reimbursed Moyle for any of the constraints imposed, and is disputing our entitlement. Legal advice has been received by Moyle Interconnector which confirms its entitlement to this revenue. In line with the contract provisions, this matter has been referred to the Law Society for arbitration, with timelines for resolution still to be determined. Revenue in respect to these constraints has been recognised in full within the accounts on the basis that it is more likely than not that this will be recovered. Some risk exists that this may not be recovered in full and a contingent liability has been disclosed (see note 28).

2 SEGMENT INFORMATION

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

2 SEGMENT INFORMATION (CONTINUED)

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

Group Year ended 31 March 2022	Moyle Interconnector Group £'000	Premier Transmission Group £'000	Belfast Gas Transmission Group £'000	West Transmission Group £'000	Other £'000	Total £'000
Segment revenue from external customers	58,825	32,244	8,395	8,747	117	108,328
Revenue rebate	(1,725)	-	-	-	-	(1,725)
Net revenue	57,100	32,244	8,395	8,747	117	106,603
Segment (expenses)/income	(8,622)	(18,648)	(2,324)	(3,135)	304	(32,425)
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	(2,486)	-	(8,036)
Depreciation (net of government grants)	(6,519)	(1,323)	(685)	(2,708)	(93)	(11,328)
Fair value adjustment on investment	-	-	-	-	(1)	(1)
Finance income	174	150	16	109	(21)	428
Finance expenses	(4,947)	(5,485)	(14,029)	(14,993)	1	(39,453)
Fair value adjustment on derivative financial instruments	-	(5,936)	-	-	-	(5,936)
Profit/(loss) before tax	35,525	(400)	(11,114)	(14,466)	307	9,852
Tax (charge)/credit	(10,363)	(226)	(2,242)	2,751	(42)	(10,122)
Profit/(loss) for the year	25,162	(626)	(13,356)	(11,715)	265	(270)
Assets						
Segment assets	237,515	145,016	116,677	220,751	4,704	724,663
Capital expenditure	6,465	93	770	2,793	26	10,147
Segment liabilities	114,955	141,743	173,600	241,091	1,189	672,578

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

2 SEGMENT INFORMATION (CONTINUED)

Group Year ended 31 March 2021	Moyle Interconnector Group £'000	Premier Transmission Group £'000	Belfast Gas Transmission Group £'000	West Transmission Group £'000	Other £'000	Total £'000
Segment revenue from external customers	36,442	28,126	8,278	7,195	-	80,041
Revenue rebate	(1,953)	-	-	-	-	(1,953)
Net revenue	34,489	28,126	8,278	7,195	-	78,088
Segment (expenses)/ income	(7,742)	(13,552)	(2,231)	(2,033)	465	(25,093)
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	(2,501)	-	(8,051)
Depreciation (net of government grants)	(6,503)	(1,334)	(658)	(2,487)	(85)	(11,067)
Fair value adjustment on investment	-	-	-	-	889	889
Finance income	345	247	12	1,303	(96)	1,811
Finance expenses	(4,123)	(5,285)	(5,176)	(7,228)	35	(21,777)
Fair value adjustment on derivative financial instruments	-	(1,631)	-	-	-	(1,631)
Profit/(loss) before tax	14,805	5,169	(2,262)	(5,751)	1,208	13,169
Tax (charge)/credit	(2,831)	(1,217)	430	983	(63)	(2,698)
Profit/(loss) for the year	11,974	3,952	(1,832)	(4,768)	1,145	10,471
Assets						
Segment assets	209,231	140,928	115,537	237,005	2,917	705,618
Capital expenditure	11,084	93	306	789	26	12,298
Segment liabilities	112,465	137,424	160,141	244,082	(849)	653,263

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

2 SEGMENT INFORMATION (CONTINUED)

Disaggregation of revenue

Group	2022 £'000	2021 £'000
Electricity business revenue:		
Commercial revenue		
Revenue from power transfers	**27,844**	13,521
Revenue from power transfers which were constrained	**10,239**	-
System services	**10,111**	13,021
Capacity market	**10,357**	9,856
Total commercial revenue	**58,551**	36,398
Tariff revenue	**37**	-
Other	**237**	44
Total electricity business revenue	**58,825**	36,442
Gas business revenue	**49,386**	43,599
Other	**117**	-
Total revenue	**108,328**	80,041
Electricity tariff revenue rebate	**(1,725)**	(1,953)
Net revenue	**106,603**	78,088

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

2 SEGMENT INFORMATION (CONTINUED)

Revenues from the Group's gas transmission businesses of £49,386,000 (2021: £43,599,000) are obtained under the postalised system (which is a system by which the Group earns sufficient revenues to cover its operating costs and debt repayments) and cannot be attributed to individual customers.

As noted on page 117, in critical accounting judgments and estimates section (f), the scheduling of the physical flow of power on the Moyle Interconnector is subject to the requirements of the system operators. The market arrangements are enduring and have no end date. The resulting revenue from power transfers is a mixture of variable income depending upon the difference in market spreads and, up to 31 December 2020, a fixed income from financial transmission right (FTR) sales.

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

	2022 £'000	2021 £'000
Customer A	**17,441**	17,774
Customer B	**3,028**	5,103

Revenue from power transfers which were constrained relates to an amount of €12,289,000 (£10,239,000 Sterling equivalent) excluding VAT which is due from SONI in relation to capacity constraints imposed by SONI against Moyle Interconnector Limited during the period from September 2021 to March 2022 and remains unpaid. Further information in this respect can be found within the critical estimates and judgements section (g) on page 118.

Tariff income is recovered by SONI on Moyle's behalf via Northern Ireland electricity tariffs.

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

Commercial revenue includes £39.0m (2021: £16.8m) which was receivable in Euro.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

3 OPERATING EXPENSES

Group	2022 £'000	2021 £'000
Staff numbers and costs (note 4)	**3,170**	3,067
Depreciation and amortisation (excluding right-of-use assets)	**22,519**	22,233
Loss on disposal of property, plant and equipment	**252**	39
Depreciation of right-of-use assets	**340**	345
Fair value adjustment on investment	**1**	(889)
Amortisation of deferred government grants	**(3,494)**	(3,460)
Auditors' remuneration:		
Audit of these financial statements	**2**	2
Audit of financial statements of subsidiary	**50**	50
Other services	**10**	10
Maintenance and insurance	**7,198**	5,754
Other expenses	**21,742**	16,171
Total operating expenses	**51,790**	43,322

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

4 STAFF NUMBERS AND COST

Group	2022 £'000	2021 £'000
Wages and salaries	**2,674**	2,616
Social security costs	**322**	297
Pension costs	**174**	154
	3,170	3,067

The average monthly number of employees during the year (including Directors holding contracts of service with the Group) was 32 (2021: 30). All staff perform asset management activities.

	2022 Number	2021 Number
Members of defined contribution pension scheme	**32**	30

	2022 £'000	2021 £'000
Directors' emoluments		
Aggregate emoluments	**812**	821

Directors' emoluments represent the remuneration of the Group's executive and Non-Executive Directors. The emoluments of the highest paid director were £307,000 (2021: £313,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

5 FINANCE INCOME AND EXPENSE

Group	2022 £'000	2021 £'000
Interest expense:		
Borrowings (including borrowing fees)	**36,806**	15,443
Bank charges	**293**	285
Unwinding of discount on decommissioning provision	**30**	15
Fair value adjustment in respect of derivative financial instruments (note 25)	**5,936**	1,631
Other finance expenses	**2,324**	6,034
Finance expense	**45,389**	23,408
Interest income:		
Short-term bank deposits	**(380)**	(1,752)
Lease interest	**(42)**	(59)
Foreign exchange gains	**(6)**	-
Finance income	**(428)**	(1,811)
Finance expense – net	**44,961**	21,597

FAIR VALUE ADJUSTMENT IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS

The consolidated statement of profit and loss and other comprehensive income has been presented in a 6 column format in order to allow users to appreciate the impact of derivatives on the results for the year. The Group has swaps that are designed to hedge the inflation risk in revenue, however these were not designated as hedges upon inception as they did not qualify under IAS 39. There has been no change in the treatment under IFRS 9. The Directors believe that by separating gains and losses arising from the revaluation of these swaps, the user of this financial information will better understand the underlying performance of the Group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

6 TAXATION

Group	2022	2021
Recognised in profit and loss	**£'000**	£'000
Current income tax:		
Current tax on profit for the year	**6,892**	4,694
Adjustments in respect of prior years	**(466)**	-
Total current income tax	**6,426**	4,694
Deferred income tax:		
Origination and reversal of temporary differences	**(6,175)**	(1,996)
Adjustments in respect of prior years	**470**	-
Impact of change in deferred tax rate	**9,401**	-
Total deferred income tax (note 21)	**3,696**	(1,996)
Taxation	**10,122**	2,698

The income tax charge in the statement of profit and loss for the year differs from the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are reconciled below:

Group	2022	2021
Reconciliation of effective tax rate	**£'000**	£'000
Profit before income tax	**9,852**	13,169
Tax calculated at the UK standard rate of corporation tax of 19% (2021: 19%)	**1,872**	2,502
Effects of:		
Non deductible expenses	**2,320**	196
Income not taxable	**(2,264)**	-
Adjustments in respect of prior years	**4**	-
Impact of change in tax rates	**(1,211)**	-
Change in deferred tax rate	**9,401**	-
Taxation	**10,122**	2,698

FUTURE TAX CHANGES

The Finance Act 2021 confirmed that the corporation tax rate will be increased to 25% on 1 April 2023. This was substantially enacted on 24 May 2021 therefore deferred tax has been calculated at the rate at which the balances are expected to be settled, based on tax rates that have been substantively enacted at the balance sheet date (see note 21).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

7 PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the Parent Company's Statement of profit and loss and other comprehensive income has not been included in these financial statements. The profit dealt with in the financial statements of the Parent Company is £134,000 (2021: £1,014,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

8 PROPERTY, PLANT AND EQUIPMENT

Group	Gas pipelines £'000	Electricity inter-connector £'000	Control equipment £'000	Plant and machinery £'000	Office and computer equipment £'000	Assets under construction £'000	Right-of-use assets £'000	Total £'000
Cost								
At 1 April 2020	233,413	176,212	3,901	17,021	567	-	6,059	437,173
Additions	117	-	-	1,071	26	11,084	429	12,727
Lease modification	-	-	-	-	-	-	248	248
Disposals	(66)	-	(11)	-	-	-	-	(77)
Movement in decommissioning provision	-	113	-	-	-	-	-	113
At 31 March 2021	233,464	176,325	3,890	18,092	593	11,084	6,736	450,184
Additions	1,836	-	-	1,470	26	6,815	65	10,212
Disposals	(579)	-	-	-	-	-	-	(579)
Movement in decommissioning provision	-	11	-	-	-	-	-	11
At 31 March 2022	**234,721**	**176,336**	**3,890**	**19,562**	**619**	**17,899**	**6,801**	**459,828**
Accumulated depreciation								
At 1 April 2020	61,152	77,442	3,406	1,596	530	-	324	144,450
Depreciation charge for the year	4,552	8,238	153	1,209	30	-	345	14,527
Disposals	(38)	-	-	-	-	-	-	(38)
At 31 March 2021	65,666	85,680	3,559	2,805	560	-	669	158,939
Depreciation charge for the year	4,664	8,245	157	1,397	20	-	340	14,823
Disposals	(327)	-	-	-	-	-	-	(327)
At 31 March 2022	**70,003**	**93,925**	**3,716**	**4,202**	**580**	**-**	**1,009**	**173,435**
Net book value								
At 31 March 2022	**164,718**	**82,411**	**174**	**15,360**	**39**	**17,899**	**5,792**	**286,393**
At 31 March 2021	167,798	90,645	331	15,287	33	11,084	6,067	291,245
At 1 April 2020	172,261	98,770	495	15,425	37	-	5,735	292,723

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets under construction relate to costs incurred in the replacement of Moyle Interconnector's control system with the exception of £542,000 plant and machinery costs incurred during the year on works in progress in Belfast Gas Transmission.

The Group has capital commitments in respect of the construction of the Gas to the West project. The value of these commitments is dependent upon the final determination by the Utility Regulator which is expected in 2022/2023, at the earliest. Payment in respect of these remaining commitments is not due until a decision is made.

At 31 March 2022, the Group had capital commitments of €8,429,000 (£7,133,000 Sterling equivalent) and £2,316,000 in relation to the new control system (31 March 2021: €12,643,000 (£10,771,000 Sterling equivalent) and £3,474,000 respectively).

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

Depreciation expense of £14,823,000 (2021: £14,527,000) has been fully charged to operating expenses.

As noted on page 117, the activities of the interconnector asset set out above are subject to the requirements of the system operators under the overarching market arrangements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Office and computer equipment £'000	Right-of-use assets £'000	Total £'000
Cost			
At 1 April 2020	280	161	441
Additions	26	-	26
Lease Modifications	-	248	248
At 31 March 2021	306	409	715
Additions	26	65	91
At 31 March 2022	**332**	**474**	**806**
Accumulated depreciation			
At 1 April 2020	255	69	324
Depreciation charge for the year	18	69	87
At 31 March 2021	273	138	411
Depreciation charge for the year	20	73	93
At 31 March 2022	**293**	**211**	**504**
Net book value			
At 31 March 2022	**39**	**263**	**302**
At 31 March 2021	33	271	304
At 1 April 2020	25	92	117

Depreciation expense of £93,000 (2021: £87,000) has been fully charged to operating expenses.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

9 INTANGIBLE ASSETS

Group	Goodwill £'000	Licences £'000	Other intangibles £'000	Total £'000
Cost				
At 1 April 2020, at 31 March 2021 and **at 31 March 2022**	**2,435**	**206,535**	**82,149**	**291,119**
Accumulated amortisation				
At 1 April 2020	-	79,110	4,148	83,258
Amortisation for the year	-	5,550	2,501	8,051
At 31 March 2021	-	84,660	6,649	91,309
Amortisation for the year	-	5,550	2,486	8,036
At 31 March 2022	-	**90,210**	**9,135**	**99,345**
Net book value				
At 31 March 2022	**2,435**	**116,325**	**73,014**	**191,774**
At 31 March 2021	2,435	121,875	75,500	199,810
At 1 April 2020	2,435	127,425	78,001	207,861

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 12 years, 30 years and 15 years respectively at 31 March 2022 (13 years, 31 years and 16 years respectively at 31 March 2021).

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

Other intangibles represents West Transmission Limited's entitlement to recover revenue in respect of capital contributions made to Phoenix Natural Gas Limited and SGN Natural Gas Limited to develop their gas networks in Northern Ireland. Revenue is recovered over the period to September 2054 and as such the Group has concluded that these assets have a remaining useful economic life as at 31 March 2022, of 32.5 years (33.5 years at 31 March 2021).

Amortisation expense of £8,036,000 (2021: £8,051,000) has been fully charged to operating expenses.

IMPAIRMENT TESTING FOR GOODWILL

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

The recoverable amount of the goodwill is based on fair value less costs to sell calculation which has been determined using discounted cash

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

9 INTANGIBLE ASSETS (CONTINUED)

IMPAIRMENT TESTING FOR GOODWILL (CONTINUED)

flow forecasts. The cash flow projections are over a period of 8 years (2021: 9 years), which matches the remaining duration of the Group's bond and therefore reflects the minimum period over which the Group earns revenue under its licence agreement. The key assumptions and judgements, which have been determined on the basis of management experience, relate to all costs being pass-through costs and that under the terms of the licence the Group can collect sufficient cash to service interest and loan repayments.

The discount rate of 1.89% (2021: 1.71%) used is based on Bank of England gilt yield curve data for a debt with a remaining maturity of 8 years (2021: 9 years). The inflation rate assumption used by the Group in these calculations of 3.88% (2021: 3.84%) has been obtained from Bank of England yield curves over a 8 year period (2021: 9 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 2022 (CONTINUED)

10 INVESTMENTS IN SUBSIDIARIES

Company	Subsidiary undertakings £'000
Cost and carrying amount	
At 1 April 2020	8,263
Reversal of impairment	1,381
At 31 March 2021	9,644
Acquisition of ordinary shares	8,812
Impairment	(18,456)
At 31 March 2022	**-**

In the prior year, investments in subsidiaries were recognised initially at fair value and subsequently measured at amortised cost less impairment using the effective interest method and reflected 10,250,000 £1 preference shares. On 29th March 2022 these preferences shares, and the interest accumulated on these preference shares, were converted to ordinary shares and were subsequently cancelled as part of a capital reduction in the subsidiary, with a dividend income of £11.2m being received by Mutual Energy from the subsidiary as a result of this restructure.

The Company's subsidiary undertakings, all of which are incorporated in Northern Ireland and whose registered addresses are First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH, are set out on the following page.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

10 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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
Northern Ireland Gas Transmission Holdings Limited	Ordinary shares	100%	Holding company
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
Belfast Gas Transmission Holdings Limited*	Ordinary shares	100%	Holding company
Belfast Gas Transmission Financing plc*	Ordinary shares	100%	Financing
Belfast Gas Transmission Limited*	Ordinary shares	100%	Operation of the Belfast Gas Transmission pipeline
WTL Holdings Limited*	Ordinary shares	100%	Holding company
West Transmission Financing plc*	Ordinary shares	100%	Financing
West Transmission Limited*	Ordinary shares	100%	Operation of West Transmission pipeline
Moyle Energy Investments Limited	Ordinary shares	100%	Investing
Interconnector Services (NI) Limited	Ordinary shares	100%	Provision of seabed survey and other services

* held by a subsidiary undertaking

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

11 OTHER INVESTMENTS

Group	£'000
Cost and carrying amount	
At 1 April 2020	2,662
Repayment of capital	(3,152)
Fair value adjustment	889
At 31 March 2021	399
Fair value adjustment	(1)
At 31 March 2022	**398**

Other investments represent the fair value of investments made by Moyle Energy Investments Limited to the Platina renewable energy fund, PEN III. These investments were transferred to Mutual Energy Limited, who is an initial limited partner in this limited partnership, on 29th March 2022. The investments are expected to mature within the coming year therefore no discounting has been applied (2021: nil). The present value was determined to be £184,000 at 31 March 2022 (2021: £185,000), resulting in an impairment charge of £1,000 (2021: reversal of previous impairments of £889,000) which was recognised in operating expenses in the profit and loss account (see note 3).

Other investments also include a 5% share in Joint Allocation Office (JAO) S.A. at a cost of £212,000 and an interest in PRISMA European Capacity Platform GmbH of less than 1% which is carried at a cost of £1,988. The investments are held at fair value which equates to the cost paid.

Group	£'000
Cost and carrying amount	
At 1 April 2020 and at 31 March 2021	-
Transfer from subsidiary	185
Fair value adjustment	(1)
At 31 March 2022	**184**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

12 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Trade receivables	**17,269**	6,365	**-**	-
Prepayments	**3,838**	2,504	**68**	60
Accrued income	**13,495**	6,278	**18**	-
Other receivables	**6,722**	18,431	**30**	28
Trade receivables due from subsidiary undertakings	**-**	-	**578**	1,630
	41,324	33,578	**694**	1,718

All of the Group's and Company's trade and other receivables are denominated in Sterling with the exception of certain balances receivable in Euro as a result of Euro sales contracts as follows: i) trade receivables includes €14,576,000 due (£12,372,000 Sterling equivalent) (2021: includes €363,000 due (£314,000 Sterling equivalent)); and ii) accrued income includes €5,737,000 due (£4,855,000 Sterling equivalent) (2021: includes €2,059,000 due (£1,754,000 Sterling equivalent)); and iii) other receivables includes €2,584,000 (£2,169,000 Sterling equivalent) (2021: £Nil).

Included within Group revenue and trade receivables is an amount of €12,289,000 (£10,239,000 Sterling equivalent) excluding VAT which is due from SONI in relation to capacity constraints imposed by SONI against Moyle Interconnector Limited during the period from September 2021 to March 2022 and remains unpaid. Further information in this respect can be found within the critical estimates and judgements on page 118.

Apart from those balances identified in the paragraph above, none of the Group's or Company's trade and other receivables are impaired or past due and no impairment losses on trade and other receivables were recognised in profit and loss in the year (2021: £Nil). No provisions were deemed to be required at the reporting date as the Group and Company has no history of default in respect of its trade and other receivables and no current expectation of such. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair value of the Group's and Company's trade and other receivables is not materially different to their carrying values.

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

13 INVENTORIES

	Group		Company	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Spares	**57**	113	**-**	-

14 FINANCIAL ASSETS

	Group		Company	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Cash deposits	**44,867**	69,152	**1,848**	3,135

Cash deposits earn interest at a range from Bank of England base rate less 0.75% to Bank of England base rate plus 0.93%, or nil if higher.

15 CASH AND CASH EQUIVALENTS

	Group		Company	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents	**143,057**	103,882	**1,808**	1,139

Cash and cash equivalents earn interest at a range from Bank of England base rate less 0.75% to Bank of England base rate plus 0.20%, or nil if higher.

Other payables falling due within one year include £11,435,000 (2021: £6,416,000) due to SGN Commercial Services Ltd in relation to tangible assets which are also secured on cash and cash equivalents held by West Transmission Limited.

16 SHARE CAPITAL

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

17 RETAINED EARNINGS

Group	£'000
At 1 April 2020	41,884
Total comprehensive income for the year	10,471
At 31 March 2021	52,355
Total comprehensive expense for the year	(270)
At 31 March 2022	**52,085**

Included in the retained earnings for the Group is an amount of £1,874,000 (2021: £1,874,000) which we have agreed with the regulator will be applied to costs of future EU compliance projects.

Company	£'000
At 1 April 2020	(5,182)
Total comprehensive income for the year	1,014
At 31 March 2021	(4,168)
Total comprehensive income for the year	134
At 31 March 2022	**(4,034)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

18 INTEREST BEARING LOANS AND BORROWINGS

	Group		Company	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Non-current				
5.2022% Guaranteed secured bond	**43,772**	48,830	**-**	-
2.9376% Index linked guaranteed secured bond	**55,708**	60,615	**-**	-
2.207% Index linked guaranteed secured bond	**141,045**	133,225	**-**	-
Index linked guaranteed secured notes	**192,693**	185,966	**-**	-
Lease liabilities	**5,269**	5,569	**179**	196
	438,487	434,205	**179**	196
Current				
5.2022% Guaranteed secured bond	**5,058**	4,796	**-**	-
2.9376% Index linked guaranteed secured bond	**7,256**	8,863	**-**	-
2.207% Index linked guaranteed secured bond	**2,614**	2,267	**-**	-
Index linked guaranteed secured notes	**6,624**	6,247	**-**	-
Lease liabilities	**364**	357	**80**	72
Amounts owed to group undertakings	**-**	-	**-**	10,250
	21,916	22,530	**80**	10,322
Total borrowings	**460,403**	456,735	**259**	10,518

Amounts owed to group undertakings relate to loans for which no interest had been paid which were settled during the year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

18 INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

Group	Group			Company		
	Loans and borrowings £'000	Lease liabilities £'000	Total £'000	Loans and borrowings £'000	Lease liabilities £'000	Total £'000
Balance at 1 April 2020	469,857	5,633	475,490	10,250	98	10,348
Changes from financing cash flows						
Repayment of borrowings	(25,584)	-	(25,584)	-	-	-
Lease payments	-	(324)	(324)	-	(78)	(78)
Interest paid	(8,908)	-	(8,908)	-	-	-
Total changes from financing cash flows	(34,492)	(324)	(34,816)	-	(78)	(78)
Non cash changes						
Increased lease payments	-	677	677	-	248	248
Lease interest	-	(59)	(59)	-	-	-
Interest and indexation expense	15,443	-	15,443	-	-	-
Total non cash changes	15,443	618	16,061	-	248	248
Balance at 31 March 2021	450,808	5,927	456,735	10,250	268	10,518
Changes from financing cash flows						
Repayment of borrowings	(23,787)	-	(23,787)	(746)	-	(746)
Lease payments	-	(317)	(317)	-	(71)	(71)
Interest paid	(9,057)	-	(9,057)	-	-	-
Total changes from financing cash flows	(32,844)	(317)	(33,161)	(746)	(71)	(817)
Non cash changes						
Lease additions	-	65	65	-	65	65
Lease interest	-	(42)	(42)	-	(3)	(3)
Interest and indexation expense	36,806	-	36,806	-	-	-
Settlement of loans through dividends received	-	-	-	(9,504)	-	(9,504)
Total non cash changes	36,806	23	36,829	(9,504)	62	(9,442)
Balance at 31 March 2022	**454,770**	**5,633**	**460,403**	**-**	**259**	**259**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

18 INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

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

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

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

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

The 2.9376% index linked bond has a fair value of £78,764,000 (2021: £87,510,000), the 5.2022% bond has a fair value of £55,499,000 (2021: £64,744,000), the 2.207% index linked bond has a fair value of £219,704,000 (2021: £212,654,000) and the index linked notes have a fair value of £207,444,000 (2021: £200,920,000). These fair values have been calculated by discounting the future contracted interest cash flows using a discount rate of -1.37% (2021: -1.28%) for the 2.9376% index linked bond, a discount rate of 2.47% (2021: 1.44%) for the 5.2022% bond, a discount rate of -0.84% (2021: -0.90%) for the 2.207% index linked bond and a discount rate of -0.62% (2021: -0.68%) for the index linked notes. The discount rates used reflect the maturity profile of the Group's borrowings. Increasing/decreasing the discount rate by 0.5% would result in a fair value of £76,717,000/£80,898,000 for the 2.9376% index linked bond, £54,406,000/£56,626,000 for the 5.2022% bond, £204,058,000/£236,968,000 for the 2.207% index linked bond and £190,399,000/£226,632,000 for the index linked notes respectively.

The current effective interest rate, inclusive of interest and Retail Price Index indexation, for the 2.9376% index linked bond is 2.97%, the 5.2022% bond is 5.43%, the 2.207% index linked bond is 2.18% and the index linked notes is -0.48%. The undiscounted maturity profile of the Group's and the Company's borrowings are shown in note 25.

Amounts owed to Group undertakings in the prior year were unsecured and carried interest at a rate of 3.52%.

Lease liabilities represent future payments in respect of Crown Estate, property and electric vehicle leases. Further information on these leases can be found within note 19.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

19 LEASES

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

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

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

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

Mutual Energy Limited holds separate property leases for two floors in its office building. These leases were entered into in 2016 and 2017 and run to 31 July 2026 and 31 December 2022.

Following the introduction of a Company Electric Car Scheme in the year, Mutual Energy Limited entered into 3 leases for electric vehicles which run to March 2025, January 2026 and March 2026.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

19 LEASES (CONTINUED)

Information about leases for which the Group is a lessee is presented below.

RIGHT-OF-USE ASSETS

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

Group	Crown Estate leases £'000	Property leases £'000	Electric vehicle leases £'000	Total £'000
Net book value				
At 1 April 2021	5,796	271	-	6,067
Additions	-	-	65	65
Depreciation	(267)	(71)	(2)	(340)
At 31 March 2022	**5,529**	**200**	**63**	**5,792**

AMOUNTS RECOGNISED IN THE PROFIT OR LOSS

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

Group	2022 £'000	2021 £'000
Depreciation expense in respect of right-of-use assets	**340**	345
Lease liabilities interest income	**(42)**	(59)
Expenses relating to short-term leases	**9**	10

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

Group	2022 £'000	2021 £'000
Total cash outflow for leases	**317**	324

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

20 PROVISIONS

Group	Decommissioning provision £'000
At 1 April 2020	3,070
Cost adjustments through property, plant and equipment	113
Unwinding of discount during the year	16
At 31 March 2021	3,199
Cost adjustments through property, plant and equipment	11
Unwinding of discount during the year	30
At 31 March 2022	**3,240**

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the interconnector in 10 years, at the end of its useful economic life. This provision is expected to be utilised within 10 years. The provision represents the present value of the current estimated costs of dismantling the connections to the main electricity grids in Scotland and Northern Ireland. The provision has been discounted at a rate of 1.62% (2021: 0.97%).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

21 DEFERRED TAX ASSETS AND LIABILITIES

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

	Group		Company	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Deferred tax assets	**15,848**	7,439	**53**	43
Deferred tax liabilities	**(51,104)**	(38,999)	**-**	-
Deferred tax (liabilities)/assets – net	**(35,256)**	(31,560)	**53**	43

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

Movement in deferred tax during the year:

Group	**Group £'000**	**Company £'000**
At 1 April 2020	(33,556)	48
Recognised in profit and loss	1,996	(5)
At 31 March 2021	(31,560)	43
Recognised in profit and loss	(3,696)	10
At 31 March 2022	**(35,256)**	**53**

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

Group	**Losses £'000**	**Accelerated capital allowances £'000**	**Valuation of intangible assets £'000**	**Derivative financial instruments £'000**	**Total £'000**
At 1 April 2020	-	(15,980)	(24,672)	7,096	(33,556)
Recognised in profit and loss	-	748	905	343	1,996
At 31 March 2021	-	(15,232)	(23,767)	7,439	(31,560)
Recognised in profit and loss	4,523	(6,120)	(5,985)	3,886	(3,696)
At 31 March 2022	**4,523**	**(21,352)**	**(29,752)**	**11,325**	**(35,256)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

22 GOVERNMENT GRANTS

Group	£'000
At 1 April 2020	78,728
Additions	1,524
Amortised during the year	(3,460)
At 31 March 2021	76,792
Additions	565
Amortised during the year	(3,494)
At 31 March 2022	**73,863**

The grants were provided to the Group for the purpose of its expenditure on its property, plant and equipment. All obligations in respect of these grants have now been met with the exception of West Transmission Limited where works which are grant aided are ongoing. The current portion of the government grants is £3,507,000 (2021: £3,494,000), and the non-current portion is £70,356,000 (2021: £73,298,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

23 TRADE AND OTHER PAYABLES

	Group		Company	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Trade payables	**4,880**	17,289	**39**	16
Accruals	**10,043**	7,123	**908**	888
Deferred income	**731**	2,697	**-**	-
VAT and social security	**5,832**	-	**90**	84
Other payables	**16,008**	9,526	**-**	-
Trade payables due to related parties	**-**	-	**7,627**	8,645
	37,494	36,635	**8,664**	9,633

All of the Group's and Company's trade and other payables are denominated in Sterling with the exception of certain balances payable in Euro in relation to Euro sales contracts as follows: i) Trade payables includes €12,000 owed (£10,000 sterling equivalent) (2021: includes €10,000 (£9,000 sterling equivalent)) ii); and other payables includes €5,228,000 owed (£4,388,000 sterling equivalent) (2021: includes €1,953,000 (£1,672,000 sterling equivalent).

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

Other payables include £11,435,000 (2021: £6,416,000) which is secured on West Transmission Limited's cash and cash equivalents.

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

Included in accruals are capital creditors of £1,960,000 (2021: £989,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

24 RELATED PARTY TRANSACTIONS

The ultimate controlling party of the Group are its members.

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

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

Company	Amount owed (to)/from related party	
	2022 £'000	2021 £'000
Subsidiary undertakings – current assets	**578**	1,630
Subsidiary undertakings – current liabilities	**(7,627)**	(18,895)

In the prior year, in addition to the amounts owed to related parties as disclosed above, the Company owned £10.25m of preference shares in one of its subsidiary undertakings (see note 10) the acquisition of which had been financed through borrowings from another subsidiary undertaking which are included within current liabilities shown above in the prior year.

Company	Nature of transaction	Value of transaction	
		2022 £'000	2021 £'000
Subsidiary undertakings	Interest payable	**(659)**	(633)
Subsidiary undertakings	Group relief surrendered	**97**	91
Subsidiary undertakings	Interest receivable	**586**	-
Subsidiary undertakings	Dividend income	**11,212**	-
Subsidiary undertakings	Charges receivable	**4,232**	3,814

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

Group	**2022 £'000**	2021 £'000
Short term employee benefits	**644**	645
Long term employee benefits	**139**	145
Post-employment benefits	**29**	31

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

25 FINANCIAL INSTRUMENTS

The Group's and Company's financial instruments are classified as follows:

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Group	£'000
Liability At 1 April 2020	38,907
Fair value adjustment	1,631
Liability at 31 March 2021	40,538
Fair value adjustment	5,936
Liability at 31 March 2022	**46,474**

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 2022 (CONTINUED)

25 FINANCIAL INSTRUMENTS (CONTINUED)

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

At 31 March 2022 Group	**Within 1 year £'000**	**1-2 years £'000**	**2-3 years £'000**	**3-4 years £'000**	**4-5 years £'000**	**More than 5 years £'000**	**Total £'000**
2.9376% Index linked bond	**9,154**	**8,266**	**7,791**	**7,370**	**7,097**	**33,661**	**73,339**
5.2022% Bond and associated derivatives	**10,542**	**10,752**	**10,965**	**11,182**	**11,405**	**35,589**	**90,435**
2.207% Index linked bond	**5,771**	**5,885**	**6,002**	**6,123**	**6,246**	**164,219**	**194,246**
Index linked notes	**5,657**	**5,657**	**5,657**	**5,657**	**5,657**	**155,555**	**183,840**
Lease liabilities	**364**	**332**	**330**	**321**	**278**	**4,007**	**5,632**
Trade and other payables*	**30,931**	**-**	**-**	**-**	**-**	**-**	**30,931**
	62,419	**30,892**	**30,745**	**30,653**	**30,683**	**393,031**	**578,423**

At 31 March 2021 Group	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.9376% Index linked bond	10,955	8,815	7,960	7,503	7,097	39,249	81,579
5.2022% Bond and associated derivatives	9,956	10,152	10,354	10,559	10,769	45,256	97,046
2.207% Index linked bond	5,245	5,352	5,458	5,566	5,678	158,084	185,383
Index linked notes	5,246	5,246	5,246	5,246	5,246	149,505	175,735
Lease liabilities	356	346	315	312	310	4,288	5,927
Trade and other payables*	33,938	-	-	-	-	-	33,938
	65,696	29,911	29,333	29,186	29,100	396,382	579,608

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

25 FINANCIAL INSTRUMENTS (CONTINUED)

At 31 March 2022 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
Lease liabilities	**80**	**59**	**58**	**52**	**10**	**-**	**259**
Trade and other payables*	**8,574**	**-**	**-**	**-**	**-**	**-**	**8,574**
	8,654	**59**	**58**	**52**	**10**	**-**	**8,833**

At 31 March 2021 Company	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Borrowings: Amounts owed to group undertakings	10,250	-	-	-	-	-	10,250
Lease liabilities	71	63	42	41	40	11	268
Trade and other payables	9,549	-	-	-	-	-	9,549
	19,870	63	42	41	40	11	20,067

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

25 FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT

FINANCIAL RISK FACTORS

The Group has 4 principal sub-groups:

- Moyle Interconnector (Financing) plc
- Premier Transmission Financing plc
- Belfast Gas Transmission Financing plc
- West Transmission Financing plc

MOYLE INTERCONNECTOR (FINANCING) PLC

The group operates the interconnector which links the electricity transmission systems of Northern Ireland and Scotland under a licence agreement with the Northern Ireland Authority for Utility Regulation. The Group earns its revenue through its market arrangements which make available the capability of the interconnector to the System Operators, SONI and National Grid. This capability is provided to the System Operators via either direct contracts for services or industry wide contractual arrangements. In the event that the group does not earn sufficient revenues to cover its operating expenses, interest on borrowings and repayment of borrowings, the group's licence allows the company to make a call on its customers for any shortfall. Accordingly, this sub-group has limited financial risk.

PREMIER TRANSMISSION FINANCING PLC AND BELFAST GAS TRANSMISSION FINANCING PLC

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

WEST TRANSMISSION FINANCING PLC

The group operates the high pressure gas transmission pipeline which supplies the gas distribution network in the West of Northern Ireland and a gas transmission offtake at Maydown. The licence arrangement allows full recovery of its operating expenses, financing costs and repayment of borrowings. By way of an agreement with SGN Commercial Services Ltd, other than the scenario of regulatory malfeasance, the financial risk that the regulatory income allowance for the construction of the pipeline is insufficient, and any benefit if the regulatory income allowance is greater than the financing costs, has been passed on to them.

(A) INTEREST RATE RISK

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

The Group issued its long term borrowings to refinance its transmission assets at the lowest possible rates in order to reduce the costs of transmission to the consumers of Northern Ireland. Its long term borrowings were issued at either fixed rates or are linked to the Retail Price Index. In order to match certain revenues which are linked to the Retail Price Index the Group has entered into a swap transaction which converts its only fixed rate borrowing to a borrowing linked to the Retail Price Index. The Group's long term borrowings are therefore susceptible to changes in the Retail Price Index. A change in the Retail Price Index by 1% would have increased/decreased finance expenses, profit/loss and equity during the year by £3,861,000 (2021: £3,973,000).

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

25 FINANCIAL INSTRUMENTS (CONTINUED)

Included within Group revenue and trade and other receivables is an amount of €12,289,000 (£10,239,000 Sterling equivalent) excluding VAT which is due from SONI in relation to capacity constraints imposed by SONI against Moyle Interconnector Limited during the period from September 2021 to March 2022 and remains unpaid. Further information in this respect can be found within the critical estimates and judgements on page 118.

Apart from those balances identified in the paragraph above, the Group's trade and other receivables are not impaired or past due and management does not expect any losses from non-performance by its customers.

(C) LIQUIDITY RISK

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

CAPITAL RISK MANAGEMENT

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

FAIR VALUE ESTIMATION

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

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

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

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

1) The price or cost of recent investments; 2) Industry valuation benchmarks; 3) Recent offers received; and 4) Contractual commitments; and adjusted to account for fund managers fees. As the investments are now expected to mature in the coming year, no discounting was required. In the prior year, the valuation was based on our share of the projected cash flows for each individual project which combine to constitute the financial instrument. The cash flows were derived from the IRRs estimated by the fund manager. The project cash flows were then combined to form a consolidated cash flow for the instrument which is itself discounted using a rate of return applicable to similar instruments. The calculation assumes a GBP/EUR rate of 1.1816 in the current year (2021: 1.174).

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022 (CONTINUED)

25 FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE ESTIMATION (CONTINUED)

cash flows using a suitable discount rate. These discount rates are based on Bank of England gilt yield curve data for a term that is similar to the financial instrument.

26 ULTIMATE CONTROLLING PARTY

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

27 SUBSEQUENT EVENTS

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

28 CONTINGENT LIABILITIES

The Group has referred a dispute to arbitrators in respect of €12,289,000 (£10,239,000 Sterling equivalent) revenue, excluding VAT, which is due from SONI in relation to capacity constraints imposed by SONI against Moyle Interconnector Limited during the period from September 2021 to March 2022 and remains unpaid. In line with the contract, the matter has been referred to the Law Society who will appoint an arbitrator to settle the matter in the event an arbitrator cannot be agreed with SONI. Moyle Interconnector has received legal advice which confirms its entitlement to this revenue but, whilst it is more likely than not that this will be recovered, some risk of non-payment exists, as with any legal determination. The amount of such liability, were this to occur, cannot be reasonably estimated.


A NORTHERN IRELAND COMPANY
WORKING FOR CONSUMERS
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mutualenergy

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