

Mutual Energy Limited

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

Annual report

for the year ended 31 March 2018



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Mutual Energy Limited

Annual report for the year ended 31 March 2018

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Directors and advisers

Directors

Patrick Anderson	Non-executive director	
Clarke Black	Senior independent director	(resigned 30 September 2017)
Regina Finn	Chairman	
Patrick Larkin	Executive director	
Gerard McIlroy	Executive director	
Kate Mingay	Senior independent director	
Michael McKernan	Non-executive director	(appointed 1 January 2018)
Christopher Murray	Non-executive director	

Company secretary

Gerard McIlroy

Registered office

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

Principal place of business

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

Solicitors

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

Bankers

Barclays 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

Chairman's statement

The year to 31 March 2018 saw strong operational performance by Mutual Energy group, enhancing the business's track record for efficiently and safely operating key energy assets. This reputation has been fundamental to successfully expanding the business to deliver even greater benefits for Northern Ireland energy consumers.

Gas

Our major expansion during the year was the Gas to the West project which will bring natural gas to an additional 7 towns in the west of Northern Ireland, helping to support economic growth and business, as well as giving retail customers important choice and diversity of energy sources. Construction work on the pipeline continued during the year and we are grateful to all of our stakeholders especially consumers, for their support and understanding during the inevitable disruption that construction of such a significant asset involves. We have worked closely with the regulator, the government and our partner SGN Commercial Services Limited (SGN), to bring forward the financing of the project to take advantage of favourable interest rates currently available in the market, delivering significant cost savings. Because of our mutual structure these savings don't go to shareholders – they directly benefit consumers by keeping costs down.

October 2017 saw the go-live of the new single Gas Market Operator for Northern Ireland (GMO NI), a joint venture between the four Northern Ireland Transmission System Operators. GMO NI provides a single interface for dealing with all commercial aspects of operating the gas transmission networks, streamlining the existing process for customers and aiming to deliver cost efficiencies. We would like to thank all our customers for co-operating with the changeover and the introduction of new systems and processes – their participation was critical to the success of the project.

We continued to focus on our core business during the year, which included some very major projects. For example, Belfast Gas Transmission successfully undertook its first in-line inspection of the Belfast Lough Pipeline since its operation. This important, highly technical project checked for any irregularities in the pipeline, including corrosion, cracks and other defects. We are pleased that the results confirmed the asset is in good working order and did not identify any major concerns.

Electricity

Early in 2017 we were disappointed to experience a high voltage fault on the Moyle Interconnector, and set out our plans to repair it. We are pleased that the repair was completed on time and in budget and in September 2017 the Moyle Interconnector returned to full capacity.

This means that Moyle is fully available and ready to participate in the new integrated single electricity market – I-SEM. During the year we participated in the design of that new market, seeking to strike the right balance between new business risks it introduces and the corresponding opportunities to earn new revenue streams. We are pleased that the I-SEM does offer us possible new revenue streams, including capacity market revenue, which we will use to cover our operational costs and as much of our financing costs as possible. This will reduce the use of system charge that Moyle may need to raise and so keep costs down for consumers. Unfortunately, the go-live of the I-SEM has been somewhat delayed due to IT issues but we continue to support the regulators and all players who are working to resolve these issues and we look forward to participating in the new market as soon as possible.

Whilst all this change is happening, we continue to ensure the smooth, safe operation of our core electricity business. A fundamentally important part of that business is the Moyle control system without which the interconnector could not operate. Our teams and partners have maintained and ensured this asset has worked effectively for many years but it is now coming towards the end of its life. We have started a procurement process to replace it, starting with the appointment of technical advisors. Along with the day to day running of the electricity business, this will represent a significant and important multi-year project over coming years.

Chairman's statement (continued)

Members, Board, Staff and Stakeholders

As a mutual business, we do not have shareholders, so unlike other businesses, we are not here to maximise shareholder benefit and we do not pay out any dividends. Instead our goal is to deliver for Northern Ireland consumers, so any profits are used to keep costs down. Instead of shareholders we have members. These are individuals drawn from all walks of life and business in our community and beyond. Members act as 'proxy' shareholders, challenging our business and holding us to account for delivering for consumers and we value them highly. We were delighted, as part of our on-going recruitment and retention process, to welcome 14 new highly engaged and well qualified members this year, and we thank six departing members for their unfailing commitment and participation over the years they have been with us.

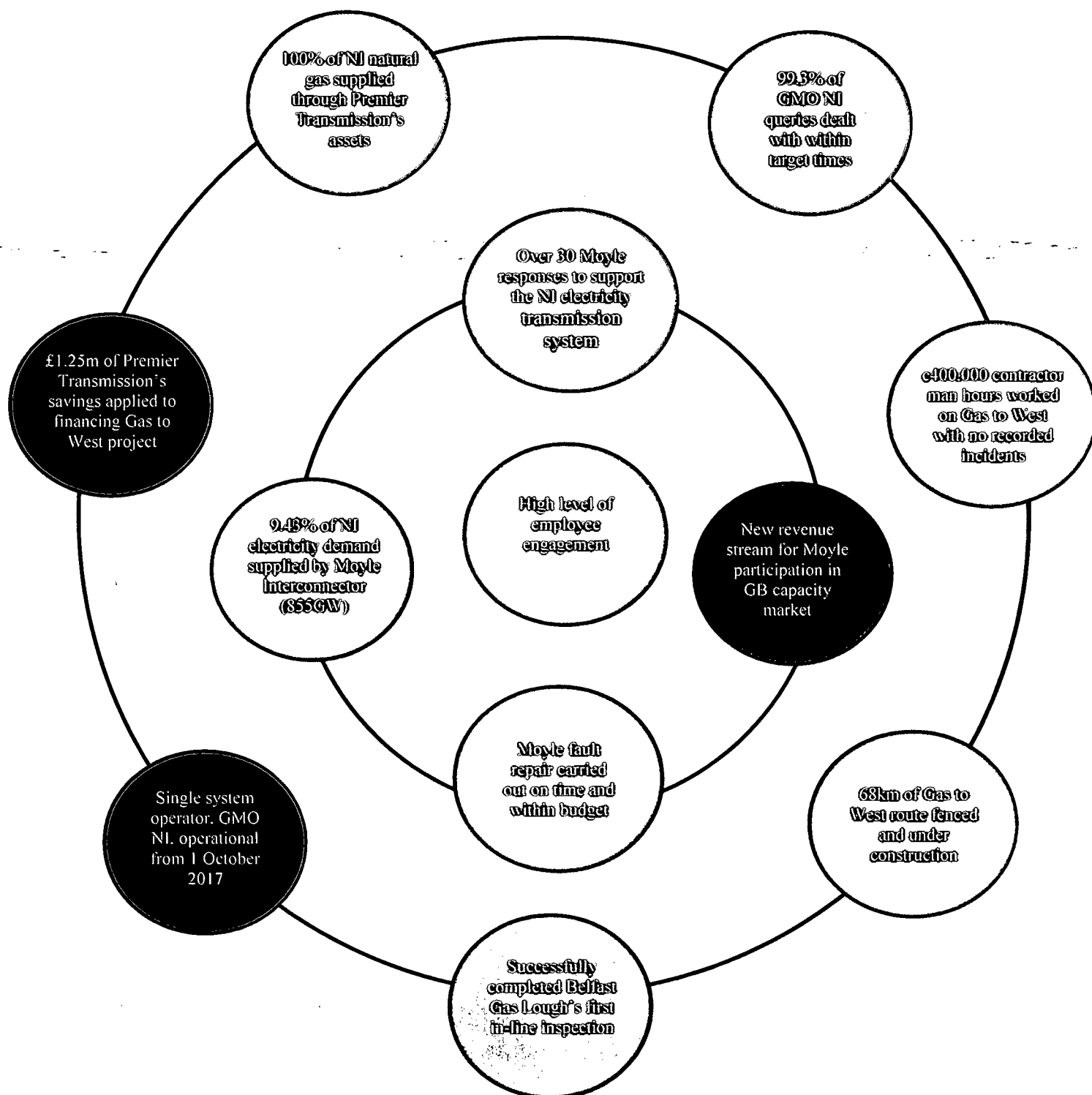
In line with good governance we also plan and manage Board membership carefully to ensure the Board has the right skill mix and experience and is regularly refreshed. In that context, we sadly said goodbye to Clarke Black, Senior Independent Director and Chair of our Membership and Remuneration Committees who had come to the end of his two terms on the Board. I would like to thank Clarke for his outstanding contribution to Mutual Energy, for the professionalism, wisdom and humour he brought to the Board and especially for sharing his deep knowledge of the Northern Ireland economy and its consumers that kept us focussed on delivering our strategic goals. We are very pleased to have recruited Michael McKernan to join the Board in January 2018 to replace Clarke.

I would like to thank all my Board colleagues for their commitment and support – and together we would like to thank the Mutual team for their hard work, professionalism and dedication which never fails to impress us. We are grateful also for the co-operative approach from our contractors, financiers and partners, and our wider stakeholders including the teams at the Regulator and the Department of the Economy who have worked so hard during the year to achieve the best possible outcomes for Northern Ireland's energy consumers.



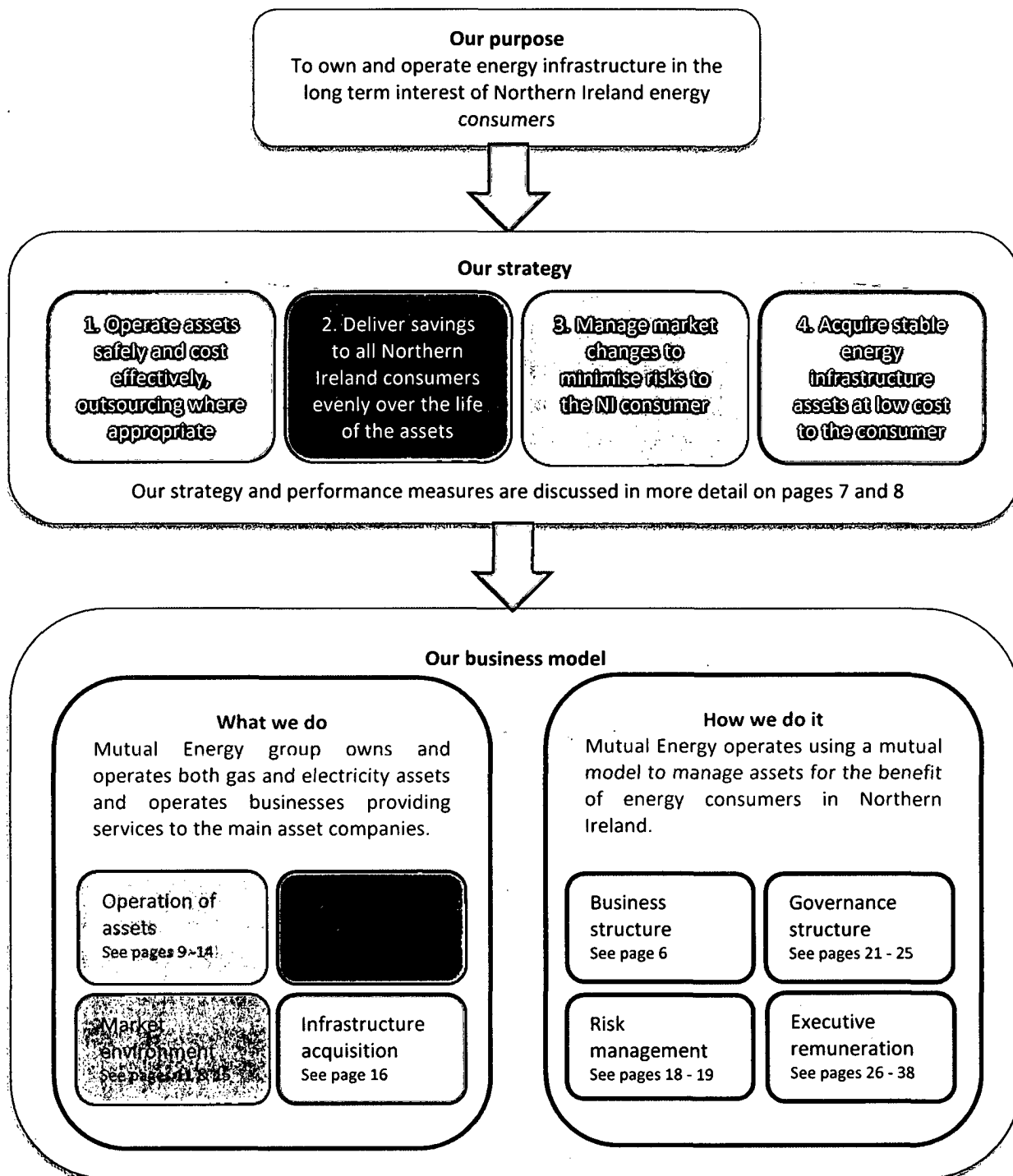
Regina Finn
Chairman
21 June 2018

2017/18 Highlights



Strategic report for the year ended 31 March 2018

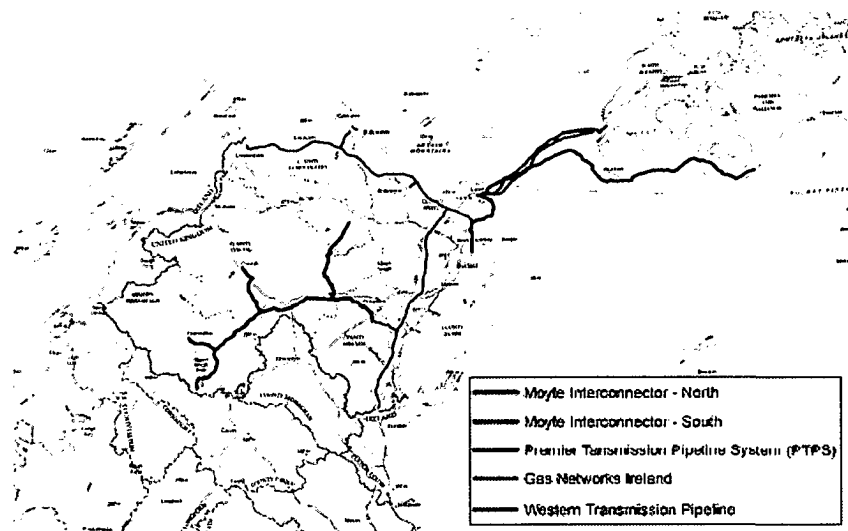
Our strategy and business model



Strategic report for the year ended 31 March 2018 (continued)

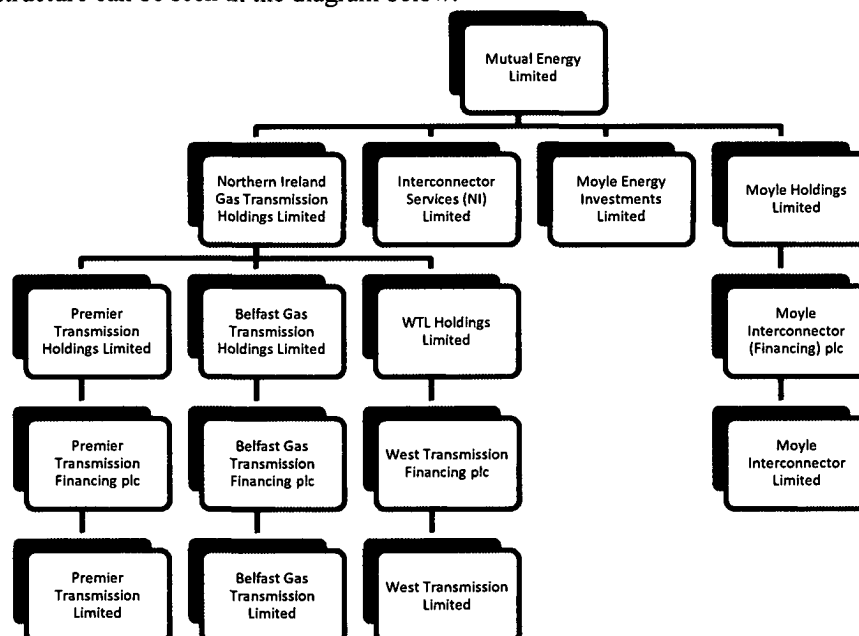
Business structure

Mutual Energy owns and operates the Moyle Interconnector (Moyle) which links the electricity systems of Northern Ireland and Scotland, and the Premier Transmission Pipeline System (PTPS), which consists of the Scotland to Northern Ireland natural gas transmission pipeline (SNIP), the Belfast Gas Transmission Pipeline (BGTP) and the West Transmission Pipelines (WTP – under construction) operated by Premier Transmission Limited, Belfast Gas Transmission Limited and West Transmission Limited respectively. These strategically important assets provide vital energy links with Great Britain, and Mutual Energy aims to manage them to the highest standards of safety, reliability and efficiency. More detail on this is available in the infrastructure acquisition section on page 16.



Mutual Energy Limited is a company limited by guarantee with no shareholders, commonly known as a mutual. The mutual model and our licence structures are attractive to investors looking for long-term stable cash flows, enabling the company to operate without equity and therefore allowing a lower cost of capital than would otherwise be the case. The bonds held by the group have obtained real interest rates of between 2.207% and 2.9376%.

The group's principal stakeholders are the energy consumers of Northern Ireland and the financiers of its debt-financed subsidiaries. The group's structure can be seen in the diagram below:



As well as each main operating company and their respective financing and holding companies, the group includes Moyle Energy Investments Limited and Interconnector Services (NI) Limited. Moyle Energy Investments manages the longer-term cash reserves of the Moyle business and Interconnector Services provides services to the operational assets of the group where savings can be achieved by combining the provision of these services.

The principal risks affecting the business are discussed on page 19. More information regarding our customers, stakeholders and staff can be found on pages 17 to 18.

Strategic report for the year ended 31 March 2018 (continued)

Strategic objectives

Our strategy is made up of four key elements:

Strategy

How we deliver

How we measure success



Safe, cost efficient operation

Operate the best model to minimise costs and overheads including outsourcing

We provide a safe, reliable and efficient transmission service to the electricity and gas suppliers of Northern Ireland.

Delivery is achieved through a competitive tendering process for operational activities and the development of a comprehensive contracting strategy and partnership approach with key contractors.

We operate a Health & Safety system based on the Plan, Do, Check, Act approach.

Further information on asset operation can be found on pages 9 to 14.

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.

Cost smoothing is discussed in more detail on pages 14 to 15.

Our measures of success include:

- operational savings against forecast (KPI 2);
- cash reinvested to reduce charge to consumers (KPI 4); and
- cash generated from operations (KPI 5).



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 pages 11 and 15.

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 number of code modifications issued (KPI 6).



Acquire Infrastructure

Look to acquire stable infrastructure assets at low cost to the consumer.

The group looks to acquire stable energy infrastructure assets which it can own and operate at lower cost than otherwise would be the case to benefit consumers. We achieve lower cost through a long term reduced cost of capital and operating efficiencies.

Delivery involves:

- the assessment of potential assets, both acquisition and new build, on an ongoing basis;
- the development of working relationships with potential partners and developers; and
- continued innovation in reviewing financing and licensing structures to ensure low cost to the consumer.

This objective is discussed in more detail on page 16.










Success is measured with reference to the quality of the projects brought to the board as potential opportunities to develop.

- The progress of individual projects is measured against project-specific milestones
- In acquiring assets the group will not overpay the going market rate.
- Compliance with key covenants on our existing asset base is measured as a KPI for maintaining investor confidence (KPI 7).

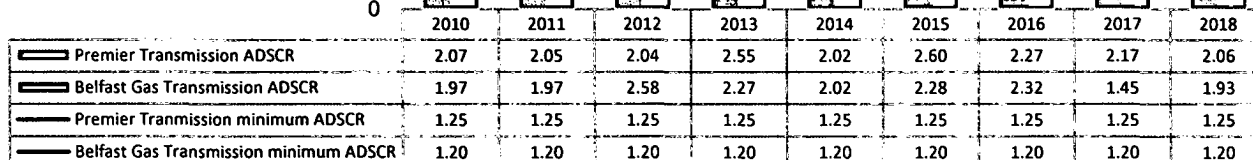
Strategic report for the year ended 31 March 2018 (continued)

Key Performance Indicators (“KPIs”)

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

	Key Performance Indicator	Definition of KPI
	1. Availability The quality of service to our direct customers is determined by the performance of our assets, of which the principal measure is the availability of transmission capacity. Graphs showing availability can be found on pages 9 and 13.	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 10.	Operational savings against forecast The KPI for gas business operational savings is calculated by subtracting the actual agreed revenue for the gas year, calculated in accordance with the gas companies’ licences, from the forecast required revenue submitted in advance of the year.
	3. Lost time incidents Our safety is measured by the safe operation of our staff and contractors as noted on pages 9 and 14.	Lost time incidents Lost time incidents are calculated as the number of lost time incidents per 100,000 hours worked by staff and contractors.
	4. Cash reinvested to reduce charge to consumers Cash reinvested in the business to reduce the direct charge to consumers for the provision of the Moyle Interconnector asset. Cash reinvested to avoid charging consumers can be seen on page 14.	Cash reinvested to reduce charge to consumers The Moyle Interconnector can charge consumers for the benefit of the interconnector through their electricity bill, in a similar way that other electricity infrastructure is charged. The KPI is the cash actually transferred into the current account to reduce the charge to consumers.
 	5. Cash generated from operations Cash generated in each of the businesses which will be used to avoid future charges to consumers. Cash generated in the gas and electricity businesses can be seen in the graphs on pages 10 and 14.	Cash generated from operations Cash generated in each of the businesses post tax.
	6. Code modifications issued The number of code modifications issued are monitored as these are a measure of progress in implementing the changes required by EU legislation. Code modifications issued can be seen in the graph on page 11.	Code modifications issued Code modifications issued is the sum of the code modifications made to each of the gas company’s network codes.
	7. Annual Debt Service Cover Ratio The ability to acquire infrastructure at low cost to the consumer is critically dependent upon our track record with the existing asset financing. As well as compliance with the respective financing covenants, the principal requirements of all financiers are the maintenance of Annual Debt Service Cover Ratios (ADSCR) of greater than 1.15 for Moyle, 1.25 for Premier Transmission and 1.20 for Belfast Gas Transmission. Graphs showing these ratios can be found on pages 9 and 13.	Annual Debt Service Cover Ratio The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the bonds for each operational company. The basis of calculation is Available Cash / Debt Service in the next 12 months. In each case Available Cash = the difference between income and expenses in the period + cash in designated bank accounts, where cash in the designated bank accounts is limited to 1x Debt service.

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



Strategic report for the year ended 31 March 2018 (continued)

Gas business review (continued)

Future development

The annual Northern Ireland Gas Capacity Statements published by the Utility Regulator for 2017/18-2026/27 indicated that the overall capability of the existing infrastructure, utilising both the SNIP and South-North Pipeline, well exceeds the ten-year forecast demand scenarios. The report notes that the combination of demand approaching the contractual limit at Twynholm, Scotland, and the need for Transmission System Operators to maintain higher operating pressure requirements to supply the extremities of the network, each signal the imminent expectation that Gormanston, Gas Network Ireland (UK)'s pipeline from the Republic of Ireland to Northern Ireland, will soon need to be commercially utilised by Shippers as a second supply point. The report also forecast an increase in both base case and peak demand due to expected continued growth of the domestic sector and power sector, as well as increasing wind penetration.

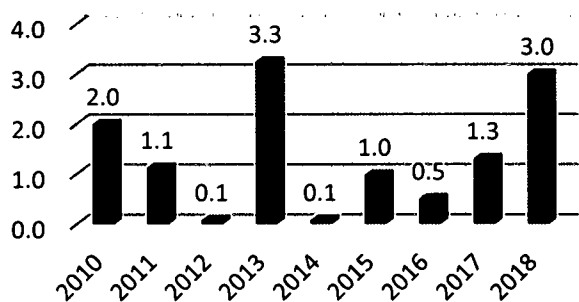
Due to the aging of our assets, and in particular the upstream assets in Scotland owned by Gas Networks Ireland, it is expected that increased costs will be required to refurbish and replace existing plant & machinery as they near the end of their useful life.

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

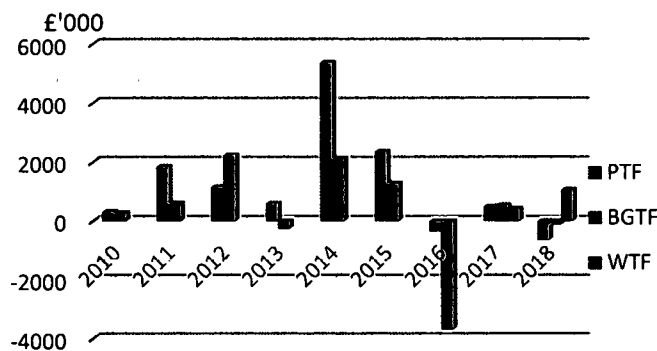
The main means by which the company delivers savings to the consumers in Northern Ireland is through providing a low cost of capital. The costs of the gas transmission assets are charged to the respective shippers through a "use of system" charge which happens automatically through the postalised transmission 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 2016-17 gas year (excluding the new West Transmission assets) were 23% lower (2015-16: 13% 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 KPI.

KPI 2: Gas business operational savings vs forecast



KPI 5: Cash generated in the year



KPI 5 shows a cash outflow in 2015/16 which is the result of timing of payments in relation to tax from prior years. The graph shows the movement in the cash balance (including deposits with maturity of more than three months) from the previous year.

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. This programme resulted in a licence amendment consultation in March 2018 and it is hoped an earlier than anticipated financing will be achieved with significant benefit to customers. The company is currently engaging in a process with a number of pension funds and investors in respect of financing the Gas to the West expansion.

Strategic report for the year ended 31 March 2018 (continued)

Gas business review (continued)

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

European energy regulation

European legislation continues to be a driver for changes in our market arrangements and contracts with shippers. The EU regulation has driven a “Gas Target Model” to be implemented by our gas businesses. The first major deadline for implementation was October 2015, with others following until 2019. This year, the gas businesses took the first steps to implement the Gas Tariff Network Code which came into force in April 2017 by modifying the Network Code and bringing forward the tariff determination and publication dates. Implementation of the Tariff Network Code will remain the focus throughout 2018/19. In conjunction, the gas businesses will continue to implement the Balancing Network Code by monitoring liquidity within the NI market as well as incorporating changes to the NI balancing arrangements as required. It should be expected that there will be further changes coming from the EU over the upcoming years as the work continues to deliver the Gas Target Model.

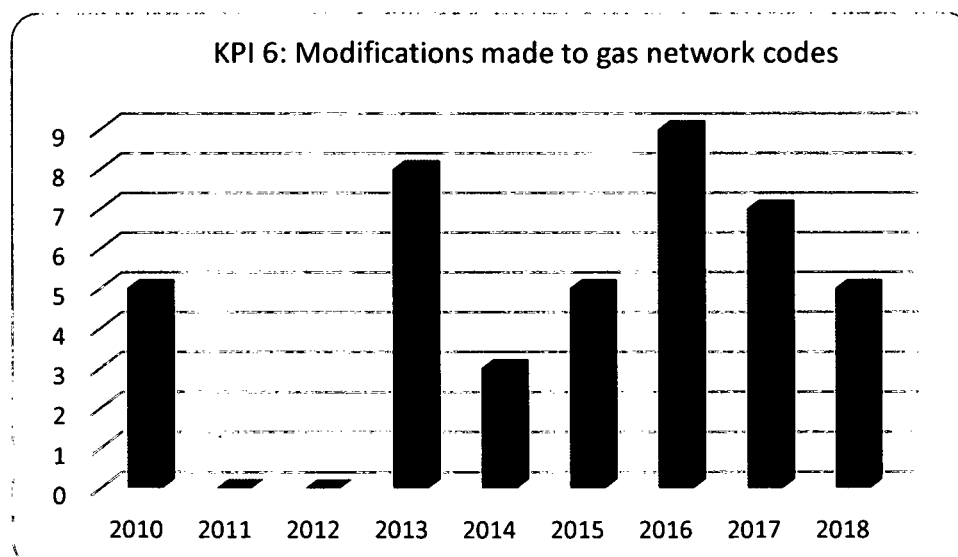
Impact of Brexit

The business is adopting an approach of complying in full 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 with regard to EU obligations. Engagement will be required 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. During the year we agreed with our fellow gas transporters in the EU to amend the articles of association of the joint auction platform company known as PRISMA. This will allow us to continue within the European auctioning framework unless this is prohibited by EU law.

Single System Operation

Until 1st October 2017 the gas transmission market was operated by four separate Transmission System Operators: Premier Transmission Limited (PTL), Belfast Gas Transmission Limited (BGTL), West Transmission Limited (WTL) and GNI (UK) Limited. Previously they commercially operated the gas transmission network through four different network codes and two separate IT platforms. Following a determination by the Northern Ireland Utility Regulator (NIAUR) requiring a single system operator, GMO NI (a contractual joint venture between Gas Network Ireland and the three Mutual Energy gas businesses) was set up. The project was delivered in October 2017, on time and within budget. This involved a major IT system implementation, new organisational structure and a full suite of new business processes. Following successful go-live this became the gas market operator for Northern Ireland, managing and administering a single network code and IT platform as a single entity, therefore delivering efficiencies for their customers.

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



Strategic report for the year ended 31 March 2018 (continued)

Electricity business review

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

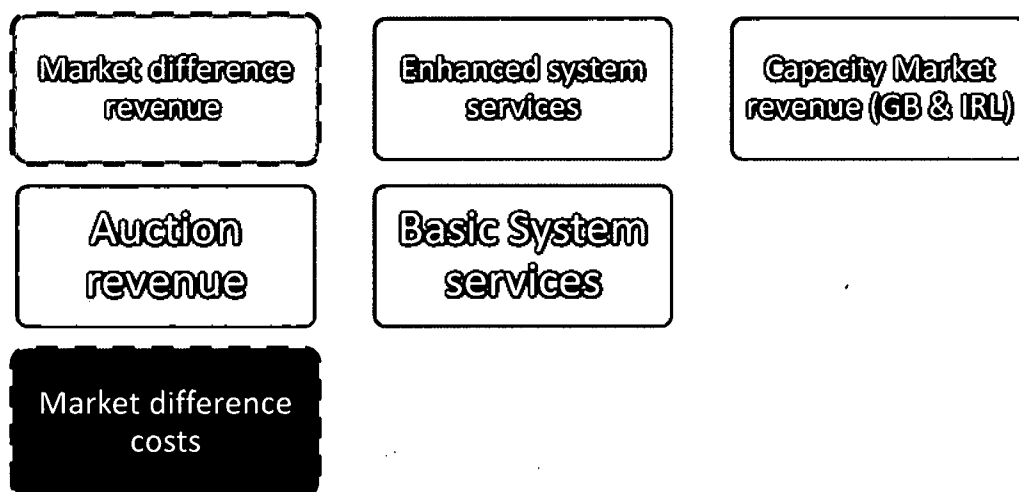
Financial performance

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

Commercial revenues

The year ended 31 March 2018 saw the beginnings of some of the new market arrangements being introduced in line with system operator initiatives and EU regulations. Further changes are upcoming with the implementation of I-SEM, the new electricity market arrangements in Ireland (now due to go-live in October 2018). These bring fundamental changes to how Moyle earns its market revenue and, whilst we expect the overall impact to be positive, these changes bring increased uncertainty.

The diagram below shows Moyle's existing income streams in blue, with new revenue shown in green and new costs in red.



Auction revenue: From introduction of I-SEM Moyle will be auctioning financial, rather than physical, transmission rights. Whilst Moyle will still earn auction revenue (shown in blue) it will also be entitled to receive the difference in market prices (revenue, shown in green) but will have to pay out this market difference to its customers (cost, shown in red). We cannot yet be certain of the overall impact of these changes on Moyle's financial performance but it will leave Moyle more exposed to non-performance.

System services: Moyle currently provides a level of system services to the Irish and GB electricity systems (blue). New rules and products feature in the changed arrangements and we expect this to lead to increased revenue from these enhanced services (green).

Capacity market revenue: Moyle began participating in the GB capacity market in October 2017 and will also participate in the Irish capacity market from I-SEM go live. This is an entirely new revenue stream which recognises Moyle's contribution to security of supply. Moyle stands to receive significant additional revenue from this market but penalties are very high where there is non-performance at a time of system stress.

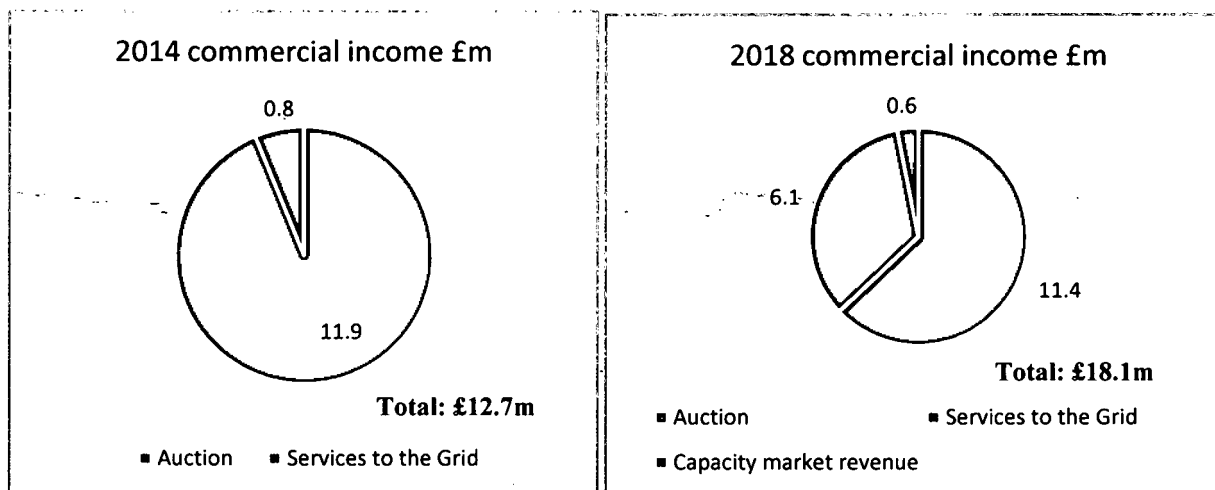
Moyle has seen a significant change in the commercial revenue flows in recent years, with more income originating from services provided to the system operators in recognition of the value of interconnection between markets with high renewable penetration. Moyle capacity continues to be sold to electricity traders in annual, half-yearly, quarterly, monthly and daily explicit auctions, on contracts ranging from one day to one year. Additional unused capacity is implicitly allocated within the electricity market trading day and a charge applied after use.

Strategic report for the year ended 31 March 2018 (continued)

Electricity business review (continued)

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

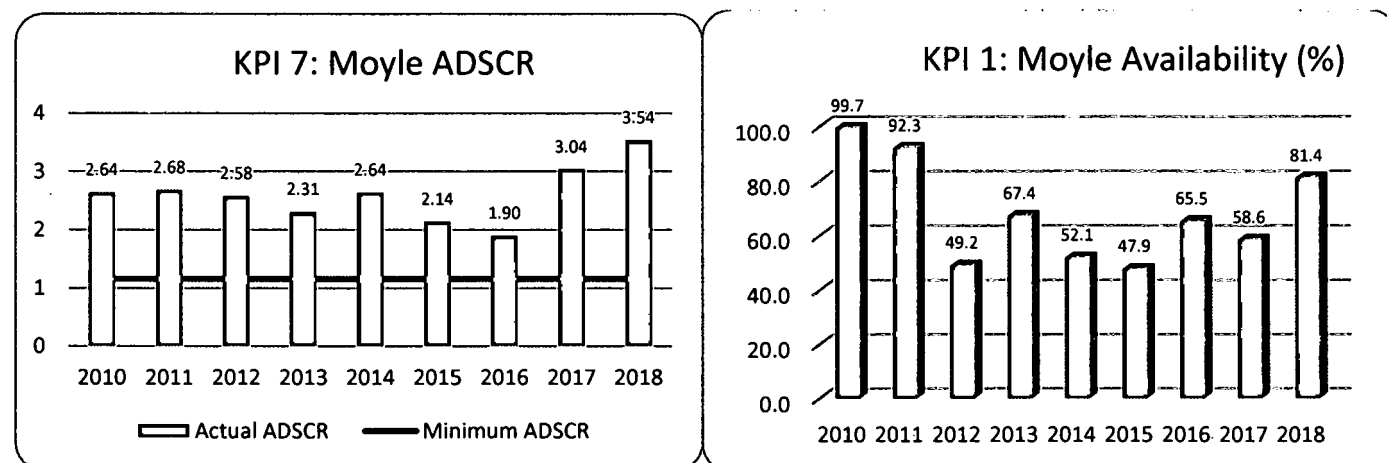
The following charts show the change in make-up of the commercial revenue from 2014 to 2018 which demonstrates the shift:



Tariff mechanism revenue

The charges through the tariff mechanism are known as the Collection Agency Income Requirement (CAIRt). The CAIRt charge of £12.5m was made for the 2017/18 electricity tariff year, being 12 months to 30 September 2018, (£12.5m year to 30 September 2017) which covered approximately 40% of the costs forecast for the period as at the CAIRt calculation date. Pages 14 and 15 provide more explanation of our historic use of reserves to waive CAIRt calls in order to deliver savings to consumers evenly over the life of the asset.

The Moyle Interconnector group made an operating profit of £13.8m (2017: £25.5m). The ADSCR for the year was 3.54 due to strong auction revenues and increased ancillary services income, as well as insurance proceeds in respect of the February 2017 cable fault (insurance proceeds have been included within income or operating costs in line with the income/costs being reimbursed).



Strategic report for the year ended 31 March 2018 (continued)

Electricity business review (continued)

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

Operational performance

Moyle has been delivering DS3¹ system services since 1 October 2016. Significant work and testing was undertaken during the year to ensure that Moyle can deliver the widest possible range of these DS3 system services. Participation in a Qualification Trial Process in summer 2017 confirmed Moyle's ability to provide and measure Fast Frequency Response, the fastest reserve product procured by the Transmission System Operators. A tender submitted in January 2018 was successful and provides for continued system services delivery from May 2018. Supporting testing was undertaken in April 2018 and has proved Moyle's ability to react to system events and to help stabilise system frequency through dynamically controlling power flow. During the year Moyle responded to support NI system frequency on more than thirty occasions using dynamic response to frequency.

Work has also started to address some ancillary assets that are approaching the end of their expected lifetimes, either through replacement or refurbishment, as appropriate.

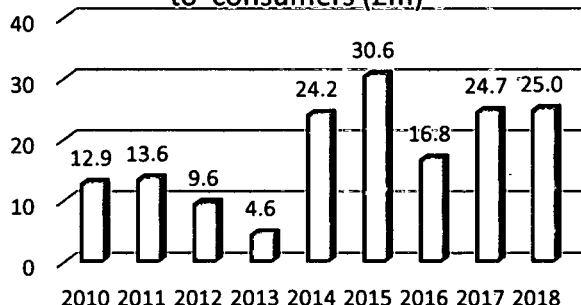
In February 2017, Moyle suffered a fault in the high voltage conductor insulation in the vicinity of a subsea joint made during a cable repair in January 2012. The fault was repaired and Moyle returned to full service on 27th September 2017. As a result of the fault, Moyle operated at a reduced availability of 81.4% (KPI 1) for the year ending 31 March 2018. There were no lost time incidents in the year (KPI 3).

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

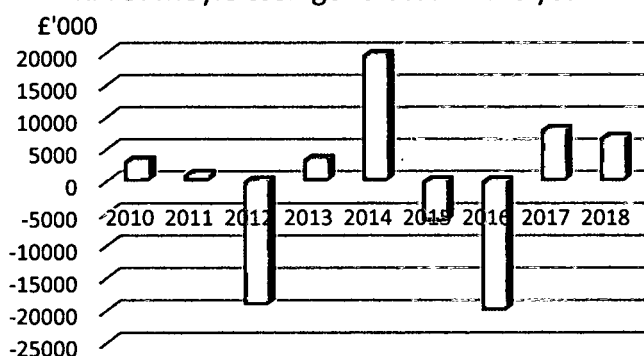
The interconnector business has the ability to waive use of system charges, rather than automatically charging these to supply companies and hence on to end customers. To the extent that this reduces the profit otherwise made by shippers, this is a direct benefit to customers. Over its 15 years of operation Moyle has waived over £100m in use of system revenue it was otherwise entitled to collect. Year on year this is monitored by way of KPI on cash reinvested as part of the Collection Agency Income (CAIRt) process to avoid charging consumers. Whilst all initial modelling and expectations forecast auction revenue to be immaterial, the historic market conditions and active management of the auction opportunities resulted in this being a major source of income, to the extent that it was possible to provide the considerable benefits of the interconnector to the Northern Ireland market for some time free of any use of system charge.

As a result of Moyle's upcoming participation in the I-SEM capacity market, as well as participation in the GB capacity market, Moyle is expected to see a significant increase in revenue which could lead to significant future reductions in use of system charges (CAIRt). There is still, however, significant uncertainty as to the outcome of Moyle's revenue under these new arrangements and the company will be sufficiently prudent in its forecasts until such times as more certainty is achieved.

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



KPI 5: Moyle cash generated in the year



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

Strategic report for the year ended 31 March 2018 (continued)**Electricity business review (continued)****Strategic objective: Deliver savings to all consumers evenly over the life of the assets (continued)****Investing to smooth costs**

A key part of our delivery of cost savings to the consumers is an approach to smooth some of the ebbs and flows of the business cash flows before they are passed through in charges to consumers. This approach enabled the Moyle business to absorb the cost of the sub-sea repairs in 2011/12 without passing the costs through into use of system tariffs. The use of reserves to fund a large portion of the Moyle return conductor project has also reduced the impact of these works on electricity customers.

Cash generated in the business in recent years can be seen in the previous graph (KPI 5). Within year cash is managed within the business and the subsidiary Moyle Energy Investments Ltd manages the longer-term cash reserves of the Moyle business.

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

European legislation is driving changes to the electricity market in Ireland. The EU's "Electricity Target Model" does not align with the current all-island Single Electricity Market for Ireland (SEM), and as a result the SEM market design is about to be replaced. A substantial project is in progress, led by the regulatory authorities and delivered by TSOs, to implement an Integrated Single Electricity Market (I-SEM) for Ireland and Northern Ireland. The new market arrangements are now due to go-live in October 2018 (originally expected to be October 2017), with the current structure being maintained until then. Moyle has been heavily involved in these developments to try and ensure a satisfactory outcome. The impact of Brexit on this market is not yet certain and will not be known until the nature of the UK's future relationship with the European internal energy market becomes clearer.

Major changes for interconnectors under I-SEM include selling financial transmission rights, as discussed on page 12, via a central European auction platform (Joint Allocation Office, "JAO"), as well as market price coupling with GB and the introduction of a new balancing market. Moyle became a shareholder of JAO in the year and is a key stakeholder in the delivery of market coupling. Moyle successfully participated and was awarded a contract in the first auction for the new I-SEM capacity market. The new market arrangements introduce new challenges, but also a number of opportunities as the market should deliver more efficient use of interconnectors. Further details are available at www.semcommittee.com.

Ahead of, and alongside, the I-SEM project EirGrid are delivering the DS3 project (see page 14). Implementation of the initial phases of this project have led to increased system support services revenues and we continue to work with the system operators to ensure that Moyle's unique value in this area is appropriately rewarded as DS3 evolves. Similarly, with tight capacity margins and increasing renewables penetration in GB, National Grid are also exploring changes to their procurement of ancillary services and we will continue to explore maximising ancillary services revenues at both ends of the cable.

Under the Electricity Market Reform capacity payments have been introduced in Britain, with the general principle being that generators are paid for availability, particularly during 'system stress' events. While one would expect this to exert downward pressure on GB wholesale electricity prices it is uncertain how this might affect trading between the two markets, given the extent of change in the coming years. Moyle began receiving such GB capacity market revenue in Winter 2017. We have had some success in modifying the rules to recognise the benefits Moyle brings to the GB system and will continue these efforts. Indigenous generation in GB have been lobbying against interconnector participation in the GB capacity market and we will coordinate with our other GB interconnector colleagues to ensure that the capacity benefits of interconnectors continue to be recognised and incentivised.

Strategic report for the year ended 31 March 2018 (continued)**Group**

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

Gas to the West

Mutual Energy's subsidiary, West Transmission Limited holds a licence for gas transmission to the West of Northern Ireland. The first phase of the project has been operational since January 2017 when the Strabane leg was completed. The main pipeline is currently being constructed by SGN (the UK's second largest network company, operating across Scotland and southern England) with commissioning expected during 2018/19 gas year. At 31 March 2018, 68km of the route had been fenced off with progress at varying stages through to completion. Some 398,000 contractor man hours were worked on the project at year end with no reported incidents.

Once complete, ownership and operation of the high pressure transmission pipeline will transfer to West Transmission, and SGN will own and operate the low pressure pipelines (the mains, services and meters) which deliver the gas to customers within the eight towns identified in the licence: Strabane, Dungannon, Coalisland, Cookstown, Magherafelt, Omagh, Enniskillen and Derrylin.

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

Gas storage

During the year, Mutual Energy agreed, following consultation with the main shareholder, Infrastrata Limited to release its 10 per cent holding in the development company Islandmagee Storage Ltd. The agreement follows company restructuring at InfraStrata and our increasing focus on our expanding core business, including Gas to the West. This leaves InfraStrata with complete control of the project. We very much continue to support the project as gas storage can undoubtedly bring significant long-term benefits to energy consumers in Northern Ireland and beyond.

The group continues to maintain a watching brief for potential acquisitions.

Group Financial highlights**Cash flow and liquidity position**

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

The group had a net cash inflow in the period. All three subgroups hold high levels of cash reserves to allow for unforeseen requirements and indeed are obliged to hold significant cash reserves as conditions of their financing arrangements. At 31 March 2018, cash reserves in Premier Transmission group amounted to £33.8m (2017: £34.5m), Belfast Gas Transmission group held £9.6m (2017: £9.7m) and West Transmission group held £1.5m (2017: £0.4m). At 31 March 2018, Moyle Interconnector group held operating cash reserves of £46.5m (2017: £39.8m). Total cash holdings (including cash held on deposit which is classified as financial assets) by the group at year end amounted to £95.0m (2017: £89.2m).

Revenue, profitability and reserves

After accounting for debt service, the group made an after-tax profit of £1.2m (2017: £9.1m).

Finance costs

Included within finance costs is £19.8m (2017: £16.3m) in respect of borrowing costs arising on the group's index linked issued bonds. These borrowing costs are made up of three elements:

- actual interest charge was £9.2m (2017: £9.0m);
- £9.4m (2017: £6.1m) required to restate bond liability to latest applicable Retail Price Index; and
- bond fees, liquidity facility fees and other charges £1.2m (2017: £1.2m).

Strategic report for the year ended 31 March 2018 (continued)

Stakeholders, relationships and resources

Customers

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

During the year the number of customers registered to use Moyle increased to 22 (2017: 18). The Premier Transmission Pipeline System provides a service to shippers from Moffat in Scotland to exit points at AES Ballylumford, the connection with Gas Networks Ireland (NI) pipelines at Carrickfergus and Belfast Gas exit points in Belfast and Larne, as well as West Transmission's exit point at Maydown which is an offtake from GNI's pipeline. A total of 16 shippers (2017: 17) 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 the System Operator for Northern Ireland (SONI) overseeing the operation and administration of the Moyle Interconnector, Siemens plc undertaking the long-term maintenance of the electricity convertor stations and SGN carrying out the routine maintenance, emergency response, and monitoring our system from their gas control centre in Horley, outside London.

Bondholders and financiers

The directors are very conscious of their obligations to the bondholders in the finance documents. In addition to complying with their other reporting obligations, they make available to bondholders copies of the Annual Report. Our key financiers are: for Moyle, Assured Guaranty (Europe) Limited as controlling creditor and the Bank of New York Mellon as trustee; for Belfast Gas Transmission, Assured Guaranty (Europe) Limited as controlling creditor and Prudential Trustee Company Limited as trustee; and, for Premier Transmission, Financial Guaranty Insurance Company ("FGIC") as controlling creditor and Prudential Trustee Company Limited as trustee.

Staff

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

During the year a staff satisfaction survey was carried out which showed a high level of staff satisfaction.

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

Employee diversity

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

	2018		2017	
	Male	Female	Male	Female
Board	5	2	5	2
Senior Management	9	3	9	3
All employees & Board	21	10	18	10

Strategic report for the year ended 31 March 2018 (continued)**Stakeholders, relationships and resources (continued)****Employee KPIs**

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

KPI	2018	2017
Training days per employee	4.3	3.7
Sickness absence days per employee	4.1	9.8
Personal Pension take up	95%	96%

Due to the group's small number of staff a few longer-term illnesses in the period can have a significant impact on the sickness absence rate. Where such instances arise appropriate actions, such as the use of temporary staff and consultants, are taken by the business to ensure business continuity during these periods of absence.

All employees are automatically enrolled on the Group's pension scheme and those who do not take up their pension do so through their own "opt out" choice.

Social, community and human rights issues

The group has a fundamental community focus through its purpose: to own and operate energy infrastructure in the long-term interest of energy consumers in Northern Ireland. This is also reflected through all of our strategic objectives which include cost effective operation to deliver savings and minimise risks of market change to Northern Ireland consumers. More information on how the group delivers these objectives can be found on pages 7 to 16.

The group also continues to consider its impact on the environment and remains committed to reducing our energy consumption and related emissions where possible, as well as reducing our wider impacts such as resource use and waste to landfill. The group ensures robust Health & Safety systems are in place as discussed on page 20, for the benefit of employees, contractors and the wider public. We comply with the Employments Rights Act, Modern Slavery Act and all other applicable UK law as an absolute minimum and recognise the importance of treating all of our employees fairly. We are committed to conducting business in an honest and ethical manner and act according to our Code of Ethics, which is integral to our business and sets out a range of principles we adhere to. We do not tolerate bribery or corruption of any kind and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships.

Risk management

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

Risk management structure

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

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 2018 and up to the date of approval of the annual report and financial statements.








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

During the year the Board held a risk workshop whereby it reviewed its approach to risk recording, management and mitigation. The Board, during its annual review of the effectiveness of the group's internal control and risk management systems, did not identify, nor was advised of, any failings or weaknesses which it has determined to be significant.

Strategic report for the year ended 31 March 2018 (continued)

Risk management (continued)

The principal risks of the group are:

Risk description and potential impact	Mitigation	Assessment of risk movement from March 2017
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 group promotes a strong health and safety culture, has a well-defined health and safety management system and follows industry standard practices. This risk has been reduced following restoration of the Moyle Interconnector to full operation.	
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 group's financial assets and liabilities and financial counterparty failure clauses are included in financing documents. The group has low liquidity risk due to its strong cash flows and the reserve accounts and liquidity facilities required by its financing documents. The required reserve accounts remain fully funded and £28m of liquidity facilities were in place throughout the year for Moyle, Belfast Gas Transmission and Premier Transmission. 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 bonds, damage to reputation of mutual model or fines.	Licence provisions implementing a collection agency agreement in the electricity business and the postalised charges system in the gas business are designed to offset the impact of such changes. An influencing strategy is in place to positively impact market developments. Recent and future market development are discussed on pages 11 and 15. Risk has remained relatively constant due to upcoming ISEM changes and remaining possibility of Brexit driven changes.	
Regulatory and political risk		
As the group consists primarily of regulated businesses it is exposed to regulatory risk. Changes in economic regulation or government policy could have an adverse effect on our financial position.	The group'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 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 increased given the ongoing absence of government in NI. Whilst this has had no direct adverse impact in the period the risk assessment is a recognition of potential unforeseen issues in the future.	
Corporate strategy and communication risk		
Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.	The Board retains responsibility for strategy as a reserved matter and manages communications directly in line with its communication plan, using outsourcing as appropriate. Risk profile has remained in line with the prior year with the continuation of Gas to the West construction.	
Project delivery risk		
Poor contracting or management, insufficient resources or extreme weather could cause project delays resulting in financial losses, reputational damage, damage to assets or loss of availability.	A project governance structure exists with sufficiently qualified and trained resources. Contractors are closely monitored and stakeholder engagement plans and insurance are in place.	

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

Strategic report for the year ended 31 March 2018 (continued)

Environment and safety

The group continues to put a high value on the Health and Safety of its operations and to recognise the importance of minimising the impact of its activities on the environment, both locally and in the global context. Our gas business runs simulated gas emergency exercises to ensure a robust response plan is in place to manage gas supply emergencies and pipeline incidents. Mutual Energy Limited and the Northern Ireland Network Emergency Co-ordinator (NINEC) coordinated the annual Gas Supply Exercise (October 2017) for the NI gas industry, as they would in the event of an actual Northern Ireland Gas Supply Emergency to manage a gas demand and supply imbalance. Mutual Energy were also a key stakeholder in the HSE(NI) led incident exercise, (November 2017) that simulated an incident on one of Mutual Energy's strategic pipelines.

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

Further work to build on the recommendations from the 2015 British Safety Council Five-Star Occupational Health and Safety Audit was carried out through the year and to plan for a further external audit.

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

Greenhouse gas emissions reporting

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

Emissions from:	Tonnes of CO ₂ e	
	2018	2017
Usage of gas in operations	1,307	2,874
Electricity consumption at convertor stations	1,165	1,104
Electricity, heat, steam and cooling purchased for own use	20	25
Total emissions	2,492	4,003
Emissions per GWh energy transmission	0.13	0.25

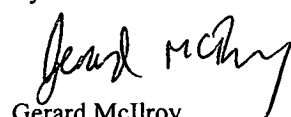
Methodology

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

Forward-looking statements

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

By order of the Board



Gerard McIlroy

Director

21 June 2018

Corporate governance statement

The group is committed to high standards of corporate governance. The Board leads the group's governance through the Group Corporate Governance Framework and associated policies. This statement describes how, during the year ended 31 March 2018, the group has applied the main and supporting principles of corporate governance.

The only listed securities of the group are the debt securities of Moyle Interconnector (Financing) plc, Premier Transmission Financing plc and Belfast Gas Transmission Financing plc. As such the group is not obliged to comply with the provisions set out in the UK Corporate Governance Code (April 2016) (the Code) which is publicly available at www.frc.org.uk. Instead the group uses its provisions as a guide to the extent considered appropriate to the circumstances of the group.

The Board

An effective board of directors leads and controls the group. The Board, is responsible for the overall conduct of the group's business and has powers and duties pursuant to the relevant laws of Northern Ireland and our articles of association. Board meetings are usually held 6 to 8 times per year, with 7 meetings being held in the year.

The Board:

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

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

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

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

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

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

In particular, non-executive directors are responsible for:

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

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

Corporate governance statement (continued)

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

Board membership

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

<i>Directors and Meetings Attended</i>	<i>Board</i>	<i>Nominations Committee</i>	<i>Remuneration Committee</i>	<i>Audit Committee</i>	<i>Risk Committee</i>	<i>Membership Selections Committee</i>
<i>Regina Finn</i>	7/7	3/3	2/2	-	-	-
<i>Patrick Anderson</i>	7/7	3/3	-	5/5	-	1/1
<i>Clarke Black</i>	3/3	2/2	1/1	2/2	-	-
<i>Michael McKernan</i>	2/2	1/1	-	2/2	-	-
<i>Kate Mingay</i>	7/7	3/3	1/1	5/5	-	-
<i>Chris Murray</i>	7/7	3/3	2/2	-	3/3	-
<i>Paddy Larkin</i>	7/7	3/3	-	-	3/3	-
<i>Gerard McIlroy</i>	7/7	3/3	-	-	-	-

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

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

Clarke Black was the Senior Independent Director until his retirement in September 2017, following which Kate Mingay was appointed to this role. The Senior Independent Director's responsibilities include leading the non-executive directors' annual consideration of the Chairman's performance. From time to time the non-executive directors, including the Chairman, met independently of management.

Board appointments and evaluation

All non-executive Directors joining the Board are required to submit themselves for election at the AGM following their appointment. Thereafter, they are subject to re-election annually. Michael McKernan was appointed as non-executive director on 1 January 2018, following Clarke Black's retirement. The non-executive directors are expected to serve only two terms of three years, but may be extended in exceptional circumstances up to a further three years. The process for recruiting directors is co-ordinated by the nominations committee (see page 23).

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

Board committees

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

Corporate governance statement (continued)

Nominations Committee

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

The Committee meets as necessary and the attendance during the year is listed in the table on page 22. The Committee is responsible for considering and recommending to the Board persons who are appropriate for appointment as executive and non-executive directors. The Nominations Committee is also responsible for succession planning and Board evaluation. The role and responsibilities of the Nominations Committee are set out in its terms of reference.

During the year the Nominations Committee, aided by Clarendon Executive, an external recruitment consultant, undertook a recruitment exercise to replace Clarke Black, who retired during the year. This resulted in the appointment of Michael McKernan in January 2018 as non-executive director to the board of Mutual Energy. Clarendon Executive is independent, having no other connection to Mutual Energy other than provision of these services. The committee has also taken a forward look at the next cycle of non-executive directorship replacement as part of their succession planning process.

Audit Committee

Patrick Anderson is Audit Committee chair. The Audit Committee also comprised Kate Mingay throughout the year and Clarke Black until his retirement in September 2017 following two terms in office. Michael McKernan joined the Audit Committee in January 2018. The requirement for the committee to have recent and relevant financial experience was met by the Audit Committee Chair, Patrick Anderson, being a Chartered Accountant. Audit Committee meetings were also attended, by invitation, by the executive directors of the group, the external auditors, tax advisors, other advisors and other finance employees as considered necessary.

The role and responsibilities of the Audit Committee are set out in its terms of reference and are described in more detail in the Audit Committee Report on pages 40 to 42.

Remuneration Committee

The Remuneration Committee was chaired by Clarke Black until his retirement in September 2017, upon which Kate Mingay took over this position. Chris Murray and Regina Finn are also members on the committee, which comprises solely non-executive directors. The role of this committee and details of how the company applies the principles of the Code in respect of directors' remuneration are set out in the Remuneration Committee Report on pages 26 to 38.

Risk Committee

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

The role and responsibilities of the Risk Committee are set out in its terms of reference and further information on the activities undertaken in the year can be found in the Risk Committee Report on page 39.

Membership Selections Committee

The Membership Selections Committee comprises two non-executive directors, two members who are not also directors of the company and two independents appointed by the Utility Regulator. The committee was chaired by Clarke Black (until September 2017) and Michael McKernan (since January 2018) with Patrick Anderson filling the other non-executive director role throughout the year.

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

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

The Membership Selections Committee procures candidates through two routes:

- a) requests to key stakeholders and consumer groups determined by the Membership Selections Committee to put forward candidates for consideration; and
- b) an open and transparent recruitment process similar to that used for public appointments.

Corporate governance statement (continued)

Internal control and risk management

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

A discussion of the process of identifying, evaluating and managing the significant financial, operational, compliance and general risks to the group's business and of the key risks identified is included in the Risk Management section of the strategic report on pages 18 to 19.

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

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

Long term viability

The directors have assessed the viability of the group over a five-year period to March 2023, taking account of the group's current position and the potential impact of the principal risks documented in the strategic report on page 19. Based on this assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over this period.

The directors have determined that the five-year period to March 2023 is an appropriate period over which to provide its viability statement, as this aligns with the period for which detailed business plans are prepared and this period is considered to have a greater level of certainty than could be achieved for a longer period.

In making this viability statement the directors have considered the group's current position, its business plan and committed borrowing facilities. The group's five-year business plan includes detailed financial budgets and cashflow projections, and additional sensitivity and scenario analysis including plausible severe scenarios. The forecast cash generated over this period is adequate to meet the group's anticipated liabilities as they fall due over this period, including the scheduled partial repayment of bond capital and interest. This assessment has also considered the risks faced by the business and the potential impacts of these on the business, including the business' liquidity over the period. The directors have also taken account of the protections which exist under the group's electricity and gas transmission licences which allow for full recovery of costs, including finance costs in making this assessment.

Going concern

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

Members

As Mutual Energy Limited, the holding company of the group, is a company limited by guarantee the Board of Directors are supervised in their leadership and control of the group by the members. During the year six members ceased membership with the company. Fourteen new members were appointed in the year, following a recruitment exercise, with Michael McKernan also becoming a member upon appointment as non-executive director.

Corporate governance statement (continued)

Members (continued)

The individuals who were members of the company for some part of the year are listed below:

Patrick Anderson	Stephen Kirkpatrick
Declan Billington	Gavin McBride (appointed 21/09/17)
Clarke Black (retired 30/09/17)	Robert McConnell
Margaret Butler	Brian McFarland (appointed 21/09/17)
John Cherry	Michael McKernan (appointed 01/01/18)
David Cunningham (appointed 21/09/17)	Brendan Milligan (retired 31/12/17)
Robin Davey	Kate Mingay
Jamie Delargy (appointed 21/09/17)	Nevin Molyneaux
Connor Diamond (appointed 21/09/17)	Dr Bernard Mulholland (appointed 21/09/17)
Joe Doherty	Chris Murray
Stephen Ellis	Tim Nelson (appointed 21/09/17)
Regina Finn	Colin Oxtan
Brian Fitzpatrick (resigned 08/06/17)	Conor Quinn
Kathy Graham (appointed 21/09/17)	Robert Richmond
Trevor Greene	Ken Simpson (appointed 21/09/17)
Peter Hayes (appointed 21/09/17)	Patrick Thompson
Wesley Henderson	Gerry Walsh (retired 31/12/17)
Chris Horner	Peter Warry (retired 31/12/17)
Gillian Hughes	Noel Williams (retired 31/12/17)
David Jenkins (appointed 21/09/17)	Mark Wishart
Andrew Kirke (appointed 21/09/17)	Ed Wright (appointed 21/09/17)
Helen Kirkpatrick (appointed 21/09/17)	

Directors' remuneration report

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

The chairman's annual statement

I am pleased to present the Directors' remuneration report for the financial year which ended on 31 March 2018, my first report since taking over the position of Remuneration Committee Chair in September 2017, following the retirement of Clarke Black.

The group's senior management remuneration structure includes an element of performance related pay, the majority of which is deferred in order to incentivise longer term performance in line with business-critical projects. The remainder of the performance related pay relates to in-year performance based on operational targets. The group's remuneration policy for directors and senior management has been in place since 2013 and has been operating well. We believe it ensures the alignment of the directors' interests with the long-term interests of the business and of NI consumers. At the 2017 AGM, some revisions to the remuneration policy were presented to the AGM, with the intention of adding flexibility to the executive directors' pension arrangements. The revised policy was approved by unanimous vote and will be effective for 3 years from 1 October 2017, unless otherwise amended and approved by the members in a further binding vote.

The Directors' Remuneration Report includes, in addition to this statement, the Directors' remuneration policy report and the annual report on remuneration. The remuneration policy can be found on pages 28 to 33. The annual report on remuneration can be found on pages 34 to 38.

Directors' remuneration report (continued)

Introduction

This report summarises the activities of the remuneration committee for the period to 31 March 2018. It sets out the remuneration policy and remuneration details for the executive and non-executive directors of the company and has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended August 2013. The report is split into three main areas: the statement by the chair of the remuneration committee, the policy report and the annual report on remuneration. The policy report was approved by a binding vote at the 2017 Annual General Meeting and applies for three years from 1 October 2017, subject to any future changes approved by the members. The annual report on remuneration provides details on remuneration in the period and other information required by the Regulations.

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

The role of the remuneration committee

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

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

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Directors' remuneration report (continued)

Remuneration Policy

The Remuneration Policy set out in this report was approved at the 2017 AGM, and came into effect on 1 October 2017. The policy will be reconsidered on or before the 2020 AGM. Policy is kept under review to ensure it remains suitable as the business or wider markets change.

Future policy table

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

Policy for executive directors

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

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Salary and fees	Part of a basic competitive package to recruit and retain individuals of the necessary calibre to execute the group's business strategy.	Reviewed annually and fixed for 12 months commencing 1 April. Decision influenced by: <ul style="list-style-type: none"> - role, experience or performance; - average change in broader workforce salary; - group performance and prevailing market conditions; and - external benchmarking of similar roles at comparable companies. 	Increases only for inflation and in line with other employees unless there is a change in role, responsibility or to reflect market conditions.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Taxable benefits	Providing employee protection in interest of employee and group.	Insured healthcare cover set at suitable protection level and premiums paid monthly.	Cost of healthcare insurance as part of group scheme. Additional benefits may also be provided where they are made available to the wider workforce or to take account of any changes to general taxation rules.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.

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Directors' remuneration report (continued)

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Annual performance-related pay	Focus attention on group KPIs, incentivise outperformance of targets and provide a competitive total annual earnings opportunity.	<p>The remuneration committee sets targets which are linked to operational performance and determines the percentages of salary achievable for each and at what performance level these are receivable.</p> <p>Performance-related pay is calculated and awarded based on the financial year end to which it relates. Discretion may be used where circumstances necessitate the adjustment of targets within the year. Awards are paid in cash except where a director chooses to take all or a portion of the performance-related pay as company paid pension contributions. Where individuals receive their performance-related pay as pension this reduces the company's National Insurance Contributions and this saving is also credited to the individual's pension (currently 13.8% of the amount exchanged).</p>	Normal annual performance-related pay is expected to be 17% of salary with a maximum annual performance-related pay potential of 25% of salary.	<p>Performance-related pay elements are based on group KPIs for the year and include:</p> <ul style="list-style-type: none"> • Availability and asset integrity improvements; • Revenue; • Costs and cost savings; and • Compliance and health and safety improvements <p>Performance below the threshold usually results in zero payment. Payments rise from 0% to 100% of the maximum opportunity for levels of performance between the threshold and maximum.</p> <p>As these elements are fundamental to the business the company sets its target performance at 100% of the maximum potential performance-related pay.</p>	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Deferred performance-related pay	Align executives with long term interests of the group and encourage retention of key employees.	Each year a predetermined % of salary is set aside for each director as deferred performance-related pay. After 3 years half of the total which has been deferred to date becomes available for payment. Payment of this performance-related pay will be linked to key deliverables in the business plan in order to align payment with longer term goals. Discretion may be used to calculate the amount payable where appropriate.	It is expected that each year up to 33% of salary will be deferred. However this amount can be in the range 25-35% to give a total annual and deferred performance-related pay receivable of 50% in relation to each year. No deferred performance-related pay will be paid until the third year of operation of the policy, after which up to half of the amount set aside may be paid in cash or pension contributions as requested by the director.	The payment of the deferred performance-related pay is linked to the group strategic business plan and the key deliverables in that plan. Milestones for award are linked to the business plan projections. Targets are set for each of the relevant categories with the percentage of performance-related pay obtainable for each target to be determined each year by the remuneration committee. The categories for which targets are set include asset performance, financial and regulatory/market performance.	<p>No recovery or withholding applies to any performance-related pay paid in cash.</p> <p>The deferred performance-related pay may be subject to forfeiture where the participant leaves the employment of the group prior to vesting. Forfeiture is at the discretion of the committee.</p>

Directors' remuneration report (continued)

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Pensions	To provide funding for retirement.	A defined contribution allowance for all Executive Directors. The group also operates a pension salary sacrifice arrangement where individuals can exchange part of their salary for Company paid pension contributions and vice versa. NIC cost savings for taking additional into pension are credited to the individual's pension. Any additional NIC costs from reducing amounts paid into pension are deducted from the director's pension allowance.	The company pension contribution is expected to be 16% of salary but no more than 25%, excluding any employee salary sacrifice.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.

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

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

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

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

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

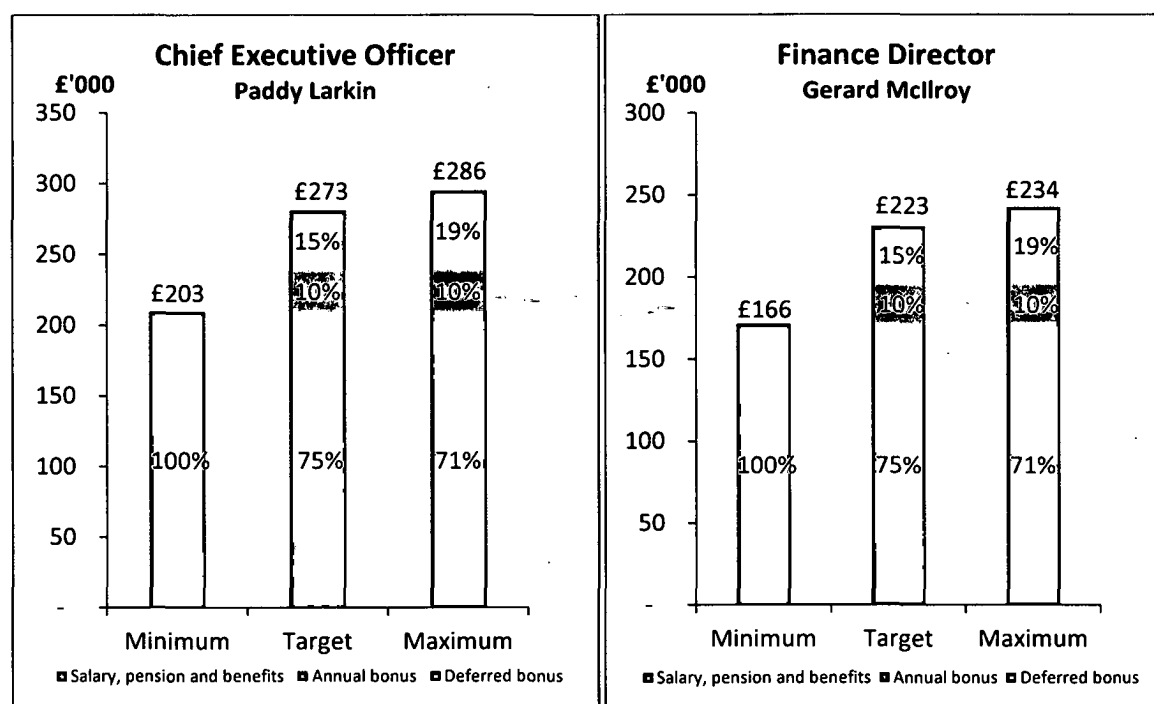
The Remuneration Committee reserves the right to make any remuneration or loss of office payments where the terms were agreed prior to an individual being appointed as a director of the company or prior to the approval of the policy.

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

Directors' remuneration report (continued)

Illustrations of potential reward opportunities for the executive directors

The total remuneration for each of the executive directors that could result from the remuneration policy in 2018/19 under three different performance levels is shown below.



The following assumptions have been made:

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

Fixed pay comprises:

- salaries – salary effective as at 1 April 2018;
- benefits – amount received by each Executive Director in the 2017/18 financial year; and
- pension – amount received by each Executive Director in the 2017/18 financial year.

Service contracts and policy on payment for loss of office of the Executive Directors

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

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

Directors' remuneration report (continued)

Approach to recruitment remuneration

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

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

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

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

Statement of consideration of employment conditions elsewhere in company

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

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

Statement of consideration of member views

The company remains committed to member dialogue and takes an active interest in voting outcomes. The Chairman of the remuneration committee presented the 2012/13 annual remuneration report and revised executive director remuneration structure for 2013/14 onwards to the members at the 2013 AGM. Questions and comments were invited and members were offered the opportunity to discuss any issues on a one-to-one basis at a later date. The revised structure and levels received unanimous support from the members. Any feedback from members received throughout the year is considered when setting the directors' remuneration policy. Members views will be sought going forward, at a minimum, in line with the 3 year policy approval cycle. The policy was last approved at the September 2017 AGM with the full support of attending members.

Directors' remuneration report (continued)

Policy for Non-executive directors

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

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Annual Fee	Competitive fee to recruit and retain NEDs who have a broad range of experience and skills to oversee the implementation of the group strategy.	<p>The chairman and NEDs are paid an all-inclusive fee for all Board responsibilities. The fees are reviewed annually and fixed for 12 months commencing 1 April. NED fees are determined by the Chairman and executive directors and approved by the Board. The Chairman's fees are set by the committee. No additional fees are payable for the chairmanship of other committees or for the additional responsibilities of the senior independent director.</p> <p>Fees are periodically reviewed against those for NEDs in companies of similar scale and complexity and may be adjusted as appropriate.</p> <p>NEDs are not eligible to receive benefits and do not participate in pension plans or performance-related pay schemes.</p>	<p>Fee levels for incumbents for 2017/18 are as follows:</p> <p>Chairman £77,320p.a.</p> <p>NEDs £33,500p.a.</p>	None	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Additional fees payable for other duties to the company	To provide the group with services which it requires which do not fall within the normal duties of a director and where there are overriding reasons that make them the most suitably qualified to undertake it.	Where a director possesses skills and experience which the company requires and the director is best-placed to provide them such services may be provided at an arms-length basis, in line with the company's procurement policies. The terms of engagement for such services must be approved by the Board.	Any remuneration will be at the discretion of the Board and will be reported in the annual report.	N/A	There are no provisions for the recovery of any sums paid or the withholding of any payments.

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

Directors' remuneration report (continued)

Annual report on remuneration

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

Single total figure of remuneration for each director

The remuneration of the directors for the years 2017/18 and 2016/17 is made up as follows:

Directors' remuneration as a single figure (2017/18)

£'000	Salary and fees ¹	All taxable benefits ²	Annual performance-related pay ¹	Deferred performance-related pay	Pension ¹	Total
Executive Directors						
Paddy Larkin ³	176	1	27	48	27	279
Gerard McIlroy ⁴	143	1	23	40	20	227
Non-Executive Directors						
Paddy Anderson ⁵	34	-	-	-	-	34
Clarke Black ⁶	17	-	-	-	-	17
Regina Finn	77	-	-	-	-	77
Michael McKernan ⁷	8	-	-	-	-	8
Kate Mingay	34	-	-	-	-	34
Chris Murray	34	-	-	-	-	34
	523	2	50	88	47	710

Directors' remuneration as a single figure (2016/17)

£'000	Salary and fees ¹	All taxable benefits ²	Annual performance-related pay ¹	Deferred performance-related pay	Pension ¹	Total
Executive Directors						
Paddy Larkin ³	172	1	19	52	26	270
Gerard McIlroy ⁴	140	1	16	43	21	221
Non-Executive Directors						
Paddy Anderson ⁵	17	-	-	-	-	17
Clarke Black	34	-	-	-	-	34
Regina Finn	77	-	-	-	-	77
Stephen Kirkpatrick	17	-	-	-	-	17
Kate Mingay	34	-	-	-	-	34
Chris Murray	34	-	-	-	-	34
	525	2	35	95	47	704

¹ Figures in the table are shown before the effect of salary sacrifices and pension allowances payments. Where a director elects to receive salary instead of pension this is shown in the pension column.

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

³ In the year Paddy Larkin elected to exchange £26,607 pension for £23,381 salary payment (2017: £Nil), with the difference being used to pay additional employer NIC costs incurred as a result. In addition £17,306 pension accrued in relation to 2017 was exchanged for £15,207 salary in the year.

⁴ Gerard McIlroy elected to exchange £18,578 bonus (2017: £Nil) for company paid pension contributions in the year. £2,564 NIC savings were credited to his pension account in the year (2017: £Nil). In addition, Gerard elected to exchange £19,266 pension for £16,930 salary payment, with the difference being used to pay additional employer NIC costs incurred as a result.

Directors' remuneration report (continued)

Annual report on remuneration (continued)

Single total figure of remuneration for each director (continued)

⁵ Appointed as Director on 1 October 2016. In accordance with the current terms of engagement £14,000 (2017: £4,000) was paid to the director and the remaining £19,500 (2017: £12,750) was elected to be paid to charity (Disability Sport NI).

⁶ Retired as Director on 30 September 2017.

⁷ Appointed as Director on 1 January 2018.

Determination of 2017/18 annual performance-related pay

Annual performance-related pay awards were determined with reference to performance over the financial year ending 2017/18. The performance-related pay accruing to executive directors is set out below. The particulars of the performance measures have not been disclosed as these are considered commercially sensitive.

	Annual performance related pay (% of salary)				Deferred performance related pay (% of salary)			
	CEO		FD		CEO		FD	
	Maximum	Actual	Maximum	Actual	Maximum	Actual	Maximum	Actual
Asset performance	10.00%	9.50%	10.00%	9.50%	19.00%	16.75%	19.00%	16.75%
Financial performance	5.50%	5.50%	5.50%	5.50%	6.00%	5.00%	6.00%	5.00%
Regulatory/ market performance	1.50%	1.50%	1.50%	1.50%	8.00%	7.00%	8.00%	7.00%
	17.00%	16.50%	17.00%	16.50%	33.00%	28.75%	33.00%	28.75%

Payments to past directors

No payments were made to past directors in the period (2017: £Nil).

Payments for loss of office

There were no payments for loss of office made in the year (2017: £Nil).

Directors' remuneration report (continued)

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

CEO Remuneration Table

The table below sets out the details for the director undertaking the role of chief executive officer.

Year	CEO single figure of total remuneration (£'000s)	Annual performance-related pay pay-out against maximum %	Deferred performance-related pay pay-out against maximum opportunity % **
2009/10	48*	95%	-
2010/11	197	92%	-
2011/12	189	86%	-
2012/13	203	81%	-
2013/14	257	85%	-
2014/15	260	76%	-
2015/16	265	92%	88%
2016/17	270	71%	92%
2017/18	279	97%	90%

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

** During 2015/16 payments in relation to the deferred bonus were made for the first time since the introduction of the deferred bonus element to the directors' remuneration. The percentage shown represents the amount paid as a percentage of the maximum possible payment.

Percentage change in remuneration of director undertaking the role of chief executive officer

The table below shows the percentage change in remuneration of the director undertaking the role of chief executive officer and the group's employees as a whole between 2017/18 and 2016/17.

	Percentage increase in remuneration in 2017/18 compared with remuneration in 2016/17	
	CEO	Group's Employees as a Whole*
Salary and fees	2.3%	4.3%
All taxable benefits	17.8%	18.8%
Annual performance-related pay	40.8%	19.6%
Total	6.2%	5.9%

* Reflects the average change in pay for employees (excluding non-executive directors) employed throughout both the year ended 31 March 2017 and the year ended 31 March 2018.

Directors' remuneration report (continued)

Relative importance of spend on pay

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

	2017/18 £'000	2016/17 £'000	% change
Total employee costs	2,480	2,009	23%
Total debt repayments plus cash retained in the business plus cash returned to customers via shippers	45,108	35,831	26%

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

Statement of implementation of remuneration policy in 2018/19

The directors' salaries and fees for the 2018/19 year are as follows:

	2018/19 £'000	2017/18 £'000	Change
Chief Executive	181	176	2.7%
Financial Director	147	143	2.7%
Chairman	77	77	0%
Non-executive directors	34	34	0%

The annual performance-related pay for 2018/19 will operate on the same basis as for 2017/18 and will be consistent with the policy detailed in the Remuneration Policy section of this report. The measures have been selected to reflect a range of financial and operational goals that support the key strategic objectives of the group.

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

	Annual performance related pay (max % of salary)		Deferred performance related pay (max % of salary)	
	CEO	FD	CEO	FD
Asset performance & business resilience	8.0%	8.0%	17.0%	17.0%
Financial performance	7.5%	7.5%	8.0%	8.0%
Regulatory/market performance	1.5%	1.5%	8.0%	8.0%
	17.0%	17.0%	33.0%	33.0%

The particulars of the performance targets are considered to be commercially sensitive.

Consideration by the directors of matters relating to directors' remuneration

During the year, the committee met twice to consider matters relating to executive directors' remuneration. The directors who were members of the committee during these considerations were Clarke Black (until September 2017), Kate Mingay (from October 2017), and Chris Murray and Regina Finn throughout the year. The CEO and Finance Director attend meetings by invitation and assist the Committee in its deliberations where appropriate. The executive directors are not involved in deciding their own remuneration. During the year the committee procured advice in respect of their consideration of non-executive director remuneration. Following a tender PwC were appointed to provide these services.

Directors' remuneration report (continued)**Statement of voting at general meeting**

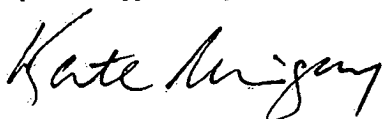
The group is committed to on-going shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to directors' remuneration, the reasons for any such vote will be sought, and any actions in response will be detailed here.

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

	Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration report (2017 AGM)	17	100%	-	0%	17	-
Remuneration policy (2017 AGM)	17	100%	-	0%	17	-

Approval

This report was approved by the board of directors on 21 June 2018 and signed on its behalf by:



Kate Mingay
Chairman
21 June 2018

Risk committee report

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

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

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

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

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

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

Activities in 2017/18

The Committee met on three occasions during the year ended 31 March 2018 in order to review risk registers and business improvement plans, review Health and Safety policies and procedures, and to address specific issues of operational and environmental risk including the Moyle low voltage cable replacement and cyber security risk. Attendance was as listed in the Corporate Governance Statement.

During the year the Committee:

- Reviewed Health and Safety performance including incidents, near-miss and good-catch reports;
- Provided oversight and review of amendments to the 2017 Health and Safety Policy Statement and 2017 Health and Safety Management System to reflect changes in Health and Safety guidance, reviewed the 2017/18 Health and Safety Plans and recommended these documents to the Board for approval;
- Reviewed Site Safety and Work Inspections;
- Reviewed the Environmental Policy;
- Reviewed the progress on recommendations from the 2015 British Safety Council audit and agreed 2017/18 audit options;
- Reviewed the arrangements in place to prevent or mitigate against a cyber or physical security breach;
- Reviewed the Business Continuity/Disaster Recovery programme and exercise;
- Reviewed the potential implications from 'Brexit';
- Reviewed the risk registers and improvement plans for both the gas and electricity businesses, incorporating both Health, Safety, Welfare and asset performance improvement;
- Reviewed the Moyle Low Voltage land cable strategy and repair plan;
- Considered the ISO 55001 outline certification plan;
- Reviewed the plans for 2018 Belfast Transmission Pipeline (BTP) In-line Inspection; and
- Reviewed the Risk Committee Terms of Reference.

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

Audit committee report

I am pleased to present the Audit Committee Report for the year ending 31 March 2018. In recent years a number of complex accounting issues have significantly impacted on the work of the Audit Committee. No new complexities were encountered during 2017/18 and as result the Committee has been able to focus more of its attention on risk management and internal controls as well as taking a forward look to the new accounting standards which will impact the group from 2018/19 onwards. From a risk management perspective, a Board Risk workshop held in November 2017 reviewed the approach to risk recording, management and mitigation as well as the relationship between, and role played by, the Audit and Risk Committees.

Patrick Anderson
21 June 2018

The Audit Committee was in place throughout the year ended 31 March 2018 and all its members were independent in accordance with provision B.1.1 of the UK Corporate Governance Code.

Principal responsibilities

The role of the Audit Committee is to:

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

The Audit Committee delegates management of certain non-financial operating risks to the Risk Committee who provide minutes of each meeting to the Audit Committee. Discussions are held between the Audit Committee and Risk Committee as required and reports of each Risk Committee meeting are provided to the Audit Committee.

Membership

The Committee was chaired by Patrick Anderson throughout the year. The Chair is a qualified accountant and fulfils the Committee's terms of reference that at least one member of the Audit Committee should have sufficient recent and relevant financial experience. The Committee also comprised Kate Mingay and Clarke Black (until his retirement in September 2017) and Michael McKernan (from his appointment in January 2018). Members receive no additional remuneration for their service on the Committee. All Committee members have competence relevant to the sector in which the company operates.

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

Activities

The Committee met five times in the year ended 31 March 2018 with attendance as listed in the Corporate Governance Statement. The key areas of consideration are set out below, along with a description of the activities carried out in each area during the year.

Audit

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

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

Audit committee report (continued)

Audit (continued)

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

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

Financial reporting

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

The majority of the matters identified are effectively routine and consistent year on year. In the current year the primary issue considered significant was the impact of IFRS15: Revenue and IFRS9: Financial Instruments on the group's accounts.

The Committee considered the various income streams in light of the new IFRS 15 which is effective for the 2018/19 financial year. Following consideration of the various requirements of the accounting standard the Committee determined that it did not anticipate the new standard having a significant impact on the accounting treatment for the group's revenue.

The group is still actively considering the eligibility of Premier Transmission Financing's swaps to be hedged under IFRS 9: Financial Instruments and, given the complex nature of these rules, third party advice will be sought as part of this determination. This standard applies to the 2019/20 financial year.

Other key judgements and policies are included in note 1 on pages 61 to 62.

The other financial reporting matters which the Committee considered included:

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

Audit committee report (continued)

Internal controls and risk management systems

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

- reviewing the effectiveness of the group's internal controls and risk management systems including consideration of fraud risk;
- reviewing the group's Corporate Risk Register and making revisions thereto in line with changes to the group's business;
- reviewing and approving the statement to be included in the annual report concerning internal controls and risk management;
- determining the schedule and frequency of performance of compliance reviews, reviewing the outcome of these compliance reviews and recommending improvements and policy amendments in a range of areas; and
- reviewing and approving a range of group policies.

Review of committee effectiveness

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

Directors' report for the year ended 31 March 2018

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2018.

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

Results

The group's profit for the year is £1,233,000 (2017: £9,067,000).

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

Post balance sheet events

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

Directors

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

Patrick Anderson	
Clarke Black	(resigned 30 September 2017)
Regina Finn	
Patrick Larkin	
Gerard McIlroy	
Michael McKernan	(appointed 1 January 2018)
Kate Mingay	
Christopher Murray	

Financial risk management

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

Directors indemnities

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

Political donations

Neither the company nor any of its subsidiaries have made any political contributions 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 9 to 16.

Corporate governance

Further details in respect of the group's corporate governance statement is set out on pages 21 to 25.

Statement of disclosure of information to auditors

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

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

Directors' report for the year ended 31 March 2018 (continued)

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the 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 group and company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

Under company law the directors must not approve the group and company financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Company and of the Group's profit or loss for that year. In preparing each of the Group and Company 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 they have been prepared in accordance with IFRS as adopted by the EU;
- assess the group and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and which enable them to ensure that the financial statements of the Group are prepared in accordance with applicable IFRS, as adopted by the EU and comply with the provisions of the Companies Act 2006. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities. The directors are also responsible for preparing a directors' report that complies with the requirements of the Companies Act 2006.

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

Responsibility statement of the directors in respect of the annual financial report

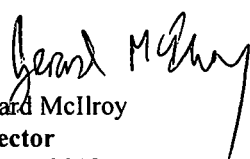
We confirm that to the best of our knowledge:

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

Auditor

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

On behalf of the board



Gerard McIlroy
Director
21 June 2018

Independent Auditor's Report to the Members of Mutual Energy Limited

1 Report on the audit of the financial statements

Opinion

We have audited the Group and Company financial statements ("financial statements") of Mutual Energy Limited for the year ended 31 March 2018 set out on pages 47 to 80 which comprise the Group statement of comprehensive income, Group and parent company balance sheet, Group and parent company statement of changes in equity, Group and parent company cash flow statements and related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is UK Law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the Group financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2018 and of its profit for the year then ended;
- the Company statement of financial position gives a true and fair view of the state of affairs of the Company as at 31 March 2018;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2006; and
- the Group and Company financial statements 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 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

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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 and directors' report, Chairman's statement, Corporate governance statement, Directors' remuneration report, Risk committee report and the Audit committee report, other than the financial statements and our auditor's report thereon. 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 the work undertaken in the course of the audit, we report that

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

Independent Auditor's Report to the Members of Mutual Energy Limited (continued)

1 Report on the audit of the financial statements (continued)

Directors' remuneration report

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

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

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 parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report on these matters/in regard to these matters.

2 Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set on page 44, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for 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.

In preparing the financial statements, the directors are responsible for assessing the Group and 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

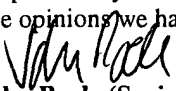
Auditor's responsibilities for the audit of the financial statements

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.

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

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


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

25 JUNE 2018

Mutual Energy Limited

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Group statement of comprehensive income for the year ended 31 March 2018

	Note	2018			2017		
		Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000
Revenue - continuing operations		63,170	-	63,170	60,795	-	60,795
Operating costs	3	(45,443)	-	(45,443)	(35,282)	-	(35,282)
Other operating income	3	1,000	-	1,000	-	-	-
Operating profit		18,727	-	18,727	25,513	-	25,513
Finance income	5	469	2,240	2,709	2,651	-	2,651
Finance costs	5	(19,861)	-	(19,861)	(16,442)	(1,719)	(18,161)
Finance (costs)/income - net	5	(19,392)	2,240	(17,152)	(13,791)	(1,719)	(15,510)
(Loss)/profit before income tax		(665)	2,240	1,575	11,722	(1,719)	10,003
Income tax credit/(charge)	6	39	(381)	(342)	(406)	(530)	(936)
(Loss)/profit and total comprehensive (expense)/income for the year attributable to the owners of the parent	16	(626)	1,859	1,233	11,316	(2,249)	9,067

The notes on pages 51 to 80 are an integral part of these consolidated financial statements.

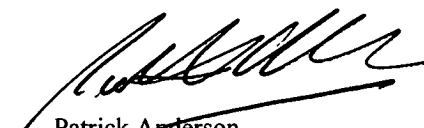
Group and parent company balance sheet at 31 March 2018

		Group		Company	
	Note	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Non-current assets					
Property, plant and equipment	8	242,817	236,519	37	49
Intangible assets	9	140,960	146,510	-	-
Investments in subsidiaries	10	-	-	5,431	5,431
Other investments	11	3,576	5,182	-	-
Deferred income tax assets	19	6,632	6,983	52	55
		393,985	395,194	5,520	5,535
Current assets					
Trade and other receivables	12	14,553	10,544	2,457	2,453
Financial assets	13	-	13,667	-	-
Cash and cash equivalents	14	95,049	75,548	2,900	2,522
		109,602	99,759	5,357	4,975
Total assets		503,587	494,953	10,877	10,510
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	15	-	-	-	-
Retained earnings	16	25,125	23,892	(7,315)	(9,118)
Total equity		25,125	23,892	(7,315)	(9,118)
Non-current liabilities					
Other payables	21	31,848	11,643	-	-
Borrowings	17	275,307	281,865	10,276	18,770
Provisions	18	3,008	3,311	-	-
Deferred income tax liabilities	19	38,325	39,271	-	-
Government grants	20	54,522	57,931	-	-
Derivative financial instruments	24	40,920	43,160	-	-
		443,930	437,181	10,276	18,770
Current liabilities					
Trade and other payables	21	15,537	12,019	7,916	858
Corporation tax payable		774	4,203	-	-
Borrowings	17	14,812	14,249	-	-
Government grants	20	3,409	3,409	-	-
		34,532	33,880	7,916	858
Total liabilities		478,462	471,061	18,192	19,628
Total equity and liabilities		503,587	494,953	10,877	10,510

The notes on pages 51 to 80 are an integral part of these financial statements.

The financial statements on pages 47 to 80 were authorised for issue by the Board of Directors on 21 June 2018 and were signed on its behalf by


Patrick Larkin
Director


Patrick Anderson
Non-executive director

Group and parent company statement of changes in equity for the year ended 31 March 2018

Group	Ordinary shares £'000	Retained earnings £'000	Total equity £'000
At 1 April 2016	-	14,825	14,825
Total comprehensive income for the year	-	9,067	9,067
At 31 March 2017	-	23,892	23,892
Total comprehensive income for the year	-	1,233	1,233
At 31 March 2018	-	25,125	25,125

Company	Ordinary shares £'000	Retained earnings £'000	Total £'000
At 1 April 2016	-	(3,578)	(3,578)
Total comprehensive expense for the year	-	(5,540)	(5,540)
At 31 March 2017	-	(9,118)	(9,118)
Total comprehensive income for the year	-	1,803	1,803
At 31 March 2018	-	(7,315)	(7,315)

The notes on pages 51 to 80 are an integral part of these financial statements.

Group and parent company cash flow statements for the year ended 31 March 2018

		Group		Company	
		2018	2017	2018	2017
	Note	£'000	£'000	£'000	£'000
Cash flows from operating activities					
Profit/(loss) before income tax		1,575	10,003	1,916	(5,699)
Adjustments for:					
Finance costs/(income) – net		17,152	15,510	(1,730)	1,047
Depreciation of property, plant and equipment		13,834	13,638	32	31
Amortisation and release of government grants		(3,409)	(3,409)	-	-
Amortisation of intangible assets		5,550	5,550	-	-
Fair value adjustment of investment		11	2,506	-	4,819
Movement in trade and other receivables		(4,009)	4,606	(168)	879
Movement in trade and other payables		3,926	(4,892)	185	151
Income tax (paid)/received		(4,366)	(2,140)	160	165
Non-operating element of insurance proceeds		(1,000)	-	-	-
Net cash generated from operating activities		29,264	41,372	395	1,393
Cash flows from investing activities					
Interest received		269	396	3	2
Returns from/(investment in) financial asset		13,667	(156)	-	-
Purchase of property, plant and equipment		(687)	(8,755)	(20)	(40)
Return of capital on other investments		1,807	1,209	-	-
Acquisition of investments		(212)	-	-	-
Non-operating element of insurance proceeds		1,000	-	-	-
Net cash generated from/(used in) investing activities		15,844	(7,306)	(17)	(38)
Cash flows from financing activities					
Interest paid		(8,910)	(9,238)	(3,000)	-
Repayment of borrowings		(16,697)	(15,794)	-	-
Proceeds from refinancing		-	1,765	3,000	-
Net cash used in financing activities		(25,607)	(23,267)	-	-
Movement in cash and cash equivalents					
Movement in cash and cash equivalents		19,501	10,799	378	1,355
Cash and cash equivalents at the beginning of the year	14	75,548	64,749	2,522	1,167
Cash and cash equivalents at the end of the year	14	95,049	75,548	2,900	2,522

The notes on pages 51 to 80 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2018**1 Accounting policies, financial risk management and critical accounting estimates/judgements****General information**

The group's principal activities during the year were the financing and operation through its subsidiaries of the Moyle Interconnector which links the electricity transmission systems of Northern Ireland and Scotland, the Scotland Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland, and the Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne. The group has also been involved in the development of West Transmission's main pipeline which will transport gas to 7 towns in the West of Northern Ireland, as well as the operation of the pipeline which is currently transporting gas to Strabane. The company is a private company limited by guarantee which is incorporated, registered and domiciled in Northern Ireland.

These group financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. With the exception of the group's investments, all of the group's assets and liabilities are denominated in Sterling. These financial statements were authorised for issue by the Board of Directors on 21 June 2018 and were signed on their behalf by Patrick Larkin and Patrick Anderson. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Mutual Energy Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed on pages 61 to 62.

Statement of compliance with IFRSs

The Group and Parent company financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The company has availed of the exemption permitted by Section 408 of the Companies Act 2006, and so the parent company's statement of comprehensive income has not been included in these financial statements.

New standards, amendments or interpretations

There were no additional standards, amendments and interpretations that had a material impact on the Group and Company's financial statements during the year. The following standards, amendments and interpretations were effective for accounting periods beginning on or after 1 April 2017 and these have been adopted in the Group and Company financial statements where relevant:

- Amendments to IAS 7: *Disclosure Initiative*
- Amendments to IAS 12: *Recognition of deferred tax assets for unrealised losses*

Notes to the financial statements for the year ended 31 March 2018**1 Accounting policies, financial risk management and critical accounting estimates/judgements (continued)****New standards, amendments or interpretations (continued)*****New standards, amendments or interpretations not adopted***

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2018 and have not been applied in preparing these financial statements. The standards and interpretations not adopted are outlined below:

- IFRS 15 Revenue from contracts with customers including amendments to IFRS 15: Effective date of IFRS 15 (Mandatory for the year commencing on or after 1 January 2018)
- IFRS 9 Financial Instruments (Mandatory for the year commencing on or after 1 January 2018)
- Clarifications to IFRS 15 Revenue from Contracts with Customers (Mandatory for the year commencing on or after 1 January 2018)
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Mandatory for year commencing 1 January 2018)
- IFRS 16: Leases (Mandatory for the year commencing on or after 1 January 2019)
- IFRS 17 Insurance Contracts (Mandatory for the year commencing on or after 1 January 2021)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (Mandatory for the year commencing on or after 1 January 2018)
- IFRS 23 Uncertainty over Insurance Tax Treatments (Mandatory for the year commencing on or after 1 January 2019)
- Amendments to IFRS2 Classification and measurement of share based payment transactions (Mandatory for year commencing 1 January 2018)
- Annual Improvements to IFRS Standards 2014-2016 Cycle (Mandatory for the year commencing on or after 1 January 2018)
- Amendments to IAS 40: Transfers of Investment Properties (Mandatory for year commencing 1 January 2018)
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (Mandatory for the year commencing on or after 1 January 2019)
- Amendments to IAS 28 Long-term interests in Associates and Joint Ventures (Mandatory for the year commencing on or after 1 January 2019)
- Annual Improvements to IFRS Standards 2015-2017 Cycle (Mandatory for the year commencing on or after 1 January 2019)

With the exception of IFRS 9, IFRS 15 and IFRS 16, the directors do not expect that the adoption of the standards and interpretations listed above will have material impact on the Group and Company financial statements.

IFRS 9 will be effective for the group starting 1 April 2018 and will replace the current requirements of IAS 39 'Financial Instruments: Recognition and Measurement'. The main changes introduced by the new standard are new classification and measurement requirements for certain financial assets, a new expected loss model for the impairment of financial assets, revisions to the hedge accounting model and amendments to disclosures. The changes are generally to be applied retrospectively. The company expects limited impact on the financial statements. The group is in the process of assessing the eligibility of its derivatives to be hedged under the new standard.

IFRS 15 will be effective for the group and company starting 1 April 2018. The standard permits a choice of two possible transition methods for the initial application of the requirements of the new standard: (1) retrospectively to each prior reporting period presented in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), or (2) retrospectively with the cumulative effect of initially applying the standard recognised on the date of initial application, being 1 April 2018 for the group and company (the "cumulative catch-up" approach). The group and company will adopt IFRS15 for the first time in the year ending 31 March 2019 and, where applicable, expects to adopt the retrospective transition method with the cumulative effect of initially applying the standard reflected as an adjustment to the opening balance of retained earnings as of 1 April 2018.

Revenue earned from contracts with customers will be recognised based on a five-step model which requires the transaction price for each identified contract to be apportioned to separate performance obligations arising under the contract and recognised either when the performance obligation in the contract has been performed (point in time recognition) or over time as control of the performance obligation is transferred to the customer. Overall, the group and company expects that adoption of IFRS15 will not impact on how revenue is currently accounted for.

Notes to the financial statements for the year ended 31 March 2018**1 Accounting policies, financial risk management and critical accounting estimates/judgements (continued)***New standards, amendments or interpretations not adopted (continued)*

IFRS 16 will change lease accounting mainly for lessees, and will replace the existing standard IAS 17. An asset for the right to use the leased item and a liability for future lease payments will be recognised for all leases, subject to limited exemptions for short-term leases and low-value lease assets. The costs of leases will be recognised in profit or loss split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the existing accounting for finance leases, but substantively different to the existing accounting treatment for operating leases under which no lease asset or lease liability is recognised and rentals payable.

Basis of consolidation

The consolidated financial statements consolidate the financial statements of Mutual Energy Limited and its subsidiary undertakings drawn up to 31 March 2018. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

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

Presentation of statement of comprehensive income

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

Going concern

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

Segment reporting

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

Notes to the financial statements for the year ended 31 March 2018**1 Accounting policies, financial risk management and critical accounting estimates/judgements (continued)****Revenue**

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

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

Electricity business – auction and grid services revenues are recognised in the period in which the services are provided to the customers. Collection Agency Income Requirement (CAIRt) revenue is recognised in line with the income recovered by SONI on Moyle's behalf via Northern Ireland electricity tariffs, as provided for in Moyle's Collection Agency Agreement.

Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise: 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.

Insurance receipts

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

Intangible assets**(a) Goodwill**

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

(b) Licences

Acquired licences are shown at historical cost. Licences have a finite useful economic life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful economic lives. The estimated remaining useful economic life of the licences is 16 years for the Scotland Northern Ireland pipeline, 19 years for the Moyle Interconnector and 34 years for the Belfast Gas Transmission pipeline. The useful economic life of the licences is linked to the allowances to cover repayment of debts and is independent of the full terms of the licences or the useful lives of the assets.

Notes to the financial statements for the year ended 31 March 2018**1 Accounting policies, financial risk management and critical accounting estimates/judgements (continued)****Property, plant and equipment**

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

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

Gas Pipelines	43 years
Electricity interconnector assets	15 - 30 years
Control equipment	20 years
Plant and machinery	15 - 31 years
Office and computer equipment	3 years

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

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

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

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

Investments

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

Investments in unquoted funds and other unquoted companies are recorded at fair value with the exception of those who do not have a quoted price on an active market and whose fair value cannot be reliably measured, in which case they are recorded at cost. The group assesses at each reporting date whether there is objective evidence that these investments are impaired. Any increases in fair value are recognised in the statement of other comprehensive income.

Impairment of non-financial assets

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

Notes to the financial statements for the year ended 31 March 2018**1 Accounting policies, financial risk management and critical accounting estimates/judgements (continued)****Classification of financial assets**

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

Loans and receivables (financial instruments)

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

(a) Trade and other receivables

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

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

(b) Cash and cash equivalents

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

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

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

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

Available-for-sale financial assets (financial instruments)

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Notes to the financial statements for the year ended 31 March 2018**1 Accounting policies, financial risk management and critical accounting estimates/judgements (continued)****Available-for-sale financial assets (financial instruments) (continued)**

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

Impairment of financial assets***Assets held at amortised cost***

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

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

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

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

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

Notes to the financial statements for the year ended 31 March 2018**1 Accounting policies, financial risk management and critical accounting estimates/judgements (continued)****Other financial liabilities at amortised cost (financial instruments)****(a) Borrowings**

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

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

(b) Trade and other payables

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

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

Decommissioning provision

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

Current income tax and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss when it relates to items recognised in profit or loss and in other comprehensive income or equity when it relates to items recognised in other comprehensive income or equity.

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

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

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

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

Notes to the financial statements for the year ended 31 March 2018

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 group will comply with all attached conditions.

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

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

Operating lease commitments

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

Pensions and other post-retirement benefits

The group contributes to individuals' personal pension schemes. Contributions are recognised in profit or loss in the period in which they become payable.

Foreign currency translation

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

Financial risk management

Financial risk factors

The group has 3 principal sub-groups: Moyle Interconnector (Financing) plc, Premier Transmission Financing plc and Belfast Gas Transmission Financing plc, and is in the process of developing West Transmission Financing plc in a similar manner.

Moyle Interconnector (Financing) plc

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

Premier Transmission Financing plc and Belfast Gas Transmission Financing plc

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

Notes to the financial statements for the year ended 31 March 2018

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

Financial risk management (continued)

West Transmission Limited

The company operates the gas transmission offtake at Maydown, and is licenced to transport gas to a designated area in the West of Northern Ireland. The current licence arrangement allows full recovery of its operating expenses and a return set to compensate it for financing costs. By way of an agreement with SGN commercial services, other than the scenario of regulatory malfeasance, the financial risk that the regulatory income allowance is insufficient, and any benefit if the regulatory income allowance is greater than the financing costs, has been passed on to them.

(a) Market risk

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

The group issued its long term borrowings to refinance its transmission assets at the lowest possible rates in order to reduce the costs of transmission to the consumers of Northern Ireland. Its long term borrowings were issued at either fixed rates or are linked to the Retail Price Index. In order to match certain revenues which are linked to the Retail Price Index the group has entered into a swap transaction which converts its only fixed rate borrowing to a borrowing linked to the Retail Price Index. The group's long term borrowings are therefore susceptible to changes in the Retail Price Index. A change in the Retail Price Index by 1% would have increased/decreased finance costs, loss and equity during the year by £2,324,000 (2017: £2,368,000).

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

(b) Credit risk

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

(c) Liquidity risk

Under the terms of its licence agreements the group either i) receives sufficient revenue to settle its operating costs and its repayments of borrowings; or ii) has the ability to make a call on customers. Accordingly the group has limited liquidity risk. The group also retains significant cash reserves and a liquidity facility with an 'A' rated bank to manage any short term liquidity risk. The undiscounted contractual maturity profile of the group's borrowings is shown in note 24.

Capital risk management

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

Fair value estimation

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

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

Notes to the financial statements for the year ended 31 March 2018**1 Accounting policies, financial risk management and critical accounting estimates/judgements (continued)****Fair value estimation (continued)**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Where there are a number of inputs that are unobservable it is included in level 3. The group's only financial instruments fair valued (for recognition purposes) under level 2 are the group's derivative financial instruments. The fair value of the group's derivative financial instruments is calculated based on the group's exposure to the counterparties, with adjustments to reflect the credit risk of both the entity and the counterparty. The group's only financial instrument fair valued under level 3 is the group's other investments. The fair value is based on the share of the projected cash flows for each individual project which combine to constitute the financial instrument. The cash flows are derived from the IRRs estimated by the fund manager. The project cash flows are then combined to form a consolidated cash flow for the instrument which is itself discounted using a rate of return applicable to similar instruments. The calculation assumes a GBP/EUR rate of 1.136, IRRs of -74% to 7% and discount rate of 8%.

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

Critical accounting estimates and judgements

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

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

(a) Estimate of useful economic life of assets

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

The remaining useful economic life of the Scotland Northern Ireland pipeline was determined as approximately 22.5 (2017: 23.5) years at the beginning of the year. If the remaining useful economic life had been assessed at 23.5 (2017: 24.5) years, depreciation would have decreased by £134,000 (2017: £128,000) and if the remaining useful economic life had been assessed at 21.5 (2017: 22.5) years, depreciation would have increased by £147,000 (2017: £139,000).

The remaining useful economic life of the Moyle Interconnector was determined as approximately 15 (2017: 16) years at the beginning of the year. If the remaining useful economic life had been assessed at 16 (2017: 17) years' depreciation would have decreased by £516,000 (2017: £451,000) and if the remaining useful economic life had been assessed at 14 (2017: 15) years' depreciation would have increased by £590,000 (2017: £511,000).

The remaining useful economic life of the Belfast Gas Transmission pipeline was determined as approximately 22 (2017: 23) years at the beginning of the year. If the remaining useful economic life had been assessed at 23 (2017: 24) years depreciation would have decreased by £54,000 (2017: £52,000) and if the remaining useful economic life had been assessed at 21 (2017: 22) years depreciation would have increased by £59,000 (2017: £56,000).

The remaining useful economic life of the West Transmission pipeline was determined as approximately 43 years at the beginning of the year. If the remaining useful economic life had been assessed at 44 years' depreciation would have decreased by £1,000 and if the remaining useful economic life had been assessed at 42 years' depreciation would have increased by £1,000.

Notes to the financial statements for the year ended 31 March 2018

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

Critical accounting estimates and judgements (continued)

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

The decommissioning provision has been estimated at current prices and has therefore been increased to decommissioning date by an inflation rate of 3.83% (2017: 4.07%) based on expected time of expenditure of 14 years (2017: 15 years). The decommissioning provision has been discounted using a rate of 1.59% (2017: 1.48%). The effect of changing the discount rate and inflation factor on the decommissioning provision is disclosed in the table below.

	Increase/(decrease) in provision	
	2018	2017
	£'000	£'000
Increase in inflation factor by 1%	432	510
Decrease in inflation factor by 1%	(381)	(447)
Increase in discount rate by 1%	(386)	(453)
Decrease in discount rate by 1%	447	530

(c) Insurance claim

Discussions have entered final stages with the insurers in respect of the February 2017 cable fault insurance claims. The group has not recognised a contingent asset in respect of this as the proceeds cannot be reliably measured.

(d) Fair value of other investments

The fair value of other investments is based on the share of the projected cash flows for each individual project which combine to constitute the financial instrument. In calculating the fair value, certain assumptions are required to be made in respect of highly uncertain matters. Changing the assumptions selected by management could significantly affect the group's impairment evaluation and hence results. The group's review includes the key assumptions related to sensitivity in the cash flow projections. The calculation assumes a GBP/EUR rate of 1.136, IRRs of -74% to 7% and discount rate of 8%. Further details of the key assumptions and sensitivity in respect of the group's Other Investments are provided in note 11.

(e) Calculation of West Transmission asset values

West Transmission's assets consist of its Maydown site which is currently in operation and the main pipeline which is under construction and which will be purchased from the contractor, SGN, at a price to be determined by the Utility Regulator. The valuation of these assets is based on preliminary figures provided by the contractor for the period up to the reporting date, with adjustments being made to reflect the expected allowance in line with determinations made to date by the Utility Regulator and estimates for any allowances yet to be determined.

2 Segment information

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

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

Notes to the financial statements for the year ended 31 March 2018
2 Segment information (continued)

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

Year ended 31 March 2018	Moyle Interconnector Group £'000	Premier Transmission Group £'000	Belfast Gas Transmission Group £'000	Other £'000	Total £'000
Segment revenue from external customers	30,364	24,668	7,938	200	63,170
Segment expenses	(9,521)	(17,078)	(2,979)	121	(29,457)
Other operating income	1,000	-	-	-	1,000
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	-	(5,550)
Depreciation (net of government grants)	(6,413)	(2,840)	(984)	(188)	(10,425)
Fair value adjustment on investment	-	-	-	(11)	(11)
Finance income	815	168	16	(530)	469
Finance costs	(9,116)	(4,733)	(8,329)	2,317	(19,861)
Fair value adjustment on derivative financial instruments	-	2,240	-	-	2,240
Profit/(loss) before income tax	5,468	1,023	(6,825)	1,909	1,575
Income tax (charge)/credit	(1,085)	115	752	(124)	(342)
Profit/(loss) for the year	4,383	1,138	(6,073)	1,785	1,233
Assets					
Segment assets	199,197	141,077	122,635	40,678	503,587
Capital expenditure	22	45	-	20,417	20,484
Segment liabilities	137,844	149,104	156,184	35,330	478,462
Year ended 31 March 2017					
	Moyle Interconnector Group £'000	Premier Transmission Group £'000	Belfast Gas Transmission Group £'000	Other £'000	Total £'000
Segment revenue from external customers	29,297	23,431	7,998	69	60,795
Segment expenses	(1,273)	(13,542)	(2,469)	288	(16,997)
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	-	(5,550)
Depreciation (net of government grants)	(5,533)	(3,618)	(975)	(103)	(10,229)
Fair value adjustment on investment	-	-	-	(2,506)	(2,506)
Finance income	1,187	2,492	18	(1,047)	2,651
Finance costs	(5,521)	(4,492)	(6,429)	-	(16,442)
Fair value adjustment on derivative financial instruments	-	(1,719)	-	-	(1,719)
Profit/(loss) before income tax	16,496	1,150	(4,344)	(3,299)	10,003
Income tax (charge)/credit	(2,615)	(294)	1,839	134	(936)
Profit/(loss) for the year	13,881	856	(2,505)	(3,165)	9,067
Assets					
Segment assets	201,331	145,310	125,593	22,719	494,953
Capital expenditure	8,622	-	387	11,630	20,639
Segment liabilities	148,534	155,300	153,603	13,624	471,061

West Transmission is not considered to be a reportable segment, however, the capital expenditure in the Other column relates largely to this company. Segment assets and liabilities exclude intercompany assets and liabilities.

Notes to the financial statements for the year ended 31 March 2018

2 Segment information (continued)

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

Revenues from the group's gas transmission businesses of £32,806,000 (2017: £31,498,000) are obtained under the postalised system (which is a system by which the group earns sufficient revenues to cover its operating costs and debt repayments) and cannot be attributed to individual customers.

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

	2018	2017
	£'000	£'000
Customer A	3,596	3,235
Customer B	3,108	2,262

Also included in segmental revenue is CAIRt revenue of £12.3m (2017: £17.2m).

3 Expenses by nature - operating costs

Group	2018	2017
	£'000	£'000
Employee benefit expense (note 4)	2,480	2,009
Depreciation and amortisation	19,384	19,188
Impairment losses	11	2,506
Amortisation of deferred government grants	(3,409)	(3,409)
Operating lease payments	305	311
Auditors' remuneration:		
Audit of these financial statements	2	2
Audit of financial statements of subsidiary	40	40
Other services	14	14
Other expenses	26,616	14,621
Total operating costs	45,443	35,282

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

	2018	2017
	£'000	£'000
Other operating income	(1,000)	-

Other operating income consists of insurance proceeds received in respect of the February 2017 cable fault.

Notes to the financial statements for the year ended 31 March 2018

4 Employee benefit expense

	2018	2017
Group	£'000	£'000
Wages and salaries	2,110	1,629
Social security costs	251	233
Pension costs	119	147
	2,480	2,009

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 31 (2017: 28). All staff perform asset management activities.

	2018	2017
	Number	Number
Members of defined contribution pension scheme	25	22

	2018	2017
	£'000	£'000
Directors' emoluments		
Aggregate emoluments	663	657
Contributions paid to defined contribution pension scheme	47	47
	710	704

Directors' emoluments represent the remuneration of the group's executive and non-executive directors. The directors do not believe that it is practicable to apportion this amount between their services as directors of the group and their services as directors of other group companies. The emoluments of the highest paid director were £251,000 (2017: £243,000) and the contributions paid to his defined contribution pension scheme were £27,000 (2017: £26,000).

Directors' emoluments do not include the effects of salary sacrifice arrangements and any employers NIC savings credited to the directors' pension as a result of salary sacrifices made.

Notes to the financial statements for the year ended 31 March 2018

5 Finance income and costs

Group	2018 £'000	2017 £'000
Interest expense:		
Borrowings (including borrowing fees)	19,812	16,342
Movement of discount on decommissioning provision	49	100
Fair value adjustment in respect of derivative financial instruments (note 24)*	-	1,719
Finance costs	19,861	18,161
Interest income:		
Short-term bank deposits	(269)	(396)
Fair value adjustment in respect of derivative financial instruments (note 24)*	(2,240)	-
Other finance income	(200)	(2,255)
Finance income	(2,709)	(2,651)
Finance costs – net	17,152	15,510

*Fair value adjustment in respect of derivative financial instruments.

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

6 Income tax

Group	2018 £'000	2017 £'000
Current income tax:		
Current tax on profit for the year	901	3,071
Adjustments in respect of previous periods	36	260
Total current income tax	937	3,331
Deferred income tax:		
Origination and reversal of temporary differences	(599)	(514)
Change in tax rates	-	(1,927)
Adjustments in respect of previous periods	4	46
Total deferred income tax (note 19)	(595)	(2,395)
Income tax charge	342	936

Notes to the financial statements for the year ended 31 March 2018

6 Income tax (continued)

The income tax charge in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are reconciled below:

	2018 £'000	2017 £'000
Profit before income tax	1,575	10,003
Tax calculated at the UK standard rate of corporation tax of 19% (2017: 20%)	299	2,001
Effects of:		
Expenses not deductible	380	805
Income not taxable	(694)	(329)
Change in tax rates	-	(1,927)
Other timing differences	(176)	80
Deferred tax asset not recognised on loss carried forward	493	-
Adjustments in respect of previous periods	40	306
Income tax charge	342	936

Future tax changes

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

7 Loss attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The profit dealt with in the financial statements of the parent company is £1,803,000 (2017: loss of £5,540,000).

Notes to the financial statements for the year ended 31 March 2018

8 Property, plant and equipment

Group	Gas pipelines £'000	Electricity inter- connector £'000	Control equipment £'000	Plant and machinery £'000	Office and computer equipment £'000	Assets under construction £'000	Total £'000
Cost							
At 1 April 2016	147,064	167,936	3,938	157	3,396	442	322,933
Additions	2,578	8,622	-	1,024	40	8,375	20,639
At 31 March 2017	149,642	176,558	3,938	1,181	3,436	8,817	343,572
Additions	6	22	-	248	65	20,143	20,484
Movement in decommissioning provision	-	(352)	-	-	-	-	(352)
At 31 March 2018	149,648	176,228	3,938	1,429	3,501	28,960	363,704
Accumulated depreciation							
At 1 April 2016	44,474	45,351	2,650	25	915	-	93,415
Provided during the year	4,402	7,369	189	36	1,642	-	13,638
At 31 March 2017	48,876	52,720	2,839	61	2,557	-	107,053
Provided during the year	4,449	8,249	189	95	852	-	13,834
At 31 March 2018	53,325	60,969	3,028	156	3,409	-	120,887
Net book value							
At 31 March 2018	96,323	115,259	910	1,273	92	28,960	242,817
At 31 March 2017	100,766	123,838	1,099	1,120	879	8,817	236,519
At 31 March 2016	102,590	122,585	1,288	132	2,481	442	229,518

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

Depreciation expense of £13,834,000 (2017: £13,638,000) has been fully charged to operating costs.

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

The group has capital commitments in respect of the construction of the Gas to the West project. The value of these commitments is dependent upon the final determination by the Utility Regulator which is expected in 2018/2019. Payment in respect of these commitments is not due until 21 months after gas is available on the main West Transmission Pipeline, so will not be required until 2020/2021 at the earliest. Financing for the project is expected to be raised prior to this.

Notes to the financial statements for the year ended 31 March 2018

8 Property, plant and equipment (continued)

Company	Office and computer equipment £'000
Cost	
At 1 April 2016	187
Additions	40
At 31 March 2017	227
Additions	20
At 31 March 2018	247
Accumulated depreciation	
At 1 April 2016	147
Provided during the year	31
At 31 March 2017	178
Provided during the year	32
At 31 March 2018	210
Net book value	
At 31 March 2018	37
At 31 March 2017	49
At 31 March 2016	40

Depreciation expense of £32,000 (2017: £31,000) has been fully charged to operating costs.

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

Notes to the financial statements for the year ended 31 March 2018

9 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2016, 31 March 2017 and at 31 March 2018	2,435	206,535	208,970
Accumulated amortisation			
At 1 April 2016	-	56,910	56,910
Provided during the year	-	5,550	5,550
At 31 March 2017	-	62,460	62,460
Provided during the year	-	5,550	5,550
At 31 March 2018	-	68,010	68,010
Net book value			
At 31 March 2018	2,435	138,525	140,960
At 31 March 2017	2,435	144,075	146,510
At 31 March 2016	2,435	149,625	152,060

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 29 years (Scotland to Northern Ireland pipeline), 44 years (Belfast Gas Transmission pipeline) and 35 years (electricity transmission). The group has concluded that these assets have a remaining useful economic life of 16 years, 34 years and 19 years respectively.

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

Amortisation expense of £5,550,000 (2017: £5,500,000) has been fully charged to operating costs.

Impairment testing for goodwill

Goodwill arising on acquisitions is reviewed for impairment annually. For the purpose of impairment testing it relates to one cash generating unit – the Scotland to Northern Ireland pipeline (acquisition of Premier Transmission Limited). The recoverable amount of the goodwill is based on discounted cash flow forecasts. The cash flow projections are over a period of 12 years, which matches the remaining duration of the group's bond and therefore reflects the period over which the group earns revenue under its licence agreement. The key assumptions and judgements, which have been determined on the basis of management experience, relate to all costs being pass-through costs and that under the terms of the licence the group can collect sufficient cash to service interest and loan repayments. The discount rate of 2.17% (2017: 2.56%) used is based on Bank of England UK yield curve data for a debt with a remaining maturity of 12 years. The inflation rate assumption used by the group in these calculations of 3.81% (2017: 4.01%) has been obtained from Bank of England UK yield curves over a 12 year period.

Sensitivity to changes in assumptions

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

Notes to the financial statements for the year ended 31 March 2018

10 Investments in subsidiaries

Company	Subsidiary undertakings £'000
Cost and carrying amount	
At 1 April 2016, at 31 March 2017 and at 31 March 2018	5,431

The company's investments in its subsidiary undertakings are recorded at cost less impairment, which is the fair value of the consideration paid and reflect 10,250,000 £1 preference shares.

The company's subsidiary undertakings, all of which are incorporated in Northern Ireland and whose registered addresses are First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH, are:

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

* held by a subsidiary undertaking

11 Other investments

Group	£'000
Cost and carrying amount	
At 1 April 2016	8,897
Repayment of capital	(1,209)
Fair value adjustment	(2,506)
At 31 March 2017	5,182
Repayment of capital	(1,807)
Additions	212
Fair value adjustment	(11)
At 31 March 2018	3,576

Notes to the financial statements for the year ended 31 March 2018

11 Other investments (continued)

Other investments represent the fair value of investments made by Moyle Energy Investments Limited to the Platina renewable energy fund, PEN III. Mutual Energy Limited is an initial limited partner in this limited partnership. Other investments also include a 5% share in Joint Allocation Office (JAO) S.A. at a cost of £212,000 and an interest in PRISMA European Capacity Platform GmbH of less than 1% which is carried at a cost of £1,988. The investments are recorded at cost, which is considered to be an approximation of the fair value of the investments. A 10% interest in Islandmagee Storage was sold in the year at cost (£10).

Low wholesale electricity prices have led to a reduction in the fair value of this fund. The present value of estimated future cash flows was calculated and discounted at a rate of 8%, based on information provided by the administrator and the real returns of similar portfolios of assets. The present value was determined to be £3,364,000 (2017: £5,182,000), resulting in an impairment of £11,000 (2017: £2,506,000) which was recognised in operating expenses in the statement of comprehensive income.

12 Trade and other receivables

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Trade receivables	4,683	1,414	-	-
Prepayments	2,287	2,774	43	86
Accrued income	5,456	2,446	-	-
Other receivables	2,127	3,910	34	38
Amounts owed by subsidiary undertakings	-	-	2,380	2,329
	14,553	10,544	2,457	2,453

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

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

Amounts owed by subsidiary undertakings are unsecured, interest free and are repayable on demand.

13 Financial assets

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Cash deposits	-	13,667	-	-

14 Cash and cash equivalents

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Cash at bank and in hand	95,049	75,548	2,900	2,522

Cash and cash equivalents includes £500,000 restricted cash which is held in an escrow account. Cash and cash equivalents earn interest at a range from Bank of England base rate less 0.20% to Bank of England base rate plus 0.65%.

Notes to the financial statements for the year ended 31 March 2018

15 Ordinary shares

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

16 Retained earnings

Group	£'000
At 1 April 2016	14,825
Total comprehensive income for the year	9,067
At 31 March 2017	23,892
Total comprehensive income for the year	1,233
At 31 March 2018	25,125

Company	£'000
At 1 April 2016	(3,578)
Total comprehensive expense for the year	(5,540)
At 31 March 2017	(9,118)
Total comprehensive income for the year	1,803
At 31 March 2018	(7,315)

Included in the retained earnings for the group is an amount of £1,874,000 (2017: £1,874,000) which we have agreed with the regulator will be applied to costs of future EU compliance projects.

17 Borrowings

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Non-current				
5.2022% Guaranteed secured bond	62,466	66,530	-	-
2.9376% Index linked guaranteed secured bond	82,052	87,877	-	-
2.207% Index linked guaranteed secured bond	130,789	127,458	-	-
Amounts owed to group undertakings	-	-	10,276	18,770
	275,307	281,865	10,276	18,770
Current				
5.2022% Guaranteed secured bond	4,064	3,840	-	-
2.9376% Index linked guaranteed secured bond	9,032	8,881	-	-
2.207% Index linked guaranteed secured bond	1,716	1,528	-	-
	14,812	14,249	-	-
Total borrowings	290,119	296,114	10,276	18,770

Notes to the financial statements for the year ended 31 March 2018

17 Borrowings (continued)

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

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

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

The 2.9376% index linked bond has a fair value of £109,201,000 (2017: £117,597,000), the 5.2022% bond has a fair value of £92,162,000 (2017: £100,683,000) and the 2.207% index linked bond has a fair value of £183,517,000 (2017: £181,065,000). These fair values have been calculated by discounting the expected future cash flows using a discount rate of 0.09% (2017: 0.03%) for the 2.9376% index linked bond, a discount rate of 0.08% (2017: -0.04%) for the 5.2022% bond and a discount rate of 0.14% (2017: 0.13%) for the 2.207% index linked bond. The discount rates used reflect the maturity profile of the group's borrowings. The current effective interest rate for the 2.9376% index linked bond is 3.01%, the 5.2022% bond is 5.53%, and the 2.207% index linked bond is 2.18%. The undiscounted maturity profile of the group's and the company's borrowings are shown in note 24.

18 Provisions

Group	Decommissioning provision £'000
At 1 April 2016	3,201
Cost adjustments through property, plant and equipment	10
Unwinding of discount during the year	100
At 31 March 2017	3,311
Cost adjustments through property, plant and equipment	(352)
Unwinding of discount during the year	49
At 31 March 2018	3,008

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the interconnector in 14 years, at the end of its useful economic life. This provision is expected to be utilised within 14 years. The provision represents the present value of the current estimated costs of dismantling the connections to the main electricity grids in Scotland and Northern Ireland. The provision has been discounted at a rate of 1.59% (2017: 1.48%) that reflects the maturity profile of the group's provisions.

Notes to the financial statements for the year ended 31 March 2018

19 Deferred income tax

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

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Deferred income tax assets	6,632	6,983	52	55
Deferred income tax liabilities	(38,325)	(39,271)	-	-
Deferred income tax (liabilities)/assets – net	(31,693)	(32,288)	52	55

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

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

	Group £'000	Company £'000
At 1 April 2016	(34,683)	56
Credit/(charge) for the year	2,395	(1)
At 31 March 2017	(32,288)	55
Credit/(charge) for the year	595	(3)
At 31 March 2018	(31,693)	52

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

Group	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Derivative financial instruments £'000	Total £'000
At 1 April 2016	(15,264)	(26,932)	7,513	(34,683)
Credit/(charge) for the year	485	2,440	(530)	2,395
At 31 March 2017	(14,779)	(24,492)	6,983	(32,288)
Credit/(charge) for the year	3	943	(351)	595
At 31 March 2018	(14,776)	(23,549)	6,632	(31,693)

It is not possible to determine the amount of the deferred tax asset arising from the group's derivative financial instruments which will fall due within 12 months as it will depend on the movement of interest rates. The portion of the group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £22,606,000 (2017: £23,548,000). It is not possible to determine the portion of the group's deferred tax liability arising from accelerated capital allowances that is expected to fall due after more than 12 months as this is dependent on future profits and management decisions.

Notes to the financial statements for the year ended 31 March 2018

20 Government grants

Group	£'000
At 1 April 2016	64,749
Amortised during the year	(3,409)
At 31 March 2017	61,340
Amortised during the year	(3,409)
At 31 March 2018	57,931

The grants were provided to the group for the purpose of its expenditure on its property, plant and equipment. The current portion of the government grants is £3,409,000 (2017: £3,409,000), and the non-current portion is £54,522,000 (2017: £57,931,000).

21 Trade and other payables

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Trade payables	3,082	628	30	35
Accruals	7,475	7,029	896	761
Deferred income	1,306	530	-	-
Other tax and social security	1,750	2,287	116	62
Other payables	33,772	13,188	-	-
Amounts owed to related parties	-	-	6,874	-
	47,385	23,662	7,916	858
Less amounts falling due after one year: Other payables	(31,848)	(11,643)	-	-
	15,537	12,019	7,916	858

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

Other payables falling due after one year are secured on the assets and company of West Transmission Limited.

Notes to the financial statements for the year ended 31 March 2018

22 Commitments

Operating lease commitments

The group has entered into commercial leases on land and buildings and these leases have remaining lease terms of 1, 3, 4, 17, 33 and 82 years. There are no restrictions placed upon the lessee by entering into these leases.

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

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Not later than one year	281	270	59	50
After one year but not more than five years	1,082	1,019	196	141
After more than five years	10,999	11,179	-	-
	12,362	12,468	255	191

The lease expense charged to operating costs during the year is disclosed in note 3.

Notes to the financial statements for the year ended 31 March 2018

23 Related party transactions

The ultimate controlling party of the group are its members.

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

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

Company	Amount owed (to)/from related party	
	2018 £'000	2017 £'000
Subsidiary undertakings – current assets	2,380	2,329
Subsidiary undertakings – current liabilities	(6,874)	-
Subsidiary undertakings – non-current liabilities	(10,276)	(18,770)

In addition to the amounts owed to related parties as disclosed above, the company owns £10.25m of preference shares in one of its subsidiary undertakings (see note 10) and financed the acquisition of these shares through borrowings from another subsidiary undertaking which are included within non-current liabilities shown above.

Company	Nature of transaction	Value of transaction	
		2018 £'000	2017 £'000
Subsidiary undertakings	Interest payable	(590)	(1,049)
Subsidiary undertakings	Interest receivable	2,317	-
Subsidiary undertakings	Group relief surrendered	111	160
Subsidiary undertakings	Charges receivable	3,744	3,343

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

Group	2018 £'000	2017 £'000
Short term employee benefits	575	562
Long term employee benefits	88	95
Post-employment benefits	47	47

Notes to the financial statements for the year ended 31 March 2018

24 Financial instruments

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

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

Derivative financial instruments

During the period ended 31 March 2006 the group entered into two index-linked based swaps, maturing in 2030, to hedge against index-linked revenues receivable under its agreement with the regulator. In accordance with IFRS these index-linked swaps do not qualify as an accounting hedge and are therefore accounted for as non-hedging derivative financial instruments. The fair value of these index linked swaps are recognised as a financial liability under non-current liabilities on the balance sheet with fair value movements being reported in the statement of comprehensive income under net finance costs.

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

Group	£'000
Liability at 1 April 2016	41,441
Fair value adjustment	1,719
Liability at 31 March 2017	43,160
Fair value adjustment	(2,240)
Liability at 31 March 2018	40,920

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

Notes to the financial statements for the year ended 31 March 2018
24 Financial instruments (continued)

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

At 31 March 2018 Group	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.9376% Index linked bond	11,806	11,724	10,619	10,162	8,177	57,336	109,824
5.2022% Bond and associated derivatives	8,706	8,878	9,055	9,235	9,417	71,367	116,658
2.207% Index linked bond	4,456	4,544	4,635	4,727	4,824	157,538	180,724
Trade and other payables	15,537	-	31,848	-	-	-	47,385
	40,505	25,146	56,157	24,124	22,418	286,241	454,591

At 31 March 2017 Group	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 Years £'000	More than 5 years £'000	Total £'000
2.9376% Index linked bond	11,840	11,394	11,316	10,249	9,808	63,229	117,836
5.2022% Bond and associated derivatives	8,239	8,403	8,569	8,740	8,914	77,971	120,836
2.207% Index linked bond	4,367	4,456	4,544	4,635	4,727	162,362	185,091
Trade and other payables	12,019	-	-	11,643	-	-	23,662
	36,465	24,253	24,429	32,267	23,449	303,562	447,425

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

At 31 March 2018 Company	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Borrowings: Amounts owed to group undertakings	-	-	-	-	-	10,276	10,276
Trade and other payables	7,916	-	-	-	-	-	7,916
	7,916	-	-	-	-	10,276	18,192

At 31 March 2017 Company	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 Years £'000	More than 5 years £'000	Total £'000
Borrowings: Amounts owed to group undertakings	-	-	-	-	-	18,770	18,770
Trade and other payables	858	-	-	-	-	-	858
	858	-	-	-	-	18,770	19,628

25 Ultimate controlling party

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