Registered number: NI026421

Premier Transmission Limited

Annual report

for the year ended 31 March 2020

Premier Transmission Limited

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Directors and advisers

Directors

Patrick Anderson	Non-executive director	
David Gray	Chairman	
Patrick Larkin	Executive director	
Gerard McIlroy	Executive director	
Michael McKernan	Non-executive director	
Kate Mingay	Non-executive director	
Christopher Murray	Non-executive director	
Ceri Richards	Non-executive director	(appointed 1 March 2020)

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 2020

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, Belfast Gas Transmission and West 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 Deliver savings to all consumers evenly over the life of the assets	Group strategy involves returning all savings or cash surpluses to the generality of Northern Ireland consumers as evenly as possible over the life of the assets. In doing so, where possible, we seek to build up reserves to smooth future cash flows and minimise energy price increases and fluctuations associated with our assets. Where appropriate, reserves will be used to provide capital for future investments. Delivery of savings is discussed in more detail on page 6.	Our measures of success include: - operational savings against forecast (KPI 2); - cost of capital of the Mutual Energy group vs NI comparator (KPI 4); and - cash generated from operations (KPI 5). Cost of capital of Mutual Energy (which includes Premier Transmission Limited) vs NI comparator KPI has been introduced in the year to reflect the savings made by the Mutual Energy group as a whole.
Manage market change Manage market changes to minimise risks to NI consumer	Our key focus is to ensure, so far as possible, that changes driven by EU, national or other bodies do not impact negatively on our business, our financing arrangements or energy consumers in Northern Ireland. We seek to achieve this by influencing discussions at EU stakeholder meetings, actively participating in the work of the EU system operator confederations and by assisting the regulators and relevant government departments to identify and address issues particularly relevant to Northern Ireland. The market environment is discussed in more detail on page 7.	Our measures of success include: - avoidance of changes which would compromise the financing structures of the group; - monitoring of individual projects against initial objectives and implementation plans with milestone dates; and - the percentage of market change milestones met (KPI 6).

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 6.	**Operational savings against forecast** The KPI for gas business operational savings is calculated by subtracting the actual required revenue for the gas year, calculated in accordance with the gas companies' licences, from the forecast required revenue submitted in advance of the year.
	3. Lost time incidents Our safety is measured by the safe operation of our staff and contractors as noted on 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. Cost of capital of the Mutual Energy group vs NI comparator Savings incurred on the Mutual Energy group's financing costs compared to the costs which would have been incurred if financed by a Northern Ireland energy utility comparator. This is a direct saving to consumers. Cost of capital of Mutual Energy vs NI comparator can be seen on page 6.	**Cost of capital of the Mutual Energy group vs NI comparator** The Mutual Energy group incurs financing costs in respect of debt entered into for the purpose of the business. The Mutual Energy 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.
	5. 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 6.	**Cash generated from operations** Cash generated in each of the businesses post tax.
	6. 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 7.	**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.
	7. Annual Debt Service Cover Ratio (ADSCR) The ability to acquire infrastructure at low cost to the consumer is critically dependent upon our track record with the existing asset financing. As well as compliance with the respective financing covenants, the principal requirements of all financiers are the maintenance of Annual Debt Service Cover Ratios (ADSCR) of greater than 1.25. A graph showing these ratios can be found on page 5.	**Annual Debt Service Cover Ratio (ADSCR)** The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the bonds for each operational company. The basis of calculation is Available Cash / Debt Service in the next 12 months. In each case Available Cash = the difference between income and expenses in the period + cash in designated bank accounts, where cash in the designated bank accounts is limited to 1x Debt service.

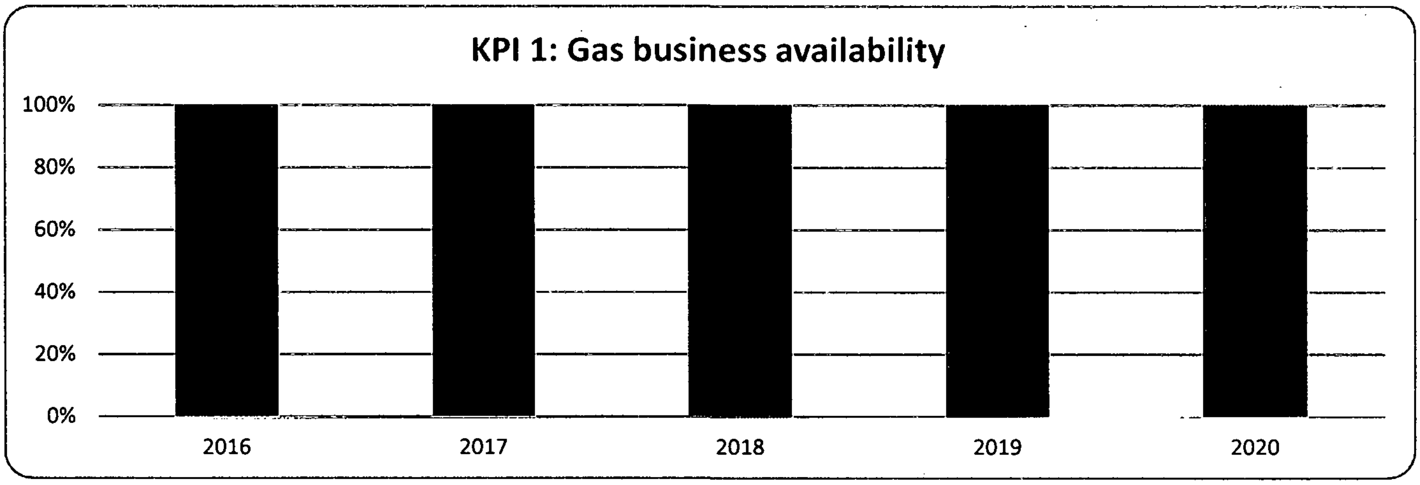
A number of other KPIs are used at a corporate level to monitor other aspects of business performance, including corporate responsibility KPIs and Employee KPIs. These are included later in this report.

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

Operational performance

The availability of the gas system through the year was 100% (2019: 100%) (KPI 1). Total annual gas consumption in NI continues to increase for the distribution sector, driven by increased connections to the expanding distribution networks, and decrease for power generation, driven by increasing penetration of renewable generation as a source for electricity supply. The underlying maximum daily capacity of the system has remained steady, at circa 6.5 million standard cubic metres (mscm)/day against a contractual maximum capability of 8.08mscm/day, albeit recent winters have been relatively mild.

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



Routine surveillance, inspection, monitoring and maintenance of the gas assets was executed, as planned, with no material issues arising. The highlight for the period was the successful commissioning and operational takeover of the Gas to the West assets in the summer of 2019 and the seamless integration of the operation of these assets into the existing gas business operations.

In the context of the growing (and ageing) gas asset base, and the increasing need to demonstrate effective and efficient investment methodologies, we continued to formalise the asset management activity within the ISO55001 asset management framework.

Financial performance

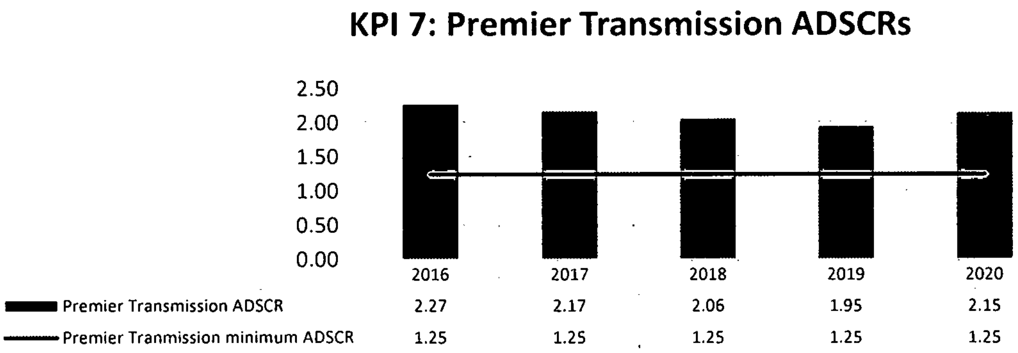
The combined gas business costs for Mutual Energy's subsidiaries (Premier Transmission, Belfast Gas Transmission and West Transmission) for the gas year ending on 30 September 2020 were £3.6m below the forecasts used for predicting tariffs (September 2018: £2.8m below) (KPI 2).

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

Strategic report for year ended 31st March 2020 (continued)

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

The ADSCRs can be seen in the following graph.



Future development – energy transition

Northern Ireland's government ended its three year suspension in early 2020 and amongst its ambitions for the future is the development of a new energy strategy in the context of the zero emission target by 2050. The business has been heavily engaged in modelling the options for the energy transition and the consequences for the Northern Ireland consumer, and so was in a good position to contribute to the initial stages of the development of a new strategy. The core need identified by our analysis is the need to provide dispatchable zero carbon electricity. The most cost-efficient way of achieving this will be to decarbonise the gas network, providing a solution not just for dispatchable electricity but also for high energy industrial processes and domestic heating requirements. A core part of our future work will be to build upon the research, pilot projects and lessons from the first installations in other jurisdictions, in order to allow Northern Ireland to catch up with the progress being made throughout the rest of Europe and beyond.

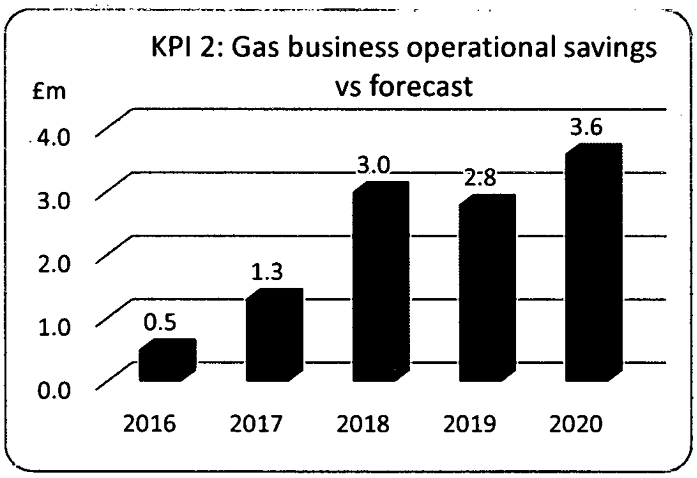
Future development – asset performance and utilisation

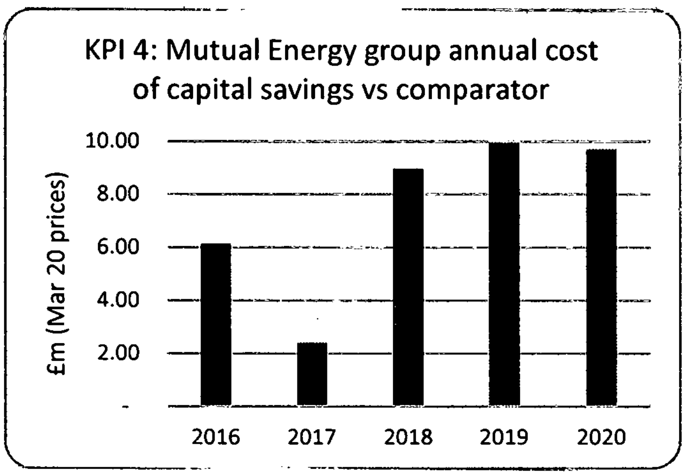
Due to the age of the assets there is an increasing focus upon repair, refurbishment and often replacement of ancillary components. Refurbishment and replacement projects are planned over the long-term on whole life cost basis, but given priority within the year on a risk-based approach. These projects are subject to a strict process of change control. In the year, the material projects completed include the roll out of replacement on-site control systems (which capture data from site and relay it to the control room) and replacement and/or decommissioning of pre-heating systems on certain sites.
We have also been approached by several parties interested in connecting to the gas transmission pipeline and we look forward to furthering such requests should they develop further.

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

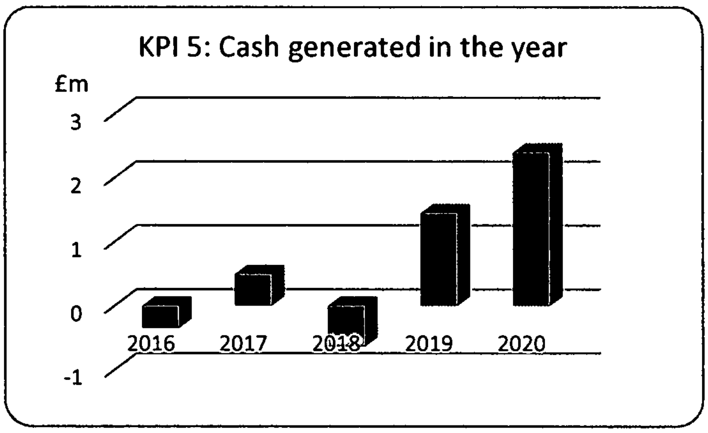
The main means by which the company delivers savings to the consumers in Northern Ireland is through providing a low cost of capital. The costs of the gas transmission assets are charged to the respective shippers through a "use of system" charge which happens automatically through the postalised transmission 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 2018-19 gas year (excluding the new West Transmission assets) were 20% lower (2017-18: 18% 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 in the following chart (KPI 2).





The Mutual Energy group passes further savings on to consumers through its low cost of capital. A way of measuring the benefit which will flow to consumers is to calculate the cost of capital savings for the group compared to a Northern Ireland energy utility comparator (KPI 4). The chart below shows the annual savings, indexed to March 2020 prices, over the last 5 years. Cumulative savings to 31 March 2020 are more than £120m.



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 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 which resulted in West Transmission being financed in July 2018 at a very low rate, with significant benefit to customers.

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

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

Energy transition

All energy markets are expected to undergo significant change in the next decade as government policy is developed to facilitate the energy transition. In Northern Ireland this process is somewhat behind most developed countries, with the DfE commencing consultation on their future energy strategy with an initial call for evidence in March 2020. Our businesses provided a comprehensive response and engaged in the numerous workshops with the DfE as they sought to explore the issues and potential solutions. We expect this will be a lengthy process with an approved energy strategy unlikely until 2022. As part of this process we developed a forum with the other gas transmission and distribution operators in Northern Ireland to co-ordinate our efforts and share research.

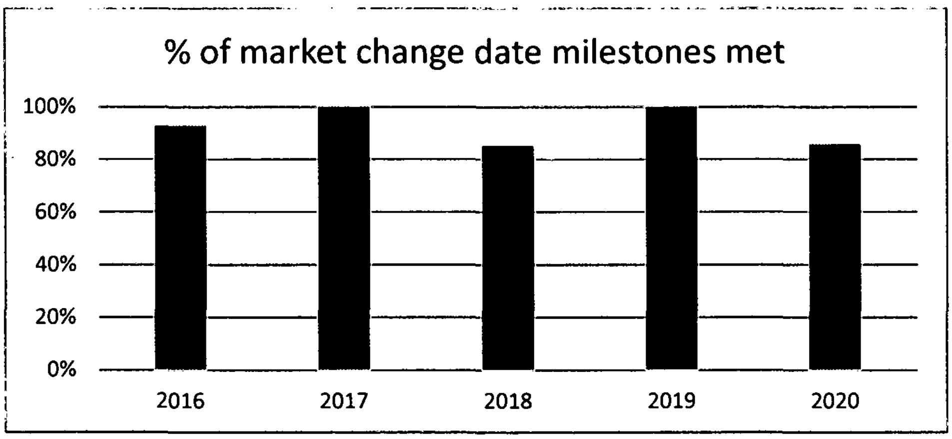
European energy regulation

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. During 2019, the gas businesses completed implementation of the Tariff Network Code. 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. As harmonised rules on congestion management procedures, capacity allocation, balancing, interoperability and data exchange, and harmonised transmission tariff structures have already been adopted, published and are being implemented, the European Commission's focus for 2020 will be on the full and correct implementation of the existing market rules in all Member States. It is anticipated that in the upcoming years, there will be further changes to facilitate the European Green Deal and address cybersecurity.

Impact of Brexit

The UK formally left the EU on 31st January 2020, with a transition period in place until 31st December 2020. During this 11-month period, the UK will continue to follow all of the EU's rules and its trading relationship will remain the same. 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 following the end of the transition period 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. We do not expect any significant change to day to day operations in the short to medium term, however, engagement will continue with stakeholders, particularly with regard to enduring arrangements post transition period 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 6).



2018 market changes include 3 connected tasks in relation to a Cost Benefit Analysis (CBA) for information provision due on 1 October 2017. As the Gas Market Operator for Northern Ireland only became operational on this date the CBA was delayed to allow one year of operation of the new arrangements so that a CBA could be carried out under these modified arrangements. In 2020, all internal market change milestone were completed on time. There were small delays in the final stage milestones as the Utility Regulator has not yet approved of the Interim Measures Second Update Report (ongoing), and their modification of licences to implement the decision on Harmonised Transmission Tariffs was implemented one week after the deadline.

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.

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 18 shippers (2019: 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.

Regulators and government departments

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

Bondholders and financiers

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

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.

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:

	2020		**2019**	
	Male	**Female**	**Male**	**Female**
Board	**6**	**2**	6	1
Senior Management	**4**	**1**	4	1
All employees & Board	**14**	**5**	14	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 7.

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 11, 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. During the year, the Mutual Energy group joined Business in the Community and is currently exploring options for positive improvements to our environment, community and workforce.

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 Mutual Energy Board approves the overall risk management process, known as the group risk governance framework, and approves all the policies covered by the framework. Responsibility for ensuring compliance with the policies is divided between the Risk Committee and the Audit Committee, with Moyle Control System Upgrade Committee having responsibility for managing the risks of the Control System upgrade. The Risk Committee deals with all risks that are inherently operational in nature (including Health & Safety), and reports into the Audit Committee which monitors all financial and other risks. The Moyle Control System Upgrade Committee reports to the Board as appropriate.

The risk register records key risks identified and how they are being managed and is reviewed regularly by the board and the relevant board committees. This process has been in place for the full year ended 31 March 2020 and up to the date of approval of the annual report and financial statements.

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

The Board, Audit and Risk Committees review the respective 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 company has scheduled a comprehensive review of the risk processes throughout the businesses for 2020 as part of our normal approach to drive improvements in all areas of the business.

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.

Risk management (continued)

The principal risks of the company are:

Risk description and potential impact	**Mitigation**	**Assessment of risk movement from March 2019**
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 7. Risk has increased in the period due to the need for market changes to meet decarbonisation targets.	↑
COVID-19 could impact business operations.	Remote working arrangements are in place for all office staff. Field operations have been reduced to essential maintenance and surveillance. Practices have been updated as appropriate to enable seamless continuation of critical operations and ensure social distancing and appropriate PPE is in place. The changing demand on the transmission system has been navigated with minimal impact on operations.	↑
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 stabilised with the return of government in NI.	→
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, having taken over as the Northern Ireland Network Emergency Co-ordinator (NINEC) in November 2019, coordinated the annual Gas Supply Exercise in November, testing the response to an incident on one of the gas transmission pipelines in Northern Ireland. An actual Gas Supply Emergency would be co-ordinated and managed in the same manner as that tested in the exercise.

The 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 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 late March 2019 with a strong result having been obtained. Most of the recommendations from this audit were implemented throughout the year ending 31 March 2020 and the remainder will be implemented during 2020.

In November 2019, the Mutual Energy group held its first Health, Safety and Wellbeing Seminar which was well attended and positively received by staff, Board members, external partners and HSENI.

The company 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 subsea surveys) were recorded in the year.

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:	**2020**	**2019**
Usage of gas in operations	**936**	1,097
Emissions per GWh energy transmission	**0.06**	0.07

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
25 June 2020

Directors' report for the year ended 31 March 2020

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2020.

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 £3,875,000 (2019: £2,111,000). The directors do not recommend the payment of a dividend (2019: £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.

Directors

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

Patrick Anderson
David Gray
Patrick Larkin
Gerard McIlroy
Michael McKernan
Kate Mingay
Christopher Murray
Ceri Richards (appointed 1 March 2020)

Post balance sheet events

During the first quarter of 2020/21 COVID-19 impacted more widely on society. This gave rise to many businesses temporarily closing. Remote working arrangements are in place for all office staff. Field operations have been temporarily reduced to essential maintenance and surveillance. Practices have been updated as appropriate to enable seamless continuation of critical operations and ensure social distancing and appropriate PPE is in place. The changing demand on the transmission system has been navigated with minimal impact on operations.

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

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 2 to 11.

Directors' report for the year ended 31 March 2020 (continued)

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.*

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 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 company's auditor is 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

Gerard McIlroy 25 June 2020
Director
First Floor
The Arena Building
85 Ormeau Road
Belfast
BT7 1SH

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 2020 set out on pages 17 to 37, which comprise statement of profit and loss and other comprehensive income, the balance sheet, the statement of changes in equity 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 2020 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.

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. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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.

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

Other information

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

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

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 page 13, 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

John Poole
for and on behalf of KPMG
Statutory Auditor
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

26 June 2020

Profit and loss account and other comprehensive income for the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Revenue - continuing operations		**25,121**	23,356
Net operating expenses	2	**(14,388)**	(16,084)
Operating profit		**10,733**	7,272
Finance income and similar income	4	**501**	376
Finance expense and similar expenses	4	**(5,392)**	(6,064)
Finance expenses - net	4	**(4,891)**	(5,688)
Profit before tax		**5,842**	1,584
Tax on profit	5	**(1,967)**	527
Profit and total comprehensive income for the financial year	13	**3,875**	2,111

The notes on pages 20 to 37 are an integral part of these financial statements.

Premier Transmission Limited

Balance sheet as at 31 March 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Tangible assets	6	**65,883**	64,674
Investments	7	**2**	2
		65,885	64,676
Current assets			
Debtors	8	**41,994**	35,839
Stocks	9	**113**	113
Financial assets	10	**32,547**	9,888
Corporation tax receivable		**356**	10
Cash at bank and in hand	11	**5,130**	25,372
		80,140	71,222
Total assets		**146,025**	135,898
Capital and reserves			
Called up share capital	12	**861**	861
Share premium account	12	**14,012**	14,012
Profit and loss account	13	**29,860**	25,965
		44,733	40,838
Non-current liabilities			
Creditors: amounts falling due after one year	14	**83,748**	80,358
Deferred tax liabilities	15	**7,055**	6,350
		90,803	86,708
Current liabilities			
Creditors: amounts falling due within one year	16	**10,489**	8,352
		10,489	8,352
Total liabilities		**101,292**	95,060
Total reserves and liabilities		**146,025**	135,898

The notes on pages 20 to 37 are an integral part of these financial statements.

The financial statements on pages 17 to 37 were authorised for issue by the Board of Directors on 25 June 2020 and were signed on its behalf by:

Patrick Larkin
Director

Gerard McIlroy
Director

Premier Transmission Limited

Statement of changes in equity for the year ended 31 March 2020

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity £'000
At 1 April 2018	861	14,012	23,854	38,727
Total comprehensive income for the year	-	-	2,111	2,111
At 1 April 2019 (as previously reported)	861	14,012	25,965	40,838
Impact of change in accounting policy (see note 22)	-	-	20	20
At 1 April 2019 (as adjusted)	861	14,012	25,985	40,858
Total comprehensive income for the year	-	-	3,875	3,875
At 31 March 2020	**861**	**14,012**	**29,860**	**44,733**

The notes on pages 20 to 37 are an integral part of these consolidated financial statements.

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 25 June 2020 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 21 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;
- 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.

As the consolidated financial statements of Premier Transmission Financing PLC include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

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 12 months from the date of approval of the financial statements 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 2020

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

Newly adopted standards

The following standards, amendments and interpretations were effective for accounting periods beginning on or after 1 March 2019 and these have been adopted in the Company financial statements where relevant:

- IFRS 16 Leases;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Plan Amendments, Curtailment or Settlement (Amendments to IAS 19); and
- Annual Improvements to IFRSs 2015 – 2017 Cycle Prepayment features with Negative Compensation (Amendments to IFRS 9).

The effects of applying IFRS 16 is described in further detail below. The other changes listed above did not result in material changes to the Company financial statements.

IFRS 16 Leases

IFRS 16 has been adopted from 1 April 2019 and replaced the requirements of IAS 17: *Leases*. The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS17. Further information of this change of accounting policy can be found in Note 22.

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.

Revenue

Revenue 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 revenue is generated within the United Kingdom. Revenue is shown net of value-added tax, returns, rebates and discounts. Revenue is recognised in accordance with the terms of the licence issued by the regulatory authority, namely in line with the applicable costs incurred by the company over the same period. The company recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Finance income and finance expenses

Finance income comprises interest on funds invested and income of leases (prior to 1 April 2019 unearned finance income). Finance income is recognised as it accrues in profit or loss, using the effective interest method. Finance expenses 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.

Notes to the financial statements for the year ended 31 March 2020

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

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	58 years
Plant and machinery	15-31 years
Office equipment	3 years
Right-of-use assets	36 years

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. Further information on adjustments to the useful lives made during the year is set out within the critical accounting estimates note on page 27.

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.

Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

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

Policy applicable before 1 April 2019 (under IAS 17)

For contracts entered into before 1 April 2019, the Company determined whether the arrangement was, or contained, a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

In the comparative period, as a lessee the Company classified leases that transfer substantially all of the risks and rewards of ownership as financing leases. No such leases were held.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or less on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Policy applicable from 1 April 2019

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

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period; and
- the Company has the right to direct the use of the asset.

This policy is applied to contracts entered into, or changed on or after 1 April 2019.

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

Notes to the financial statements for the year ended 31 March 2020

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

Leases (continued)

The Company 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 asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the asset are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company 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 Company is reasonably certain to exercise an extension option, and
- penalties for early termination of a lease unless the Company 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 Company 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 Company presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position (see notes 6 and 18 respectively).

Short-term leases and leases of low-value assets

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

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.

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

Financial instruments

(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 and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits with original maturities of three months or less.

(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 2020

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

Financial instruments (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.

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 2020

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

Financial instruments (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.

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.

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.

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

Notes to the financial statements for the year ended 31 March 2020

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

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the 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.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Mutual Energy 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 Mutual Energy 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.

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.

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 useful life of the Scotland to Northern Ireland gas pipeline was extended during the year. The updated useful life is in line with the new West Transmission pipeline commissioned in the year, which will be supplied via these existing assets, and is consistent with the useful lives used by other gas transmission system operators. This change has resulted in a lower depreciation charge in relation to these assets in the year.

The remaining useful economic life of the Pipeline was determined as approximately 35.5 (2019: 21.5) years at the beginning of the year. If the remaining useful economic life had been 36.5 (2019: 22.5) years, depreciation would have decreased by £50,000 (2019: £140,000) and if the remaining useful economic life had been assessed at 34.5 (2019: 20.5) years, depreciation would have increased by £52,000 (2019: £154,000).

Notes to the financial statements for the year ended 31 March 2020

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

Critical accounting estimates and judgements (continued)

Judgements made in the implementation of IFRS 16 Leases

The remaining useful lives of the right-of-use assets in respect of the Company's Crown Estate lease was determined to be in line with the useful life of the Premier Transmission Pipeline (as revised in the year). Extension options which are reasonably certain to be exercised have therefore been included within the lease term. Judgements were also required in determining the Company's incremental borrowing rate at the inception date (-0.79%).

2 Net operating expenses

	2020	2019
	£'000	£'000
Staff costs (note 3)	**621**	556
Depreciation (excluding right-of-use assets)	**1,850**	3,168
Depreciation of right-of-use assets	**89**	-
Amortisation of deferred government grants	**(1,096)**	(1,096)
Operating lease expenses in relation to payments not included in lease liabilities	**-**	82
Fees payable to the company's auditor in respect of the audit of the company's financial statements	**13**	14
Other expenses	**12,911**	13,360
Net operating expenses	**14,388**	16,084

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 2020

3 Staff numbers and costs

	2020	2019
	£'000	£'000
Wages and salaries	**527**	497
Social security costs	**50**	59
Pension costs	**44**	-
	621	556

The average monthly number of employees during the year (including only directors holding contracts of service with the company) was 13 (2019: 12). 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 (2019: £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 Finance expense - net

	2020	2019
	£'000	£'000
Finance expense and similar expenses		
Borrowings from parent undertaking	**5,270**	5,934
Bank charges	**122**	130
	5,392	6,064
Finance income and similar income		
Short-term bank deposits	**(406)**	(283)
Lease interest	**(12)**	-
Financial liabilities	**(83)**	(93)
	(501)	(376)
Finance expense – net	**4,891**	5,688

Notes to the financial statements for the year ended 31 March 2020

5 Taxation

Recognised in profit and loss	2020 £'000	2019 £'000
Current tax:		
Corporation tax on profits	112	-
Group relief claimed	1,155	815
Adjustment in respect of prior years	-	(1,109)
Total current tax	**1,267**	(294)
Deferred tax:		
Origination and reversal of temporary differences	(47)	(239)
Adjustment in respect of prior years	-	6
Change in deferred tax rate	747	-
Total deferred tax (note 15)	**700**	(233)
Tax on profit	**1,967**	(527)

The tax charge/(credit) in the profit and loss account for the year is different from the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are reconciled below:

Reconciliation of effective tax rate	2020 £'000	2019 £'000
Profit on ordinary activities before taxation	**5,842**	1,584
Tax calculated at the UK standard rate of corporation tax of 19% (2019: 19%)	1,110	301
Effect of:		
Tax exempt revenue	(16)	(18)
Non-deductible expenses	126	264
Other timing differences	-	29
Adjustments in respect of prior years	-	(1,103)
Change in deferred tax rate	747	-
Tax on profit	**1,967**	(527)

Future tax changes

The Finance Bill 2016 enacted a reduction in corporation tax rate to 17% with effect from 1 April 2020. This was the rate at which deferred tax was provided in the 2019 accounts. The Finance Bill 2020 confirmed that the rate of corporation tax will remain at the rate of 19% from 1 April 2020 (cancelling the enacted cut to 17%). As this change was enacted before year end by the passing of Budget Resolution on 17 March 2020, deferred tax is now provided at 19%.

Notes to the financial statements for the year ended 31 March 2020

6 Tangible assets

	Pipeline £'000	Plant and machinery £'000	Office equipment £'000	Right-of-use assets £'000	Total £'000
Cost					
At 31 March 2019 (as previously reported)	133,412	77	48	-	133,537
Recognition of assets upon IFRS16 implementation (see note 22)	-	-	-	3,148	3,148
At 31 March 2019 and 1 April 2019	**133,412**	**77**	**48**	**3,148**	**136,685**
Accumulated depreciation					
At 1 April 2019	68,816	26	21	-	68,863
Depreciation charge for the year	1,830	5	15	89	1,939
At 31 March 2020	**70,646**	**31**	**36**	**89**	**70,802**
Net book value					
At 31 March 2020	**62,766**	**46**	**12**	**3,059**	**65,883**
At 1April 2019 (as adjusted)	64,596	51	27	3,148	67,822
At 31 March 2019 (as previously reported)	64,596	51	27	-	64,674

Tangible assets include the company's gas transmission pipeline, related plant and machinery and office equipment, along with leased assets that do not meet the definition of investment properties. The right-of-use asset recognised upon the implementation of IFRS 16 *Leases* (see note 22) relates to Premier Transmission's Crown Estate Lease.

Depreciation expense of £1,939,000 (2019: £3,168,000) 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 2019 and **at 31 March 2020**	**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.

Premier Transmission Limited

Notes to the financial statements for the year ended 31 March 2020

8 Debtors

	2020	2019
	£'000	£'000
Trade debtors	3,357	3,091
Prepayments	290	293
Accrued income	176	385
Other debtors	2,009	2,000
Amounts owed by group undertakings	36,162	30,070
	41,994	35,839

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

9 Stocks

	2020	2019
	£'000	£'000
Spares	113	113

10 Financial assets

	2020	2019
	£'000	£'000
Certificates of deposit	-	9,888
Cash deposits	32,547	-
	32,547	9,888

11 Cash and cash equivalents

	2020	2019
	£'000	£'000
Cash and cash equivalents	5,130	25,372

12 Called up share capital and share premium account

	2020	2019
	£'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.

	2020	2019
	£'000	£'000
Share premium account	14,012	14,012

Notes to the financial statements for the year ended 31 March 2020

13 Profit and loss account

	£'000
At 1 April 2018	23,854
Total comprehensive income for the financial year	2,111
At 31 March 2019 (as previously reported)	25,965
Impact of change in accounting policy (see note 22)	20
At 1 April 2019 (as adjusted)	25,985
Total comprehensive income for the financial year	3,875
At 31 March 2020	**29,860**

Included in the profit and loss account reserves is an amount of £1,874,000 (2019: £1,874,000) which the company has agreed with the regulator will be applied to costs of future EU compliance projects.

14 Creditors: amounts falling due after one year

	2020 £'000	2019 £'000
Amounts owed to group undertakings	**60,274**	58,648
Financial liabilities (note 17)	**300**	374
Lease liabilities (note 18)	**2,934**	-
Government grant (note 19)	**20,240**	21,336
	83,748	80,358

The amounts owed to group undertakings relate to a 2.953% (2019: 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 2018	6,583
Recognised in profit and loss	(233)
At 31 March 2019 (as reported)	6,350
Impact of change in accounting policy (see note 22)	5
At 1 April 2019 (as adjusted)	6,355
Recognised in profit and loss	700
At 31 March 2020	**7,055**

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.

Notes to the financial statements for the year ended 31 March 2020

16 Creditors: amounts falling due within one year

	2020	2019
	£'000	£'000
Trade creditors	**728**	470
Other creditors	**3,445**	2,384
Accruals	**2,618**	2,702
Amounts owed to group undertakings	**1,843**	1,037
Taxation and social security	**591**	580
Financial liabilities (note 17)	**74**	83
Lease liabilities (note 18)	**94**	-
Government grant (note 19)	**1,096**	1,096
	10,489	8,352

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

17 Financial liabilities

	2020	2019
	£'000	£'000
Financial guarantee	**374**	457
Less current portion	**(74)**	(83)
Non-current portion	**300**	374

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.

18 Lease liabilities

	2020	2019
	£'000	£'000
Lease liabilities	**3,028**	-
Less current portion	**(94)**	-
Non-current portion	**2,934**	-

Lease liabilities represent future payments in respect of non-cancellable Crown Estate leases and anticipated extensions which were initially recognised using the modified retrospective approach at 1 April 2019 upon the implementation of IFRS 16: *Leases* (see note 22).

19 Government grant

	£'000
At 1 April 2018	23,528
Amortised during the year	(1,096)
At 31 March 2019	22,432
Amortised during the year	(1,096)
At 31 March 2020	**21,336**

The government grant was provided to the Company 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 (2019: £1,096,000) and the non-current portion is £20,240,000 (2019: £21,336,000).

Notes to the financial statements for the year ended 31 March 2020

20 Leases

The Company holds a Crown Estate lease which gives exclusive right to use and maintain the pipelines which are on or under the seabed. The lease runs to 30 September 2035 but allows for further extension, with terms to be agreed upon extension. The Company 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 Company is restricted from entering into any sub-lease arrangements in relation to these leases.

The Crown Estate leases were entered into in 1996 and was previously classified as an operating leases under IAS 17.

The Company does not hold any short-term or low value leases for which right-of-use assets and lease liabilities have not been recognised.

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

Right-of-use assets

The right-of-use assets, as presented in property, plant and equipment (see note 6), relate to the Crown Estate leases noted above.

Amounts recognised in the profit or loss

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

2020 - Leases under IFRS 16	**£000**
Depreciation expense in respect of right-of-use assets	**89**
Operating lease expenses in relation to payments not included in lease liabilities	**25**
Lease liabilities interest income	**(12)**

2019 - Operating leases under IAS 17	**£000**
Lease expense	82

Amounts recognised in statement of cash flows

	2020 **£000**
Total cash outflow for leases	**83**

Notes to the financial statements for the year ended 31 March 2020

21 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.

22 Changes in accounting policies

Except for the changes below, the company has consistently applied the accounting policies to all periods presented in these financial statements.

The company applied IFRS 16 with a date of initial application of 1 April 2019. As a result, the company has changed its accounting policy for lease contracts as detailed below.

The company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 April 2019. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the company assesses whether a contract is or contains a lease based on the definition of a lease as explained in Note 1.

On transition to IFRS 16, the company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed to determine whether there is a lease.

As a lessee

As a lessee, the company previously classified leases as operating or financing leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the company. Under IFRS 16, the company recognises right-of-use assets and lease liabilities for most leases i.e. these leases are included on the balance sheet.

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the company's incremental rate of borrowing as at 1 April 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued payments.

As a practical expedient to applying IFRS 16 the company used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Premier Transmission Limited

Notes to the financial statements for the year ended 31 March 2020

22 Changes in accounting policies (continued)

Impacts on financial statements

On transition to IFRS 16, the company recognised right-of-use assets and lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

	1 April 2019 £'000
Right-of-use asset presented in plant, property and equipment	3,148
Lease liabilities	(3,123)
Retained earnings	(20)
Deferred tax liabilities	(5)

When measuring lease liabilities the company discounted lease payments using its incremental borrowing rate at 1 April 2019. The incremental borrowing rate applied was -0.79%.

	1 April 2019 £'000
Operating lease commitment at 31 March 2019 as disclosed in the company's financial statements	1,313
Extension options reasonably certain to be exercised	1,575
Effect of discounting at the Company's incremental borrowing rate at 1 April 2019	235
Lease liabilities recognised at 1 April 2019	3,123

23 Subsequent events

During the first quarter of 2020/21 COVID-19 impacted more widely on society. This gave rise to many businesses temporarily closing.

Remote working arrangements are in place for all office staff. Field operations have been temporarily reduced to essential maintenance and surveillance. Practices have been updated as appropriate to enable seamless continuation of critical operations and ensure social distancing and appropriate PPE is in place. The changing demand on the transmission system has been navigated with minimal impact on operations.

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