Registered number: NI067348

Belfast Gas Transmission Financing plc

Annual report

for the year ended 31 March 2016

Belfast Gas Transmission Financing plc

Annual report for the year ended 31 March 2016

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Directors and advisers

Directors

Patrick Larkin	Executive director
Gerard McIlroy	Executive director

Company secretary

Gerard McIlroy

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Independent auditors

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Chartered Accountants and Statutory Auditors
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Belfast Gas Transmission Financing plc

Strategic report for the year ended 31 March 2016

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

Strategic objectives

Our strategy is made up of three key elements:

Our objective	How do we deliver?	How do we measure success?
Operate assets safely and cost effectively, outsourcing where appropriate	We provide a safe, reliable and efficient transmission service to the gas suppliers of Northern Ireland. Delivery is achieved through a competitive tendering process for operational activities and the development of a comprehensive contracting strategy and partnership approach with key contractors. Further information on asset operation can be found on page 4.	Our success measures include: • Availability targets for our assets (KPI 1); • Operational savings against forecast (KPI 2); • Lost time incidents (KPI 3); • Detailed maintenance and contracting milestones which are monitored at contract meetings; and • Detailed monthly budgets which are monitored over a rolling five year horizon.
Deliver savings to all Northern Ireland 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.	Our measures of success include: • Operational savings against forecast (KPI 2); and • Cash generated from operations (KPI 4).
Manage market changes to minimise risks to the NI consumer	Our key focus is to ensure, so far as possible, that changes driven by EU, national or other pressures do not impact negatively on our business, our financing arrangements or energy consumers in Northern Ireland. We seek to achieve this by influencing at EU stakeholder meetings, active participation in the work of the EU system operator confederations and by assisting the regulators and relevant government departments to identify and address issues particularly relevant to Northern Ireland. The market environment is discussed in more detail on page 5.	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 5).

Belfast Gas Transmission Financing plc

Strategic report for the year ended 31 March 2016

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. A graph showing availability can be found on page 4.	**Availability** Availability is calculated as the number of hours available (excluding upstream outages) x capacity available / total plant capacity under connection agreements x the number of hours in the year.
2. Operational savings against forecast For the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs. Operational savings vs forecasts for the gas businesses are shown on page 5.	**Operational savings against forecast** The KPI for gas business operational savings is calculated by subtracting the actual agreed revenue for the gas year, calculated in accordance with the gas companies' licences, from the forecast required revenue submitted in advance of the year.
3. Lost time incidents Our safety is measured by the safe operation of our staff and contractors are noted on page 4.	**Lost time incidents** Lost time incidents are calculated as the number of lost time incidents per 100,000 hours worked by staff and contractors.
4. Cash generated from operations Cash generated in the business which will be used to avoid future charges to consumers. Cash generated in the business can be seen in the graphs on page 5.	**Cash generated from operations** Cash generated in each of the businesses post tax.
5. 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 6.	**Code modifications issued** Code modifications issued is the sum of the code modifications made to each of the PTL and BGTL codes.

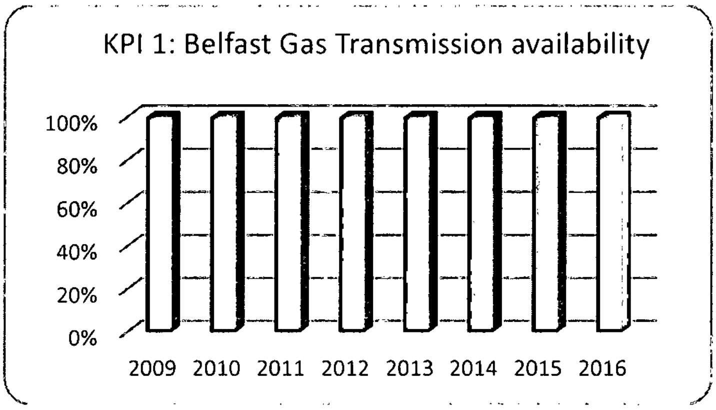
A number of other KPIs are used at a corporate level to monitor other aspects of business performance, including Corporate responsibility KPIs. These are included later in this report.

Strategic report for the year ended 31 March 2016

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

Operational performance

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

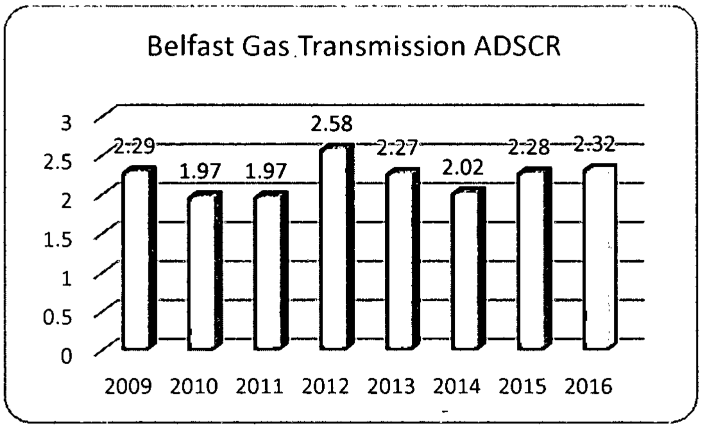


During the year engineering works were carried out in line with site maintenance plans and statutory examination schedules.

Financial performance

The combined gas business costs for the gas year ending on 30th September 2015 were £0.5m below the forecasts used for predicting tariffs (September 2014: £1.0m below) (KPI 2).

The business is cash generative and able to meet its debt service obligations, though because of the bond structures it is not expected to be profitable in the earlier years of the bonds when interest costs incurred are in excess of debt repayments. This situation will then reverse in later years. In terms of the Annual Debt Service Cover (ADSCR) these will tend to average towards 2.0. The ADSCRs can be seen in the graph below.



Future development

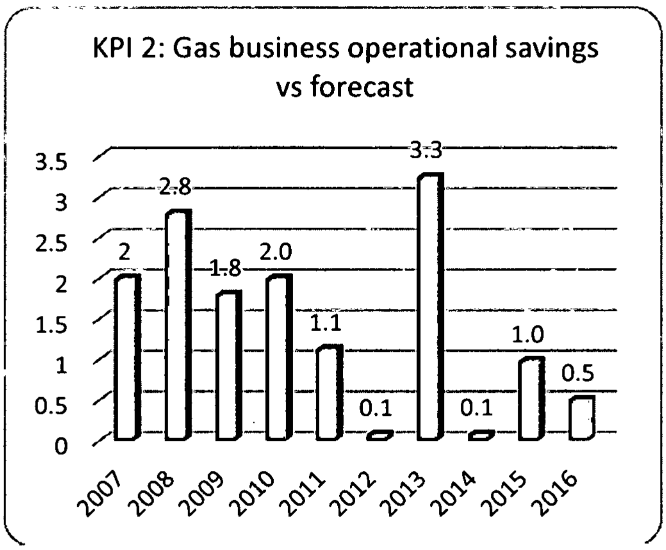
The Northern Ireland Gas Capacity Statement published by the Utility Regulator shows that, although gas demand is expected to remain relatively stable, over the next ten years the annual peak demand is expected to increase considerably, most notably with the increased use of gas generation on the no-wind days and the growth of the domestic gas sector. The report indicates that the Northern Ireland transmission network does not have sufficient capacity to meet severe winter peak day firm demand in 2016/17 and 2017/18 and anticipates that capacity short fall measures or the use of the South-North pipeline would be required in such conditions. The changing needs of the power generation shippers, married with potential upstream pressure reductions (as highlighted in the annual Gaslink Winter Outlook), are likely to require investment in the NI gas transmission network over the next 10 years. Any reinforcement would require significant lead times and no specific projects are earmarked for development at present.

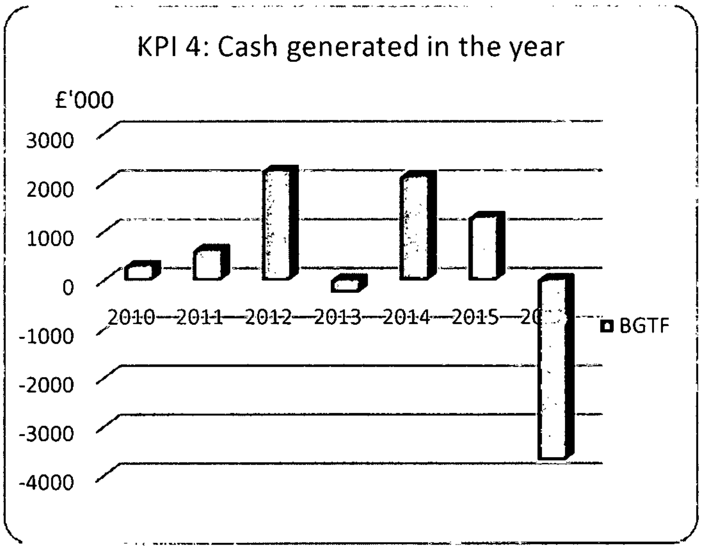
Strategic report for the year ended 31 March 2016

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. 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 2014-15 gas year were 10% 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 4 shows a cash outflow in 2015/16 which is largely the result of timing of payments in relation to tax from prior years.

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

European energy regulation

European legislation continues to be the main 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 for the work streams was October 2015, with others following until 2017. As well as these major changes, the Northern Ireland Utility Regulator (NIAUR) determined that a single system operator for Northern Ireland should be put in place. This is not a requirement of the legislation itself.

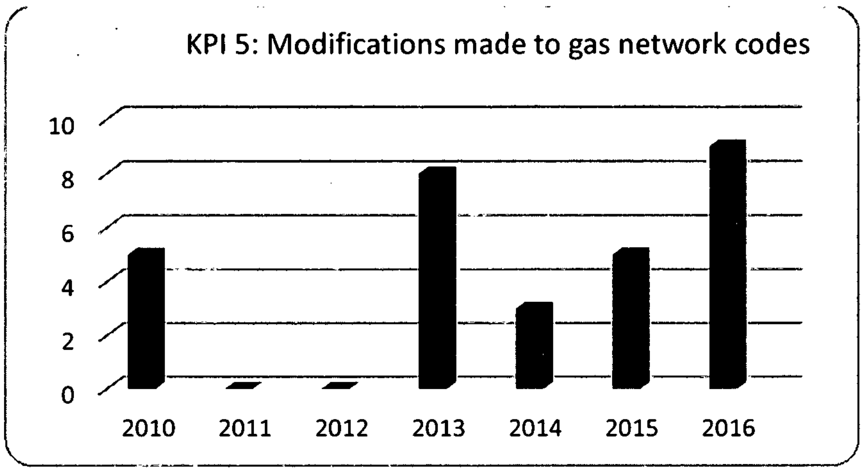
The list below sets out some of the key changes made to the Northern Ireland gas market during the year in order to implement the EU regulation requirements.

- The introduction of entry capacity products and nominations;
- New products offered including bundled products at Moffat –annual, quarterly, monthly, daily and within day;
- Entry capacity auctioned by the relevant TSO using the PRISMA auction platform;
- Charging split between entry and exit from the network;
- Transition to a new Gas Day (06:00 – 06:00 to 05:00 – 05:00);
- Development of the Northern Ireland Trading Point to facilitate gas trading within NI;
- De-designation of the Moffat Agent and the introduction of TSO to TSO nomination matching;
- New methods to allocate gas at the entry points into the network;
- Significant rewrite of the NI Network Codes; and
- Significant update of the Aligne IT System to facilitate the new processes, and automatic data exchange with EU wide systems, National Grid and Gas Networks Ireland.

Whilst all of the 2016 EU obligations have been met, future requirements will focus on the implementation of REMIT, an EU regulation on energy market integrity and transparency, and modifications to the Capacity Allocation Mechanisms regulation concerning incremental capacity. In addition to the existing regulations, the Tariff Network Code is currently in development and its implementation will require further changes for the NI market. 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.

In addition to the changes required by the EU legislation, the decision by the NIAUR to require the creation of a single TSO for Northern Ireland will result in a number of changes, notably the development of a single network code, a single market facing body and a single IT system. This fundamentally changes the market and means a considerable amount of work is needed in a short period. Work also has been progressing on the development of contractual agreements and licence changes.

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 2016

Group Financial highlights

The majority of the finance charges 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 outflow in the period, largely as a result of refunds of group relief received in previous periods. Cash reserves in Belfast Gas Transmission group amounted to £9.2m at year end (2015: £12.9m).

After accounting for debt service, the group made an after-tax loss of £2.6m (2015: £3.4m). The group's EBITDA was £4.4m (2015: £4.2m).

Stakeholders, relationships and resources

Customers

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. A total of 13 shippers are currently registered to use our system.

Partners and contractors

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

Social, community and human rights issues

The Mutual Energy group has a fundamental community focus through its purpose: to own and operate energy infrastructure in the long-term interest of energy consumers in Northern Ireland. This is also reflected through all of our strategic objectives which include cost effective operation to deliver savings and minimise risks of market change to Northern Ireland consumers. More information on how the group delivers these objectives can be found on pages 4 to 6.

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 9, 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 2016 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.

Strategic report for the year ended 31 March 2016

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

The principal risks of the group are:

Risk description and potential impact	Mitigation	Assessment of risk movement from March 2015
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.	→
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, 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.	→
Liquidity risk could result in insufficient cash being available to meet the business' needs, controlling creditor intervention, default on bonds, or reputational damage.	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 were fully funded and £6m of liquidity facilities were in place throughout the year for Belfast Gas Transmission. Banking counterparties are only used where they meet the criteria requirements of our financing documents. Liquidity risks from customers is minimised through requirements for security and protection measures built into the postalisation arrangements for the gas businesses. Business planning processes are in place to identify cash requirements in advance.	→
Business environment and market risk		
Market changes for gas 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 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 5 and 6.	→
Regulatory 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 DETI 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.	→
Corporate strategy and communication risk		
Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.	The Board retains responsibility for strategy as a reserved matter and manages communications directly in line with its communication plan, using outsourcing as appropriate.	→

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

Environment and safety

The 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 supply emergency exercises to ensure a robust response plan is in place and Premier Transmission Ltd and Northern Ireland Network Emergency Co-ordinator (NINEC) coordinate the exercises for the gas industry in Northern Ireland, as they would in the event of an actual Northern Ireland Gas Supply Emergency. The Offsite Gas Emergency Plan was tested as part of a major desktop exercise with all the appropriate responders in Dumfries and Galloway in September 2015.

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.

In November 2015 the group was audited by the British Safety Council as part of their Five-Star Occupational Health and Safety Audit. We achieved an overall audit grading of 90.33% which equates to a 'Four Star' award.

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 is monitored to help target improvements.

Greenhouse gas emissions reporting

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

	Tonnes of CO_2e	
Emissions from:	**2016**	**2015**
Usage of gas in operations	1,762	1,303
Emissions per GWh energy transmission	0.11	0.9

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.

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
Company secretary
23 June 2016

Directors' report for the year ended 31 March 2016

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2016.

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

Results and dividends

The group's loss for the year is £2,554,000 (2015: £3,446,000). The directors do not recommend the payment of a dividend (2015: £nil).

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

Going concern

The group has recurring accounting losses and accordingly net liabilities. In view of the structure of the group from its initial set up, including the acquisition of Belfast Gas Transmission Limited and the issuing of a bond, this is a situation which will prevail for potentially 15 years. However the group is cash generative and is forecast to remain cash positive over that 15 year period. The forecast cash generated is adequate to meet the group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the group being short of adequate cash to service the bond the market arrangements approved by the Northern Ireland Authority for Utility Regulation would ensure bond payments are made. Accordingly in view of the above the directors consider it appropriate to adopt the going concern basis in the preparation of 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 Larkin
Gerard McIlroy

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 benefit of its directors during the year and it remained in force at the date of this report.

Directors' report for the year ended 31 March 2016 (continued)

Statement of directors' responsibilities

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 the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Having taken advice from the Audit Committee, the directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

The directors are responsible for the maintenance and integrity of the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

By order of the Board

Gerard McIlroy

Gerard McIlroy
Company secretary
23 June 2016

Independent auditors' report to the members of Belfast Gas Transmission Financing plc

Report on the financial statements

Our opinion
In our opinion:

- Belfast Gas Transmission Financing plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2016 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
The financial statements, included within the Annual report (the "Annual Report"), comprise:

- the group and parent company balance sheets as at 31 March 2016;
- the group statement of comprehensive income for the year then ended;
- the group and parent company cash flow statements for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or

Independent auditors' report to the members of Belfast Gas Transmission Financing plc (continued)

- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of directors' responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;

- the reasonableness of significant accounting estimates made by the directors; and

- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Martin Pitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
8 July 2016

Group statement of comprehensive income for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Revenue – continuing operations		**7,085**	6,982
Operating costs	2	**(6,161)**	(6,210)
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		**4,369**	4,218
Amortisation of intangible assets		**(2,487)**	(2,487)
Depreciation (net of amortisation of government grants)		**(958)**	(959)
Operating profit		**924**	772
Finance income	4	**53**	55
Finance costs	4	**(4,794)**	(4,529)
Finance costs - net	4	**(4,741)**	(4,474)
Loss before income tax		**(3,817)**	(3,702)
Income tax credit	5	**1,263**	256
Loss for the year attributable to the owners of the parent	13	**(2,554)**	(3,446)

The notes on pages 17 to 33 are an integral part of these consolidated financial statements.

There are no changes in equity other than the results shown in the statement of comprehensive income and therefore a separate statement of changes in equity for the group and company has not been presented.

Group and parent company balance sheets as at 31 March 2016

		Group		Company	
		2016	2015	**2016**	2015
	Note	**£'000**	£'000	**£'000**	£'000
Assets					
Non-current assets					
Property, plant and equipment	7	**28,616**	29,862	**-**	-
Intangible assets	8	**89,519**	92,006	**-**	-
Investment in subsidiary undertaking	9	**-**	-	**112,384**	112,384
		118,135	121,868	**112,384**	112,384
Current assets					
Trade and other receivables	10	**1,106**	1,449	**22,634**	23,865
Cash and cash equivalents	11	**9,208**	12,899	**15**	1
		10,314	14,348	**22,649**	23,866
Total assets		**128,449**	136,216	**135,033**	136,250
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	12	**50**	50	**50**	50
Retained earnings	13	**(25,628)**	(23,074)	**7,867**	8,520
Total equity		**(25,578)**	(23,024)	**7,917**	8,570
Liabilities					
Non-current liabilities					
Borrowings	14	**125,735**	125,446	**125,735**	125,446
Deferred income tax liabilities	15	**19,008**	21,694	**-**	-
Government grant	16	**6,334**	6,622	**-**	-
		151,077	153,762	**125,735**	125,446
Current liabilities					
Trade and other payables	17	**1,286**	3,940	**5**	984
Borrowings	14	**1,376**	1,250	**1,376**	1,250
Government grant	16	**288**	288	**-**	-
		2,950	5,478	**1,381**	2,234
Total liabilities		**154,027**	159,240	**127,116**	127,680
Total equity and liabilities		**128,449**	136,216	**135,033**	136,250

The notes on pages 17 to 33 are an integral part of these consolidated financial statements.

The group financial statements on pages 15 to 33 were authorised for issue by the Board of Directors on 23 June 2016 and were signed on its behalf by:

Patrick Larkin
Director

Gerard McIlroy
Director

Group and parent company cash flow statements for the year ended 31 March 2016

		Group		Company	
		2016	2015	**2016**	2015
	Note	**£'000**	£'000	**£'000**	£'000
Cash flows from operating activities					
Loss before income tax		**(3,817)**	(3,702)	-	-
Adjustments for:					
Finance costs/(income) - net		**4,741**	4,474	(14)	(13)
Depreciation of property, plant and equipment		**1,246**	1,247	-	-
Amortisation of government grant		**(288)**	(288)	-	-
Amortisation of intangible assets		**2,487**	2,487	-	-
Movement in trade and other receivables		**419**	(511)	(25)	(1,370)
Movement in trade and other payables		**(1,673)**	1,125	1	(8)
Income tax (paid)/received		**(2,533)**	644	(548)	644
Net cash generated from/(used in) operating activities		**582**	5,476	(586)	(747)
Cash flows from investing activities					
Interest received		**53**	55	-	4
Amounts received from related parties		**-**	-	4,926	4,191
Net cash generated from investing activities		**53**	55	4,926	4,195
Cash flows from financing activities					
Interest paid		**(3,060)**	(3,106)	(3,060)	(3,053)
Repayment of borrowings		**(1,266)**	(1,145)	(1,266)	(1,145)
Net cash used in financing activities		**(4,326)**	(4,251)	(4,326)	(4,198)
Movement in cash and cash equivalents		**(3,691)**	1,280	14	(750)
Cash and cash equivalents at the beginning of the year	11	**12,899**	11,619	1	751
Cash and cash equivalents at the end of the year	11	**9,208**	12,899	15	1

The notes on pages 17 to 33 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2016

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

General information

The group's principal activity during the year was the financing and operation through its subsidiary of the Belfast Gas Transmission Pipeline which transports gas from Ballylumford to Greater Belfast and Larne. The company is incorporated and domiciled in Northern Ireland.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. All of the group and company's assets and liabilities are denominated in Sterling. These financial statements were authorised for issue by the Board of Directors on 23 June 2016 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Belfast Gas Transmission Financing plc 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 consolidated financial statements have been prepared under the historical cost convention. 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 consolidated financial statements are disclosed on page 23.

Going concern

The group has recurring accounting losses and accordingly net liabilities. In view of the structure of the group on its initial set up, including the acquisition of Belfast Gas Transmission Limited and the issuing of a bond, this is a situation which will prevail for potentially 15 years. However the group is cash generative and is forecast to remain cash positive over that 15 year period. The forecast cash generated is adequate to meet the group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the group being short of adequate cash to service the bond the market arrangements approved by the Northern Ireland Authority for Utility Regulation would ensure bond payments are made. Accordingly in view of the above the directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

Statement of compliance with IFRSs

The financial statements of Belfast Gas Transmission Financing plc 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.

Standards, amendments and interpretations effective in the year to 31 March 2016 and applicable to the group and the parent company

There were no standards, amendments and interpretations to published standards effective for the year ended 31 March 2016 that are relevant to the group and parent company's operations.

Standards, amendments and interpretations effective in the year to 31 March 2016 and not applicable to the group and the parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2016 but they are not relevant to the group and parent company's operations:

Amendment to IAS19 Employee benefits on defined benefit plans (1 July 2014)

Notes to the financial statements for the year ended 31 March 2016

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

Standards, amendments and interpretations that are not yet effective and have not been adopted early by the group and the parent company, but are applicable to the group and the parent company

During the year, the IASB and IFRIC have issued accounting standards and interpretations with an effective date after the date of these financial statements (i.e. applicable to accounting periods beginning on or after the effective date). The directors do not anticipate that the adoption of any of these standards and interpretations will have a material impact on the group and parent company's financial statements in the period of initial application.

Amendment to IAS 1 Preparation of financial statements under the disclosure initiative (1 January 2016)
Amendment to IAS 7 Statement of cash flows under the disclosure initiative (1 January 2017) (*)
Amendment to IAS 12 on recognition of deferred tax for unrealised losses (1 January 2017) (*)
Amendment to IAS 16 and IAS 38 on identification of acceptable methods of depreciation and amortisation (1 January 2016)
Amendment to IAS 27 Separate financial statements (1 January 2016)
Amendment to IFRS 10 and IAS 28 on sale or contributions of assets (1 January 2016) (*)
IFRS 9 Financial instruments (1 January 2018) (*)
Amendment to IFRS 11 Joint arrangements on acquisition of interest on a joint operation (1 January 2016)
IFRS 15 Revenue from contracts with customers (1 January 2018) (*)
Amendment to IFRS 15 Revenue from contracts with customers - clarifications (1 January 2018) (*)
IFRS 16 Leases (1 January 2019) (*)

* Not yet endorsed by the EU.

Basis of consolidation

The group financial statements consolidate the financial statements of Belfast Gas Transmission Financing plc and its subsidiary undertaking drawn up to 31 March 2016. 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 cost of 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, plus costs directly attributable to the acquisition. 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 cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

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.

Segment reporting

The group has one business segment, the selling of capacity for the transmission of gas to Greater Belfast and Larne and one geographical segment, the United Kingdom. Accordingly segment reporting is not deemed to be applicable.

Notes to the financial statements for the year ended 31 March 2016

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 Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne. 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. Revenue is recognised over the period for which capacity is provided, using a straight line basis over the term of the agreement. The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Intangible assets

Licences acquired on acquisitions are recognised initially at fair value. Licences have a finite useful 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 lives. The remaining estimated useful lives of the licences are 36 years.

Property, plant and equipment

Property, plant and equipment is 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:

Pipeline	31 years
Plant and machinery	15 years

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

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

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

Investments

Investments are recorded at cost less provision for impairment.

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.

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

Classification of financial assets

The group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The group classifies its financial liabilities as other financial liabilities held at amortised cost.

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

Loans and receivables (financial instruments)

(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. A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'operating costs'. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'operating costs' in the statement of comprehensive income.

Trade and receivables with a maturity of more than twelve months from the balance sheet 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 with banks, other short-term highly liquid investments with original maturities of three months or less.

Impairment of financial assets

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.

Notes to the financial statements for the year ended 31 March 2016

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

Impairment of financial assets (continued)

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 the statement of comprehensive income. 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. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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.

Ordinary shares

Ordinary shares are classified as equity.

Other financial liabilities at amortised cost (financial instruments)

(a) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income 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 balance sheet 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.

Current income tax and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income.

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 balance sheet 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 consolidated 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 balance sheet 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.

Notes to the financial statements for the year ended 31 March 2016

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

Current income tax and deferred income tax (continued)

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. Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the statement of comprehensive income.

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 the statement of comprehensive income 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 the statement of comprehensive income on a straight line basis over the expected useful economic lives of the related assets.

Operating lease commitments

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

Financial risk management

Financial risk factors

The group operates the gas pipeline which links the gas transmission systems of Northern Ireland and Scotland under a licence agreement with the Northern Ireland Authority for Utility Regulation. Under the licence agreement the group receives revenue that compensates it for its operating expenses, financing costs and repayment of borrowings. Accordingly the group has limited financial risk.

(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 rates 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 £1,294,000.

Under the terms of its licence agreement the group receives sufficient revenue to settle its operating costs and its repayments of borrowings. 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 suppliers, who are reliant on the use of the group's transmission assets. 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.

Notes to the financial statements for the year ended 31 March 2016

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

Financial risk management (continued)

(c) Liquidity risk

Under the group's licence agreement it receives revenue that compensates the group for its operating expenses, financing costs and repayment of borrowings. Accordingly the group has limited liquidity risk. The cash reserves of the group are held in interest-bearing accounts or invested in fixed term deposits of up to one year spread across a panel of approved banks and financial institutions having high credit ratings to manage short term liquidity risk. The undiscounted contractual maturity profile of the group's borrowings is shown in note 20.

Capital risk management

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

Fair value estimation

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

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

The 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 UK 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:

Estimate of useful economic life of assets

The group assesses the useful economic life of assets on an annual basis. The remaining useful economic life of the pipeline was determined as approximately 24 years at the beginning of the year. If the remaining useful economic life had been assessed at 25 years depreciation would have decreased by £50,000 and if the remaining useful economic life had been assessed at 23 years depreciation would have increased by £54,000.

Notes to the financial statements for the year ended 31 March 2016

2 Expenses by nature - operating costs

Group	2016 £'000	2015 £'000
Depreciation and amortisation	3,733	3,734
Amortisation of deferred government grant	(288)	(288)
Operating lease payments	14	14
Fees payable to the company's auditor in respect of the audit of the group and subsidiary financial statements	11	10
Other expenses	2,691	2,740
Total operating costs	**6,161**	6,210

Other expenses include costs for engineering works, licence fees, maintenance and emergency response, rates, insurance, regulatory work and group overheads, together with administrative costs.

3 Employee benefit expense

The group and company have no employees other than its directors (2015: none). The group's directors were not remunerated for their services to the group (2015: £nil) but instead received emoluments for their services to the Mutual Energy group of companies. The directors do not believe that it is practicable to apportion this amount between services as a director of the group and services as a director of other group companies.

4 Finance income and costs

Group	2016 £'000	2015 £'000
Interest expense:		
Short term bank deposits	53	53
Borrowing (including borrowing fees)	4,741	4,476
Finance costs	**4,794**	4,529
Interest income:		
Short-term bank deposits	(53)	(55)
Finance income	**(53)**	(55)
Finance costs - net	**4,741**	4,474

Notes to the financial statements for the year ended 31 March 2016

5 Income tax credit

Group	2016 £'000	2015 £'000
Current income tax:		
Group relief surrendered	**(190)**	(188)
Adjustments in respect of previous periods	**1,613**	745
Total current income tax	**1,423**	557
Deferred income tax:		
Origination and reversal of temporary differences	**(2,686)**	(561)
Adjustments in respect of previous periods	**-**	(252)
Total deferred income tax (note 15)	**(2,686)**	(813)
Income tax credit	**(1,263)**	(256)

The income tax credit in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are reconciled below:

	2016 £'000	2015 £'000
Loss before income tax	**(3,817)**	(3,702)
Tax calculated at the UK standard rate of corporation tax of 20% (2015: 21%)	**(763)**	(777)
Effects of:		
Reduction in rate of corporation tax on deferred tax liabilities	**(2,113)**	28
Adjustments in respect of previous periods	**1,613**	493
Income tax credit	**(1,263)**	(256)

Future tax changes

The tax rate for the current year is lower than the prior year due to changes in the UK Corporation Tax rate which decreased from 21% to 20% from 1 April 2015. Accordingly the company's taxable profits are taxed at a rate of 20% during the year.

Further reductions to the UK Corporation Tax rate were introduced as part of the Finance Act 2015 (substantively enacted on 26 October 2015). These reduce the main rate of tax to 19% from 1 April 2017 and to 18% from 1 April 2020. The deferred tax assets and liabilities reflect these rates.

6 Loss attributable to members of the parent company

As permitted by Section 408 the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The loss dealt with in the financial statements of the parent company is £653,000 (2015: £401,000 profit).

Notes to the financial statements for the year ended 31 March 2016

7 Property, plant and equipment

Group Cost	Pipeline £'000	Plant and machinery £'000	Total £'000
At 1 April 2014, 31 March 2015 and **at 31 March 2016**	38,480	80	38,560
Accumulated depreciation			
At 1 April 2014	7,448	3	7,451
Provided during the year	1,241	6	1,247
At 31 March 2015	8,689	9	8,698
Provided during the year	1,241	5	1,246
At 31 March 2016	**9,930**	**14**	**9,944**
Net book amount			
At 31 March 2016	**28,550**	**66**	**28,616**
At 31 March 2015	29,791	71	29,862
At 31 March 2014	31,032	77	31,109

Depreciation expense of £1,246,000 (2015: £1,247,000) has been fully charged to operating costs. Borrowings are secured on the property, plant and equipment of the group.

8 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2014, 31 March 2015 and **at 31 March 2016**	**109,413**
Accumulated amortisation	
At 1 April 2014	14,920
Provided during the year	2,487
At 31 March 2015	17,407
Provided during the year	2,487
At 31 March 2016	**19,894**
Net book amount	
At 31 March 2016	**89,519**
At 31 March 2015	92,006
At 31 March 2014	94,493

Notes to the financial statements for the year ended 31 March 2016

8 Intangible assets (continued)

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 44 years. The group has concluded that these assets have a remaining useful economic life as at 31 March 2016, of 36 years.

Amortisation expense of £2,487,000 (2015: £2,487,000) has been fully charged to operating costs.

9 Investment in subsidiary undertaking

Company	£'000
Cost	
At 1 April 2014, 31 March 2015 and **at 31 March 2016**	**112,384**

Investments in subsidiary undertakings are recorded at cost, which is the fair value of the consideration paid.

The company's subsidiary undertaking, which is incorporated in Northern Ireland, is:

Name of company	*Holding*	*Proportion held*	*Nature of business*
Belfast Gas Transmission Limited	Ordinary shares	100%	Operation of Belfast Gas Transmission pipeline

10 Trade and other receivables

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Trade receivables	**198**	254	**-**	-
Amounts owed by related parties	**639**	462	**22,520**	23,743
Prepayments and accrued income	**269**	733	**114**	122
	1,106	1,449	**22,634**	23,865

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's and company's trade and other receivables is not materially different to their carrying values.

Amounts owed by related parties are unsecured and repayable on demand. Included within amounts owed by related parties is an amount of £21,881,000 which carries interest at a rate of 2.207%. All other amounts owed to related parties are interest free.

11 Cash and cash equivalents

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Cash at bank and in hand	**9,208**	12,899	**15**	1

Cash and cash equivalents earn interest at a range of Bank of England base rate less 0.15% to Bank of England base rate plus 0.3%.

Notes to the financial statements for the year ended 31 March 2016

12 Ordinary shares

Group and company	2016 £'000	2015 £'000
Allotted and fully paid		
50,000 ordinary shares of £1 each	**50**	50

13 Retained earnings

Group	£'000
At 1 April 2014	(19,628)
Total comprehensive loss for the year	(3,446)
At 31 March 2015	(23,074)
Total comprehensive loss for the year	(2,554)
At 31 March 2016	**(25,628)**

Company	£'000
At 1 April 2014	8,119
Total comprehensive income for the year	401
At 31 March 2015	8,520
Total comprehensive loss for the year	(653)
At 31 March 2016	**7,867**

14 Borrowings

Group and company	2016 £'000	2015 £'000
Non-current		
2.207% Index linked guaranteed secured bond	**125,735**	125,446
Current		
2.207% Index linked guaranteed secured bond	**1,376**	1,250
Total borrowings	**127,111**	126,696

The 2.207% Index linked guaranteed secured bonds 2048 were issued to finance the acquisition of Belfast Gas Transmission Limited and are linked to the Retail Price Index. The bond is secured by fixed and floating charges over all the assets of the 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, including 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 fair value of the bond is £158,531,000 (2015: £158,685,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 0.87% (2015: 0.89%) that reflects the maturity profile of the group's and the company's borrowings. The undiscounted maturity profile of the group's and the company's borrowings are shown in note 20.

Notes to the financial statements for the year ended 31 March 2016

15 Deferred income tax liabilities

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

Group	£'000
At 1 April 2014	22,507
Income statement credit for the year	(813)
At 31 March 2015	21,694
Income statement credit for the year	(2,686)
At 31 March 2016	**19,008**

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

Group	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Total £'000
At 1 April 2014	3,609	18,898	22,507
Income statement credit for the year	(316)	(497)	(813)
At 31 March 2015	3,293	18,401	21,694
Income statement credit for the year	(398)	(2,288)	(2,686)
At 31 March 2016	**2,895**	**16,113**	**19,008**

The group and company have £11,027,166 (2015: £5,711,310) of tax losses available for carry forward against future taxable profits arising from the same trade. The related deferred tax asset of £1,984,890 (2015: £1,142,262) has not been recognised as it is more likely than not that the group and company will not make sufficient taxable profits from the same trade, from which the tax losses can be deducted.

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 £15,665,000 (2015: £17,903,000). 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 is estimated at £2,834,000 (2015: £1,773,000).

16 Government grant

Group	£'000
At 1 April 2014	7,198
Amortised during the year	(288)
At 31 March 2015	6,910
Amortised during the year	(288)
At 31 March 2016	**6,622**

The government grant was provided to the group for the purpose of its expenditure on its property, plant and equipment. The current portion of the government grant is £288,000 (2015: £288,000) and the non-current portion is £6,334,000 (2015: £6,622,000).

Notes to the financial statements for the year ended 31 March 2016

17 Trade and other payables

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Trade payables	**24**	6	**-**	-
Amounts owed to related parties	**447**	2,417	**-**	980
Other tax and social security	**522**	1,248	**-**	-
Other payables	**5**	5	**-**	-
Accruals and deferred income	**288**	264	**5**	4
	1,286	3,940	**5**	984

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

Amounts owed to related parties are unsecured, interest free and are repayable on demand.

18 Commitments

Operating lease commitments

The group has entered into a commercial lease on land which expires on 31 December 2051. There are no restrictions placed upon the lessee by entering into these leases. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 2.

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

	2016	2015
Group	**£'000**	£'000
Not later than one year	**14**	14
After one year but not more than five years	**57**	57
After five years	**430**	444
	501	515

Notes to the financial statements for the year ended 31 March 2016

19 Related party transactions

The ultimate controlling parties of the group are the members of Mutual Energy Limited.

During the year the group 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:

	Amount owed (to)/from related party	
	2016	2015
Group	£'000	£'000
Parent undertakings – current assets	50	50
Fellow subsidiary undertakings – current assets	589	412
Parent undertakings – current liabilities	(60)	(18)
Fellow subsidiary undertakings – current liabilities	(387)	(2,399)

		Value of transaction	
		2016	2015
Group	Nature of transaction	£'000	£'000
Parent undertakings	Charges payable	(280)	(257)
Fellow subsidiary undertakings	Group relief claimed	(1,423)	(557)
Fellow subsidiary undertakings	Charges payable	(1,228)	(1,503)

	Amount owed (to)/from related party	
	2016	2015
Company	£'000	£'000
Subsidiary undertaking – current assets	21,881	23,281
Fellow subsidiary undertaking – current liabilities	-	(980)
Parent undertaking – current assets	50	50
Fellow subsidiary undertakings – current assets	589	412

		Value of transaction	
		2016	2015
Company	Nature of transaction	£'000	£'000
Fellow subsidiary undertakings	Group relief claimed	(1,405)	(557)
Subsidiary undertaking	Group relief surrendered	752	959
Subsidiary undertaking	Interest receivable	4,755	4,485

Notes to the financial statements for the year ended 31 March 2016

20 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
Cash and cash equivalents	Loans and receivables
Borrowings	Financial liabilities at amortised cost
Trade and other payables	Financial liabilities at amortised cost

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

As at 31 March 2016 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**
2.207% bond	**4,174**	**4,257**	**4,343**	**4,429**	**4,518**	**163,238**	**184,959**
Trade and other payables	**764**	-	-	-	-	-	**764**
	4,938	**4,257**	**4,343**	**4,429**	**4,518**	**163,238**	**185,723**

As at 31 March 2015 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
2.207% bond	4,040	4,119	4,201	4,286	4,371	165,203	186,220
Trade and other payables	2,692	-	-	-	-	-	2,692
	6,732	4,119	4,201	4,286	4,371	165,203	188,912

As at 31 March 2016 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**
2.207% bond	**4,174**	**4,257**	**4,343**	**4,429**	**4,518**	**163,238**	**184,959**
Trade and other payables	**5**	-	-	-	-	-	**5**
	4,179	**4,257**	**4,343**	**4,429**	**4,518**	**163,238**	**184,964**

As at 31 March 2015 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
2.207% bond	4,040	4,119	4,201	4,286	4,371	165,203	186,220
Trade and other payables	984	-	-	-	-	-	984
	5,024	4,119	4,201	4,286	4,371	165,203	187,204

Notes to the financial statements for the year ended 31 March 2016

21 Ultimate parent undertaking

The immediate parent undertaking is Belfast Gas Transmission Holdings Limited, a company incorporated in Northern Ireland. Group financial statements for this company are not prepared.

The ultimate parent undertaking, and the only group of undertakings for which group financial statements are prepared, is Mutual Energy Limited, a company incorporated in Northern Ireland. Copies of the group financial statements are available to the public from First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.