ANNUAL REPORT 2023

Annual Report & Financial Statements
for the year ended 31 March 2023


A NORTHERN IRELAND COMPANY
WORKING FOR CONSUMERS
mutualenergy

ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2023

CONTENTS

DIRECTORS AND ADVISERS

DIRECTORS

Patrick Anderson	Non-Executive Director
David Gray	Chairman
Patrick Larkin	Executive Director
Harold McCracken	Non-Executive Director
Gerard McIlroy	Executive Director
Michael McKernan	Non-Executive Director
Ceri Richards	Non-Executive Director

COMPANY SECRETARY

Gerard McIlroy

REGISTERED OFFICE

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85 Ormeau Road
Belfast, BT7 1SH

PRINCIPAL PLACE OF BUSINESS

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Belfast, BT7 1SH

SOLICITORS

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15-17 Gloucester Street
Belfast, BT1 4LS

BANKERS

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Donegall Square North
Belfast, BT1 5GB

INDEPENDENT AUDITORS

Grant Thornton (NI) LLP
Chartered Accountants and Statutory Auditors
12-15 Donegall Square West
Belfast
BT1 6JH

CHAIR'S STATEMENT

2022/23 was a milestone year for our electricity business, with the full replacement of our control system in the Moyle interconnector. This system makes the whole interconnector function, operating equipment with millisecond response times and dynamically interacting with the electricity networks on each side. The project itself was effectively a hybrid of a major engineering project, where actual physical damage to equipment was possible if not fully successful, and a major IT project, with all the classic risks of time delays and cost overruns so often associated with these projects. All told the project cost close to £26m and required 70 equivalent days of full interconnector outage[1]. I am pleased to report this extremely complex project was delivered on time and below budget. The Moyle Interconnector is one of the first in the world to have undergone what is the single most complex major refurbishment expected in any interconnector's lifespan, and is now fully back in service and operating to the very highest standard.

The major engineering projects weren't limited to the electricity side of the business, with the gas business successfully completing the first major pipeline inspection of the gas to the west system from Dungannon to Tullybroome, by sending a series of internal gauges through the pipeline which measured wall thickness and pipeline integrity, with no issues found. We also completed work on the first major new gas connection point onto our system since 2004 with the creation of a new offtake at Marshalstown. This site will be fully operational once EP Kilroot finish constructing the line from Marshalstown to their new gas station at Kilroot, hand it over to us and certification processes are completed. The creation of this connection involved drilling into the live gas pipeline, creating a temporary diversion line, removing the original section of pipeline and then installing the new valves, pipework and other equipment to create the offtake. This is another major milestone in the expansion of the gas network in Northern Ireland, ultimately facilitating the closure of the coal plant at Kilroot whilst ensuring the electrical system can still function on calm days by providing a connection to the new gas generating plant.

Financially the business continues to perform strongly. Despite the need to take outages to replace the control system the electricity business recorded a turnover of £56.8m. Some £9.8m of this, however, was not paid by SONI/EirGrid in respect of compensation for restricting the use of the interconnector for exports to GB, with restrictions happening on the majority of days in the year. The Republic of Ireland electricity system remains under some pressure and the interconnector flows from Northern Ireland to Republic of Ireland have not been restricted. As noted last year we have referred the matter to arbitration, a process which is ongoing but is expected to be resolved in 2023/24. This is an important point of principle. The potential for system operators to restrict interconnector operators to manage their own systems without paying compensation leads to massive revenue uncertainty. Whilst the company is protected by its underlying arrangements, the burden of the missing revenue will fall on the Northern Ireland consumer. This issue currently only arises with SONI/EirGrid. National Grid have never restricted the Moyle Interconnector and, in the unlikely event they ever did, operate a compensation system.

[1] *In practice full interconnector shut down was minimised and downtime was mostly one half of the interconnector at a time*

SUPPORTING CONSUMERS

Our financial statements show the impact of the high inflation rate environment, with borrowing costs increasing from £15.4m in 2021 to £62.6m in the current year. The vast majority, some £52.1m, is the recognition of costs that will be paid over future years. Financing cashflows in the year only increased from £33.5m to £35.0m, so most of the pain is still in front of us. Nevertheless, the impact of inflation on Northern Ireland consumers is very real and we were happy to be able to apply some £3m to rebate electricity tariffs and £3m to provide direct assistance to vulnerable consumers. We aim to make this a consistent return to consumers, subject to an annual assessment of forecast business performance.

RESHAPING THE ENERGY MARKETS OF NORTHERN IRELAND

In the absence of progress on policy or regulatory frameworks to promote decarbonisation, progress remains slower than needed to hit net zero targets. On the positive side there has been substantial movement towards getting large volumes of biomethane on to the gas network. Two projects are well underway and several other proposals are being progressed by developers. The first project alone could supply 15% of the distribution demand on the Gas to the West network. This, combined with much higher forecasts of gas capacity requirements to back up intermittent generation, points to the need for our network to adapt to different, higher flow levels at peak demand times. Our network planning team is working closely with our energy transition team and other gas network owners to pro-actively forecast the changes over the next decades. Our energy transition team is also actively involved in the policy debate in GB, Ireland and Northern Ireland and we continue to evaluate projects which are needed for the energy transition as far as we can in the absence of market arrangements.

STAFF & STAKEHOLDERS

The energy transition will require a substantial increase in activity, investment and effort from all parties in the industry. The Group's ability to attract and retain staff will be vital to allow Mutual Energy to play its part in achieving this transition. The Board recognise the difficulties in recruitment in this environment, but were pleased to see the effort to create a good corporate culture reflected in the recent third party staff engagement review. I would like to thank all members of staff for their continuing hard work and commitment. We continue to keep the interests of Northern Ireland energy consumers as our central focus in all our interactions with other industry players and government bodies such as the Department for the Economy (DfE) and the Utility Regulator.

Finally, I would like to thank the members of the Company and my colleagues on the Board for their commitment and support. We have welcomed 11 members in recent months, and look forward to their input in determining priorities for the Northern Ireland consumer.

David M Gray

DAVID **GRAY**

CHAIR

26 June 2023


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STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023

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 15 to 21

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.

OPERATION OF ASSETS
SEE PAGES 22-30

COST SAVINGS
SEE PAGES 31-36

DECARBONISATION
SEE PAGES 37-48

MARKET ENVIRONMENT
SEE PAGES 49-53

INFRASTRUCTURE ACQUISITION
SEE PAGES 54-55

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 13

GOVERNANCE STRUCTURE
SEE PAGES 70-76

RISK MANAGEMENT
SEE PAGES 59-65

FINANCIAL PERFORMANCE
SEE PAGES 108-164

2022/2023 HIGHLIGHTS

OPERATE ASSETS SAFELY AND COST EFFECTIVELY, OUTSOURCING WHERE APPROPRIATE

100%

100% GAS ASSET AVAILABILITY, ALLOWING ALL OF NORTHERN IRELAND'S GAS TO BE SUPPLIED THROUGH MUTUAL ENERGY'S PIPELINES

79.9%

MOYLE CONTROL SYSTEM SUCCESSFULLY REPLACED AND 79.9% AVAILABILITY ON THE MOYLE INTERCONNECTOR ACHIEVED DESPITE THIS MAJOR IMPROVEMENT PROJECT

5

5 MOYLE INTERCONNECTOR FAST FREQUENCY RESPONSES TO SUPPORT THE NORTHERN IRELAND (NI) ELECTRICITY SYSTEM

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

£3M

£3M RETURNED ACROSS ALL ELECTRICITY CONSUMERS TO REDUCE THE IMPACT OF RISING PRICES USING A 'NEGATIVE TARIFF' MECHANISM

£3M

£3M CONTRIBUTION TO VULNERABLE ELECTRICITY CONSUMERS

13.9%

13.9% OF NORTHERN IRELAND'S ELECTRICITY SUPPLIED BY MOYLE INTERCONNECTOR (1.0TWh) PROVIDING LOWER COST ENERGY

£8.6M

CONTINUATION OF ZERO TARIFF CHARGES TO CONSUMERS FROM MOYLE, WHILST INVESTING £8.6M TO IMPROVE THE INTERCONNECTOR'S ABILITY TO SERVE THE CONSUMERS' NEEDS

2022/2023 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

LIFETIME SAVING OF C110,000 TONNES CO2 IN 2022 FROM NEW DOMESTIC GAS CONNECTIONS FACILITATED BY THE NI GAS TRANSMISSION NETWORK.

INDUSTRIAL & COMMERCIAL GAS CONSUMERS SAVED OVER 210,000 TONNES OF CO2 IN THE YEAR COMPARED TO USING OIL

120,000 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[2]

MOYLE INTERCONNECTOR ENABLED EXCESS WIND CAPACITY TO BE EXPORTED, WITH EXPORTS EQUIVALENT TO 36.8% OF THE ELECTRICITY GENERATED FROM WIND IN NORTHERN IRELAND (1.0TWh)

ACTIVELY WORKING WITH SIX INDUSTRY PARTNERS AND TWO ACADEMIC INSTITUTIONS TO ASSESS ENERGY POLICY AND ENERGY PROJECTS

[2] *Source: electricityMap, © tmrow.com*

2022/2023 HIGHLIGHTS

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

IMPLEMENTATION OF 'AGGREGATE BALANCING' ACROSS THE NORTHERN IRELAND TRANSMISSION AND DISTRIBUTION GAS NETWORKS, WHICH ACCOMMODATES THE INJECTION OF BIOMETHANE ON THE DISTRIBUTION NETWORK

WORK CONTINUING 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

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

MOYLE'S CONTROL SYSTEM UPGRADE PROJECT (CSUP) WAS COMPLETED TO IMPROVE THE ABILITY OF OUR INTERCONNECTOR TO PROVIDE SERVICES TO SYSTEM OPERATORS AND SO IMPROVE SECURITY OF SUPPLY FOR NORTHERN IRELAND ENERGY CONSUMERS.


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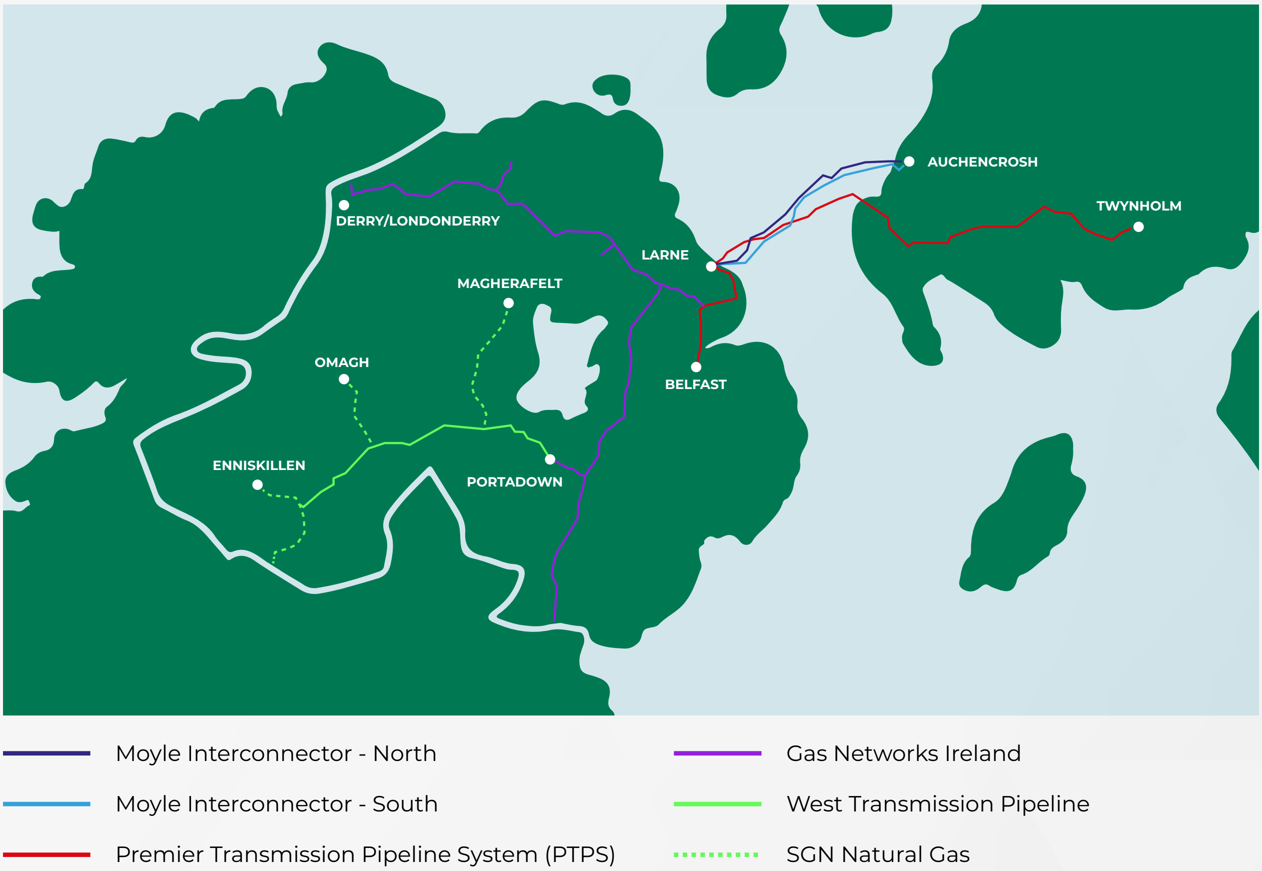
STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)



BUSINESS STRUCTURE

Mutual Energy owns the strategically important electricity and gas links between Northern Ireland (NI) and Great Britain (GB) along with a substantial portion of the Northern Ireland gas transportation network. In 2022-23 our assets imported 17.1 TWh of gas and 1.0 TWh of electricity, approximately 35% of the total energy use in Northern Ireland. The extent of our network is shown in the diagram above.

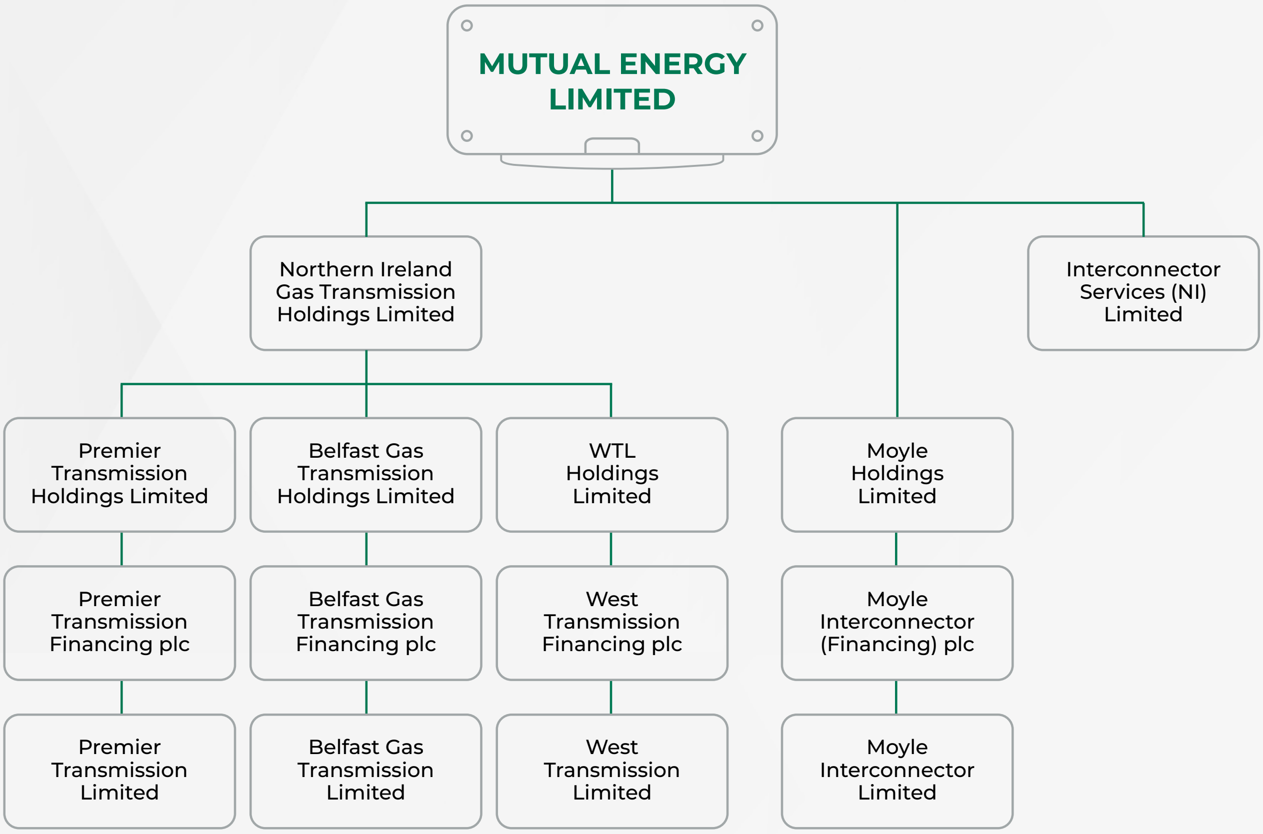
Mutual Energy Limited is a company limited by guarantee with no shareholders, commonly known as a mutual, with a minimum of 30 'members' appointed who act as proxy shareholders. (Further information on our governance structure and the role of members can be found on pages 70-76).

The mutual model and our licence structures are attractive to investors looking for low-risk, 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 real average Weighted Average Cost of Capital (WACC) of the Group currently circa 1.2% (2022: 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. Interconnector Services (NI) Limited facilitates the provision of common services throughout the Group and the management of some of the reserves.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (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 Public Limited Companies (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 59 to 65. More information regarding our customers, stakeholders and staff can be found on pages 56 to 58.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

STRATEGIC OBJECTIVES

Our strategy is made up of five key elements:

- **SAFE, COST EFFICIENT OPERATION**
- **RETURN SAVINGS TO CONSUMERS**
- **DECARBONISE**
- **MANAGE MARKET CHANGE**
- **ACQUIRE INFRASTRUCTURE**

Each of these elements have KPIs associated with them. These are outlined in more detail over the subsequent pages.

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

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

SAFE, COST EFFICIENT OPERATION

OPERATE ASSETS SAFELY AND COST EFFECTIVELY, OUTSOURCING WHERE APPROPRIATE

HOW WE DELIVER

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 22-30.

HOW WE MEASURE SUCCESS

- 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 (KPI 1);
- For the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs (KPI 2);
- Our safety is measured by the safe operation of our staff and contractors via lost time incidents (KPI 3) and a series of detailed health & safety targets;
- We have detailed maintenance and contracting milestones which are monitored at contract meetings; and
- We use detailed monthly budgets which are monitored over a rolling five year horizon.

AVAILABILITY (KPI 1)	$$\frac{\textbf{(Capacity Available × Hours Available)}}{\textbf{(Total Plant Capacity × Hours in Year)}}$$ Note that unavailability excludes upstream outages over which we have no control. Total plant capacity relates to capacity under existing connection agreements.
OPERATIONAL SAVINGS (KPI 2)	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.
LOST TIME INCIDENTS (KPI 3)	Lost time incidents are calculated as the number of lost time incidents per 100,000 hours worked by staff and contractors.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

RETURN SAVINGS TO CONSUMERS

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

HOW WE DELIVER

Group strategy involves returning all savings or cash surpluses to Northern Ireland consumers 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.

Delivery of costs savings is discussed in more detail on pages 31-36.

HOW WE MEASURE SUCCESS

Our measures of success include:

- For the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs (KPI 2). Operational savings versus forecasts for the gas businesses are shown on page 33.
- 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 (KPI 4). This is a direct saving to consumers. Cost of capital of Mutual Energy versus an NI comparator can be seen on page 35.
- Cash generated (KPI 5) 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 33 and 35.

COST OF CAPITAL VERSUS AN NI COMPARATOR (KPI 4)	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.
CASH GENERATED FROM OPERATIONS (KPI 5)	Cash generated in each of the businesses post tax.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

DECARBONISE

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

HOW WE DELIVER

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 37-48.

HOW WE MEASURE SUCCESS

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 pages 25-26).

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 41).

Finally, on a business operating level, 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 Group can contribute to the reduction in CO2 across three key strategic areas:

1. Enabling access to lower carbon fuels – facilitating our consumers to move from higher CO2 emitting fossil fuel to lower emitting fossil fuels;

2. Greening the existing networks – developing options for lower or zero emission fuels to transport through the networks; and

3. Influencing policy and participating in projects which further decarbonisation – working to develop and promote the larger, secure, decarbonised energy system, new ways of working, extensive integration of electricity and gas and different technologies needed to allow decarbonisation to happen.

The total of the CO2 savings is the KPI for this activity and a graph showing the results can be found on page 41.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

DECARBONISE (CONTINUED)

CO2 SAVINGS (KPI 6)	
	Enabling switching to lower carbon fuels - CO2 savings from facilitating our consumers 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.
	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.
	Greening the existing networks – developing options for 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 CO2 usage is calculated in accordance with guidance provided by the Department of Business, Energy and Industrial Strategy ('BEIS'), for conversion of different fuel types.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

MANAGE MARKET CHANGE

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

HOW WE DELIVER

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 49-53.

HOW WE MEASURE SUCCESS

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
- GMO NI[3] 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 50 (KPI 7).

MARKET IMPROVEMENTS IMPLEMENTED (KPI 7)	Number of market improvements implemented within each financial year.

[3]*Gas Market Operator for Northern Ireland (GMO NI)*

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

ACQUIRE INFRASTRUCTURE

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

HOW WE DELIVER

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 55.

HOW WE MEASURE SUCCESS

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).

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 page 55.

ANNUAL DEBT SERVICE COVER RATIO (KPI 8)	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.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

STRATEGIC OBJECTIVE:

OPERATE ASSETS SAFELY AND COST EFFECTIVELY, OUTSOURCING WHERE APPROPRIATE

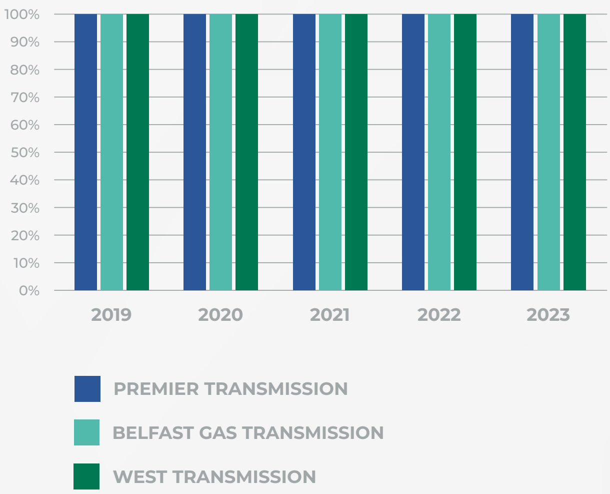
STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

GAS

OPERATIONAL PERFORMANCE

Winter 2022/23 was relatively mild with the exception of two cold snaps mid-December and February through which Northern Ireland's daily gas demand peaked at 7.0 million standard cubic meters per day ("mscm/d"). The gas market in Northern Ireland continues to increase in size, with increased connections to the distribution networks and increased reliance on gas fired generation to back up intermittent renewables, as well as providing baseload generation. Despite the mild weather and high prices suppressing domestic heating demand, our peak of 7.0mscm/d was only marginally below the previous peak day demand of 7.1mscm/d.

KPI 1: GAS BUSINESS AVAILABILITY



The availability of the gas system through the year was 100% (KPI 1). Whilst much planning was put in place for responding to potential shortfalls in supply across Europe, there were no issues with gas supply in the GB gas market impacting on NI's ability to access natural gas.

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

ASSET MANAGEMENT

Several key maintenance and inspection activities of the gas transmission assets were undertaken during the year, including the submarine inspection of the underwater lengths of the SNIP pipeline and the pipelines in Belfast and Larne Loughs.

This external inspection uses cameras and acoustic technology to map the seabed through which the pipeline transverses, and avails of technology to assess the effectiveness of the corrosion protection system. The pipeline environment remains stable and the protection systems effective.

An inline inspection of the Dungannon to Tullybroome section of the Gas to the West pipeline was planned and executed during the year, as demand had grown to a sufficient level to enable this. The inspection provided assurance that there are no material defects in the pipeline and established a baseline for effective integrity management throughout the pipeline's remaining life. The completion of this inspection means all of the Gas to the West pipeline has now been internally inspected, providing baseline data for all future inspections.

FINANCIAL PERFORMANCE

The gas businesses revenue entitlement is calculated for each gas year, which runs to 30th September. 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 2022 were £3.1m above the forecasts used for predicting tariffs (September 2021: £0.2m below) (KPI 2). Further information on this is available on page 33 in the section on delivering savings to current and future consumers.

The businesses are cash generative and able to meet their debt service obligations. However, because of their 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 where capital repayments will exceed reindexation of the debt.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

GAS (CONTINUED)

FUTURE DEVELOPMENT – ASSET PERFORMANCE AND UTILISATION

The gas network has remained fairly stable over the last decade, with a steady growth in the distribution sector (driven by a gradually increasing consumer base and the introduction of gas to the west of Northern Ireland), aligned with a small fall in power generation consumption as more wind generators came on the network. Recently, demand for gas for power generation has increased markedly and the upcoming conversion of Kilroot from coal to gas will increase this further. Annual consumption of gas for the power generation sector had decreased with intermittent renewables contributing more to the electricity mix, though the removal of coal and overall demand growth makes further reductions in the near term less likely, however the peak daily requirement for power generation (required on the days the renewables are not available) is set to increase as more new connections to gas fired electricity generation come on stream.

We completed the construction works necessary to facilitate the gas connection to Kilroot Power Station and expect a significant step increase in peak daily capacity in the coming year. Network modelling of NI gas capacity[4] forecasts that once the new gas-powered generator at Kilroot comes on line, the peak day demand will exceed that which can be transported through the Moffat Entry Point to the NI network (8.08mscm/d).

The second entry point to the NI network at Gormanston in the Republic of Ireland is expected to be needed for the first time. We have been planning for this transition through 2022/23 and will work with gas shippers, GMO NI and the other NI TSO, GNI (UK) Limited, to enable a smooth transition to the new operating regime.

Network planning becomes ever more important with the medium-term forecasts for gas including higher peaks and potentially higher throughput. Increases are expected in both the power generation and domestic sectors, some of which may be met with new biomethane injection points in the distribution network. We have been engaging pro-actively with other network operators to consider the robustness of the overall Northern Ireland network in light of the current pattern of ever-increasing domestic connections and the heavy power sector reliance on gas. This may well result in the need for network reinforcements.

[4] *2022 NI Gas Capacity Statement*

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

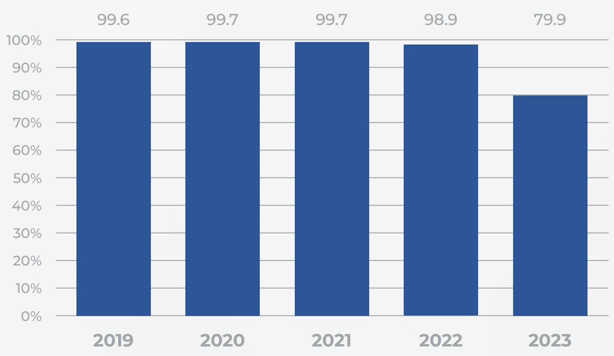
ELECTRICITY

OPERATIONAL PERFORMANCE

As planned, Moyle's availability was significantly impacted by the Control System Upgrade Project (CSUP), and therefore was 79.9% in 2022/23 (KPI 1). This was significantly reduced compared to 98.9% availability in the previous 12 months, but the vast majority of this reduction related to planned outages.

This major project saw the control and protection system completely replaced, and outages were taken throughout the summer months to allow site works. The two poles were refurbished sequentially, with only short bi-pole outages taken (an initial one day, and subsequent seven days mid-project). This allowed Moyle to continue to offer 250MW capacity for the majority of the period of the site works. Two minor trips occurred after the restoration of the first pole, quickly identified as snagging items with the project. Reliability thereafter was exceptional, with no further trips throughout the remainder of the year. Aside from the CSUP, availability remained excellent; only one trip (with a duration of less than one hour) occurred, and this was due to failure within equipment that was planned to be replaced as part of the CSUP, emphasizing the need to undertake the project.

KPI 1: MOYLE AVAILABILITY (%)



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

Moyle has also been very reliable through the period in delivering DS3[5] ancillary services to the NI system operator and 'Balancing and Ancillary Services' to the GB system operator. These services represent an increased source of revenue, and their reliability is an equally important measure as (capacity) availability. In 2022/23, as in the previous year, these services were provided in full compliance with the contract. 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 CSUP included amendments to the functionality of the convertors to improve the reliability by improving speed of response across a wider range of operational parameters. This has improved Moyle's system service offering.

A possible emerging trend through 2022/23 is that whilst the ancillary service supporting the NI grid was 'armed' by the NI System Operator and available for the entire year, the number of times it activated was significantly less than the previous year.

The GB Operator only 'armed' the ancillary service for a couple of very short periods. Nonetheless, CSUP amendments have us better equipped to offer what the system operators might require by way of ancillary service going forward.

[5] *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 2023 (CONTINUED)

ELECTRICITY (CONTINUED)

ASSET MANAGEMENT

The CSUP has been a major focus for Moyle since 2018. The control and protection hardware was obsolete, with support becoming ever more challenging. Reliability was also at risk, as failure modes began to emerge within the aging equipment.

The refurbishment project, which was delivered on time and within budget (project and outage costs), provided enhanced redundancy (and hence reliability), more resilience against fast-changing transmission networks, and more sophisticated ancillary services. Further information on the project is included in the CSUP feature on page 28.

Aside from CSUP, work is ongoing to ensure that reliability is maintained across all Moyle's sub-components. During the year, new chillers were installed; these maintain constant temperature in the control rooms, providing the ideal environment for electronic equipment to operate reliably. The new chillers also bring a significant energy saving.

Moyle's metering systems were also upgraded; these provide critical operational data to the System Operators in Northern Ireland and Great Britain. The year ahead will see another obsolescence issue addressed, with the replacement of the original fire detection and control systems.

A submarine inspection of the underwater lengths of Moyle cable systems was carried out. This external inspection uses cameras and acoustic technology to ensure the cables remain buried to the targeted depth of burial in the seabed to minimise the risk of damage by fishing or anchoring activities. The burial was confirmed as effective across the entire length of the cable corridors.


A Northern Ireland company

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

ELECTRICITY (CONTINUED)

CONTROL SYSTEM UPGRADE PROJECT (CSUP)

Mutual Energy has completed a state-of-the-art refurbishment of the Moyle Interconnector's control system, ensuring the high voltage direct current (HVDC) electricity link between Scotland and Northern Ireland is well equipped for the future, improving security of supply for Northern Ireland energy users.

The upgrade will help ensure the Moyle Interconnector continues to deliver safe, reliable and secure operation for years to come. Newly improved controls have been installed, as well as new communications and operator interfaces, all with advanced cyber protection.

Work started on the project over four years ago, with two years of design and manufacturing followed by a year of testing of the new equipment during 2021 in the test laboratory in Germany, with thousands of test cases being carried out, all underpinned by many thousands more desktop studies, which informed the tuning of the controls. Equipment was moved to site early in 2022, with outages starting in May, and final commissioning taking place in mid-September 2022.

The project, which was delivered on time and within budget (project and outage costs), delivered enhanced redundancy (and hence reliability), more resilience against fast-changing transmission networks, and more sophisticated ancillary services.

A further key deliverable was the implementation of a replica control system at The National HVDC Centre in Scotland. This Ofgem-backed facility allows high fidelity simulation of the electricity grids and will ensure that cybersecurity enhancements or software improvements can be tested before application on the operational control system. This replica means we can avoid the need to take the interconnector out of service for longer than is absolutely required and minimises the risk of changes having unintended consequences and impacting performance.

This upgrade enhances the operation and functionality of Moyle, ensuring the interconnector remains fully equipped to deliver electricity between Scotland and Northern Ireland and provide valuable services to help the electricity system operators in NI and GB manage the electricity network effectively.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

ELECTRICITY (CONTINUED)

FINANCIAL PERFORMANCE

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

COMMERCIAL REVENUES

Market arrangements are typically in an ongoing state of flux and the business is required to adapt to the changes resulting from system operator and regulatory initiatives, refinement of market rules, and latterly, the arrangements driven by Brexit. The Integrated Single Electricity Market ('I-SEM') arrangements were only introduced in September 2018 and already these have changed significantly with the removal of day-ahead market trading (and as a result of this, the cessation of selling Financial Transmission Rights) between GB and the SEM upon Brexit.

These are likely to change again, with new arrangements provided for the Trade and Cooperation Agreement between the UK and EU and the reintroduction of long-term transmission rights also currently under consideration.

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 generates revenue related to this price difference. Prior to Brexit, for the majority of capacity, Moyle sold on to market participants the right to this market difference revenue via forward auctions. From 1 January 2021 all of these auctions 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 is likely to result in a reduction in this revenue in future, and we have seen this in GB already, but this may be balanced if the interconnector can expand the range of services it offers and if more system services markets become open to interconnector participation.

- **Capacity market revenue:** This revenue stream recognises Moyle's contribution to security of supply on both islands with payments from both GB and SEM markets. Moyle receives significant additional revenue from these markets, but penalties are potentially very high in the SEM where there is non-performance at a time of system stress. The UK government is also considering proposals to strengthen the GB capacity market's penalty regime.

Moyle has seen a significant variation in the commercial revenue flows in recent years, with more income originating from services provided to the system operators and capacity market revenue. More recently, high gas prices and energy market volatility have resulted in market difference revenue being the primary revenue stream. In the short term, we have seen this revenue return to more typical levels as gas prices recede and longer-term, we expect capacity market revenue to become more important as low marginal cost generation becomes more abundant.

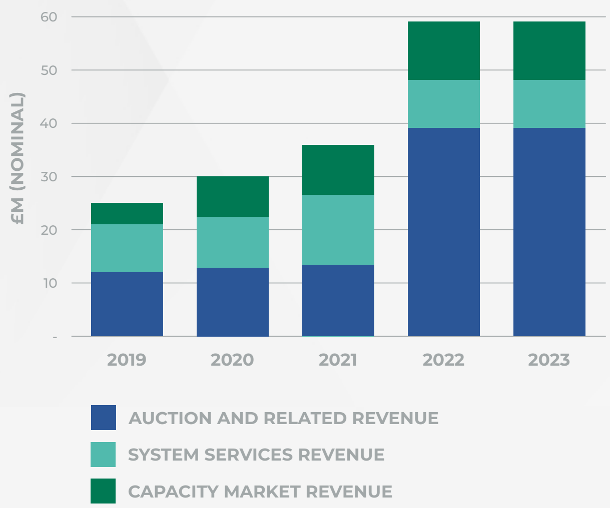
STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

ELECTRICITY (CONTINUED)

COMMERCIAL REVENUES (CONTINUED)

The following chart shows the evolution of the commercial revenue streams over the last five years:

COMMERCIAL REVENUE TREND



We are currently in dispute with SONI over compensation for periods where they restrict use of the Moyle Interconnector. These restrictions occur on most days and adversely impact the ability of the interconnector to earn revenue. To resolve the dispute we have initiated an arbitration process and compensation under this claim has been recognised within auction and related revenue. Included within auction and related revenue for 2023 is an amount of €11,422,000 (£9,817,000 Sterling equivalent) (2022: €12,062,000 (£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 2023. Further information on the judgements in respect of this revenue can be found within critical accounting estimates and judgements on page 128.

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 2022/23 electricity year, being 12 months to 30 September 2023 (year to 30 September 2022: £Nil). Page 35 provides more explanation of our historic use of reserves to waive CAIRt calls in order to deliver savings to consumers over the life of the asset and on our utilisation of cash reserves to assist energy consumers via an adjustment to the tariff.

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 1.0 TWh, mostly when there were high wind conditions, which was equivalent to c36.8% of the total wind generation in Northern Ireland.

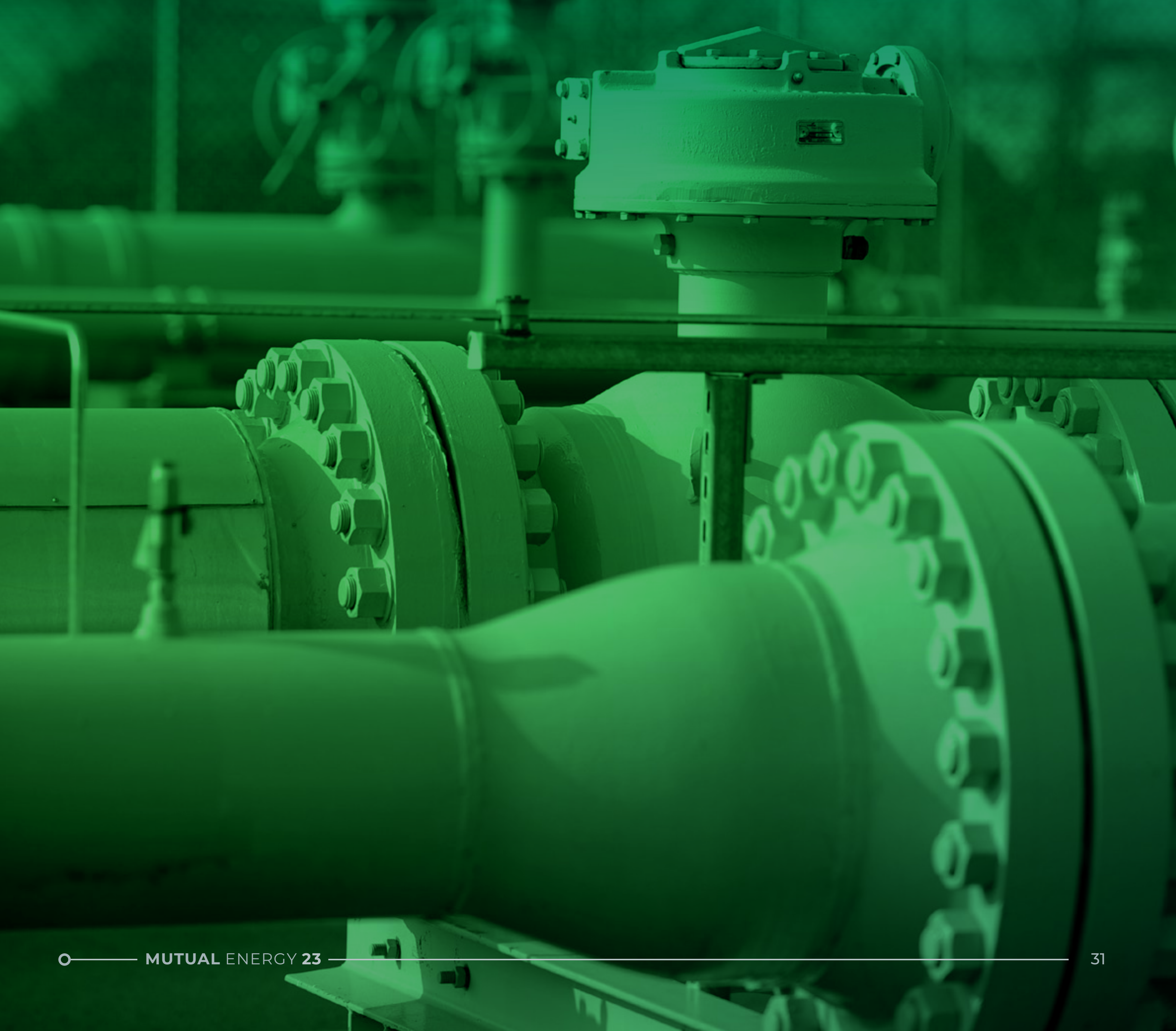
Work is underway to maximise Moyle's capacity through a number of workstreams. We are liaising with SONI on both near-term and longer term plans to make the full 500MW capability of Moyle available to SONI. In the near-term, this will involve SONI actively managing network constraints in Northern Ireland; in the longer term, SONI plan to revise our connection arrangement in Northern Ireland by laying two short sections of underground cable to link Moyle to the grid. These will provide 'carefree' 500MW capacity in both import and export directions (up from the current 450MW import and 400MW export) and are anticipated to be commissioned in 2026/27.

The possibility of accessing capacity beyond 500MW is also being considered. Work is underway with our cable and converter station suppliers to understand what additional capacity may be available within the existing assets, and how this could be made available to the System Operators.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

STRATEGIC OBJECTIVE:

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



STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

GAS

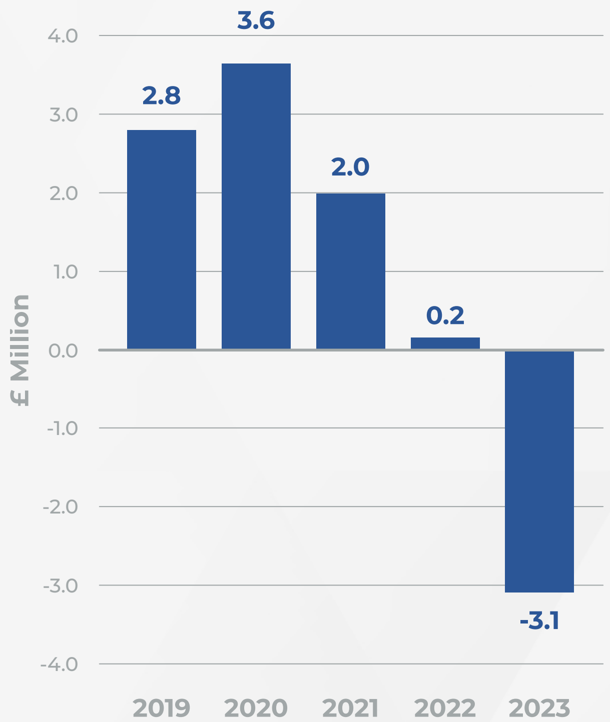
Whilst savings against the forecasts and the use or return of these to shippers are very welcome, the main means by which the businesses deliver savings to the consumers in Northern Ireland is through providing a low cost of capital. The costs of the gas transmission assets are charged to the respective 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 2021-22 gas year (excluding the new West Transmission assets) were 20% lower (2020-21: 20% lower) in real terms than in 2004-05, before the mutualisation of Mutual Energy's gas assets. We continually seek to achieve operational savings and efficiencies.

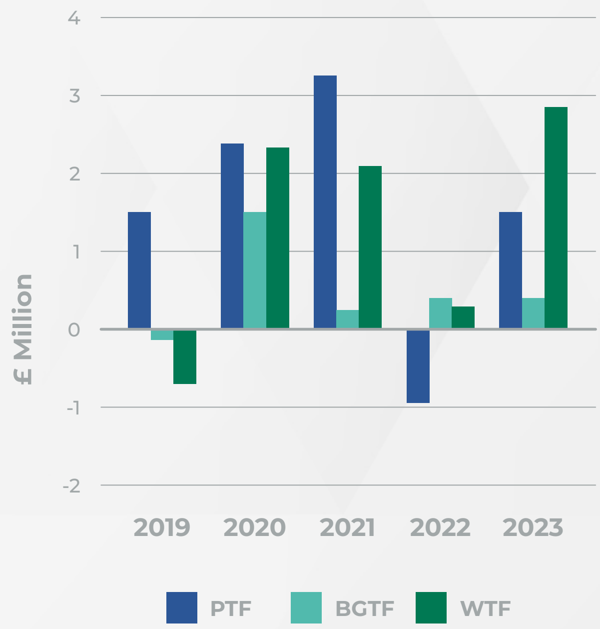
Year-on-year the business measures its progress with reference to the annual forecast provided for the tariff calculation, as shown in the following chart (KPI 2). The most recent gas year costs exceeded forecast which was largely due to high gas prices increasing upstream fuel gas costs and high inflation levels driving up debt payments (see page 56). We pay for the gas used to run the compressors which "push" the gas through to Northern Ireland. These fuel gas costs have increased from £1.6m to £5m from the previous gas year.

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

KPI 2: GAS BUSINESS OPERATIONAL SAVINGS VS FORECAST



KPI 5: CASH GENERATED IN THE YEAR



STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

GAS (CONTINUED)

The cash generated in 2021 reflects the agreement with the Northern Ireland Authority for Utility Regulation (NIAUR) to set aside additional reserves 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 consumers.

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

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

ELECTRICITY

Strategy on the use of cash reserves

The Group's overall strategy on the use of cash reserves is to:

1. ensure the businesses have sufficient cash to run, and sufficient liquidity to deal with any cost shocks;
2. invest in assets which provide benefit to the Northern Ireland consumer; and
3. return cash to consumers in a predictable manner, having reviewed forecasts for near term future business performance;

The UK and world energy markets have endured extreme volatility since late 2021. 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 was in a position to implement a sustained annual contribution to consumers to try and alleviate some of the strain on consumers.

The company is implementing a five year plan and our ambition is threefold:

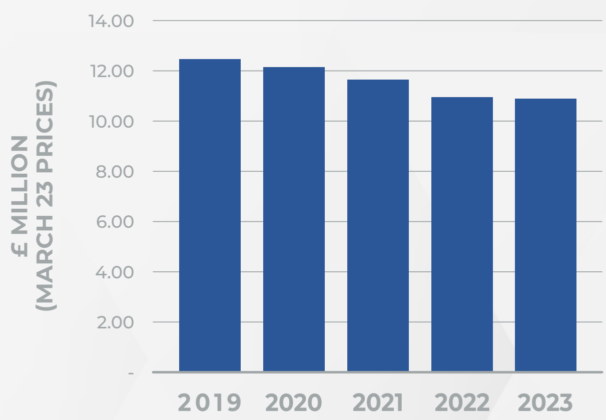
1. consistent contributions to general tariff reductions;
2. consistent direct help to the hardest hit consumers; and
3. investment in energy transition costs to avoid these being placed on tariffs.

Whilst the quantum will be reviewed annually in light of business conditions to allow full consideration of our required cash reserves, the objective is to target savings to consumers which are sustainable over a five year period. Following consultation with NIAUR and the Department for Communities we were pleased to enable a £3m reduction to general tariffs and a £3m contribution targeting vulnerable consumers through an emergency electricity relief scheme (see page 36). We continue to work with NIAUR to ensure these initiatives are continued in a predictable manner.

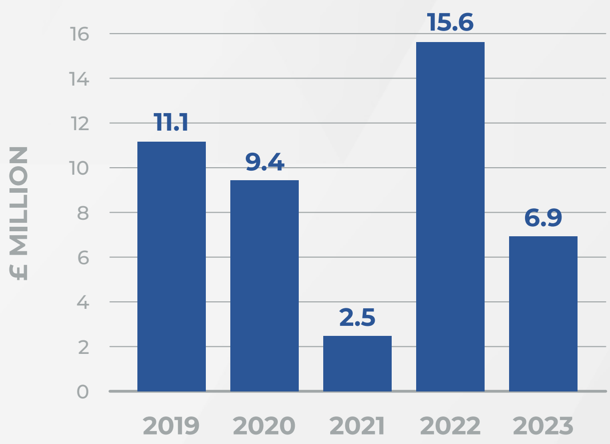
This direct contribution is in addition to the interconnector business continuing not to require use of system charges. In its operation to date Moyle has avoided collecting over £412m (2022: £335m) in use of system revenue it was otherwise entitled to collect. Whilst all initial modelling and expectations 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 consumers in the 2022/23 tariff year, or are proposed for the 2023/24 year.

There is also a further inherent saving provided to consumers. The Mutual Energy Group requires a lower use of system charge in the first place because it has a 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 following chart shows the annual savings in March 2023 prices over the last 5 years. Cumulative savings to 31 March 2023 have exceeded £190m (2022: £160m in March 2022 prices).

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 2023 (CONTINUED)

ELECTRICITY (CONTINUED)

MUTUAL ENERGY GROUP'S CONTRIBUTION TO AN EMERGENCY ELECTRICITY RELIEF SCHEME

The surplus revenue generated in 2021/22 as a result of the top-class availability of the Moyle electricity interconnector enabled Mutual Energy to contribute £6m to help reduce Northern Ireland consumers' energy costs and ease the burden caused by rising bills over the winter period. £3m was used to enable a general tariff reduction for all consumers and £3m contributed to a support scheme for those living in fuel poverty, administered by the Bryson Charitable Group.

The contribution provided by Mutual Energy was directed in two ways. Firstly, it provided emergency electricity cost relief for low income households, enabling them to avert immediate crisis. In this aspect the scheme exceeded its targets, providing an average of £200 per household emergency electricity relief to over 26,000 vulnerable consumers in Northern Ireland against a target of 26,250.

The second target was to provide a range of longer-term interventions to tackle the root causes of fuel poverty in localities experiencing multiple deprivation. This part of the scheme supported approximately 4,000 people against a targeted 3,750. Interventions included support with energy efficiency measures, financial advice, essential skills and employment.

Bryson commissioned two independent researchers to undertake an interim evaluation of each of the two elements of the scheme, and its internal auditors to review controls:

- **Emergency Electricity Relief** was evaluated by Social Market Research, the same organisation used by the Consumer Council to evaluate the Department for Communities £2m Emergency Fuel Payment Scheme winter 2021-22. They reported that the scheme was highly effective in targeting and supporting vulnerable electricity consumers impacted by rising prices.

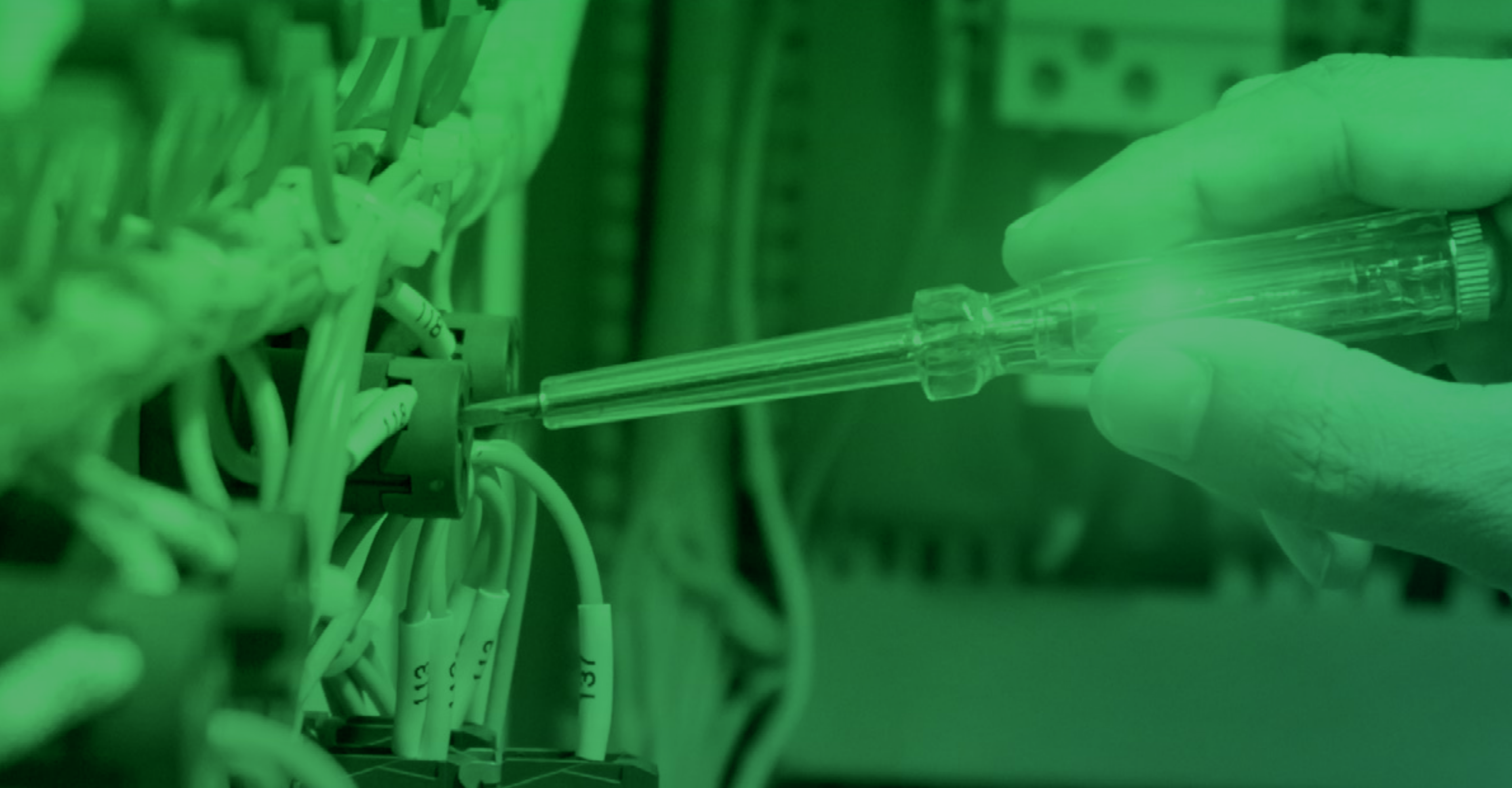
- **The Longer-term Interventions** were evaluated by Outcome Imps, led by Dr Helga Sneddon, an organisation used by Queen's University Belfast, the Public Health Agency, Health and Social Care Trusts in Northern Ireland, and the Irish Government. Again, this review provided a positive report on the efficacy of the interventions.

We hope to be able to support these type of initiatives in a sustainable manner, so getting the most benefit from the money applied.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (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 2023 (CONTINUED)

OUR APPROACH

Given the nature of our business as gas and electricity transmission system operators, a significant quantity of carbon emissions associated with the fuel we transport are recorded downstream of our operations when the fuel is ultimately used, therefore the facilitation of CO2 savings by others is the key contribution the Group can make to achieving net zero. We see our ability to impact on the environment across 4 key areas both strategic and operational:

STRATEGIC FOCUS

a) **Enabling access to lower carbon fuels** –facilitating our customers to move from higher CO2 emitting fossil fuels to lower emitting fossil fuels with new industrial, commercial and domestic connections facilitated.

b) **Greening the existing networks** – ensuring we are fit for purpose to allow the transport of lower or zero emissions fuels such as biomethane and hydrogen through the gas network, and renewable electricity across the Moyle Interconnector.

c) **Influencing policy and participating in projects which further decarbonisation** – working to develop and promote the larger, secure, decarbonised energy system; new ways of working; whole system integration of electricity and gas; and different technologies needed to allow decarbonisation to happen.

OPERATIONAL FOCUS

d) **Business operating carbon footprint** – reducing emissions from our own day to day operations to continually improve our business carbon footprint.

The strategic impact areas provide opportunities to reduce emissions that far outweigh the potential for operational impact reductions therefore the strategic areas are a key focus of the business and we have explained our governance arrangements, commitments, impact and performance in relation to both strategic and operational climate related areas throughout this section.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

GOVERNANCE

The Chief Executive has overall accountability for climate related matters and the Board has oversight over climate change and reviews related issues through a regular flow of information from the Committees.

In relation to operational climate impact areas, the Audit and Risk Committee (ARC) approve carbon reduction targets and the integration of climate related factors into the financial statements annually and the Asset Oversight Committee (AOC) approves the annual environmental plan and monitors performance against this.

The Environmental Management Committee (EMC) was established in 2021 and comprises representatives from Mutual Energy Limited (MEL) business, gas operations and electricity operations. The EMC ensures operational level oversight of delivery of environmental performance and met 4 times during the financial year to 31 March 2023 during which they:

- Delivered the FY22/23 annual environmental plan;
- Reviewed performance against the plan;
- Engaged an external consultant to benchmark the Environmental policy and system against ISO 14001;
- Further developed their carbon emissions recording and targeted workstreams to focus on the reduction of specific business operating carbon emissions; and
- Developed an environmental risk register, used to identify priority actions.

The EMC provides reports on performance against the annual environmental plan to the Asset Oversight Committee who consider these at least twice a year.

The ARC approves carbon reduction targets for the Group's business carbon emissions annually.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

OVERVIEW OF GOVERNANCE STRUCTURE FOR CLIMATE RELATED ISSUES:

BOARD

- Overall responsibility for climate related matters
- Review and decision making on strategic focus areas

AUDIT AND RISK COMMITTEE

- Approve operational carbon reduction targets
- Review integration of climate-related factors into financial statements

ASSET OVERSIGHT COMMITTEE

- Approve annual environmental plan
- Monitor operational emissions performance

ENVIRONMENTAL MANAGEMENT SUB COMMITTEE

- Oversight of operational environmental performance

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

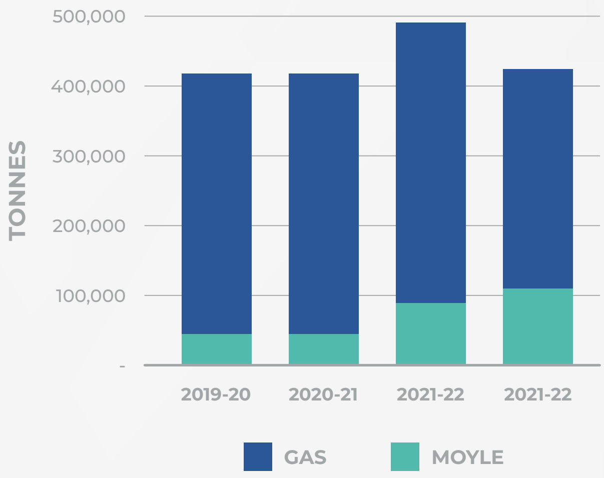
COMMITMENTS

STRATEGIC COMMITMENTS

The Group intends to specifically set targets to align with government policy. The 2021 Energy Strategy published by the NI Department for the Economy sets the framework for a series of action plans were due in 2022 and 2023. We aim to align with these plans once they are developed.

The business activities allow users of our assets to reduce their CO2 and measure the CO2 savings 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.

KPI 6: CO2 SAVINGS



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 operational energy use.

OPERATIONAL COMMITMENTS

Our current operational emissions are from a number of sources including transport, "fugitive" emissions, heat and electricity across our gas and electricity operations and our office. The Group established base year emissions for the year to 31 March 2020 of 4,578 tonnes/CO2 equivalent. We believe this provides the most recent business as usual, pre pandemic emissions level.

The Group target is to reduce overall absolute base year emissions by 30% (contract and location based) by 2030 of which at least 10% should be location based.

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.

Due to the nature of the work undertaken data collection can be challenging and the Group continues to strive to increase the scope of our carbon monitoring and reporting. The boundaries of our emissions data capture align with the boundaries of our financial statements.

We are currently tracking and reporting on Scope 1, 2 and 3 emissions for all applicable greenhouse gases (GHGs) of the Mutual Energy Group business operations (see page 47). Scope 3 emissions are included for our two key contractors that together make up circa 6% of Group operating costs.

In order to achieve this longer-term target, interim targets have been introduced for the financial year to 31 March 2024 in order to monitor progress to ensure we stay on track for our 2030 target. These interim targets have been approved by the Audit and Risk Committee and will be monitored by the Asset Oversight Committee.

The Group does not currently have plans to use offsets, as the current focus is on improving our data collection and on targeting the actions with biggest impact on emissions initially.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

PERFORMANCE

STRATEGIC PERFORMANCE ON GREENHOUSE GAS REDUCTION

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 pages 25-30). 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.

ENABLING ACCESS TO LOWER CARBON FUELS

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 focus. For domestic and commercial customers this is often 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 gas fired plant. The CO2 savings from this change will be evident once the new plant comes online.

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 41, KPI 6).

Key highlights during the financial year include:

- 11,000 new domestic gas connections facilitated, resulting in lifetime saving of c110,000 tonnes CO2 in 2022
- Industrial & commercial gas customers saved over 210,000 tonnes CO2 in the year compared to using oil

GREENING THE EXISTING NETWORKS

GAS

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 initially take place on the distribution networks, with first injections hopefully in the 23/24 year.

Other progress continues to be slow as the Northern Ireland Energy Strategy remains in its early stages, and the Utility Regulator position is that it requires more policy direction before 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.

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.

We engaged with the Energy Networks Association, in collaboration with the gas network operators in GB, on the production of a Hydrogen Vision report, to set out an ambitious yet realistic scenario for the role hydrogen could play in the energy system of the future.

In Northern Ireland, this foresaw potential for a green hydrogen ‘valley’ to emerge around the Greater Belfast area from 2030, comprising of a relatively small corridor of transmission pipeline infrastructure to connect electrolysis production sites (‘green hydrogen’) at potential offshore wind grid connection locations, current thermal power stations, salt cavern storage sites and the existing gas transmission system. Downstream gas assets could then be potentially repurposed to hydrogen in the future to support an industrial hydrogen cluster, including the production of synthetic e-fuels. By 2040, the report foresaw development of hydrogen interconnection infrastructure to GB and RoI. Considering NI’s comparatively more significant biomethane opportunity relative to GB, it was projected that the equivalent of 20-30% of properties in NI may be supplied with hydrogen by 2050.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

BALLYLUMFORD POWER-TO-X PROJECT

In 2022, Mutual Energy joined with other partners B9 Energy, Islandmagee Energy Storage and the Net Zero Technology Centre to undertake Phase One of the Ballylumford Power-to-X project. This assessed the feasibility of storing surplus renewable electricity in the form of hydrogen and then reconverting this back to electricity when required, for example when wind generation is low.

The viability study, funded by the UK Government, looked at the potential of grid connected electrolysis producing green hydrogen for storage in an underground salt cavern, alongside distribution and use in power generation, in a first-of-a kind solution to the curtailment problem. The work completed included a front-end engineering study (FEED) that has produced valuable knowledge and practical experience of developing strategic hydrogen infrastructure, critical to helping Northern Ireland and the wider UK meet their decarbonisation obligations.

The FEED study found that the project was technically feasible. With a flexible proton exchange membrane (PEM) type electrolyser, it would be able to match the changes in wind generation in real-time. A 100% hydrogen pipeline would be deliverable with the appropriate design and approach to safety and asset management, as would salt cavern storage. Finally, existing electricity generators can operate with a 40-60% hydrogen blend, however the FEED study demonstrated that generator manufacturers are developing turbines that are compatible with 100% hydrogen fuel.

While there are no real technical blockers to the project progressing, there are commercial and regulatory issues which would need to be overcome. For salt cavern storage to be commercially viable, for example, this project would need to operate at a significant scale. A 100MWe electrolyser operating at 40% duty factor would need to run for around one year to fill a single gas cavern with hydrogen, for example.

Additionally, hydrogen needs an appropriate regulatory framework to provide the certainty required by investors, as well as protect energy consumers. It should be regulated in the same way that the natural gas network is currently regulated in order to boost investor confidence.

While the project would need to be developed at scale to make it viable, there is a significant issue in terms of lack of demand for hydrogen. While it will clearly be required for the energy transition, currently there is insufficient demand for hydrogen in Northern Ireland. Rapid development of government policy and funding is urgently required to stimulate growth in hydrogen demand in Northern Ireland, for example by setting target dates for electricity generators to move to 100% hydrogen.

Finally, there needs to be a variety of sources of hydrogen demand to minimise risk for investors. Having a single large user of hydrogen would not be enough. To this end, hydrogen blending into the existing gas network could create a diverse 'demand sink' to reduce risk to investors in hydrogen production.


BALLYLUMFORD
POWER

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

PREFORMANCE (CONTINUED)

GREENING THE EXISTING NETWORKS ELECTRICITY

Whilst the action plans are still being developed, the core problem was neatly summarised by the Climate Change Committee advice report on Northern Ireland published in March 2023:

"Deployment of new renewable electricity generation is required at scale in Northern Ireland, with access to appropriate energy storage and decarbonised back-up solutions (e.g. gas turbines burning hydrogen manufactured from low-carbon sources) is needed to allow the carbon intensity of electricity generation to reduce significantly while ensuring that demand is met sufficiently reliably."

We continue our work in advance of the government guidance. The use of electrolytic hydrogen is expected to be a key part of the solution to the fundamental problem of producing electricity when the wind production is low. During the year we completed our work for BEIS to explore the concept of the renewable energy → hydrogen conversion → hydrogen store → electricity from hydrogen cycle, along with our partners B9 Energy, Islandmagee Energy Storage and the Net Zero Technology Centre.

The work concluded that the project was technically sound, but key commercial and regulatory frameworks were missing to make it happen. There are no incentives for dispatchable electrical plant to be low carbon. We will continue working with industry partners to develop the first part of this virtuous cycle, the creation of hydrogen from renewables. These practical examples will pinpoint the policy gaps and give evidence to allow the net zero plan for Northern Ireland to be developed.

In parallel to our initiatives to explore key options for dispatchable low carbon generation and storage, our electricity interconnector provides 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[6] to provide data on the marginal emissions of the plant on the electrical systems in GB and in Ireland at any point in time, from which we can determine on an hour-by-hour basis the CO2 content and the effect the interconnector has. Key highlights during the financial year include:

- 120,000 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
- 36.8% of Northern Ireland's electricity from wind generation exported by Moyle Interconnector (1.0 TWh) allowing more wind energy to be produced and displacing higher carbon alternatives in GB

OPERATIONAL PERFORMANCE ON GREENHOUSE GAS REDUCTION

Over the last few years, we have committed considerable resource to developing our Environmental Management System (EMS). Our Environmental Policy Statement has been in place since 2015 which commits to protecting the environment and mitigating the impact of the Group's activities on the environment. The more recently developed formal EMS has been implemented to enable Mutual to meet the obligations and fulfil the responsibilities of its Environmental Policy Statement and monitor progress. It is also designed to ensure compliance with all relevant legislative and regulatory requirements and to promote continual improvement. The EMS is based on the principles of the International Organisation for Standardisation document ISO 14001– "Environmental Management Systems".

The EMC prepares an annual environmental plan which is presented to the Asset Oversight Committee for approval, progress is then monitored against this throughout the year with the Committee receiving an update at least twice a year.

[6] *electricityMap, © tmrow.com*

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

OPERATIONAL PERFORMANCE ON GREENHOUSE GAS REDUCTION (CONTINUED)

The most recent plan for 2023/24 has identified 21 actions in total, driven by what are considered the current highest risk areas when considering loss of resource and climate impact, air and water quality and waste disposal. The annual plans are guided by the three core principles of preventing pollution, demonstrating compliance with relevant legislation and striving for continual improvement across all business areas.

Key progress made during the financial year include:

- External review of our Environmental Management System against ISO 14001.
- Silver award achieved in Northern Ireland's Business in the Community's annual Environmental Benchmarking Survey for the first year of participation in the survey during 2022. This survey recognises organisations that go above and beyond their legal requirements to improve their environmental impacts and better manage their resources.
- Successful implementation of Annual Environmental Plan (95% of targets attained with key achievements including the installation of more efficient chillers on Moyle's Auchencrosh site, installation of electric vehicle charge points at the office building, as well as emission recording development and various awareness initiatives).
- Introduction of interim targets for carbon emissions from FY 2023/24.

The Group has committed significant time and resource to identifying and assessing the environmental impact of all areas of its operations in order to determine our base year emissions level. This has also allowed us to plan and focus on the areas of greatest impact in terms of emissions. An emissions tracker has been developed to collate emissions data on a timely basis and provide quarterly performance information going forward to the Asset Oversight Committee for their monitoring.

GREENHOUSE GAS EMISSIONS REPORTING

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. Our emissions are monitored 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). All energy consumption and emissions are in respect of UK operations and emissions have been calculated using UK Government greenhouse gas reporting conversion factors, in line with the 2019 HM Government Environmental Reporting Guidelines. As Northern Ireland electricity production has a higher CO2 content than the UK, we expect that if we were able to use conversion factors for Northern Ireland these would be much worse.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

OPERATIONAL PERFORMANCE ON GREENHOUSE GAS REDUCTION (CONTINUED)

The table below sets out our greenhouse gas (GHG) emissions, energy use and energy intensity ratio (which are influenced by factors including ambient temperatures and upstream pressure) for the base year 2019/20 and the following three financial years:

	Location-based calculation				Contract-based calculation			
	2023	2022	2021	BASE YEAR 2020	2023	2022	2021	BASE YEAR 2020
Energy Consumption:								
Usage of gas (GWh)	4.5	4.7	4.0	4.7	4.5	4.7	4.0	4.7
Usage of electricity (GWh)	3.0	3.2	3.2	3.2	3.0	3.2	3.2	3.2
Total annual energy usage (GWh)	**7.5**	**7.9**	**7.2**	**7.9**	**7.5**	**7.9**	**7.2**	**7.9**
Emissions from:								
Usage of gas in operations (tCO2e)	836	868	858	849	836	868	858	849
Heat, steam and cooling purchased for own use (tCO2e)	4	3	6	5	4	3	6	5
Fugitive and other Scope 1 Emissions (tCO2e)	2,486	2,499	2,526	2,526	2,486	2,499	2,526	2,526
Scope 1 emissions (tCO2e)	**3,326**	**3,370**	**3,390**	**3,380**	**3,326**	**3,370**	**3,390**	**3,380**
Electricity consumption at gas sites (tCO2e)	65	69	76	89	65	69	76	89
Electricity consumption at convertor stations (tCO2e)	507	552	659	741	-	-	110	741
Electricity purchased for own use (tCO2e)	4	3	3	6	4	3	3	6
Scope 2 emissions (tCO2e)	**576**	**624**	**738**	**836**	**69**	**72**	**189**	**836**
Total Scope 1 and 2 emissions (tCO2e)	**3,902**	**3,994**	**4,128**	**4,216**	**3,395**	**3,442**	**3,579**	**4,216**
Intensity Ratio - Scope 1 and 2 emissions per GWh of energy transmitted	0.44	0.41	0.44	0.46	0.38	0.35	0.38	0.46
Group business travel and commuting (tCO2e)	55	20	3	76	55	20	3	76
Main sub-contractor emissions (tCO2e)	308	289	262	286	308	289	262	286
Scope 3 emissions (tCO2e)	**363**	**309**	**265**	**362**	**363**	**309**	**265**	**362**
Total annual emissions (tCO2e)	**4,265**	**4,303**	**4,393**	**4,578**	**3,758**	**3,751**	**3,844**	**4,578**

** Reporting of scope 3 emissions is not mandatory for the Group but has been reported for the two main subcontractors and Group business travel and commuting. Best estimates have been included where necessary while we continue to develop our emissions tracking system for this classification.*

Energy use and greenhouse gas (GHG) emissions are reported based on the information available at that time, using estimates where actuals are not available. Where additional information is received, emissions data will be updated to reflect the most accurate information available.

Our energy efficiency measures have been outlined in the 'Operational performance on greenhouse gas reduction' section on page 45.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

IMPACTS ON OUR BUSINESS

STRATEGIC AND OPERATIONAL

Climate-related risks are assessed as part of the risk management process outlined in the 'Risk management' section on page 59. This ensures that people at all levels of the Group feed into the risk assessment process and that these are reviewed and considered at least quarterly at senior management level, bi-annually at Committee level and annually by the Board.

The Energy Transition Functional Risk Register and Strategic Risk Register capture risks in relation to climate change and energy transition. The risks and associated mitigations in relation to this are highlighted in the risk management section of the report on pages 60-65.

The Board annually reviews the appropriateness of the Group strategy and considers opportunities on an ongoing basis to ensure our assets continue to play a strategically important role in the Northern Ireland energy market. The company monitors opportunities and projects to maximise its contribution towards achieving the UK's net zero targets.

The Board are involved and provide approval for any major projects and consider the costs of these via their annual approval of the business plan. Many of the projects are still at very early stages therefore we are not in a position to estimate costs associated with these at this stage.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (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 2023 (CONTINUED)

GAS

The Gas Market Operator for Northern Ireland (GMO NI) monitors the potential for market changes and regulatory developments through various methods including Shipper and industry feedback from bilateral meetings, forums and questionnaires, attending external forums and webinars on future potential developments, and attending various working groups on specific aspects of gas market and regulatory change. During the 2022/23 year GMO NI facilitated and held 5 Shipper forums and 4 other forums as well as 14 direct bilateral meetings with various individual Shippers relating to topical matters regarding the gas market. GMO NI held 10 update meetings with NIAUR and the TSOs, along with facilitating 3 webinars ensuring that its activities were communicated to key stakeholders and gaining input accordingly. In terms of working groups these include the ENTSOG – UK TSO Task Force, and the Moffat Interconnectors Group as well as local working groups on biomethane.

The above engagement activities are essential in the process of managing change to ensure that the gas market rules remain suitable for the current climate and in line with legislation or relevant regulations. It is also essential to be proactive in gaining foresight for any changes whether they may be driven by the market or regulation and to ensure that these are acceptable to the NI TSOs. GMO NI manages change through its market improvement register.

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

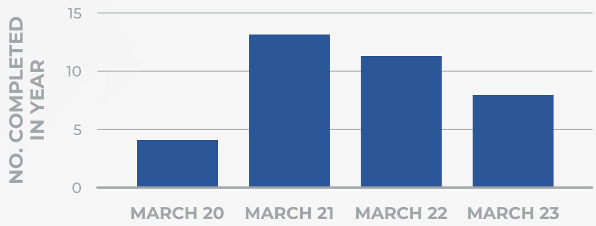
- **Operational:** Changes that improve the operation of the network

- **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

There were 8 changes implemented in the year ending 31 March 2023. Some of these changes were very impactful, such as the implementation of aggregate balancing across Northern Ireland. This change means that, rather than having to balance across individual networks, shippers only have to balance across Northern Ireland as a whole. This substantial change accommodates the injection of biomethane at distribution level and the associated trading and transportation across NI and indeed back to GB in order to access subsidies. Without these arrangements biomethane injection would be unlikely to be viable.

KPI 7: MARKET IMPROVEMENTS IMPLEMENTED



In anticipation of the main entry point to Northern Ireland, the Moffat Entry Interconnection Point, being full at some point in 2023 or 2024, the GMO conducted a pro-active messaging campaign encouraging Shippers to start considering registering for the South North Interconnection Point to ensure readiness for this potential congested situation. Four Shippers have now registered, or are in the process of doing so.

Other changes included implementing a process improvement surrounding the submission of Daily Forecasting information from the Distribution Network Operators to GMO NI.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

GAS (CONTINUED)

MARKET IMPROVEMENTS IMPLEMENTED (KPI 7)

As of March 2023, there are 20 improvements which are ongoing and include the implementation of Short Term Exit Products, the introduction of the Kilroot Exit Point for the new gas fired generating units into the code and IT system, investigating commercial tools to enable efficient management of the NI network in the future, and starting to look at a review of the Virtual Reverse Flow (VRF) product in NI and associated rules.

BIOMETHANE INJECTION

Biomethane (also known as "renewable natural gas") is produced by biogas upgraders which remove the CO_2 and other impurities to become an almost identical composition to natural gas. Biomethane is produced from biogas that is derived from organic matter such as human waste/ sewage, food waste, distillery waste or agricultural materials. These materials naturally decompose in a relatively short period to produce CO_2. If the material is digested anaerobically then methane is produced which when burned will produce the same CO_2 expected if the material had decomposed naturally.

Biomethane has the same characteristics as natural gas and can be injected into the grid with benefits for energy transition and the reduction of greenhouse gas emissions. Mutual Energy has been developing arrangements to support and enable the injection of biomethane into the gas network in conjunction with GNI (UK), the Distribution System Operators and NIAUR.

The gas distribution networks are in the process of dealing with a number of applications for biomethane injection points, which, if and when they are constructed, will meet a substantial portion of gas demand in Northern Ireland. We have already made changes to the NI Network Gas Transmission Code (Code) and the gas transportation IT System (Delphi) to support the injection of biomethane into the distribution network to ensure that the injected biomethane market potential is maximised – i.e. that it can be injected in any distribution zone and transported anywhere in Northern Ireland, traded with other entities at the NI balancing points or transported virtually back to GB or Ireland if required to avail of certain incentive schemes. For this to happen it was necessary for a Shippers portfolio, at an NI level, to include all inputs and outputs whether at distribution or transmission level, and it's this "aggregate balancing" that was implemented during the financial year to help enable the biomethane revolution.

Such is the scale of the potential for biomethane in Northern Ireland, we expect to need to move the biomethane back from the distribution networks into the transmission network for wider use, particularly in the summertime.

Initial network analysis, based upon assumptions of biomethane potential derived from a study by the Queens University Belfast and the Agri-Food and Bio sciences Institute, show biomethane as potentially the dominant source of gas in the distribution networks by 2050.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

ELECTRICITY

The most significant market development in the year has been the unprecedented high gas prices in Europe, primarily driven by the war in Ukraine and Europe's drive to stop using Russian gas, and the knock-on effect on wholesale electricity prices. Moyle's capacity has continued to be solely made available and implicitly allocated in intraday auctions which are held later in the day and see lower levels of participation than the day ahead auctions. These are fallback arrangements required as a result of Brexit. Despite being a fallback, these interconnector trading arrangements have functioned well again this year, aided by often large market spreads between the high electricity prices in the SEM and GB. This has led to Moyle generating very high levels of revenue from capacity allocation in the year. A continuing challenge has been that both GB and the SEM have experienced periods of tight generation margins leading to further upward pressure on prices. In the SEM that has led to EirGrid/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. On 15th March 2023 the SEM regulators began a consultation process with a view of providing regulatory direction on compensation arrangements going forward.

The EU-UK Trade and Cooperation Agreement optimistically envisaged alternative day ahead interconnector trading arrangements with GB being developed by April 2022 but this work stalled and is still ongoing. We continue to work with our fellow UK and EU TSOs to assess the options for improved day ahead trading arrangements with GB. In 2022/23 financial year the SEM regulators consulted on potential interim improvements to the current SEM-GB interconnector trading arrangements and have asked the SEM-GB interconnector owners to carry out an assessment for the implementation of Physical Transmission Rights on SEM-GB interconnectors. That assessment is underway but we expect any subsequent implementation to be a multi-year project.

The UK, Ireland and 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 Moyle is a major provider of system support services to EirGrid/SONI as part of their DS3 system services initiative. The services required continue to develop, and we will work to ensure that the detailed design of any future arrangements provide for interconnector participation in order to deliver efficient outcomes for consumers. On the GB side, Moyle provides services through bespoke bilateral contracts with National Grid Electricity System Operator (ESO) which are being phased out in favour of a more competitive procurement process for standardised products. The current design for many of those products does not yet facilitate interconnector participation and we are liaising with National Grid ESO to try and remove the current barriers to interconnector participation, whilst simultaneously aiming to identify new products that we would be able to provide.

The coming years will see a number of new interconnector projects coming online between GB, SEM and continental Europe. As such, 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.

In the short term, we expect the Greenlink interconnector between SEM and GB to come online in late 2024 and have engaged in facilitating the new interconnector in the current market arrangements. In the longer term, we are starting to see the early-stage development of multi-purpose interconnectors ("MPIs") which connect multiple markets to offshore wind farms and expect that facilitation of MPIs will come to play a significant part in the development of future interconnector trading arrangements.

The turbulence in energy markets during the year, and subsequent pressure on consumers bills, brought widespread scrutiny to electricity market arrangements and potential changes that could be made to protect consumers.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

ELECTRICITY (CONTINUED)

The EU ran a fast-tracked consultation on a range of market reforms but the consultation concluded with a proposal to make a range of minor changes aiming to boost renewables, better protect consumers and enhance industrial competitiveness.

In July 2022 the UK government launched a consultation on its Review of Electricity Market Arrangements ("REMA") which considers wholesale changes to the entire GB electricity market design. A key proposal contained therein is the option of locational marginal pricing, which would replace the single GB wholesale electricity price of today with a large number of locational prices. This is a hugely complex and consequential ongoing piece of work that we continue to monitor and engage with.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

STRATEGIC OBJECTIVE:

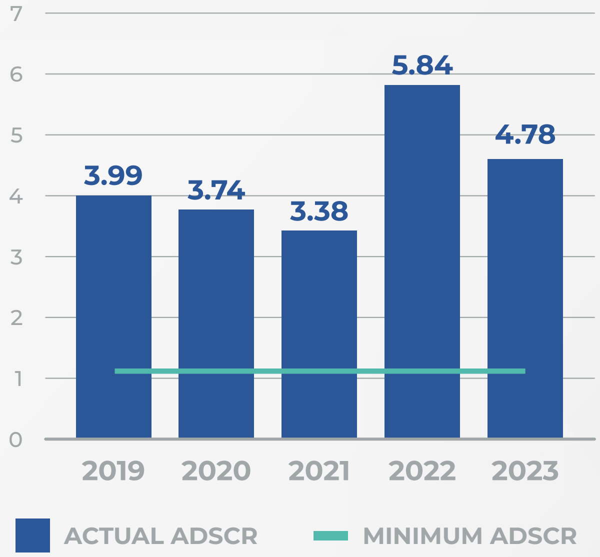
OVER THE LONG TERM TO ACQUIRE OR DEVELOP STABLE ENERGY INFRASTRUCTURE ASSETS AT LOW COST TO BENEFIT THE NORTHERN IRELAND CONSUMER

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

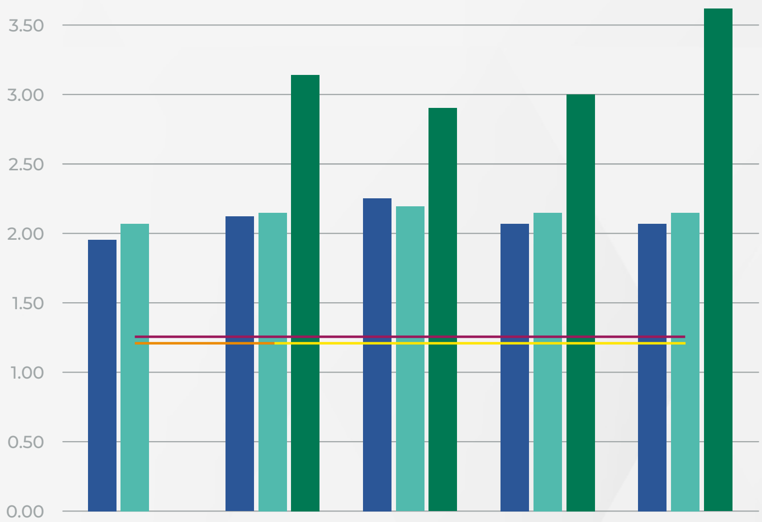
Our Gas to the West acquisition has been in operation since 2017, but, as is the nature of these projects, the final stages take a considerable amount of time and effort. Items such as final 'as-built' records, snagging work and final post construction drainage work are all very near completion. The Group remains prepared to assess any major infrastructure acquisition which would be to the benefit of Northern Ireland consumers and there are a number of ongoing projects in the assessment stage. 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.

Compliance with key debt covenants remains core to maintaining investor confidence and the Annual Debt Service Cover Ratios (ADSCRs) for the gas and electricity businesses remained strong. The ADSCRs for the businesses can be seen in the following graphs.

KPI 8: MOYLE ADSCR



KPI 8: GAS BUSINESS ADSCRS



	2019	2020	2021	2022	2023
Premier Transmission ADSCR	1.95	2.15	2.24	2.04	2.15
Belfast Gas Transmission ADSCR	2.06	2.17	2.18	2.12	2.27
West Transmission ADSCR	-	3.09	2.88	3.00	3.63
Premier Transmission minimum ADSCR	1.25	1.25	1.25	1.25	1.25
Belfast Gas Transmission minimum ADSCR	1.20	1.20	1.20	1.20	1.20
West Transmission minimum ADSCR	-	1.20	1.20	1.20	1.20

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. The final payments for the purchase of the West Transmission pipeline have not yet been made (see page 127), and so high cash held for this purpose results in high ADSCR in this company.

Moyle Interconnector's ADSCR for the year was 4.78 due to continued strong revenues under the new market arrangements.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

GROUP FINANCIAL HIGHLIGHTS

CASH FLOW AND LIQUIDITY POSITION

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

The Group had a net cash inflow in the period of £11.4m (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 2023, cash reserves in Premier Transmission group amounted to £8.8m (2022: £11.2m) with a further £32.7m (2022: £28.8m) cash held on short-term deposit, Belfast Gas Transmission group held £12.3m (2022: £11.9m) and West Transmission group held £39.1m (2022: £32.4m) with a further £10.0m (2022: £13.9m) held in short term deposits. Moyle Interconnector group held operating cash reserves of £92.0m (2022: £85.1m). Total cash holdings (including cash held on deposit which is classified as financial assets) by the Group at year end amounted to £199.3m (2022: £187.9m).

REVENUE, PROFITABILITY AND RESERVES

After accounting for debt service including fair value movements in derivatives, the Group made an after-tax loss of £1.8m (2022: loss of £0.3m).

FINANCE EXPENSES AND THE IMPACT OF INFLATION

As the Group is financed using index-linked debt, both the profitability and cash flows are impacted by movements in inflation. In periods of high inflation, such as the current year, the Group will incur high finance costs as the entire principal outstanding is restated to account for the increase in indexation. The impact on financing cash outflows is less pronounced in the year, as the additional indexation is repaid over the entire life of the debt, with only the element related to this year's principal repayments due being paid within the year.

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 principal, interest and indexation payments made, not the book restatements of debt liabilities to account for indexation changes. The high inflation in the current year will therefore increase the charges to consumers for the remaining life of the debt.

Included within finance expenses is £62.6m (2022: £36.8m) in respect of borrowing costs arising on the Group's index linked issued bonds. These borrowing costs are made up of three elements:

- actual interest charge was £9.6m (2022: £8.3m);
- £52.1m (2022: £27.6.m) 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 (2022: £0.9m).

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 NI Consumer Council to ensure consumer interests are taken into consideration. More information on our stakeholders is set out below.

CUSTOMERS

Rather than individual end consumers, all Mutual Energy businesses supply to either the large gas shippers or electricity system operators and wholesale market participants 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 (2022: 19) are currently registered to use the Northern Ireland gas system.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

STAKEHOLDERS, RELATIONSHIPS AND RESOURCES (CONTINUED)

PARTNERS AND CONTRACTORS

The System Operator for Northern Ireland (SONI) continues to oversee the operation and administration of the Moyle Interconnector, with Siemens plc undertaking the long-term maintenance of the electricity convertor stations. SGN carry out the routine maintenance, emergency response, and monitor our gas system from their gas control centre in Horley, outside London.

REGULATORS AND GOVERNMENT DEPARTMENTS

The Group works closely with NIAUR and the Department for the Economy (DfE), where appropriate, to ensure that the interests of Northern Ireland's energy consumers are protected. Following the publication of DfE's Energy Strategy in December 2021 the Group 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.

MEMBERS

Members play an important role in scrutinising the performance of the Mutual Energy Group and receive regular reports on the performance of the Group, participate in Members' conferences and in general meetings of Mutual Energy. Further information on Mutual Energy's Members can be found on page 75.

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 Group have recently engaged with Diversity Mark and established a Diversity Mark Charter showing a commitment to advancing diversity and inclusion in the workplace. The accreditation process will begin during the 2023/24 financial year.

The gender split across the Group as at 31 March is illustrated in the table below:

	2023		2022	
	Male	Female	Male	Female
Board	**6**	**1**	7	1
Senior Management	**8**	**1**	8	1
All employees & Board	**30**	**11**	29	10

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

STAKEHOLDERS, RELATIONSHIPS AND RESOURCES (CONTINUED)

EMPLOYEE KPIS

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

KPI	2023	2022
Training days per employee	4.6	4.5
Sickness absence per employee	0.7%	2.3%

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 5.7 days per worker in 2022 compared to our average of 1.8 days in the year ending 31 March 2023 (2022: 6.0 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 8-55.

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 66, 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.

BUSINESS IN THE COMMUNITY INITIATIVES – SUSTAINABLE SEPTEMBER AND CHILDREN'S BOOK DRIVE

Throughout the year we participated in a number of programmes organised by Business in the Community. As part of 'Sustainable September' employees donated items no longer used or needed and these were collected and distributed to four local charity shops. It was a campaign that highlighted the benefits of reducing waste whilst supporting local charities.

Additionally, as part of World Book Week in February, we gathered and donated new and previously owned books for children. These were then donated to local primary schools, providing new reading resources.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

RISK MANAGEMENT

The Group's risk process was revised during 2021/22 to 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. The revised process is now well established and has improved risk management across the business.

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 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.

Strategic risks are reported to the Asset Oversight Committee and Audit and Risk 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. The Moyle Control System Upgrade Subcommittee was responsible for managing the risks of the Control System upgrade until substantive project completion. The Asset Oversight Committee reports to the Audit and Risk Committee after each meeting. The Moyle Control System Upgrade Subcommittee reported to the Board as appropriate.

Assessment of risk was carried out, throughout the year ended 31 March 2023 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.

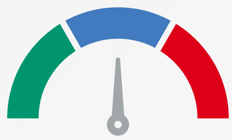
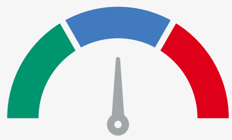
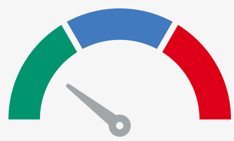
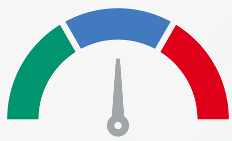
The Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. The principal risks of the Group are set out on the following pages.

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

RISK MANAGEMENT (CONTINUED)

OPERATIONAL RISK

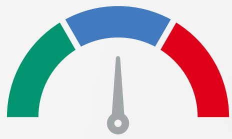
The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The risk encompasses internal failures, such as poor processes or insufficient or untrained staff, and external actions such as cyber threats, or 3rd party accidental or malicious actions 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. This risk reduced during the year due to the completion of a number of major projects.	
People and HR risk: The failure to effectively manage talent, ensure appropriate training and resourcing, retain and motivate competent staff 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 Resource policies are in place, the operation of which mitigate risks in this area.	

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

RISK MANAGEMENT (CONTINUED)

OPERATIONAL RISK (CONTINUED)

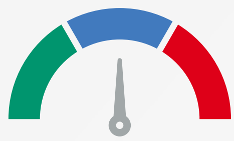
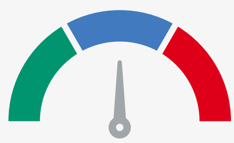
Risk description and potential impact	Mitigations and actions taken	Risk trend
Business continuity risk: One-off events or public health emergencies, epidemics or pandemics, have the potential to significantly impact the Group's operations through a fall in demand for the Group's products/services, a reduction in staff availability and business interruption. Risks associated with long term weather, or ground condition, flooding etc associated with climate change are included in this risk.	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. A Cyber Security Policy is in place along with access security and protocols. 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. 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.	
Security of supply risk: Single point of failure, including pipelines and critical equipment, could fail and lead to loss of gas supply for an unacceptable amount of consumers for a sustained period.	A gas asset management system is in place based on the "Plan, Do, Check, Act" approach. There is currently an increased level of interaction with NIAUR and DfE in relation to security of supply in order fully explore the risk and mitigation options.	**NEW RISK**

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (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.

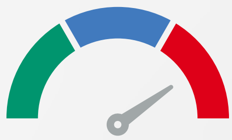
Risk description and potential impact	Mitigations and actions taken	Risk trend
Poor financial management could result in breach of financing covenants, compliance failure or financial loss.	Controls are in place which cover authority limits, budgeting and financial processes and the overall governance structure. A strict ring back process is in place to verify 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 £39m 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 2023 (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. Longer term the market changes could be driven by climate change and net zero targets.	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 50-53. Risk has increased in the period due to the need for market changes to meet decarbonisation targets and the ongoing SONI dispute as discussed on page 128.	

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 2023 (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.

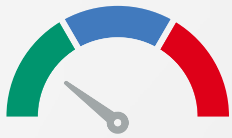
Risk description and potential impact	Mitigations and actions taken	Risk trend
Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.	The Board retains responsibility 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's decarbonisation strategic objective ensures the Board's cycle of strategy evaluation and business planning gives explicit regard to energy transition. This, along with investment in an energy transition staff, seeks to involve the business as much as possible in future developments and manage 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 2023 (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, the Control System Upgrade, was completed during the year, reducing the risk. This project had been 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 2023 (CONTINUED)

HEALTH, SAFETY AND ENVIRONMENT

The Group continues to put a high value on the Health and Safety of its operations and the wellbeing of the Group's staff is considered extremely important to the business.

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 2021, with an improvement having been obtained on the already strong result from the previous audit in 2018/19. A plan to deliver the recommendations and further considerations was put into place to progress any 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, as the Northern Ireland Network Emergency Co-ordinator (NINEC), coordinated the annual Gas Supply Exercise in November, testing the response to an incident on one of the Gas Transmission Pipelines in Northern Ireland. Gas operators, SONI, UR, DfE and HSE participated in the event; lessons learnt are being implemented and another exercise is planned for November 2023.

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.

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
26 June 2023

THE MUTUAL ENERGY BOARD

DAVID **GRAY** (71)
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** (54)
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** (54)
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 (49)
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 Chair of the Northern Ireland Chamber of Commerce and Industry's Infrastructure 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 (74)
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. Harry is a Chartered Engineer and a member of the Institution of Engineering and Technology.

THE MUTUAL ENERGY BOARD (CONTINUED)

MICHAEL MCKERNAN (63)
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).

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 2023, the Group has applied the main and supporting principles of corporate governance.

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

GOVERNANCE STRUCTURE

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

The Board is accountable to Members for its management of the business of Mutual Energy. Members therefore play a role in scrutinising the performance of the Mutual Energy Group. Performance is scrutinised against commercial, regulatory and other targets, as well as against energy industry benchmarks for quality of service and cost efficiency. Accordingly, the role of Members is similar to that of shareholders in a public limited company, save that Members have no financial interest in the Company. Members perform this corporate governance role by receiving regular reports on the performance of Mutual Energy and by participating in Members' conferences and in general meetings of Mutual Energy. Further information on Mutual Energy's Members can be found on page 75.

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.


mutualenergy


Panel Q&A
David Surplus – B9 Energy Storage
Gerard McIlroy – Mutual Energy
Malcolm Brian – RPS/Islandmagee Energy
Craig Nicol - Net Zero Technology Centre
BALLYLUMFORD POWER 2 X

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

THE BOARD (CONTINUED)

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

In particular, Non-Executive Directors are responsible for:

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

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

BOARD MEMBERSHIP

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

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

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.

[7] *Chris Murray resigned at the end of his term on 19th September 2022 and his attendance reflects those meetings held prior to this date.*

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. 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.

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.

NOMINATIONS COMMITTEE

The Nominations Committee is chaired by Ceri Richards and is also comprised of Michael McKernan and David Gray. 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 considered succession planning for the Audit Committee Chair who is approaching the end of term and began recruitment for this role. Clarendon Executive have been appointed to assist with filling this position.

AUDIT AND RISK COMMITTEE

Patrick Anderson is the Chair of the Audit and Risk Committee. Harry McCracken and Ceri Richards were members of the Committee throughout the year, with Chris Murray being a member until he stood down from the Board on 29 September 2022. 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 91-93.

REMUNERATION COMMITTEE

The Remuneration Committee is 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 77-89.

ASSET OVERSIGHT COMMITTEE

The Asset Oversight Committee was chaired by Chris Murray until the end of his term on 29th September 2022, at which point Harry McCracken, who was a member of the Committee throughout the year, took over as Chair. The Committee also comprises Michael McKernan and Paddy Larkin, Chief Executive. Additionally, regular attendees include those with operational responsibility for the company's assets. It is the responsibility of the Committee to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor operational non-financial risks.

The role and responsibilities of the 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 90.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

MOYLE CONTROL SYSTEM UPGRADE COMMITTEE

The Moyle Control System Upgrade Committee has been in place since September 2019, tasked with overseeing the upgrade of Moyle's Control System. The Committee was chaired by Chris Murray and also comprised Patrick Anderson, Paddy Larkin, Harry McCracken and Gerard McIlroy throughout the year. The Committee met for the final time during the year to monitor progress, provide guidance and advice on the main project progress, risks and variations. Following this final meeting of the Committee and completion of the project in October 2022, reporting was provided directly to the Board.

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 met twice during the year ended 31 March 2023. A meeting of the Membership Selections Committee was held early in 2022/23 to begin the process of recruiting new members and a final meeting took place in October 2022 to formally recruit new members. This process has resulted in eleven new members as of the date of signing these accounts, two of whom started before 31 March and are included below.

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 3 resignations of members and 2 appointments as set out below. The individuals who were members of the Company for some part of the year are listed below:

Patrick Anderson	Colin McClements
Declan Billington	Brian McFarland
Nikita Brijpaul	Harold McCracken
David Cunningham (resigned 04/05/22)	Michael McKernan
Declan Cunningham (appointed on 19/12/22)	Kate Mingay
Jamie Delargy	Nevin Molyneaux
Connor Diamond (resigned 04/05/22)	Dr Bernard Mulholland
Stephen Ellis	Chris Murray
Gail Fryer	Muiris O'Ceidigh (resigned 01/09/22)
David Gray	Aodhan O'Donnell
Peter Hayes	Colin Oxton
David Jenkins	Conor Quinn
Scott King	Ceri Richards
Andrew Kirke	Ken Simpson
Helen Kirkpatrick	Mark Wishart
Maria Martin (appointed on 19/12/22)	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 59-65.

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 2028, taking account of the Group's current position and the potential impact of the principal risks documented in the strategic report on pages 59-65, 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 2028 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 include 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 year has presented a full agenda for the Remuneration Committee, with targets evolving to ensure delivery of an ambitious business plan against the backdrop of external upheaval. 2022/23 has proved to be a very different labour market, with double digit inflation and widespread difficulty in recruiting staff. This is particularly pertinent to the energy industry. Extensive work on energy transition will require investment in staff for these new areas, whilst maintaining the existing high standards in the provision of services to current customers. The core purpose of the Remuneration Committee is to apply the agreed remuneration policy in the context of these changes, ensuring targets are relevant and challenging. With this in mind I am pleased to report clear alignment of the targets set to our strategy and strong performance against these targets. The policy is reviewed every 3 years and so remains in place for the year 2023/24 and can be found on our website www.mutual-energy.com.

The business uses periodic benchmarking of both employees and directors as a means to ensure alignment with market rates. Employee benchmarking was completed by HR Inspire during the year which confirmed a general alignment to market rates. Director benchmarking (last carried out by PWC and presented to Members in May 2021) is scheduled for the 2023/24 year. The latter will be used to inform the next update of the remuneration policy.

As in previous years the Group's approach to senior management remuneration has been to adopt a performance-related pay structure as a key component of the remuneration, allowing remuneration to move with outcomes. This is split between "In Year" targets, concentrated on areas such as costs, revenues and availability, and longer term targets, with more emphasis on multi-year deliverables which are in the long term interests of Northern Ireland Consumers. The longer term targets attract the larger proportion of the performance-related pay and 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 2023/24 year were set recently in March 2023 by the Committee. Energy Transition targets are explicitly outlined as part of the structure and the theme of decarbonisation is evident in multiple areas, such as policy development and asset preparedness.

The Committee approved the Executive Directors' and Non-Executive Directors' remuneration for the 2022/23 year in March 2023, and the outcomes are shown later in this report.

During the year the Committee considered a number of other agenda items which help inform them in their decision making including:

- Succession planning
- Overall organisational structure
- Gender pay gap
- CEO remuneration compared to employee average

I am also pleased to report that a Company Electric Car Scheme approved last year, which is open to all staff, continues to prove popular with staff, albeit car delivery times are incredibly long.

Ceri Richards
Remuneration Committee Chair

26 June 2023

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 2023 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 77) and the annual report on remuneration (pages 80-89).

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 2023, 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 2022/23 and 2021/22 is made up as follows:

DIRECTORS' REMUNERATION AS A SINGLE FIGURE (2022/23)

£'000	Salary and fees	All taxable benefits[2]	Annual performance-related pay[1]	Deferred performance-related pay	Pension related benefits[3]	Total[1]
Executive Directors						
Paddy Larkin	**194**	**1**	**31**	**94**	**18**	**338**
Gerard McIlroy	**156**	**2**	**26**	**78**	**15**	**277**
Non-Executive Directors						
Paddy Anderson	**34**	-	-	-	-	**34**
David Gray	**77**	-	-	-	-	**77**
Harold McCracken	**34**	-	-	-	-	**34**
Michael McKernan	**34**	-	-	-	-	**34**
Chris Murray[4]	**17**	-	-	-	-	**17**
Ceri Richards	**34**	-	-	-	-	**34**
	580	3	57	172	33	**845**

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 (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[5]	186	1	28	76	16	307
Gerard McIlroy[6]	154	2	23	63	13	255
Non-Executive Directors						
Paddy Anderson	34	-	-	-	-	34
David Gray	77	-	-	-	-	77
Harold McCracken[7]	20	-	-	-	-	20
Michael McKernan	34	-	-	-	-	34
Kate Mingay[8]	17	-	-	-	-	17
Chris Murray	34	-	-	-	-	34
Ceri Richards	34	-	-	-	-	34
	590	3	51	139	29	812

1 *Figures in the tables are shown after the deduction of salary sacrifices for benefits which are recorded as taxable benefits in line with the HMRC determined amounts, with the exception of any salary sacrifice taken as pensions which is still recognised as salary and fees to ensure year on year comparability.*

2 *All taxable benefits consists of healthcare benefits provided to Executive Directors and, for Gerard McIlroy, benefits in respect of leasing and maintaining an electric vehicle provided to the director under the Company's electric vehicle scheme, in accordance with HMRC tax guidance.*

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 *Retired as Director on 29 September 2022.*

5 *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, with the difference being used to pay additional employer NIC costs incurred as a result.*

6 *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, with the difference being used to pay additional employer NIC costs incurred as a result.*

7 *Appointed as Director on 1 September 2021.*

8 *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 2022/23 ANNUAL PERFORMANCE-RELATED PAY

Annual performance-related pay awards were determined with reference to performance over the financial year ending 2022/23. The performance-related pay accruing to Executive Directors is set out below. The detailed particulars of the performance measures, which we share periodically 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%	5.75%	7.5%	5.75%	16.5%	13%	16.5%	13%
Financial performance	8.0%	6.75%	8.0%	6.75%	-	-	-	-
Markets and Regulatory change management	2.5%	2.25%	2.5%	2.25%	23.0%	21%	23.0%	21%
Business Resilience and Development	2.0%	1.50%	2.0%	1.50%	15.5%	15%	15.5%	15%
	20.0%	**16.25%**	**20.0%**	**16.25%**	**55.0%**	**49.0%**	**55.0%**	**49.0%**

In respect of the Annual performance-related pay, the recent trend of strong availability continued which, coupled with the market conditions, resulted in consistently high commercial revenues and cash generated, without the requirement to charge consumers via the CAIRt mechanism. Overall asset performance was well above target, with the outage to replace the interconnector control system successfully reduced from the contractors' plan, and gas system asset availability remaining at 100%.

Delays to some longer term improvements were the only factors preventing this being a full award. Despite the high inflationary environment financial performance continued to be excellent, particularly on the revenue side, but also in some major cost initiatives. Work on business resilience has improved from the previous year.

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 2022/23 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, positioning the business to prepare for substantial changes in the industry essential for the change to facilitate net zero targets. The long term target to improve asset performance was heavily influenced by the control system project. The asset was brought into use in Autumn 2022 at a below budget cost with additional savings from shortening outage time outweighing what were only minimal contract variations. In respect of the market change metrics, the Moyle commercial arrangements are providing financial returns consistent with the importance of interconnection to the electrical system. The targets in the category of business resilience have progressed very well, particularly in respect of energy transition, with a new team in place and their work already bearing fruit. We remain mindful that the progress in implementing policy and regulatory changes consistent with the Northern Ireland Energy Strategy remains very slow, and we may have to curtail our own work until further progress is made.

PAYMENTS TO PAST DIRECTORS

No payments were made to past Directors in the year (2022: £Nil).

PAYMENTS FOR LOSS OF OFFICE

There were no payments for loss of office made in the year (2022: £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 % *
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%
2022/23	338	81%	84%

* 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 2022/23 and 2021/22.

	Percentage increase in remuneration in 2022/23 compared with remuneration in 2021/22	
	CEO	Group's employees as a whole*
Salary and fees	4.7%	8.0%
All taxable benefits	0.9%	6.0%
Annual performance-related pay	10.8%	15.2%

* Reflects the change in pay for an average employee (excluding Non-Executive Directors) employed throughout both the year ended 31 March 2022 and the year ended 31 March 2023.

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.

	2022/23 £'000	2021/22 £'000	% change
Total employee costs	3,457	3,170	9.0%
Total debt repayments plus cash retained in the business plus cash returned to customers	50,352	50,336	0.0%

Total employee costs variances include movements in headcount.

Total debt repayments plus cash retained in the business plus cash returned to gas and electricity 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 2023/24

The Directors' salaries and fees for the 2023/24 year reflect the effect of the agreed inflationary increase and any other adjustments to terms and conditions, and are as follows:

	2023/24 £'000	2022/23 £'000	Change
Chief Executive	212	194	9.2%
Finance Director	171	156	9.5%
Chair	77	77	0.0%
Non-Executive Directors	34	34	0.0%

The annual performance-related pay for 2023/24 will operate on the same basis as for 2022/23 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.

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 2023/24 (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%	14.5%	14.5%
Financial performance	8.0%	8.0%	-	-
Markets and Regulatory change management	2.5%	2.5%	22.0%	22.0%
Business Resilience and Development	2.0%	2.0%	18.5%	18.5%
	20.0%	**20.0%**	**55.0%**	**55.0%**

The key target for essential assets such as transmission infrastructure is always availability and the Committee sets annual asset performance targets on the availability statistics for the assets in the light of past performance, benchmark comparators and the schedule of planned works for the incoming year. The other aspects of annual asset performance 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.

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. Near term the targets are largely compliance based but the longer term targets address 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.

Similarly, business resilience and development is also by its nature mostly long term. This is the category that includes energy transition, both policy work and the development of key projects essential to net zero. Within year the achievement of the near term targets in the environmental and security plans are included, 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 proportion of the deferred targets allocated to net zero continues to increase and would be expected to increase further as the industry ultimately moves from policy deliberation to delivery of changes to assets and networks.

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 2023/24 (CONTINUED)

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.

CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

During the year, the Committee met twice to consider matters relating to Executive Directors' remuneration. The Directors who were members of the Committee during these considerations were 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 member 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 (2022 AGM)	17	100%	-	0%	17	1
Remuneration policy (2021 AGM)	23	100%	-	0%	23	1

APPROVAL

This report was approved by the Board of Directors on 26 June 2023 and signed on its behalf by:

Ceri Richards
Remuneration Committee Chair

26 June 2023

ASSET OVERSIGHT COMMITTEE REPORT

The Asset Oversight Committee is a Committee established by the Board of Directors of Mutual Energy Ltd to assist the Audit and Risk Committee, and ultimately 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;
- Environmental impact;
- Physical and cyber security; and
- Emergency response preparedness.

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

- Reviewing health, safety, environmental, cyber and physical security policies and plans/ 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 and Risk Committee on non-financial risks.

The Committee is chaired by Harry McCracken, non-executive director, and also comprises Michael McKernan, non-executive director and Paddy Larkin, Chief Executive.

Additionally, regular attendees include those with operational responsibility for the company's assets, led by Stephen Hemphill, Operations Director. Other attendees are invited to contribute to the Committee as and when appropriate.

Harry McCracken assumed responsibility as Chair when Chris Murray's term of office as a non-executive director ended on 29th September 2022.

ACTIVITIES IN 2022/23

The Committees met on three occasions during the year ended 31 March 2023. Attendance was as listed in the Corporate Governance Statement.

During the year, the Committees:

- Reviewed performance against the 2022/23 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 in how the Company has actively managed the impact of the Coronavirus pandemic;
- Reviewed the physical Security Policy and annual Security Plan;
- Reviewed the Cyber Security Policy and annual Cyber Security Plan;
- Reviewed the Environmental Policy, Audit, Management System and Annual Plan;
- Monitored the operational aspects of the MEL Strategic Risk Register;
- Reviewed selected 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 of the Renewable Energy Integration projects;
- Monitored progress against the Gas to the West, EP-Kilroot connection and Moyle Control System Upgrade projects;
- Monitored technical issues associated with further operation of the Moyle Interconnector;
- Monitored energy issues created by the Ukraine-Russia conflict;
- Approved the Asset Management Policy and monitored progress on the ISO 55001 implementation programme.

The Asset Oversight Committee reported to the Audit and Risk 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

The Audit and Risk Committee was in place throughout the year ended 31 March 2023 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 Harry McCracken, Chris Murray (until his retirement on 29th September 2022) and Ceri Richards. The Committee possess a range of skills, knowledge and experience and all have competence relevant to the energy sector. Members receive no additional remuneration for their service on the Committee.

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

ACTIVITIES

The Committee met seven times in the year ended 31 March 2023 with attendance as listed in the Corporate Governance Statement. The key areas of consideration are set out in pages 92-93, along with a description of the activities carried out in each area during the year.

AUDIT AND RISK COMMITTEE REPORT
(CONTINUED)

AUDIT

A key role of the Committee is to monitor and manage the relationship with the external auditor. The duty to assess the effectiveness of the audit process including the qualifications, expertise and resources of the external 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 retendered during 2022/23 and Grant Thornton were appointed as auditors for the Group. 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. Tax services continue to be provided by a separate firm, so as to maintain auditor independence.

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

- tendering, interviewing and awarding contracts for audit and tax services to the group;
- meeting with the external auditor to confirm their independence and objectivity; and
- 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;
- considering and making recommendations to the Board, to be put to members for approval at the AGM, in relation to the appointment of Grant Thornton as 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 May 2023 meeting the Committee considered the need for an internal audit function and determined that it is satisfied for the present, given the scope of the Group's activities, that the systems of internal control and risk management are adequate without an internal audit function.

FINANCIAL REPORTING

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

The majority of the matters identified are effectively routine and consistent year on year. During the current and prior year Moyle Interconnector was constrained on several occasions by the System Operator (SONI) resulting in reductions in market revenue received. Under the contractual 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 and SONI have challenged these contractual arrangements. Revenue has been recognised in full within the accounts. Further information in respect of this can be found on page 128. The final cost of West Transmission's assets has yet to be finalised. The valuation of these assets has been based on the application of contractual terms to two interim decisions made by the Utility Regulator, the latest on 2 June 2023, which provide the Regulator's best view of the final outcome. More details on the calculation of this valuation, along with information on other key judgements and policies are included in note 1 on page 127.

AUDIT AND RISK COMMITTEE REPORT
(CONTINUED)

FINANCIAL REPORTING (CONTINUED)

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, including the extension of the useful economic life of Moyle's interconnector assets and the determination of the useful economic life for the new control system;
- reviewing the clarity of disclosure in the Group's financial reports and all material information presented with the financial statements;
- reviewing environmental reporting and approval of carbon emissions targets; 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;
- 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.

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 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, represented NI on the Board of the Agricultural Industries Confederation (AIC), 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.

DECLAN **CUNNINGHAM**

Declan Cunningham holds over 35 years' experience in senior management and executive leadership roles spanning the Agri-food, Retail, and the Chemical Pharma sectors. In 2013 Declan joined Moy Park as Head of Sustainability and Risk Management. He is responsible for implementing a best in class, robust, effective, and fully integrated Sustainability and Risk Management framework across 4 countries, 13 manufacturing facilities, more than 800 farms, 2 hatcheries, 2 feed mills and transport fleet, with a staffing complement of ~12,000. Declan has led organisational sustainable development initiatives and business functional teams in the areas of supply chain, operations, health & safety, risk management, internal audit, insurance, business continuity, security, CSR, energy management and environmental stewardship. Declan has an MBA from the University of Liverpool, an MSc Environmental Management from UU, an MSc Occupational Health & Safety from QUB, and a PGD in Sustainability Leadership from Cambridge University CISL.

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.

MEMBERS (CONTINUED)

STEPHEN **ELLIS**

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

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.

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.

MEMBERS (CONTINUED)

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 has twice been seconded 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. She is chair of QUBIS and 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.

MARIA **MARTIN**

Maria Martin is the Head of Corporate Finance at Energean Oil & Gas plc, a hydrocarbon exploration and production company listed on the FTSE 250. After graduating Queen's University Belfast with a Master's in Mechanical & Manufacturing Engineering, Maria spent over 10 years working in Upstream Energy Finance at Societe Generale Corporate and Investment Banking before taking up her current role.

COLIN **MCCLEMENTS**

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

BRIAN **MCFARLAND**

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

MEMBERS (CONTINUED)

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. 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 Sensata Technologies, 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.

CHRIS **MURRAY**

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 the MS Society. 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.

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. He is currently Head of Digital Services, EU and International Cooperation with the Competition and Consumer Protection Commission (Ireland). 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.

MEMBERS (CONTINUED)

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 within the Advanced Manufacturing Innovation Centre 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.


22.0


FIRE
EXIT

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2023

The Directors present their annual report and the audited financial statements of the Group and Parent Company for the year ended 31 March 2023.

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 £1,836,000 (2022: £270,000).

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
Michael McKernan
Christopher Murray (resigned 29 September 2022)
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 £39m 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 (2022: £Nil).

OTHER INFORMATION

An indication of likely future developments in the business have been included in the Strategic Report on pages 8-66.

CORPORATE GOVERNANCE

Further details in respect of the Group's corporate governance statement are set out in the Corporate Governance Statement on pages 70-76.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

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.

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.

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

The directors are responsible for establishing and maintaining adequate internal control and risk management systems of the Company in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Company's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process.

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.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

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 Grant Thornton (NI) LLP will therefore continue in office.

On behalf of the Board

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

26 June 2023

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

Grant Thornton

GRANT THORNTON
INDEPENDENT AUDITOR'S REPORT OF THE MEMBERS OF MUTUAL ENERGY LIMITED

OPINION

We have audited the financial statements of Mutual Energy Limited ("the Company") and its subsidiaries ("the Group''), which comprise the Consolidated statement of profit and loss and other comprehensive income; the Consolidated and Parent Company balance sheet; the Consolidated and Parent company statement of changes in equity; and Consolidated and Parent Company statement of cash flows for the year ended 31 March 2023, and the related notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK-adopted international accounting standards (UK-adopted IAS).

In our opinion, Mutual Energy Limited and group's financial statements:

- give a true and fair view in accordance with UK-adopted IAS of the financial position of the Group and the Company as at 31 March 2023 and of the Group financial performance and Group and Company's cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the 'Responsibilities of the auditor for the audit of the financial statements' section of our report. We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the FRC's Ethical Standard and the ethical pronouncements established by Chartered Accountants Ireland, applied as determined to be appropriate in the circumstances for the entity. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of 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 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.

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

We draw attention to note 1g 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 amounts will be recovered. Our opinion is not modified in respect of this matter.

OTHER MATTER

The financial statements of Mutual Energy Limited for the year ended 31 March 2022, were audited by KPMG who expressed an unmodified opinion on those statements on 1 July 2022.

OTHER INFORMATION

Other information comprises information included in the annual report, other than the financial statements and our auditor's report thereon, including the Chair's statement, Strategic report, Corporate governance statement, Directors' remuneration report, Asset Oversight Committee report, Audit and Risk Committee report and Directors' Report. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information

GRANT THORNTON
INDEPENDENT AUDITOR'S REPORT OF THE MEMBERS OF MUTUAL ENERGY LIMITED (CONTINUED)

OTHER INFORMATION (CONTINUED)
and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies in the financial statements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the directors' remuneration report to be audited 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.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS
As explained more fully in the Directors' responsibilities statement, management is responsible for the preparation of the financial statements which give a true and fair view in accordance with UK-adopted IAS, and for such internal control as directors determine necessary to enable the preparation of financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for 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 management either intends to liquidate the Group or company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group and Company's financial reporting process.

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

GRANT THORNTON
INDEPENDENT AUDITOR'S REPORT OF THE MEMBERS OF MUTUAL ENERGY LIMITED (CONTINUED)

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

A further description of an auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatement in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to compliance with Stock Exchange Listing Rules, Prudential Regulatory Authority, and Financial Conduct Authority, Data Privacy law, Employment Law, Environmental Regulations, Pensions Legislation, Health & Safety and the Utilities Regulator in Northern Ireland, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and UK tax legislation. The Audit engagement partner considered the experience and expertise of the engagement team to ensure that the team had appropriate competence and capabilities to identify or recognise non-compliance with the laws and regulation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial performance and management bias through judgements and assumptions in significant accounting estimates, in particular in relation to significant one-off or unusual transactions. We apply professional scepticism through the audit to consider potential deliberate omission or concealment of significant transactions, or incomplete/inaccurate disclosures in the financial statements.

In response to these principal risks, our audit procedures included but were not limited to:

- enquiries of management board and audit committee on the policies and procedures in place regarding compliance with laws and regulations, including consideration of known or suspected instances of non-compliance and whether they have knowledge of any actual, suspected or alleged fraud;
- inspection of the Group's regulatory and legal correspondence and review of minutes of board and audit committee meetings during the year to corroborate inquiries made;
- gaining an understanding of the entity's current activities, the scope of authorisation and the effectiveness of its control environment to mitigate risks related to fraud;
- discussion amongst the engagement team in relation to the identified laws and regulations and regarding the risk of fraud, and remaining alert to any indications of non-compliance or opportunities for fraudulent manipulation of financial statements throughout the audit;
- identifying and testing journal entries to address the risk of inappropriate journals and management override of controls;
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing;
- challenging assumptions and judgements made by management in their significant accounting estimates, including estimating the useful economic life of assets, estimates and assumptions used in the calculation of the decommissioning provision, fair value of other investments, calculation of West Transmission asset values, judgements made in the implementation of IFRS 16: leases, judgements made on the contractual arrangements under EU market coupling

GRANT THORNTON
INDEPENDENT AUDITOR'S REPORT OF THE MEMBERS OF MUTUAL ENERGY LIMITED (CONTINUED)

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD (CONTINUED)

and judgements made on the recoverability of unpaid amounts in relation to revenue constraints; and

- review of the financial statement disclosures to underlying supporting documentation and inquiries of management.

The primary responsibility for the prevention and detection of irregularities including fraud rests with those charged with governance and management. As with any audit, there remains a risk of non-detection or irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or override of internal controls.

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

This 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.

Louise Kelly (Senior Statutory Auditor)
For and on behalf of
Grant Thornton (NI) LLP
Chartered Accountants & Statutory Auditors
Belfast
Northern Ireland
26 June 2023

GrantThornton

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2023

		2023			2022		
	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	**105,075**	**-**	**105,075**	108,328	-	108,328
Revenue rebate	2	**(1,581)**	**-**	**(1,581)**	(1,725)	-	(1,725)
Net revenue - continuing operations	2	**103,494**	**-**	**103,494**	106,603	-	106,603
Operating expenses	3	**(49,748)**	**-**	**(49,748)**	(51,790)	-	(51,790)
Operating profit		**53,746**	**-**	**53,746**	54,813	-	54,813
Finance income	5	**4,394**	**2,678**	**7,072**	428	-	428
Finance expenses	5	**(66,312)**	**-**	**(66,312)**	(39,453)	(5,936)	(45,389)
Finance expenses – net	5	**(61,918)**	**2,678**	**(59,240)**	(39,025)	(5,936)	(44,961)
(Loss)/profit before income tax		**(8,172)**	**2,678**	**(5,494)**	15,788	(5,936)	9,852
Taxation	6	**4,295**	**(637)**	**3,658**	(11,639)	1,517	(10,122)
(Loss)/profit and total comprehensive (expense)/ income for the year attributable to the owners of the parent	17	**(3,877)**	**2,041**	**(1,836)**	4,149	(4,419)	(270)

All results arise from continuing operations.

The notes on pages 114 to 164 are an integral part of these consolidated financial statements.

CONSOLIDATED AND PARENT COMPANY BALANCE SHEET
AT 31 MARCH 2023

		Group		Company	
		2023	2022	2023	2022
	Note	£'000	£'000	£'000	£'000
Non-current assets					
Property, plant and equipment	8	**291,774**	286,393	**424**	302
Intangible assets	9	**183,753**	191,774	**-**	-
Investments in subsidiaries	10	**-**	-	**-**	-
Other investments	11	**214**	398	**-**	184
Deferred tax assets	21	**25,198**	15,848	**54**	53
		500,939	494,413	**478**	539
Current assets					
Trade and other receivables	12	**44,232**	41,324	**646**	694
Inventories	13	**57**	57	**-**	-
Tax receivable		**852**	945	**-**	-
Financial assets	14	**42,719**	44,867	**-**	1,848
Cash and cash equivalents	15	**156,585**	143,057	**4,013**	1,808
		244,445	230,250	**4,659**	4,350
Total assets		**745,384**	724,663	**5,137**	4,889
Equity and liabilities					
Equity attributable to the owners of the parent					
Share capital	16	**-**	-	**-**	-
Retained earnings/(deficit)	17	**50,249**	52,085	**(3,996)**	(4,034)
Total equity/(deficit)		**50,249**	52,085	**(3,996)**	(4,034)
Non-current Liabilities					
Interest bearing loans and borrowings	18	**466,005**	438,487	**273**	179
Provisions	20	**3,117**	3,240	**-**	-
Deferred tax liabilities	21	**51,672**	51,104	**-**	-
Government grants	22	**68,408**	70,356	**-**	-
Derivative financial instruments	25	**43,796**	46,474	**-**	-
		632,998	609,661	**273**	179
Current liabilities					
Trade and other payables	23	**36,069**	37,494	**8,758**	8,664
Tax payable		**-**	-	**-**	-
Interest bearing loans and borrowings	18	**23,600**	21,916	**102**	80
Government grants	22	**2,468**	3,507	**-**	-
		62,137	62,917	**8,860**	8,744
Total liabilities		**695,135**	672,578	**9,133**	8,923
Total equity and liabilities		**745,384**	724,663	**5,137**	4,889

CONSOLIDATED AND PARENT COMPANY BALANCE SHEET
AT 31 MARCH 2023 (CONTINUED)

The notes on pages 114 to 164 are an integral part of these financial statements.

The financial statements on pages 108 to 164 were authorised for issue by the Board of Directors on 26 June 2023 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 2023

Group	Share Capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2021	-	52,355	52,355
Loss and total comprehensive expense for the year	-	(270)	(270)
At 31 March 2022	-	52,085	52,085
Loss and total comprehensive expense for the year	-	(1,836)	(1,836)
At 31 March 2023	-	**50,249**	**50,249**

Company	Share Capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2021	-	(4,168)	(4,168)
Profit and total comprehensive income for the year	-	134	134
At 31 March 2022	-	(4,034)	(4,034)
Profit and total comprehensive income for the year	-	38	38
At 31 March 2023	-	**(3,996)**	**(3,996)**

The notes on pages 114 to 164 are an integral part of these financial statements.

CONSOLIDATED AND PARENT COMPANY CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

		Group		Company	
		2023	2022	2023	2022
	Note	£'000	£'000	£'000	£'000
Cash flows from operating activities					
(Loss)/profit before tax		**(5,494)**	9,852	**196**	27
Adjustments for:					
Finance expenses/(income)	5	**59,240**	44,961	**(55)**	(11,155)
Depreciation of property, plant and equipment	8	**13,506**	14,823	**122**	93
Loss on disposal of property, plant and equipment		**-**	252	**-**	-
Acquisition of ordinary shares	10	**-**	-	**-**	(8,812)
Impairment/(reversal of impairment on investment)	10	**-**	-	**-**	18,456
Amortisation and release of government grants	22	**(2,987)**	(3,494)	**-**	-
Amortisation of intangible assets	9	**8,021**	8,036	**-**	-
Fair value adjustment of investment	11	**-**	1	**-**	1
Loss on disposal of investment	11	**15**	-	**15**	-
Movement in inventories		**-**	56	**-**	-
Movement in trade and other receivables		**(2,025)**	(7,174)	**(40)**	1,464
Movement in trade and other payables		**(9,911)**	(5,148)	**31**	47
Income tax (paid)/received		**(5,031)**	(7,736)	**1**	91
Net cash from operating activities		**55,334**	54,429	**270**	212
Cash flows from investing activities					
Interest received		**3,041**	381	**49**	13
Returns from financial asset		**6,098**	26,824	**1,848**	1,287
Purchase of property, plant and equipment		**(12,691)**	(6,470)	**(34)**	(26)
Investment in financial assets		**(3,950)**	(2,538)	**-**	-
Return of capital on other investments		**169**	-	**169**	-
Receipt of grants		**565**	-	**-**	-
Net cash (used in)/from investing activities		**(6,768)**	18,197	**2,032**	1,274
Cash flows from financing activities					
Interest paid		**(14,409)**	(9,347)	**-**	-
Repayment of borrowings		**(20,256)**	(23,787)	**-**	(746)
Lease payments		**(373)**	(317)	**(97)**	(71)
Net cash used in financing activities		**(35,038)**	(33,451)	**(97)**	(817)
Movement in cash and cash equivalents		**13,528**	39,175	**2,205**	669
Cash and cash equivalents at 1 April	15	**143,057**	103,882	**1,808**	1,139
Cash and cash equivalents at 31 March	15	**156,585**	143,057	**4,013**	1,808

The notes on pages 114 to 164 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

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 26 June 2023 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 standards ("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 125 to 128.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

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

NEW STANDARDS, AMENDMENTS OR INTERPRETATIONS

NEWLY ADOPTED STANDARDS

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

- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

Annual Improvements (2018-2020 Cycle):

- Subsidiary as a First-time Adopter (Amendments to IFRS 1)
- Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments to IFRS 9)
- Lease Incentives (Amendments to IFRS 16)
- Taxation in Fair Value Measurements (Amendments to IAS 41).

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

ADOPTED IFRS NOT YET APPLIED

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

- IFRS 17 Insurance Contracts (effective date 1 January 2023)
- Amendments to IFRS 17 'Insurance Contracts' (Amendments to IFRS 17 and IFRS 4)
- 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)
- Classification of liabilities as current or non-current (effective date deferred until not earlier than 1 Jan 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 2023. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

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

GOING CONCERN

The Company has net liabilities, however, the Company and Group are cash generative and the forecast cash generated is adequate to meet the liabilities as they fall due over the 12 months from the date of approval of the financial statements, including the scheduled debt payments, and to comply with financing covenants, including the required Annual Debt Service Cover Ratios. Required reserve accounts are fully funded and £39m 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.

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 €11,422,000 (£9,817,000 Sterling equivalent) (2022: €12,062,000 (£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 2023. Further information on the judgements in respect of this revenue can be found within critical accounting estimates wand judgements on page 128.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

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

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 £1,581,000 was paid (2022: £1,725,000), see note 2 for further details.

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 recognised as it accrues 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.

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 11 years for Premier Transmission, 14 years for Moyle Interconnector and 29 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 2023, of 31.5 years.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises purchase cost plus any costs directly attributable to bringing the asset into operation and an estimate of any decommissioning costs. In the event the cost of the works has not been fully established, an estimate is used based on best available information. 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
Electricity interconnector	25 – 40 YEARS
Control equipment	15 - 20 YEARS
Plant and machinery	15 – 31 YEARS
Office and computer equipment	3 YEARS
Right-of-use assets	2 – 36 YEARS

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

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

LEASES (CONTINUED)

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.

INVESTMENTS

Investments in subsidiaries are recognised initially at fair value and measured at cost less impairment.

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 2023 (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 or CGU. 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 (FVTPL); 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).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

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

FINANCIAL INSTRUMENTS (CONTINUED)

(II) CLASSIFICATION AND SUBSEQUENT MEASUREMENT (CONTINUED)

Financial assets (continued)

(a) Classification (continued)

This election is made on an investment-by-investment basis.

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

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

(b) Subsequent measurement and gains and losses

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

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

Financial liabilities and equity

Financial instruments issued by the Group are treated as equity only to the extent that they meet either of 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; or

(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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

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

FINANCIAL INSTRUMENTS (CONTINUED)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

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

FINANCIAL INSTRUMENTS (CONTINUED)

(IV) IMPAIRMENT (CONTINUED)

Derecognition - financial liabilities (continued)

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.

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 the 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

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

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.

During the 2015/2016 financial year the useful life of the Moyle Interconnector was reduced by 10 years following a spate of cable faults. New cables were subsequently laid which have now been proven to rectify the issues with the original cables. Following a return to reliable operation, a comparison of useful lives of similar assets, and engineering consultation, it has been determined that the useful life should be increased by 10 years, restoring the life to that determined at installation. The Moyle Interconnector assets are now expected to operate until 2042 and have been depreciated on this basis since October 2022.

The remaining useful economic life of the interconnector was assessed at 19 years at 31 March 2023. If the remaining useful economic life had been assessed as one year more depreciation would have decreased by £196,000 (2022: £687,000 based on 12 years remaining at the start of the period) and if the remaining useful economic life had been assessed as one year less depreciation would have increased by £217,000 (2022: £824,000 based on 10 years remaining at the start of the period). The net book value of the Moyle Interconnector assets is disclosed in note 8.

The remaining useful economic life of Premier Transmission's Pipeline was determined as approximately 32.5 (2022: 33.5) years at the beginning of the year. If the remaining useful economic life had been 33.5 (2022: 34.5) years, depreciation would have decreased by £54,000 (2022: £52,000) and if the remaining useful economic life had been assessed at 31.5 (2022: 32.5) years, depreciation would have increased by £57,000 (2022: £56,000). The net book value of the assets is disclosed in note 8.

The remaining useful economic life of the Belfast Gas Transmission pipeline was determined as approximately 32.5 (2022: 33.5) years at the beginning of the year. If the remaining useful economic life had been assessed at 33.5 (2022: 34.5) years depreciation would have decreased by £20,000 (2022: £20,000) and if the remaining useful economic life had been assessed at 31.5 (2022: 32.5) years depreciation would have increased by £22,000 (2022: £21,000). The net book value of the assets is disclosed in note 8.

The remaining useful economic life of the West Transmission pipeline was determined as approximately 40.25 (2022: 41.25) years at the beginning of the year. If the remaining useful economic life had been assessed at 41.25 (2022: 42.25) years depreciation would have decreased by £53,000 (2022: £48,000) and if the remaining useful economic life had been assessed at 39.25 (2022: 40.25) years depreciation would have increased by £56,000 (2022: £51,000). The net book value of the assets is disclosed in note 8.

The remaining useful economic life of Moyle Interconnector's licence was determined as approximately 15 (2022: 16) years at the beginning of the year. If the remaining useful economic life had been assessed at 16 (2022: 17) years amortisation would have decreased by £104,000 (2022: £98,000) and if the remaining useful economic life had been assessed at 14 (2022: 15) years amortisation would have increased by £119,000 (2022: £111,000). The net book value of the license is disclosed in note 9.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (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 licences was determined as approximately 12 (2022: 13) years at the beginning of the year. If the remaining useful economic life had been assessed at 13 (2022: 14) years, amortisation would have decreased by £108,000 (2022: £100,000) and if the remaining useful economic life had been assessed at 11 (2022: 12) years, amortisation would have increased by £127,000 (2022: £117,000). The net book value of the license is disclosed in note 9.

The remaining useful economic life of Belfast Gas Transmission's licence was determined as approximately 30 (2022: 31) years at the beginning of the year. If the remaining useful economic life had been assessed at 31 (2022: 32) years amortisation would have decreased £80,000 (2022: £78,000) and if the remaining useful economic life had been assessed at 29 (2022: 30) years amortisation would have increased by £86,000 (2022: £83,000). The net book value of the license is disclosed in note 9.

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

The decommissioning provision, which is disclosed in note 20, has been estimated at current prices and has therefore been increased to decommissioning date by an inflation rate of 3.32% (2022: 3.98%) based on expected time of expenditure of 19 years (2022: 10 years). The decommissioning provision has been discounted using a rate of 3.84% (2022: 1.62%). 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	
	2023	2022
	£'000	£'000
Increase in inflation rate by 1%	**626**	325
Decrease in inflation rate by 1%	**(526)**	(298)
Increase in discount rate by 1%	**(519)**	(302)
Decrease in discount rate by 1%	**629**	337
Increase in useful economic life of the asset by one year	**(16)**	79
Decrease in useful economic life of the asset by one year	**16**	(85)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

ESTIMATES (CONTINUED)

(c) Fair value of other investments

At 31 March 2022, the fair value of other investments was 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 were required to be made in respect of highly uncertain matters. The Company's review included the key assumptions related to sensitivity in the cash flow projections. The calculation assumed a GBP/EUR rate of 1.1816. The Platina Energy investment fund was wound up in the year with no remaining investment outstanding at 31 March 2023. 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 which are disclosed in note 8. Under our agreement with the main contractor, SGN, the amount payable for the assets is aligned to the final determination of the Utility Regulator. Under West Transmission Limited's licence this determination is to be made in December 2023. The final cost for these assets is, therefore, still to be finalised. The Utility Regulator has made two interim determinations, the last being on 2 June 2023. The cost, and subsequent valuation of the assets, disclosed in the note referred to above applies the contractual terms to these interim decisions which provide the Utility Regulator's best view of the final outcome. In the absence of the final detailed decision the applied methodology has a number of key estimates and assumptions in respect of how the expenditure is allocated across pipeline and other tangible assets. There will be a final adjustment in December 2023 to incorporate the final decision by the Utility Regulator.

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. Information relating to leases has been disclosed in note 19.

(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).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (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)

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.

g) Recoverability of unpaid amounts in relation to revenue constraints

Included within Group revenue is an amount of €11,422,000 (£9,817,000 Sterling equivalent) (2022: €12,062,000 (£10,239,000 Sterling equivalent)) and trade and other receivables is an amount of €23,484,000 (£20,655,000 Sterling equivalent) (2022: €12,062,000 (£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 2023. 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 an arbitrator, 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).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

2 SEGMENT INFORMATION

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

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

Group Year ended 31 March 2023	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	58,395	27,134	10,452	9,004	90	105,075
Revenue rebate	(1,581)	-	-	-	-	(1,581)
Net revenue	56,814	27,134	10,452	9,004	90	103,494
Segment (expenses)/income	(13,574)	(11,843)	(3,030)	(3,436)	689	(31,193)
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	(2,471)	-	(8,021)
Depreciation (net of government grants)	(5,694)	(1,325)	(697)	(2,681)	(122)	(10,519)
Fair value adjustment on investment	-	-	-	-	(15)	(15)
Finance income	2,257	792	296	995	54	4,394
Finance expenses	(9,854)	(6,446)	(23,010)	(27,019)	17	(66,312)
Fair value adjustment on derivative financial instruments	-	2,678	-	-	-	2,678
Profit/(loss) before tax	28,288	9,588	(18,476)	(25,608)	714	(5,494)
Tax (charge)/credit	(5,552)	(856)	3,887	6,316	(137)	3,658
Profit/(loss) for the year	22,736	8,732	(14,589)	(19,292)	577	(1,836)
Assets						
Segment assets	251,546	139,802	119,118	229,846	5,072	745,384
Capital expenditure	8,627	162	3,085	5,748	34	17,656
Segment liabilities	106,150	128,332	191,422	267,173	2,058	695,135

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

2 SEGMENT INFORMATION (CONTINUED)

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 2023 (CONTINUED)

2 SEGMENT INFORMATION (CONTINUED)

Disaggregation of revenue

Group	2023 £'000	2022 £'000
Electricity business revenue:		
Commercial revenue		
Revenue from power transfers	**27,989**	27,844
Revenue from power transfers which were constrained	**9,817**	10,239
System services	**10,468**	10,111
Capacity market	**10,097**	10,357
Total commercial revenue	**58,371**	58,551
Tariff revenue	**10**	37
Other	**14**	237
Total electricity business revenue	**58,395**	58,825
Gas business revenue	**46,590**	49,386
Other	**90**	117
Total revenue	**105,075**	108,328
Electricity tariff revenue rebate	**(1,581)**	(1,725)
Net revenue	**103,494**	106,603

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 2023 (CONTINUED)

2 SEGMENT INFORMATION (CONTINUED)

Revenues from the Group's gas transmission businesses of £46,590,000 (2022: £49,386,000) 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 pages 127-128, 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 variable income depending upon the difference in market spreads.

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

	2023 £'000	2022 £'000
Customer A	**18,620**	17,441

Revenue from power transfers which were constrained relates to an amount of €11,422,000 (£9,817,000 Sterling equivalent) (2022: €12,062,000 (£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 2023 and remains unpaid. Further information in this respect can be found within the critical estimates and judgements section (g) on page 128.

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.

Commercial revenue includes £38.0m (2022: £39.0m) which was receivable in Euro.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

3 OPERATING EXPENSES

Group	2023 £'000	2022 £'000
Staff costs (note 4)	**3,457**	3,170
Depreciation and amortisation (excluding right-of-use assets)	**21,158**	22,519
Loss on disposal of property, plant and equipment	**-**	252
Depreciation of right-of-use assets	**369**	340
Fair value adjustment on investment	**-**	1
Loss on disposal of investment	**15**	-
Amortisation of deferred government grants	**(2,987)**	(3,494)
Auditors' remuneration:		
Audit of these financial statements	**15**	2
Audit of financial statements of subsidiaries	**175**	50
Other services	**9**	10
Maintenance and insurance	**9,167**	7,198
Other expenses	**18,370**	21,742
Total operating expenses	**49,748**	51,790

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 2023 (CONTINUED)

4 STAFF NUMBERS AND COST

Group	2023 £'000	2022 £'000
Wages and salaries	**2,848**	2,674
Social security costs	**359**	322
Pension costs	**250**	174
	3,457	3,170

The average monthly number of employees during the year (including Directors holding contracts of service with the Group) was 35 (2022: 32). All staff perform asset management and development activities.

	2023 Number	2022 Number
Members of defined contribution pension scheme	**36**	32

	2023 £'000	2022 £'000
Directors' emoluments		
Aggregate emoluments	**845**	812

Directors' emoluments represent the remuneration of the Group's executive and Non-Executive Directors. The emoluments of the highest paid director were £338,000 (2022: £307,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

5 FINANCE INCOME AND EXPENSE

Group	2023 £'000	2022 £'000
Interest expense:		
Borrowings (including borrowing fees)	**62,569**	36,806
Bank charges	**217**	293
Unwinding of discount on decommissioning provision	**53**	30
Fair value adjustment in respect of derivative financial instruments (note 25)	**-**	5,936
Other finance expenses	**3,473**	2,324
Finance expense	**66,312**	45,389
Interest income:		
Short-term bank deposits	**(3,757)**	(380)
Fair value adjustment in respect of derivative financial instruments (note 25)	**(2,678)**	-
Lease interest	**(13)**	(42)
Foreign exchange gains	**(624)**	(6)
Finance income	**(7,072)**	(428)
Finance expense – net	**59,240**	44,961

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 2023 (CONTINUED)

6 TAXATION

Group	2023	2022
Recognised in profit and loss	**£'000**	£'000
Current income tax:		
Current tax on profit for the year	**5,238**	6,892
Adjustments in respect of prior years	**(114)**	(466)
Total current income tax	**5,124**	6,426
Deferred income tax:		
Origination and reversal of temporary differences	**(9,128)**	(6,175)
Adjustments in respect of prior years	**346**	470
Impact of change in deferred tax rate	**-**	9,401
Total deferred income tax (note 21)	**(8,782)**	3,696
Tax (credit)/charge	**(3,658)**	10,122

The income tax credit in the statement of profit and loss for the year is higher than the standard rate of corporation tax in the UK of 19% (2022: tax charge – higher than - 19%). The differences are reconciled below:

Group	2023	2022
Reconciliation of effective tax rate	**£'000**	£'000
(Loss)/profit before income tax	**(5,494)**	9,852
Tax calculated at the UK standard rate of corporation tax of 19% (2022: 19%)	**(1,044)**	1,872
Effects of:		
Non deductible expenses	**91**	2,320
Income not taxable	**(1,017)**	(2,264)
Adjustments in respect of prior years	**232**	4
Impact of change in tax rates	**(1,920)**	(1,211)
Change in deferred tax rate	**-**	9,401
Tax (credit)/charge	**(3,658)**	10,122

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

6 TAXATION (CONTINUED)

FUTURE TAX CHANGES

The Finance Act 2021 confirmed that the corporation tax rate will be increased to 25% on 1 April 2023 for companies generating taxable profits of more than £250,000. The current 19% tax rate will continue to apply to 'small' companies with profits less than £50,000, with a 'taper relief rate' for those companies with profits between these thresholds. 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).

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 £38,000 (2022: £134,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (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 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
Additions	5,209	-	830	701	34	10,882	40	17,696
Transfer into use	-	-	25,154	-	-	(25,154)	-	-
Disposals	-	-	(3,785)	-	(239)	-	-	(4,024)
Lease modification	-	-	-	-	-	-	1,366	1,366
Movement in decommissioning provision	-	(175)	-	-	-	-	-	(175)
At 31 March 2023	**239,930**	**176,161**	**26,089**	**20,263**	**414**	**3,627**	**8,207**	**474,691**
Accumulated depreciation								
At 1 April 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
Depreciation charge for the year	4,712	6,113	939	1,347	26	-	369	13,506
Disposals	-	-	(3,785)	-	(239)	-	-	(4,024)
At 31 March 2023	**74,715**	**100,038**	**870**	**5,549**	**367**	**-**	**1,378**	**182,917**
Net book value								
At 31 March 2023	**165,215**	**76,123**	**25,219**	**14,714**	**47**	**3,627**	**6,829**	**291,774**
At 31 March 2022	164,718	82,411	174	15,360	39	17,899	5,792	286,393
At 1 April 2021	167,798	90,645	331	15,287	33	11,084	6,067	291,245

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets under construction at 31 March 2022 related to costs incurred in the replacement of Moyle Interconnector's control system with the exception of £542,000 plant and machinery costs included which related to works in progress in Belfast Gas Transmission. Moyle Interconnector's control system was brought into operation during the year and the balance at 31 March 2023 relates entirely to 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 due in December 2023. An interim payment of £21,321,000 was approved by the Utility Regulator on 2nd June 2023 in anticipation of the final determination.

In the prior year, at 31 March 2022, the Group had capital commitments of €8,429,000 (£7,133,000 Sterling equivalent) and £2,316,000 in respect of the Moyle Interconnector control system.

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

Depreciation expense of £13,506,000 (2022: £14,823,000) has been fully charged to operating expenses.

As noted on page 127-128, 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 2023 (CONTINUED)

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Office and computer equipment £'000	Right-of-use assets £'000	Total £'000
Cost			
At 1 April 2021	306	409	715
Additions	26	65	91
At 31 March 2022	332	474	806
Additions	34	40	74
Lease modifications	-	170	170
At 31 March 2023	**366**	**684**	**1,050**
Accumulated depreciation			
At 1 April 2021	273	138	411
Depreciation charge for the year	20	73	93
At 31 March 2022	293	211	504
Depreciation charge for the year	26	96	122
At 31 March 2023	**319**	**307**	**626**
Net book value			
At 31 March 2023	**47**	**377**	**424**
At 31 March 2022	39	263	302
At 1 April 2021	33	271	304

Depreciation expense of £122,000 (2022: £93,000) has been fully charged to operating expenses.

The lease modifications relate to leases for our offices at the Arena Building and consist of an extension to the 4th floor lease to 2027 and an increase in the costs of the 1st floor lease.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

9 INTANGIBLE ASSETS

Group	Goodwill £'000	Licences £'000	Other intangibles £'000	Total £'000
Cost				
At 1 April 2021, at 31 March 2022 and **at 31 March 2023**	**2,435**	**206,535**	**82,149**	**291,119**
Accumulated amortisation				
At 1 April 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
Amortisation for the year	-	5,550	2,471	8,021
At 31 March 2023	-	**95,760**	**11,606**	**107,366**
Net book value				
At 31 March 2023	**2,435**	**110,775**	**70,543**	**183,753**
At 31 March 2022	2,435	116,325	73,014	191,774
At 1 April 2021	2,435	121,875	75,500	199,810

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 11 years, 29 years and 14 years respectively at 31 March 2023 (12 years, 30 years and 15 years respectively at 31 March 2022).

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 2023, of 31.5 years (32.5 years at 31 March 2022).

Amortisation expense of £8,021,000 (2022: £8,036,000) has been fully charged to operating expenses.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

9 INTANGIBLE ASSETS (CONTINUED)

IMPAIRMENT TESTING FOR GOODWILL

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

The recoverable amount of the goodwill is based on fair value less costs to sell calculation which has been determined using discounted cash flow forecasts. The cash flow projections are over a period of 7 years (2022: 8 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 3.43% (2022: 1.89%) used is based on Bank of England gilt yield curve data for a debt with a remaining maturity of 7 years (2022: 8 years). The inflation rate assumption used by the Group in these calculations of 3.52% (2022: 3.88%) has been obtained from Bank of England yield curves over a 7 year period (2022: 8 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 2023 (CONTINUED)

10 INVESTMENTS IN SUBSIDIARIES

Company	Subsidiary undertakings £'000
Cost and carrying amount	
At 1 April 2021	9,644
Acquisition of ordinary shares	8,812
Impairment	(18,456)
At 31 March 2022 and at 31 March 2023	**-**

At 1 April 2021, investments in subsidiaries 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. Investments in subsidiaries also includes ordinary shares of £1 each in relation to investments in Moyle Holdings Limited, Northern Ireland Gas Transmission Holdings Limited and Interconnector Services Limited.

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 2023 (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
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 2023 (CONTINUED)

11 OTHER INVESTMENTS

Group	£'000
Cost and carrying amount	
At 1 April 2021	399
Fair value adjustment	(1)
At 31 March 2022	398
Repayment of capital	(169)
Loss on disposal of investment	(15)
At 31 March 2023	**214**

Other investments at 1 April 2022 included £184,000 relating to the fair value of investments made by Moyle Energy Investments Limited to the Platina renewable energy fund, PEN III which were transferred to Mutual Energy Limited, who is an initial limited partner in this limited partnership, on 29th March 2023. The present value at 31 March 2022 was determined to be £184,000, resulting in an impairment charge of £1,000 which was recognised in operating expenses in the profit and loss account in that year (see note 3). The investments matured in the current year, with a loss on disposal.

Other investments 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% at a cost of £1,988. The investments are held at cost.

Company	£'000
Cost and carrying amount	
At 1 April 2021	-
Transfer from subsidiary	185
Fair value adjustment	(1)
At 31 March 2022	184
Repayment of capital	(169)
Loss on disposal of investment	(15)
At 31 March 2023	**-**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

12 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Trade receivables	**30,208**	17,269	**4**	-
Prepayments	**4,695**	3,838	**111**	68
Accrued income	**4,531**	13,495	**11**	18
Other receivables	**4,798**	6,722	**38**	30
Trade receivables due from subsidiary undertakings	**-**	-	**482**	578
	44,232	41,324	**646**	694

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 €28,181,000 due (£24,786,000 Sterling equivalent) (2022: €14,576,000 due (£12,372,000 Sterling equivalent)); and ii) accrued income includes €61,000 due (£54,000 Sterling equivalent) (2022: includes €5,737,000 due (£4,855,000 Sterling equivalent)); and iii) other receivables includes €1,000 (£1,000 Sterling equivalent) (2022: includes €2,584,000 (£2,169,000 Sterling equivalent)).

Included within trade and other receivables is €23,484,000 (£20,655,000 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 2023 and remains unpaid. Further information in this respect can be found within the critical estimates and judgements on page 128.

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 (2022: £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 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 2023 (CONTINUED)

13 INVENTORIES

	Group		Company	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Spares	**57**	57	**-**	-

14 FINANCIAL ASSETS

	Group		Company	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Cash deposits	**42,719**	44,867	**-**	1,848

Cash deposits earn interest at a range from Bank of England base rate less 2.77% to Bank of England base rate plus 0.45%.

15 CASH AND CASH EQUIVALENTS

	Group		Company	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents	**156,585**	143,057	**4,013**	1,808

Cash and cash equivalents earn interest at a range from Bank of England base rate less 2.77% to Bank of England base rate plus 1.70%.

Other payables falling due within one year include £19,873,000 (2022: £11,435,000) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

16 SHARE CAPITAL

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

17 RETAINED EARNINGS

Group	£'000
At 1 April 2021	52,355
Total comprehensive expense for the year	(270)
At 31 March 2022	52,085
Total comprehensive expense for the year	(1,836)
At 31 March 2023	**50,249**

Included in the retained earnings for the Group is an amount of £1,874,000 (2022: £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 2021	(4,168)
Total comprehensive income for the year	134
At 31 March 2022	(4,034)
Total comprehensive income for the year	38
At 31 March 2023	**(3,996)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

18 INTEREST BEARING LOANS AND BORROWINGS

	Group		Company	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Non-current				
5.2022% Guaranteed secured bond	**38,438**	43,772	**-**	-
2.9376% Index linked guaranteed secured bond	**55,224**	55,708	**-**	-
2.207% Index linked guaranteed secured bond	**156,798**	141,045	**-**	-
Index linked guaranteed secured notes	**209,239**	192,693	**-**	-
Lease liabilities	**6,306**	5,269	**273**	179
	466,005	438,487	**273**	179
Current				
5.2022% Guaranteed secured bond	**5,334**	5,058	**-**	-
2.9376% Index linked guaranteed secured bond	**7,409**	7,256	**-**	-
2.207% Index linked guaranteed secured bond	**3,161**	2,614	**-**	-
Index linked guaranteed secured notes	**7,349**	6,624	**-**	-
Lease liabilities	**347**	364	**102**	80
	23,600	21,916	**102**	80
Total borrowings	**489,605**	460,403	**375**	259

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (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 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
Changes from financing cash flows						
Repayment of borrowings	(20,256)	-	(20,256)	-	-	-
Lease payments	-	(373)	(373)	-	(97)	(97)
Interest paid	(14,131)	-	(14,131)	-	-	-
Total changes from financing cash flows	(34,387)	(373)	(34,760)	-	(97)	(97)
Non cash changes						
Lease additions	-	40	40	-	40	40
Lease modifications	-	1,366	1,366	-	170	170
Lease interest	-	(13)	(13)	-	3	3
Interest and indexation expense	62,569	-	62,569	-	-	-
Total non cash changes	**62,569**	**1,393**	**63,962**	**-**	**213**	**213**
Balance at 31 March 2023	**482,952**	**6,653**	**489,605**	**-**	**375**	**375**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (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 £66,539,000 (2022: £78,764,000), the 5.2022% bond has a fair value of £45,683,000 (2022: £55,499,000), the 2.207% index linked bond has a fair value of £172,474,000 (2022: £219,704,000) and the index linked notes have a fair value of £154,382,000 (2022: £207,444,000). These fair values have been calculated by discounting the future contracted interest cash flows using a discount rate of 1.74% (2022: -1.37%) for the 2.9376% index linked bond, a discount rate of 4.52% (2022: 2.47%) for the 5.2022% bond, a discount rate of 1.62% (2022: -0.84%) for the 2.207% index linked bond and a discount rate of 1.86% (2022: -0.62%) 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 £65,068,000/£68,065,000 for the 2.9376% index linked bond, £44,917,000/£46,470,000 for the 5.2022% bond, £142,808,000/£162,210,000 for the 2.207% index linked bond and £161,958,000/£183,962,000 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 2.94%, the 5.2022% bond is 5.39%, the 2.207% index linked bond is 2.18% and the index linked notes is -0.42%. The undiscounted maturity profile of the Group's and the Company's borrowings are shown in note 25.

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 2023 (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. During the year the group extended the useful life of its interconnector assets until 2042. As this lease is essential for the operation of the interconnector, the term of this lease was also extended to 2042 during the year.

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. The first floor lease was entered into in 2016 and runs to 31 July 2026. The fourth floor lease was entered into in 2022 and runs to 31 December 2027.

Mutual Energy Limited holds leases in relation to its Company Electric Car Scheme. There were 4 leases in place at 31 March 2023, with one new lease having been entered into during the year. The electric vehicle leases run to March 2025, January 2026, March 2026 and August 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 2023 (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 2022	5,529	200	63	5,792
Additions	-	-	40	40
Lease modifications	1,196	170	-	1,366
Depreciation	(273)	(72)	(24)	(369)
At 31 March 2023	**6,452**	**298**	**79**	**6,829**

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	**2023 £'000**	2022 £'000
Depreciation expense in respect of right-of-use assets	**369**	340
Lease liabilities interest income	**(13)**	(42)
Expenses relating to short-term leases	**10**	9

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

Group	**2023 £'000**	2022 £'000
Total cash outflow for leases	**373**	317

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

20 PROVISIONS

Group	Decommissioning provision £'000
At 1 April 2021	3,199
Cost adjustments through property, plant and equipment	11
Unwinding of discount during the year	30
At 31 March 2022	3,240
Cost adjustments through property, plant and equipment	(175)
Unwinding of discount during the year	52
At 31 March 2023	**3,117**

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the interconnector in 19 years (2022: 10 years), at the end of its useful economic life. This provision is expected to be utilised within 19 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 3.84% (2022: 1.62%).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (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	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Deferred tax assets	**25,198**	15,848	**54**	53
Deferred tax liabilities	**(51,672)**	(51,104)	**-**	-
Deferred tax (liabilities)/assets – net	**(26,474)**	(35,256)	**54**	53

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

Movement in deferred tax during the year:

	Group £'000	Company £'000
At 1 April 2021	(31,560)	43
Recognised in profit and loss	(3,696)	10
At 31 March 2022	(35,256)	53
Recognised in profit and loss	8,782	1
At 31 March 2023	**(26,474)**	**54**

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 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)
Recognised in profit and loss	9,986	(1,419)	851	(636)	8,782
At 31 March 2023	**14,509**	**(22,771)**	**(28,901)**	**10,689**	**(26,474)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

22 GOVERNMENT GRANTS

Group	£'000
At 1 April 2021	76,792
Additions	565
Amortised during the year	(3,494)
At 31 March 2022	73,863
Amortised during the year	(2,987)
At 31 March 2023	**70,876**

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 £2,468,000 (2022: £3,507,000), and the non-current portion is £68,408,000 (2022: £70,356,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

23 TRADE AND OTHER PAYABLES

	Group		Company	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Trade payables	**1,151**	4,880	**12**	39
Accruals	**9,059**	10,043	**977**	908
Deferred income	**2,306**	731	**-**	-
VAT and social security	**2,468**	5,832	**96**	90
Other payables	**21,085**	16,008	**1**	-
Trade payables due to related parties	**-**	-	**7,672**	7,627
	36,069	37,494	**8,758**	8,664

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 €26,000 owed (£22,000 sterling equivalent) (2022: includes €12,000 owed (£10,000 sterling equivalent)) ii) and other payables includes €812,000 owed (£714,000 sterling equivalent) (2022: includes €5,228,000 owed (£4,388,000 sterling equivalent)).

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

Other payables include £19,873,000 (2022: £11,435,000) 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 £1,909,000 (2022: £1,960,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (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	
	2023 £'000	2022 £'000
Subsidiary undertakings – current assets	**482**	578
Subsidiary undertakings – current liabilities	**(7,672)**	(7,627)

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	
		2023 £'000	2022 £'000
Subsidiary undertakings	Interest payable	**-**	(659)
Subsidiary undertakings	Group relief surrendered	**(158)**	97
Subsidiary undertakings	Interest receivable	**-**	586
Subsidiary undertakings	Dividend income	**-**	11,212
Subsidiary undertakings	Charges receivable	**4,509**	4,232

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

Group	**2023 £'000**	2022 £'000
Short term employee benefits	**640**	644
Long term employee benefits	**172**	139
Post-employment benefits	**33**	29

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (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 2021	40,538
Fair value adjustment	5,936
Liability at 31 March 2022	46,474
Fair value adjustment	(2,678)
Liability at 31 March 2023	**43,796**

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, and as such the Group's derivative have been disclosed as non-current.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (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 2023 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	9,286	8,752	8,279	7,972	7,434	30,381	72,104
5.2022% Bond and associated derivatives	12,078	12,318	12,562	12,812	13,067	26,915	89,752
2.207% Index linked bond	6,674	6,807	6,944	7,084	7,222	179,018	213,749
Index linked notes	6,415	6,415	6,415	6,415	6,415	170,002	202,077
Lease liabilities	347	350	346	293	271	5,046	6,653
Trade and other payables*	31,295	-	-	-	-	-	31,295
	66,095	34,642	34,546	34,576	34,409	411,362	615,630

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

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 2023 (CONTINUED)

25 FINANCIAL INSTRUMENTS (CONTINUED)

At 31 March 2023 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	**102**	**104**	**100**	**46**	**23**	**-**	**375**
Trade and other payables*	**8,662**	**-**	**-**	**-**	**-**	**-**	**8,662**
	8,764	**104**	**100**	**46**	**23**	**-**	**9,037**

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

*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 2023 (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, and West Transmission Financing plc.

MOYLE INTERCONNECTOR (FINANCING) PLC

The group operates the interconnector which links the electricity transmission systems of Northern Ireland and Scotland under a licence agreement with the Northern Ireland Authority for Utility Regulation. The Group earns its revenue through its market arrangements which make available the capability of the interconnector to the System Operators, SONI and National Grid. This capability is provided to the System Operators via either direct contracts for services or industry wide contractual arrangements. In the event that the group does not earn sufficient revenues to cover its operating expenses, interest on borrowings and repayment of borrowings, the group's licence allows the company to make a call on its customers for any shortfall. Accordingly, this sub-group has limited financial risk.

PREMIER TRANSMISSION FINANCING PLC AND BELFAST GAS TRANSMISSION FINANCING PLC

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

WEST TRANSMISSION FINANCING PLC

The group operates the high pressure gas transmission pipeline which supplies the gas distribution network in the West of Northern Ireland and a gas transmission offtake at Maydown. The licence arrangement allows full recovery of its operating expenses, financing costs and repayment of borrowings. By way of an agreement with SGN Commercial Services Ltd, other than the scenario of regulatory malfeasance, the financial risk that the regulatory income allowance for the construction of the pipeline is insufficient, and any benefit if the regulatory income allowance is greater than the financing costs, has been passed on to them.

(a) 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 £3,955,000 (2022: £3,861,000).

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 2023 (CONTINUED)

25 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk (Continued)

Included within Group revenue and trade and other receivables is an amount of €23,484,000 (£20,655,000 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 2023 and remains unpaid. Further information in this respect can be found within the critical estimates and judgements on page 128.

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 and are recorded at cost. 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.

The Group's financial instruments fair valued (for disclosure purposes only) under level 2 are the Group's loans and receivables and the Group's borrowings. The fair value of these financial instruments is determined by discounting future cash flows using a suitable discount rate. These discount rates are based on Bank of England gilt yield curve data for a term that is similar to the financial instrument. There have been no transfers between levels during the current or the previous year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

26 ULTIMATE CONTROLLING PARTY

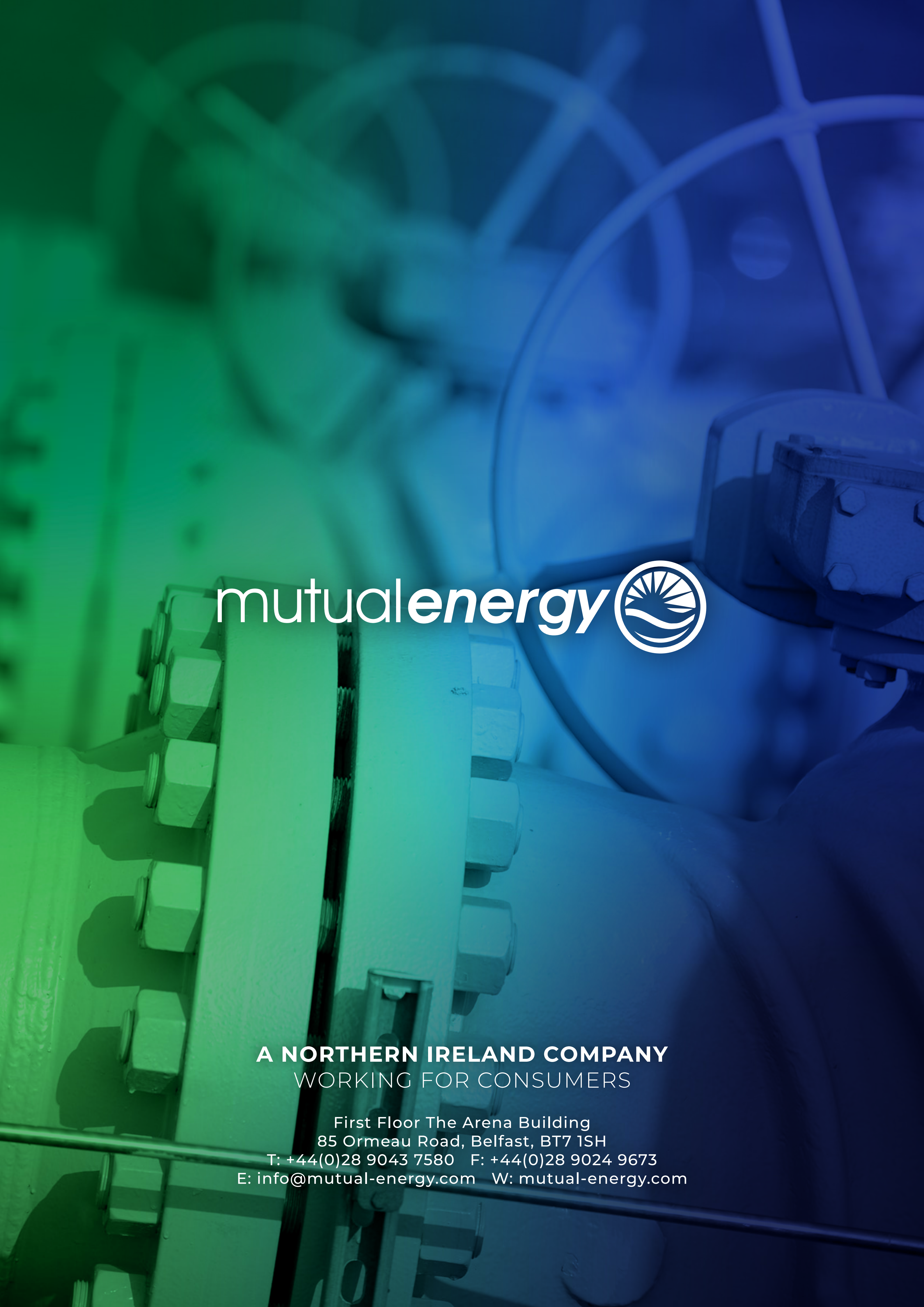
The ultimate controlling party of the Group and the Company are the members of Mutual Energy Limited.

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 €23,484,000 (£20,655,000 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 2023 and remains unpaid. In line with the contract, the matter has been referred to an arbitrator, with timelines for resolution still to be determined. 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.



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