Registered number: NI026421

Premier Transmission Limited

Annual report

for the year ended 31 March 2019

Premier Transmission Limited

Annual report for the year ended 31 March 2019

Contents

Premier Transmission Limited

Directors and advisers

Directors

Patrick Anderson	Non-executive director	
Regina Finn	Chairman	(resigned 31 December 2018)
David Gray	Chairman	(appointed 1 January 2019)
Patrick Larkin	Executive director	
Gerard McIlroy	Executive director	
Michael McKernan	Non-executive director	
Kate Mingay	Non-executive director	
Christopher Murray	Non-executive director	

Company secretary

Gerard McIlroy

Registered office

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

Principal place of business

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

Solicitors

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

Bankers

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

Independent auditors

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

Strategic report for the year ended 31 March 2019

The directors manage Premier Transmission's operations at the Mutual Energy ("MEL") group level. The strategies, KPIs and operations of the Premier Transmission Pipeline System, which includes the Premier Transmission and Belfast Gas Transmission assets, are therefore considered as a whole.

Strategic objectives

Our strategy is made up of three key elements:

Strategy	How we deliver	How we measure success
Safe, cost efficient operation Operate the best model to minimise costs and overheads including outsourcing	We provide a safe, reliable and efficient transmission service to the gas suppliers of Northern Ireland. Delivery is achieved through a competitive tendering process for operational activities and the development of a comprehensive contracting strategy and partnership approach with key contractors. We operate a Health & Safety system based on the Plan, Do, Check, Act approach. Further information on asset operation can be found on pages 4 and 5.	Our success measures include: - availability targets for our assets (KPI 1); - operational savings against forecast (KPI 2); - lost time incidents (KPI 3) and a series of detailed health & safety targets; - detailed maintenance and contracting milestones which are monitored at contract meetings; and - detailed monthly budgets which are monitored over a rolling five year horizon.
Return savings to consumer [illegible]	[illegible]	[illegible]
Manage market change Manage market change to minimise [illegible] to NI consumer	[illegible]	[illegible]

Key Performance Indicators ("KPIs")

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

	Key Performance Indicator	Definition of KPI
	1. Availability The quality of service to our direct customers is determined by the performance of our assets, of which the principal measure is the availability of transmission capacity. A graph showing availability can be found on page 4.	**Availability** Availability is calculated as the number of hours available (excluding upstream outages) x capacity available / total plant capacity under connection agreements x the number of hours in the year.
	2. Operational savings against forecast For the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs. Operational savings vs forecasts for the gas businesses are shown on page 5.	**Operational savings against forecast** The KPI for gas business operational savings is calculated by subtracting the actual agreed revenue for the gas year, calculated in accordance with the gas companies' licences, from the forecast required revenue submitted in advance of the year.
	3. Lost time incidents Our safety is measured by the safe operation of our staff and contractors as noted on page 4.	**Lost time incidents** Lost time incidents are calculated as the number of lost time incidents per 100,000 hours worked by staff and contractors.
	4. Cash generated from operations Cash generated which will be used to avoid future charges to consumers. Cash generated can be seen in the graph on page 5.	**Cash generated from operations** Cash generated in each of the businesses post tax.
	5. Market change date milestones met Market change date milestones are set to meet EU obligations, the Northern Ireland gas market targets, or internal market improvement targets. Performance is measured against the deadlines set to show the percentage of the milestones which were met in each financial year. Market change date milestones met can be seen in the graph on page 6.	**Market change date milestones met** Market change date milestones met is the percentage of the milestones due in each financial year which were delivered on time.
	6. Annual Debt Service Cover Ratio The ability to acquire infrastructure at low cost to the consumer is critically dependent upon our track record with the existing asset financing. As well as compliance with the respective financing covenants, the principal requirements of all financiers are the maintenance of Annual Debt Service Cover Ratios (ADSCR) of greater than 1.25. A graph showing these ratios can be found on page 4.	**Annual Debt Service Cover Ratio** The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the bonds for each operational company. The basis of calculation is Available Cash / Debt Service in the next 12 months. In each case Available Cash = the difference between income and expenses in the period + cash in designated bank accounts, where cash in the designated bank accounts is limited to 1x Debt service.

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

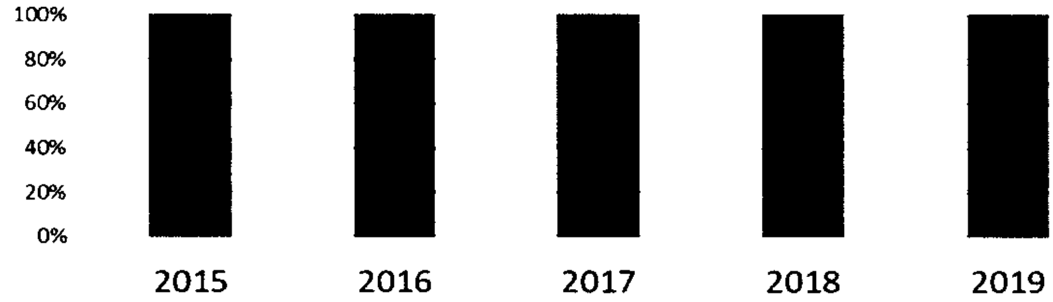
Strategic report for year ended 31st March 2019 (continued)

Strategic objective: Operate assets safely and cost effectively, outsourcing where appropriate

Operational performance

The business operated during the year with 100% availability (KPI 1) and no lost time incidents (KPI 3).

KPI 1: Availability



Routine surveillance, inspection, monitoring and maintenance of the gas assets was executed, as planned, with no material issues arising. This included a successful submarine campaign to survey the external condition of the pipeline in the North Channel and an internal 'in-line' inspection of the onshore pipeline in South West Scotland.

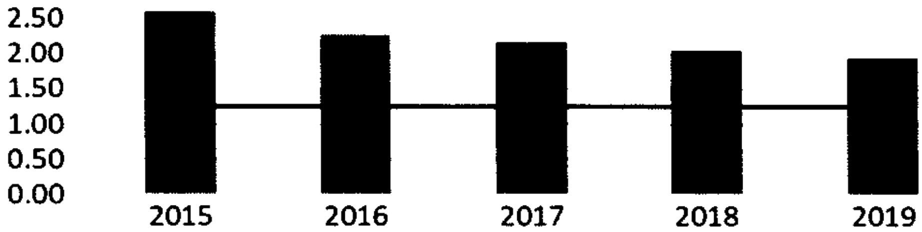
In the context of the growing (and aging) gas asset base, and the increasing need to demonstrate effective and efficient investment methodologies, we have commenced formalising the asset management activity within the ISO55001 asset management framework. This will involve a two to three year process of documentation and improvement planning leading to a quantified and benchmarkable assessment, accreditation and an ongoing framework of continual improvement.

Financial performance

The combined gas business costs for Mutual Energy's subsidiaries (Premier Transmission, Belfast Gas Transmission and West Transmission) for the gas year ending on 30 September 2018 were £2.8m below the forecasts used for predicting tariffs (September 2017: £3.0m below) (KPI 2).

The business is cash generative and able to meet its debt service obligations, though because of the debt structure it is not expected to be profitable in the earlier years when interest costs incurred are in excess of debt repayments. This situation will then reverse in later years. For the gas businesses, the Annual Debt Service Cover Ratio (ADSCR) will tend to average towards 2.0. Over-performance above 2.0 in earlier years will reverse in the future and will result in future ADSCR below 2.0 when this cash is released to the benefit of consumers. The timing of tax payments can have a similar effect. The ADSCRs for the gas businesses can be seen in the graph below.

KPI 6: Premier Transmission ADSCRs



	2015	2016	2017	2018	2019
Premier Transmission ADSCR	2.60	2.27	2.17	2.06	1.95
Premier Tranmission minimum ADSCR	1.25	1.25	1.25	1.25	1.25

Strategic report for year ended 31st March 2019 (continued)

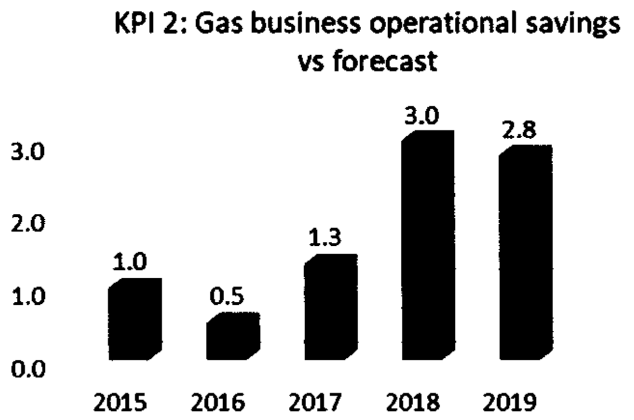
Future development

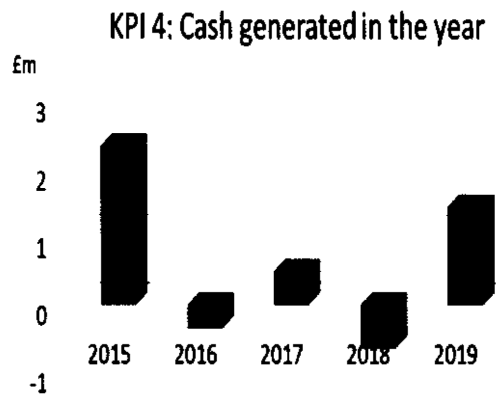
Due to the age of the assets there is an increasing focus upon repair, refurbishment and often replacement of ancillary components. Refurbishment and replacement projects are planned over the long-term on whole life cost basis, but given priority within the year on a risk based approach. These projects are subject to a strict process of change control. The amount of resource assigned to this activity has continued to increase. Works during the year included design works to decommission and remove components within the Ballylumford offtake site previously supplying the Ballylumford B Station which closed during the year.

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

The main means by which the company delivers savings to the consumers in Northern Ireland is through providing a low cost of capital. The costs of the gas transmission assets are charged to the respective shippers through a "use of system" charge which happens automatically through the postalised transmission system charging methodology. The savings achieved due to our low costs of capital are therefore passed on to shippers, allowing them to charge the end consumer less for their gas. Overall gas business charges recovered from shippers in the 2017-18 gas year (excluding the new West Transmission assets) were 18% lower (2016-17: 23% lower) in real terms than in 2004-5, before the mutualisation of Mutual Energy's gas assets. We continually seek to achieve operational savings and efficiencies.

Year on year the business measures its progress with reference to the annual forecast provided for the tariff calculation, as shown for Premier Transmission, Belfast Gas Transmission and West Transmission combined in the following chart (KPI 2).





KPI 4 shows the movement in the cash balance (including deposits and investments with maturity of less than 1 year) from the previous year. The cash outflow in 2015/16 is the result of timing of payments in relation to tax from prior years and is the reversal of prior year cash inflows.

In 2017/18, £1.25m of funds retained from Premier Transmission's previous outperformance against targets were provided to West Transmission to assess the opportunity of a preconstruction financing. As a result, West Transmission was financed in July 2018 at a very low rate, resulting in significant benefit to customers.

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

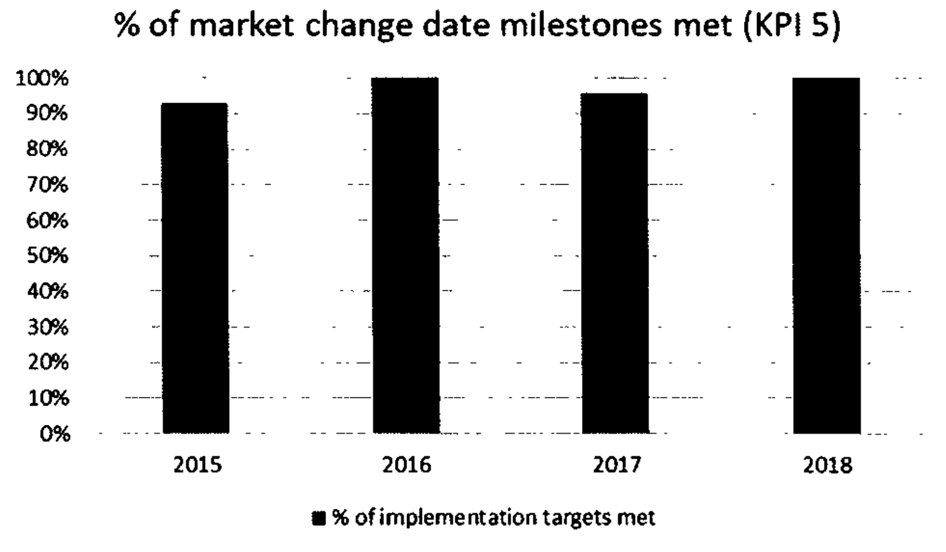
European energy regulation

European legislation continues to be a driver for changes in our market arrangements and contracts with shippers. The EU regulation has driven a "Gas Target Model" to be implemented by our gas businesses. The first major deadline for implementation was October 2015, with others following until 2019. This year, the gas businesses continued to implement the Gas Tariff Network Code, which came into force in April 2017, by carrying out analysis which was an essential part of the Utility Regulator's consultation on the Reference Price Methodology (RPM) to be used to determine Northern Ireland's transmission tariff. The Utility Regulator's decision to remain with the Postalised RPM means there will be minimal change. It is expected that the Tariff Network Code will be implemented in accordance with the deadlines stipulated. In conjunction, the gas businesses will continue to implement the Balancing Network Code by monitoring liquidity within the Northern Ireland market as well as incorporating changes to the Northern Ireland balancing arrangements as required. Whilst substantial changes have been made over the past four years it should be expected that there will be further changes coming from the EU over the upcoming years, as the work continues to deliver the Gas Target Model.

Impact of Brexit

The business is adopting an approach of complying fully with all EU obligations until there is a clear rationale not to. As our assets are fully within the UK, downside risks of Brexit are less than if we were connecting to another EU country at a border (although we do connect to assets in the UK owned by Gas Networks Ireland and Northern Ireland gas is co-mingled with gas destined for the Republic of Ireland). There is an element of uncertainty about EU obligations therefore engagement has taken place with stakeholders including the European Network of Transmission System Operators for Gas (ENTSOG), National Regulatory Authorities, Adjacent Transporters, Government Departments and Shippers whilst Brexit arrangements are negotiated and finalised. As a prudent business, during the year we developed contingency plans for a 'No Deal' scenario. As a result, we do not expect any significant change to day to day operations on Brexit day one whether the UK leaves with a deal or not. As Brexit discussions progress, engagement will continue with stakeholders, particularly with regard to enduring arrangements post Brexit and ensuring Northern Ireland continues to contribute to any decisions on changes to gas transmission arrangements in the future.

The graph below shows the percentage of market changes which were implemented on time in each financial year (KPI 5).



Stakeholders, relationships and resources

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

Strategic report for year ended 31st March 2019 (continued)

Stakeholders, relationships and resources (continued)

Customers

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

The Premier Transmission Pipeline System provides a service to shippers from Moffat in Scotland to exit points at AES Ballylumford, the connection with Gas Networks Ireland (NI) pipelines at Carrickfergus and Belfast Gas exit points in Belfast and Larne, as well as West Transmission's exit point at Maydown which is an offtake from GNI's pipeline. A total of 16 shippers (2018: 16) are currently registered to use our gas system.

Partners and contractors

There has been no change to the major outsourced contractors in the year with SGN carrying out the routine maintenance, emergency response, and monitoring our system from their gas control centre in Horley, outside London.

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.

Staff

The Mutual Energy 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.

During the year a staff satisfaction survey was carried out which showed a high level of staff satisfaction. A review of all HR policies was undertaken in the period with a new employee handbook being created as part of this process, taking into account the findings of the employee engagement process.

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

	2019		**2018**	
	Male	**Female**	**Male**	**Female**
Board	**6**	**1**	6	1
Senior Management	**4**	**1**	4	1
All employees & Board	**14**	**4**	13	4

Stakeholders, relationships and resources (continued)

Social, community and human rights issues

The Mutual Energy 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 company delivers these objectives can be found on pages 2 to 6.

The company 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 company ensures robust Health & Safety systems are in place as discussed on page 10, 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.

Risk management

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

Risk management structure

The Board approves the overall risk management process, known as the group risk governance framework, and approves all the policies covered by the framework. Responsibility for ensuring compliance with the policies is divided between the Risk Committee and the Audit Committee. The Risk Committee deals with all risks that are inherently operational in nature (including Health & Safety), and reports into the Audit Committee which monitors all financial and other risks.

The risk register records key risks identified and how they are being managed and is reviewed regularly by the board and the relevant board committees. This process has been in place for the full year ended 31 March 2019 and up to the date of approval of the annual report and financial statements.

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

During the year the Mutual Energy Board held a risk workshop whereby it reviewed its 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.

Risk management (continued)

The principal risks of the company are:

Risk description and potential impact	Mitigation	Assessment of risk movement from March 2018
Operational risk		
Poor operational performance could result in impaired availability, damage to assets and/or reputation, injury to third party and/or employees, loss of revenue, loss of licence.	Experienced qualified maintenance subcontractors are used and are managed through the contractual process, frequent performance monitoring, and maintaining a high standard of eligibility for tendered work. Structured maintenance plans are followed. The Mutual Energy group promotes a strong health and safety culture, has a well-defined health and safety management system and follows industry standard practices.	→
Financial risk		
Poor financial management could result in breach of financing covenants, compliance failure or financial loss.	The Board reviews and agrees policies for addressing these compliance risks and senior management are specifically delegated the task of ensuring compliance.	→
Inadequate financing, liquidity problems, non-compliance with covenants, market changes or failure of counterparties could lead to failure of financial structure.	Borrowing arrangements align the financing costs to the income allowances. Processes are in place to monitor covenant compliance and there is active management of market changes. Treasury policies are aimed at minimising the risks associated with the company's financial assets and liabilities and financial counterparty failure clauses are included in financing documents. The company 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 £14m of liquidity facilities were in place throughout the year. Business planning processes are in place to identify cash requirements in advance.	→
Business environment and market risk, including Brexit risk		
Market changes for gas and electricity in Northern Ireland could result in reduced volumes transported through the assets, insufficient revenue recovery, default on debt, damage to reputation of mutual model or fines.	Licence provisions implementing 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 page 6.	→
Regulatory and political risk		
As the company is a regulated business it is exposed to regulatory risk. Changes in economic regulation or government policy could have an adverse effect on our financial position.	The company's relationships with the Northern Ireland Authority for Utility Regulation (NIAUR) and DfE are managed at senior level through frequent meetings and correspondence in line with the Mutual Energy group's communication strategy. The group coordinates with other EU system operators on EU issues. A proactive approach is taken to consultations on any issue which could affect the group's business interests, with legal advice sought where appropriate. The risk assessment has continued to increase given the ongoing absence of government in NI. Whilst this has had no direct adverse impact in the period the risk assessment is a recognition of potential unforeseen issues in the future.	↑
Corporate strategy and communication risk		
Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.	The Board retains responsibility for strategy as a reserved matter and manages communications directly in line with its communication plan, using outsourcing as appropriate.	→

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

Environment and safety

The company continues to put a high value on the Health and Safety of its operations and to recognise the importance of minimising the impact of its activities on the environment, both locally and in the global context. Our gas business runs simulated gas emergency exercises to ensure a robust response plan is in place to manage gas supply emergencies and pipeline incidents. Mutual Energy Limited and the Northern Ireland Network Emergency Co-ordinator (NINEC) coordinated the annual Gas Supply Exercise (November 2018), testing the response to an incident on one of the Gas Transmission Pipelines in Northern Ireland. An actual Gas Supply Emergency would be co-ordinated and managed in the same manner as that tested in the exercise.

The Mutual Energy 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 system.

A RoSPA Quality Safety Audit was carried out in late March 2019 with a strong result having been obtained.

The company is committed to environmental performance, with no breach of any environmental licence or permit recorded in the year. Usage of gas for pre heating is monitored to help target improvements.

Greenhouse gas emissions reporting

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

	Tonnes of CO_2e	
Emissions from:	**2019**	**2018**
Usage of gas in operations	**1,097**	1,307
Emissions per GWh energy transmission	**0.07**	0.08

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

Forward-looking statements

The Strategic report contains 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
24 June 2019

Directors' report for the year ended 31 March 2019

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2019.

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

Results and dividends

The company's profit for the year is £2,111,000 (2018: £1,606,000 loss). The directors do not recommend the payment of a dividend (2018: £nil).

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.

Post balance sheet events

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

Directors

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

Patrick Anderson	
Regina Finn	(resigned 31 December 2018)
David Gray	(appointed 1 January 2019)
Patrick Larkin	
Gerard McIlroy	
Michael McKernan	
Kate Mingay	
Christopher Murray	

Directors indemnities

The company 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

The company has not made any political donations or incurred any political expenditure in the current or prior year.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on pages 4 to 6.

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 101 *Reduced Disclosure Framework*.

Directors' report for the year ended 31 March 2019 (continued)

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements (continued)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the 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 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities.

Statement of disclosure of information to auditors

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

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

Auditor

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

On behalf of the Board

Gerard McIlroy 24 June 2019
Director
First Floor
The Arena Building
85 Ormeau Road
Belfast
BT7 1SH

KPMG

KPMG
Audit
The Soloist Building
1 Lanyon Place
Belfast BT1 3LP
Northern Ireland

Independent auditors' report to the members of Premier Transmission Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Premier Transmission Limited ('the company') for the year ended 31 March 2019 set out on pages 16 to 32, which comprise the profit and loss account and other comprehensive income, the balance sheet and related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is UK Law and FRS 101 Reduced Disclosure Framework.

In our opinion, the accompanying financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework; 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 Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with ethical requirements that are relevant to our audit of financial statements in the UK, including the Financial Reporting Council (FRC)'s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other matter – The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. Some of the uncertainties arising from Brexit may impact certain of the financial statement captions in the financial statements. The preparation of the financial statements on a going concern basis and the financial statement caption containing estimates all depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. No audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

We have nothing to report on going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. We have nothing to report in these respects.

Independent auditors' report to the members of Premier Transmission Limited (continued)

We have nothing to report on going concern (continued)

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

Other information

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

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

Based solely on our work on the other information;

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on pages 11 to 12, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditors' report to the members of Premier Transmission Limited (continued)

Respective responsibilities and restrictions on use (continued)

The purpose of our audit work and to whom we owe our responsibilities

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

John Poole (Senior Statutory Auditor)
for and on behalf of KPMG, Statutory Auditor
Chartered Accountants
Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

28 June 2019

Profit and loss account and other comprehensive income for the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Turnover - continuing operations		**23,356**	24,668
Net operating expenses	2	**(16,084)**	(19,856)
Operating profit		**7,272**	4,812
Interest receivable and similar income	4	**376**	271
Interest payable and similar expenses	4	**(6,064)**	(6,598)
Interest payable - net	4	**(5,688)**	(6,327)
Profit/(loss) before tax		**1,584**	(1,515)
Tax on profit/(loss)	5	**527**	(91)
Profit/(loss) and total comprehensive income/(expense) for the financial year	13	**2,111**	(1,606)

The notes on pages 18 to 32 are an integral part of these financial statements.

There are no changes in reserves other than the results shown in the profit and loss account and therefore a separate statement of changes in equity has not been presented. Refer to note 13 for the reconciliation of movement in the profit and loss account.

Premier Transmission Limited

Balance sheet as at 31 March 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Tangible assets	6	**64,674**	67,842
Investments	7	**2**	2
		64,676	67,844
Current assets			
Debtors	8	**35,839**	33,331
Stocks	9	**113**	-
Financial assets	10	**9,888**	-
Corporation tax receivable		**10**	-
Cash at bank and in hand	11	**25,372**	33,375
		71,222	66,706
Total assets		**135,898**	134,550
Capital and reserves			
Called up share capital	12	**861**	861
Share premium account	12	**14,012**	14,012
Profit and loss account	13	**25,965**	23,854
		40,838	38,727
Non-current liabilities			
Creditors: amounts falling due after one year	14	**80,358**	79,705
Deferred tax liabilities	15	**6,350**	6,583
		86,708	86,288
Current liabilities			
Creditors: amounts falling due within one year	16	**8,352**	8,444
Corporation tax payable		**-**	1,091
		8,352	9,535
Total liabilities		**95,060**	95,823
Total reserves and liabilities		**135,898**	134,550

The notes on pages 18 to 32 are an integral part of these financial statements.

The financial statements on pages 16 to 32 were authorised for issue by the Board of Directors on 24 June 2019 and were signed on its behalf by:

Patrick Larkin
Director

Gerard McIlroy
Director

Notes to the financial statements for the year ended 31 March 2019

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

General information

The company's principal activity during the year was the operation of the Scotland Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland. The company is a private company incorporated, registered and domiciled in Northern Ireland. The registered number of the company is NI026421 and the address of its registered office is First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. All of the company's assets and liabilities are denominated in Sterling. These financial statements were authorised for issue by the Board of Directors on 24 June 2019 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared on a going concern basis, under the historical cost convention.

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 (the Act). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The company is a qualifying entity for the purposes of FRS 101. Note 20 gives details of the company's parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The disclosure exemptions adopted by the company in accordance with FRS 101 are as follows:

- A cash flow statement has not been presented;
- Financial instruments and fair value measurement disclosures have not been presented;
- The company's capital management policy has not been presented;
- Disclosure of future changes in accounting standards has not been presented;
- Comparative information in respect of tangible assets has not been presented;
- Related party disclosures between entities that are wholly owned within the Mutual Energy group have not been given; and
- Disclosure in respect of the compensation of key management personnel has not been presented.

Going concern

The company is cash generative and is forecast to remain cash positive. The forecast cash generated is adequate to meet the company's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. Accordingly, the directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

Notes to the financial statements for the year ended 31 March 2019

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

Newly adopted standards

The following standards were effective for the company for the first time from 1 April 2018 and have been adopted in these financial statements:

IFRS 9: Financial Instruments
IFRS 15: Revenue from contracts with customers

Their impact on the company's financial statements is discussed below:

IFRS 9 Financial instruments

IFRS 9 Financial instruments replaced the previous guidance in IAS 39 Financial instruments: recognition and measurement. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The company has assessed the impact from the application of IFRS 9 on its financial statements and concluded that the vast majority of financial assets continue to be accounted for at amortised cost. The company has not designated any financial liabilities as fair value through profit and loss (FVTPL). As a result, the classification and measurement changes have not had a material impact to the company's financial statements, and comparatives have not been restated for the impact of IFRS 9.

Given historic loss rates, normal receivable ageing, the portion of trade receivables within agreed terms and incorporation of forward looking information, the move from an incurred loss model for impairment provisioning purposes, to an expected loss model has not had a material impact.

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised, replacing the previous guidance in IAS 18 Revenue.

The company has undertaken an assessment of revenue earned in respect of each of its service offerings and the directors are satisfied that all such revenue is recorded on a gross basis in accordance with IFRS 15.

Accordingly, the effect of applying IFRS 15 has not resulted in any reclassifications between revenue and cost of sales, and there has been no material impact to the financial statements.

Given the limited number of revenue streams generated by the company and the assessment carried out by management, the adoption of IFRS 15 has not had a material impact on revenue recognition and comparatives have not been restated.

Segment reporting

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

Turnover

Turnover comprises the fair value of the consideration received or receivable for the sale of capacity on the Scotland Northern Ireland pipeline for the transmission of gas between Scotland and Northern Ireland. All turnover is generated within the United Kingdom. Turnover is shown net of value-added tax, returns, rebates and discounts. Turnover is recognised in accordance with the terms of the licence issued by the regulatory authority, namely in line with the applicable costs incurred by the company over the same period. The company recognises turnover when the amount of turnover can be reliably measured and it is probable that future economic benefits will flow to the entity.

Notes to the financial statements for the year ended 31 March 2019

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

Interest receivable and interest payable

Interest receivable comprises interest on funds invested. Interest receivable is recognised as it accrues in profit or loss, using the effective interest method. Interest payable comprises interest expense on borrowings and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Tangible assets

Tangible assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises purchase cost plus any costs directly attributable to bringing the asset into operation and an estimate of any decommissioning costs.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company 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 profit and loss account during the financial period in which they are incurred.

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

Pipeline	43 years
Plant and machinery	15-31 years
Computer equipment	3 years

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Stocks

Stocks represent assets which are intended to be used in order to generate revenue in the short-term to maintain our network. Stocks 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.

Impairment of non-financial assets

The company 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 company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset.

Investments

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

Notes to the financial statements for the year ended 31 March 2019

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

Financial instruments (policy applicable from 1 April 2018)

(i) Recognition and initial measurement

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

A financial asset (unless it is a trade debtor without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade debtor without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

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

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

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

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

A debt investment is measured at FVOCI if it meets both of the following conditions:

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

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Cash at bank and in hand

Cash at bank and in hand comprises 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 company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

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

Notes to the financial statements for the year ended 31 March 2019

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

Financial instruments (policy applicable from 1 April 2018) (continued)

Financial liabilities and equity

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

(a) they include no contractual obligations upon the company 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 company; and

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

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

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

Financial liabilities

Financial liabilities represent financial guarantees issued by the company to a third party in respect of liabilities of the company's parent undertaking. Financial liabilities are recognised initially at fair value and subsequently stated at amortised cost with the amortisation being recognised in finance income in the profit and loss account.

(iii) Impairment

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The company 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 debtors 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 company 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 company'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 company 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 company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Notes to the financial statements for the year ended 31 March 2019

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

Financial instruments (policy applicable from 1 April 2018) (continued)

Credit-impaired financial assets

At each reporting date, the company 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.

Financial instruments (policy applicable prior to 1 April 2018)

Classification of financial assets

The company classifies its financial assets in the following categories: available for sale and, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Loans and receivables (financial instruments)

(a) Debtors

Debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Debtors with a maturity of more than twelve months from the balance sheet date are shown as current debtors falling due after one year.

(b) Cash at bank and in hand

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

(c) Financial assets

Financial assets includes deposits with banks which have original maturities of more than three months.

Impairment of financial assets

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

Notes to the financial statements for the year ended 31 March 2019

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

Financial instruments (policy applicable prior to 1 April 2018) (continued)

Impairment of financial assets (continued)

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

The company first assesses whether objective evidence of impairment exists. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in an allowance account and in the profit and loss account in operating costs. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. If a financial asset is considered uncollectible, it is written off against the allowance account.

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

Called up share capital

Ordinary shares are classified as equity.

Other financial liabilities at amortised cost (financial instruments)

(a) Borrowings

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

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

(b) Financial liabilities

Financial liabilities represent financial guarantees issued by the company to a 3rd party in respect of liabilities of the company's parent undertaking. Financial liabilities are recognised initially at fair value and subsequently stated at amortised cost with the amortisation being recognised in finance income in the profit and loss account.

(c) Creditors

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

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

Notes to the financial statements for the year ended 31 March 2019

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

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account.

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

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

Deferred 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.

Tax is charged or credited directly to reserves if it relates to items that are credited or charged to reserves. Otherwise tax is recognised in the profit and loss account.

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 company will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to tangible fixed assets are included in liabilities as deferred government grants and are credited to the profit and loss account on a straight line basis over the expected useful economic lives of the related assets.

Operating lease commitments

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

Foreign currency translation

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

Notes to the financial statements for the year ended 31 March 2019

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

Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company'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 below.

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.

Critical accounting estimates and assumptions

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

Estimate of useful economic life of assets

The company assesses the useful economic life of assets on an annual basis. The remaining useful economic life of the Pipeline was determined as approximately 21.5 (2018: 22.5) years at the beginning of the year. If the remaining useful economic life had been 22.5 (2018: 23.5) years, depreciation would have decreased by £140,000 (2018: £134,000) and if the remaining useful economic life had been assessed at 20.5 (2018: 21.5) years, depreciation would have increased by £154,000 (2018: £147,000).

2 Net operating expenses

	2019	2018
	£'000	£'000
Staff costs (note 3)	**556**	443
Depreciation	**3,168**	3,936
Amortisation of deferred government grants	**(1,096)**	(1,096)
Operating lease payments	**82**	82
Fees payable to the company's auditor in respect of the audit of the company's financial statements	**14**	10
Other expenses	**13,360**	16,481
Net operating expenses	**16,084**	19,856

Other expenses include grid control costs, engineering works, IT system costs, rates, insurance and licence fees, costs payable to Gas Networks Ireland (UK) for access and maintenance to the SWOS pipeline, together with administrative costs.

Notes to the financial statements for the year ended 31 March 2019

3 Staff numbers and costs

	2019	2018
	£'000	£'000
Wages and salaries	**497**	393
Social security costs	**59**	50
	556	443

The average monthly number of employees during the year (including only directors holding contracts of service with the company) was 12 (2018: 11). All staff perform asset management activities. Amounts included above relate to costs in respect of employees of the wider Mutual Energy group directly recharged to Premier Transmission Limited. Premier Transmission Limited has no directly employed staff of its own.

The company's directors were not remunerated for their services to the company (2018: £nil) but instead received emoluments for their services to the Mutual Energy group of companies. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of other group companies.

4 Interest payable - net

	2019	2018
	£'000	£'000
Interest payable and similar expenses		
Borrowings from parent undertaking	**5,934**	6,446
Bank charges	**130**	152
	6,064	6,598
Interest receivable and similar income		
Short-term bank deposits	**(283)**	(168)
Financial liabilities	**(93)**	(103)
	(376)	(271)
Interest payable - net	**5,688**	6,327

Premier Transmission Limited

Notes to the financial statements for the year ended 31 March 2019

5 Taxation

Recognised in profit and loss	2019 £'000	2018 £'000
Current tax:		
Group relief claimed	**815**	436
Adjustment in respect of prior years	**(1,109)**	5
Total current tax	**(294)**	441
Deferred tax:		
Origination and reversal of temporary differences	**(239)**	(350)
Adjustment in respect of prior years	**6**	-
Total deferred tax (note 15)	**(233)**	(350)
Tax on profit/(loss)	**(527)**	91

The tax (credit)/charge in the profit and loss account for the year is different from the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

Reconciliation of effective tax rate	2019 £'000	2018 £'000
Profit/(loss) on ordinary activities before taxation	**1,584**	(1,515)
Tax calculated at the UK standard rate of corporation tax of 19% (2018: 19%)	**301**	(288)
Effect of:		
Tax exempt revenue	**(18)**	(20)
Non-deductible expenses	**264**	353
Other timing differences	**29**	41
Adjustments in respect of prior years	**(1,103)**	5
Tax on profit/(loss)	**(527)**	91

Future tax changes

Reduction in the UK corporation tax rate from 19% to 18% (effective 1 April 2020) was enacted on 26 October 2015. Finance Bill 2016 further reduced the 18% rate to 17% from 1 April 2020, following substantial enactment on 6 September 2016. This will reduce the company's future tax charges accordingly.

Notes to the financial statements for the year ended 31 March 2019

6 Tangible assets

	Pipeline £'000	Plant and machinery £'000	Computer equipment £'000	Total £'000
Cost				
Balance at 1 April 2018	133,412	77	3,016	136,505
Disposals	-	-	(2,968)	(2,968)
Balance at 31 March 2019	**133,412**	**77**	**48**	**133,537**
Accumulated depreciation				
Balance at 1 April 2018	65,668	21	2,974	68,663
Depreciation charge for the year	3,148	5	15	3,168
Disposals	-	-	(2,968)	(2,968)
Balance at 31 March 2019	**68,816**	**26**	**21**	**68,863**
Net book value				
Balance at 31 March 2019	**64,596**	**51**	**27**	**64,674**
Balance at 31 March 2018	67,744	56	42	67,842

Depreciation expense of £3,168,000 (2018: £3,936,000) has been fully charged to net operating expenses. The borrowings of the company's parent undertaking are secured on all of the tangible assets of the company.

7 Investments

	Other investments £'000
Cost and net book value	
At 1 April 2018 and **at 31 March 2019**	**2**

Other investments represent an amount the company invested in PRISMA European Capacity Platform GmbH, at a cost of £1,988. The company's shareholding is less than 1%.

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

8 Debtors

	2019 £'000	2018 £'000
Trade debtors	**3,091**	3,290
Prepayments	**293**	412
Accrued income	**385**	2,138
Other debtors	**2,000**	2,000
Amounts owed by group undertakings	**30,070**	25,491
	35,839	33,331

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Premier Transmission Limited

Notes to the financial statements for the year ended 31 March 2019

9 Stocks

	2019	2018
	£'000	£'000
Spares	113	-

10 Financial assets

	2019	2018
	£'000	£'000
Certificates of deposit	9,888	-

11 Cash at bank and in hand

	2019	2018
	£'000	£'000
Cash at bank and in hand	25,372	33,375

12 Called up share capital and share premium account

	2019	2018
	£'000	£'000
Allotted, called up and fully paid		
860,928 ordinary shares of £1 each	861	861

The holders of ordinary shares are entitled to receive dividends, as declared from time to time by the company and are entitled to one vote per share at meetings of the company.

	2019	2018
	£'000	£'000
Share premium account	14,012	14,012

13 Profit and loss account

	£'000
At 1 April 2017	25,460
Total comprehensive expense for the financial year	(1,606)
At 31 March 2018	23,854
Total comprehensive income for the financial year	2,111
At 31 March 2019	**25,965**

Included in the profit and loss account reserves is an amount of £1,874,000 (2018: £1,874,000) which the company has agreed with the regulator will be applied to costs of future EU compliance projects.

Premier Transmission Limited

Notes to the financial statements for the year ended 31 March 2019

14 Creditors: amounts falling due after one year

	2019	2018
	£'000	£'000
Amounts owed to group undertakings	58,648	56,816
Financial liabilities (note 17)	374	457
Government grant (note 18)	21,336	22,432
	80,358	79,705

The amounts owed to group undertakings relate to a 2.953% (2018: 2.953%) index linked (linked to the Retail Price Index) unsecured loan from the company's parent undertaking. The borrowings are repayable in full on 31 March 2030.

15 Deferred tax liabilities

Movement in deferred tax during the year:

	Deferred tax
	£'000
At 1 April 2017	6,933
Recognised in profit and loss	(350)
At 31 March 2018	6,583
Recognised in profit and loss	(233)
At 31 March 2019	**6,350**

Deferred tax relates to accelerated capital allowances. It is not possible to determine the portion of the company's deferred tax liability arising from accelerated capital allowances that is expected to fall due after more than 12 months as this is dependent on future profits and management decisions.

16 Creditors: amounts falling due within one year

	2019	2018
	£'000	£'000
Trade creditors	470	2,784
Other creditors	2,384	121
Accruals	2,702	3,143
Amounts owed to group undertakings	1,037	1,048
Taxation and social security	580	159
Financial liabilities (note 17)	83	93
Government grant (note 18)	1,096	1,096
	8,352	8,444

Amounts owed to group undertakings are unsecured, interest free and are repayable on demand.

17 Financial liabilities

	2019	2018
	£'000	£'000
Financial guarantee	457	550
Less current portion	(83)	(93)
Non-current portion	374	457

The financial guarantee represents the amortised cost of issuing a financial guarantee to a 3rd party in respect of borrowings by the company's parent undertaking.

Notes to the financial statements for the year ended 31 March 2019

18 Government grant

	£'000
At 1 April 2017	24,624
Amortised during the year	(1,096)
At 31 March 2018	23,528
Amortised during the year	(1,096)
At 31 March 2019	**22,432**

The government grant was provided to the group for the purpose of its expenditure on its property, plant and equipment. All obligations in respect of this grant have now been met. The current portion of the government grant is £1,096,000 (2018: £1,096,000) and the non-current portion is £21,336,000 (2018: £22,432,000).

19 Commitments

Operating lease commitments

The company has entered into a commercial lease on land and this lease has a remaining lease term of 16 years. There are no restrictions placed upon the lessee by entering into these leases. The lease expenditure charged to the profit and loss account during the year is disclosed in note 2.

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

	2019	2018
	£'000	£'000
Not later than one year	**82**	82
After one year but not more than five years	**328**	328
After more than five years	**903**	985
	1,313	1,395

20 Ultimate controlling party and ultimate parent undertaking

The ultimate controlling party of the company are the members of Mutual Energy Limited.

The immediate parent undertaking is Premier Transmission Financing plc, a company incorporated in Northern Ireland and whose registered address is First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH. Group financial statements for this company are prepared and are available to the public from First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.

The ultimate parent undertaking is Mutual Energy Limited, a company incorporated in Northern Ireland and whose registered address is First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH. Group financial statements for this company are prepared and are available to the public from First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.