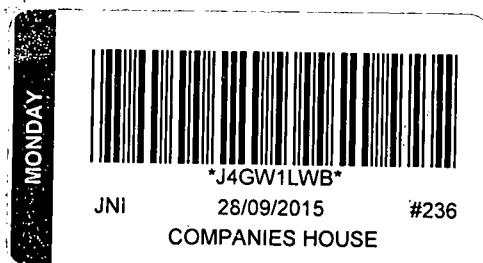


Belfast Gas Transmission Financing plc
Annual report
for the year ended 31 March 2015



Belfast Gas Transmission Financing plc

Annual report for the year ended 31 March 2015

Contents	Pages
Directors and advisers	1
Strategic report	2 - 12
Directors' report	13 - 14
Independent auditors' report to the members of Belfast Gas Transmission Financing plc	15 - 16
Group statement of comprehensive income	17
Group and parent company balance sheets	18
Group and parent company cash flow statements	19
Notes to the financial statements	20 - 37

Belfast Gas Transmission Financing plc

1

Directors and advisers

Directors

Patrick Larkin	Executive director
Gerard McIlroy	Executive director

Company secretary

Gerard McIlroy

Registered office

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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
Capital House
3 Upper Queen Street
Belfast
BT1 6PU

Bankers

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

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Waterfront Plaza
8 Laganbank Road
Belfast
BT1 3LR

Strategic report

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, is therefore considered as a whole.

Strategic objectives

Our strategy is made up of four key elements:

Our objective	How do we deliver?	How do we measure success?
Operate assets safely and cost effectively on an outsourced basis	<p>We provide a safe, reliable and efficient transmission service to the electricity and gas suppliers of Northern Ireland.</p> <p>Delivery is achieved through the competitive tendering process for key operational activities and the development of a comprehensive contracting strategy and partnership approach with key contractors.</p> <p>Further information on asset operation can be found on page 3.</p>	<p>Our key success measures include:</p> <ul style="list-style-type: none"> • Availability targets for our assets (KPI 2); • Operational savings against forecast (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.
Manage market changes to minimise risks to the NI consumer	<p>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 confederation and by assisting the regulators and relevant government departments to identify and address issues particularly relevant to Northern Ireland.</p> <p>The market environment is discussed in more detail on page 6.</p>	<p>Our key measures of success include:</p> <ul style="list-style-type: none"> • 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).
Deliver savings to all consumers evenly over the life of the assets	<p>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.</p> <p>Costs are discussed in more detail on page 8.</p>	<p>Our measures of success include:</p> <ul style="list-style-type: none"> • Operational savings against forecast (KPI 3); and • Cash generated from operations (KPI 4)

Strategic report

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. 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 1.20. A graph showing these ratios can be found in the financial performance sections on page 4	Annual Debt Service Cover Ratio The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the bonds for each operational company. The basis of calculation is Available Cash / Debt Service in the next 12 months. In each case Available Cash = the difference between income and expenses in the period + cash in designated bank accounts, where cash in the designated bank accounts is limited to 1x Debt service.
2. 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 in the physical operations sections on page 5	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.
3. 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 9	Operational savings against forecast The KPI for gas business operational savings is calculated by subtracting the actual agreed revenue for the gas year before tax, calculated in accordance with the gas companies licences, from the forecast required revenue submitted in advance of the year.
4. 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 business can be seen in the graph on page 9	Cash generated from operations Cash generated in each of the businesses post tax.
5. Code modifications made 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 made Code modifications made 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 and Employee KPIs. These are included later in this report.

Belfast Gas Transmission Financing plc

4

Strategic report

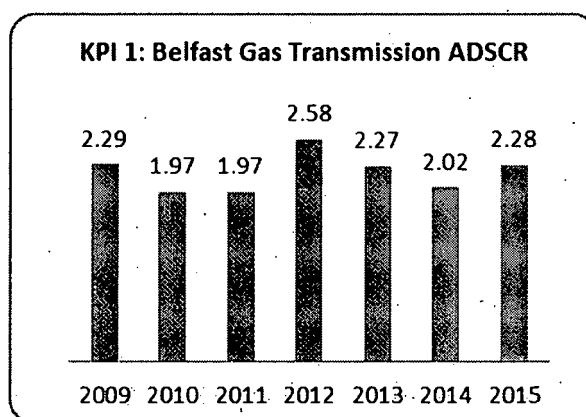
Strategic objective: Operate assets safely and cost effectively on an outsource basis

Gas business performance

Financial performance

Belfast Gas Transmission Financing recorded revenue in the year of £7.0m (2014: £6.0m). Under our gas business licences, the company's revenue is regulated to match each gas company's debt service costs and operating expenditure in cash terms, with an annual reconciliation of actual to forecast being agreed with the Northern Ireland Utility Regulator at the end of each gas year (30th September). In the reconciliation carried out in the 2014/15 financial year, the combined gas businesses costs were £1.0m below forecast (2013/14, £0.1m below). No savings were retained in the business. Being regulated in this way, the group collects only the cash required to meet their costs. The cash collected in respect of debt servicing is the cash required for bond repayments in the period, and is not related to the interest charged in the period. Although the businesses are cash generative and able to meet their debt service obligations, because of the bond structures they are 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. Belfast Gas is not expected to be profitable for some years.

The Annual Debt Service Cover (ADSCR) for the group will tend to average towards 2.0. The ADSCRs can be seen in the graphs below.



Physical operation

All routine site maintenance and statutory examinations were completed in the year. Two major statutory examinations included the internal (online PIG) and external (marine survey) inspections of the subsea pipeline between South Cairn, Scotland and Ballylumford, Northern Ireland. Both were completed satisfactorily and did not highlight any areas of concern.

Mutual Energy made a major contribution to the revision of the Gas Supply Emergency arrangements in Northern Ireland this year, culminating in the acceptance of the Northern Ireland Network Emergency Coordinator Safety Case by the HSE(NI) and a successful simulation exercise.

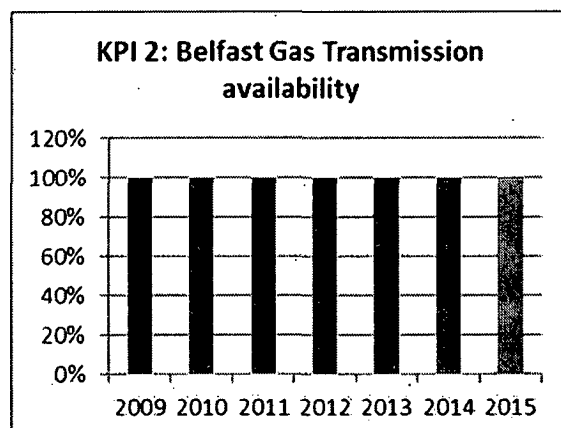
The Safety Case for the Premier Transmission Pipeline System (PTPS) was also re-submitted and accepted by the HSENI and HSE in GB.

A number of non-routine upgrade and inspection projects were undertaken to enhance the integrity and continued operation of the pipeline system including the revalidation of the pipeline maximum operating pressure, support in the design of new fiscal meters at Twynholm AGI which currently record all metered gas in Northern Ireland, progression of site electrical and security enhancements on the Above Ground Installations and the corrosion protection enhancements of the system through re-application of below and above ground coating.

During the year a new commercial system to manage customer gas flow nominations and billing was designed and developed, as the previous Gas Transportation Management and Billing System had been in place for over 10 years and support for the product was due to cease in 2015. System enhancements are also required as a result of new EU network code requirements, including the ability to integrate with PRISMA, the platform for European gas capacity booking. The new system was brought into operation in May 2015. The second phase of this project is also underway which will deliver the enhanced functionality required by the EU network codes, including integration with PRISMA, and delivery of this phase is expected by the end of 2015.

The gas businesses again maintained their record of 100% availability.

Strategic report



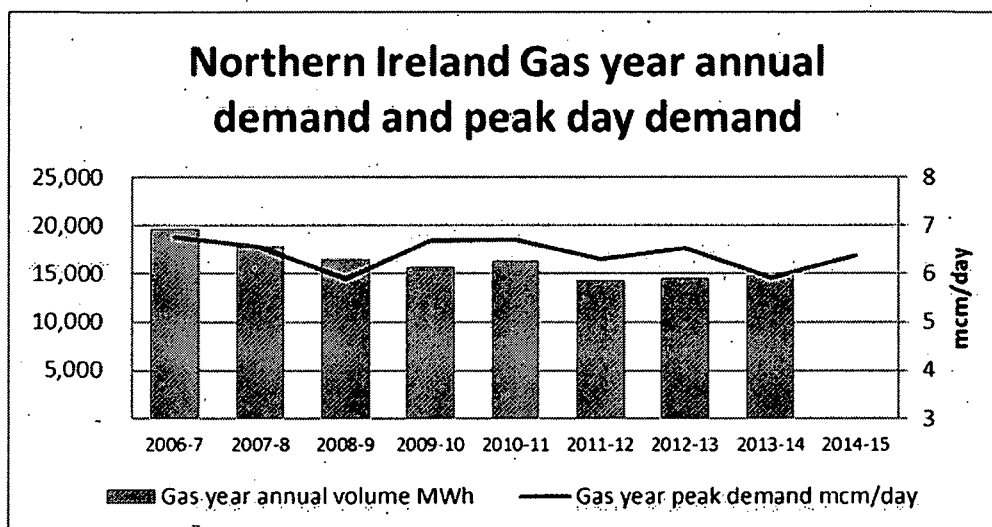
Future development

The 2014/15 winter was comparatively mild and no restrictions on gas throughput were required. As noted in previous years the annual Gaslink Winter Outlook's, which consider the pipelines immediately upstream of our own, continue to highlight the potential for reduced flexibility to accommodate within-day shipper nominations and the expectation that pressures will reduce towards the contractual minimum. In February 2014 a code modification was implemented to require either of the gas fired electricity power stations to cease using gas from our system in the event that the system within-day shipper nominations could not be met. The relatively mild winter meant this situation was avoided this year, but we fully expect such a situation to occur in the future. Based on the Northern Ireland Gas Capacity Statement published by the Utility Regulator in the year, the Scotland to Northern Ireland Pipeline ("SNIP") has sufficient capacity to meet Northern Ireland's firm gas demand until 2019/20, assuming no new gas fuelled power generation. Beyond 2019/20 additional capacity could be provided by the North South pipeline or reinforcement of SNIP, however, reinforcement options require significant lead times that could extend beyond 2019. While conceptual studies on the reinforcement options have been undertaken, more detailed work is on hold awaiting either increased bookings from shippers or a request from the regulator to progress this work.

As a result of power generation dispatch moving from Northern Ireland to the Republic of Ireland and to renewable energy sources, total annual gas demand in Northern Ireland declined from 2006 to 2010 but has remained relatively stable since the 2011/12 gas year (see graph below). As volumes of gas transported fall this results in increase in transportation tariffs per unit. Our expectations are for a continued decrease in annual power demand, but with an increase in distribution demand. Overall the forecast gas demand for Northern Ireland is relatively stable, with a slight upward trend in volumes supported by expected Gas to the West volumes from 2016/17. Although no significant increase in annual demand is expected, the annual peak demand is forecast to rise most notably with the increased use of gas generation on the no-wind days and the growth of the domestic gas sector. The changing needs of the power generation shippers, married with upstream pressure reductions is likely to require investment in the NI gas transmission network over the next 10 years.

If gas storage is to be built in Northern Ireland in the future physical reverse flow from Northern Ireland into GB will be required. This would mean changes to the existing gas compression facilities on the South West of Scotland pipeline. In addition to this the Premier Transmission Pipeline System would need to be uprated to 85 barg from the current maximum operating pressure of 75 barg, to maximise the benefits of gas storage. This uprating would bring our system in line with the maximum operating pressure of the Gas Networks Ireland (UK) system in Scotland, the North West Pipeline and the soon to be constructed Gas to the West pipeline. This would establish a single pressure network in Northern Ireland. A preliminary assessment for the uprating of the Premier Transmission Pipeline System has been completed.

Strategic report



The Corrib gas field is now expected to land supplies this year (2015). This could seriously reduce the gas flowed from GB to Ireland and consequently the capacity bookings on linking pipelines. SNIP, however, is expected to have sufficient capacity booked by shippers in the medium term.

Partners and contractors

The Mutual Energy group carefully assesses the level of both work carried out internally and outsourced, with the objective of remaining a lean and cost efficient operation.

Premier Transmission Pipeline System

Premier Transmission works in partnership with major established utilities as its contractors, to provide operations and maintenance activities. This has worked well, providing a consistent, cost effective operations and maintenance regime. The main contractor is SGN who carries out routine maintenance and emergency response and also monitors our system from their gas control centre in London.

Belfast Gas Transmission Pipeline System

Operation and maintenance of Belfast Gas Transmission assets is carried out by the Premier Transmission management team, using the same key contractors and harmonised procedures.

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

European energy regulation

Regulatory changes continue to be a key focus for both the gas and electricity businesses. The Third Package remains the key piece of EU legislation driving the changes in European gas and electricity markets. The Third Package created a regulatory framework to support a single European Energy Market by developing European-wide Network Codes. These Network Codes will form a legally binding set of common technical and commercial rules and obligations that govern access to and use of European energy networks.

Impact on gas business

Although the Third Package of legislation has been effective since 2011, a longer timeline for implementation exists in order to allow for the preparation of framework guidelines and network codes with sufficient stakeholder consultation throughout, along with the development of a Gas Target Model. The first major deadline for implementation for the work streams is October 2015, with others following until 2017. Following the development of the gas target model and the advancement of the network codes, the impact of these changes on the Northern Ireland market is now much clearer. 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 to facilitate the required changes from EU legislation. This is not a requirement of the legislation itself.

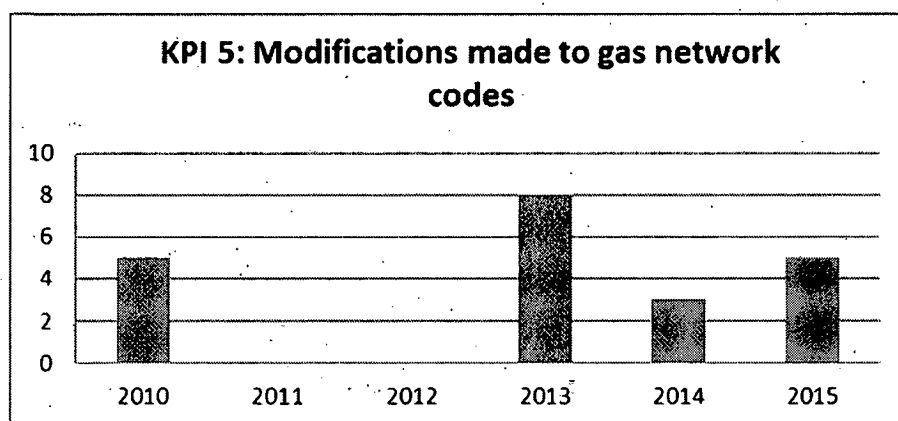
The table below sets out the key characteristics of the Northern Ireland gas market before the introduction of the European Parliament second and third packages of legislation and the introduction of a single system operator as requested by NIAUR, and highlights the significant changes expected in the next few years.

Strategic report

Market before EU regulations	Market following EU regulations and NIAUR conclusions
Independent Transmission System Operators "TSOs" who co-operate with each other	One system operator – set up via a contractual joint venture between NI TSOs
Separate but aligned codes for each NI TSO	One code for the entire network
Separate IT systems for each TSO (combined for Premier Transmission and Belfast Gas)	One IT system for all TSOs
Northern Ireland Network Operators Agreement in place	New system operator agreement required to facilitate new market structure
Shippers book capacity and nominations at exit only and a matching booking for entry at Moffat is created automatically	Capacity and nominations are booked and charged at each entry and exit point
Shippers charged a single price for use of the network	Charging split between entry to and exit from the network
All capacity booked directly with the relevant TSO	Entry capacity auctioned by the relevant TSO using an auction platform
No secondary market exists	A secondary market for entry capacity in place
Gas day runs from 06:00-05:59	Gas day runs from 05:00-04:59
Only annual capacity products offered	New products offered including bundled products at Moffat –annual, quarterly, monthly, daily and within day

These are just a few of the key changes required by the legislation and as a result of the decision by the NIAUR to require the creation of a single TSO for Northern Ireland. This fundamentally changes the market and means a considerable amount of work is needed in a very short period. The current network code is being rewritten, with a number of code modifications already consulted on and implemented, and further modifications planned. Because of the changes to business processes, the current IT system will need to be enhanced, with rigorous testing prior to October 2015. 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 over the last 5 years.



Belfast Gas Transmission Financing plc

8

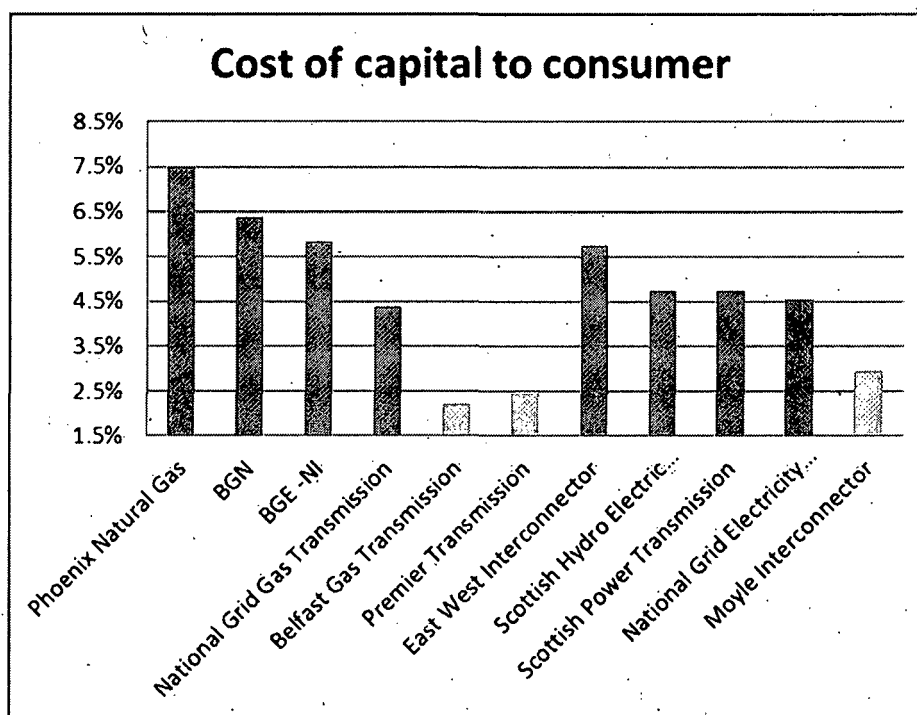
Strategic report

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

Cost of Capital Savings

The main means by which the company delivers savings to the consumers in Northern Ireland is through providing a low cost of capital. The licence structures of the business have been designed to be attractive to long term stable investors such as pension funds and enable the companies to operate without equity investors, so allowing a much lower cost of capital than would otherwise be the case. The sum of the value of the savings to consumers was calculated at the inception of each of our transactions at some £81m. This was based upon an assumption of what the alternative cost of capital of an equity model would be.

The table below illustrates the current prevailing costs of capital allowed on a number of companies with similar types of assets. Based upon our assets the financing costs for the combined gas businesses are expected to be between £4.9m and £12.2m cheaper for 2015/16 than they would be using the cost of capital of the gas company comparators shown in the graph below. These are striking savings, particularly against the major GB companies with both a scale and market inherently much more attractive to investors than Northern Ireland.

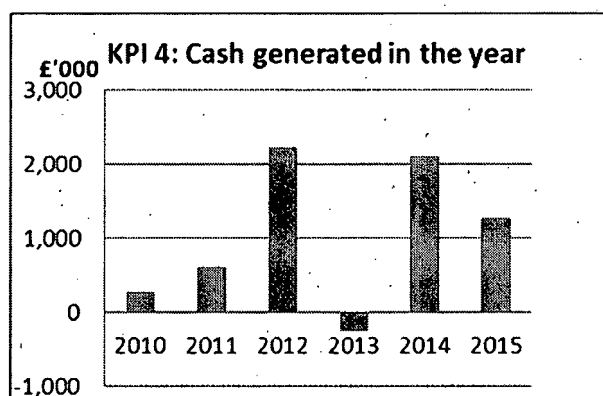
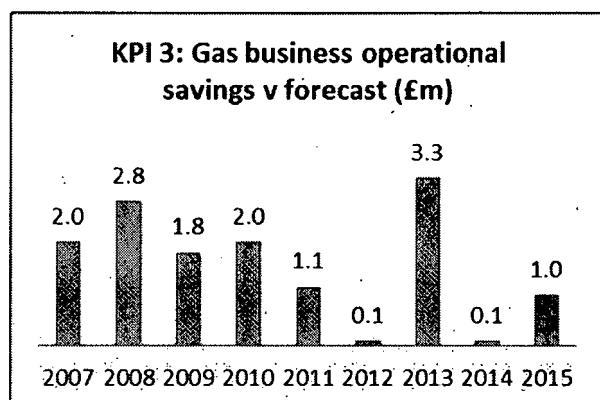


Costs charged to consumers

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. These charges are lower than they would have been without the presence of the mutual model and its low cost of capital, thereby passing on these savings to shippers and allowing them to charge the end consumer less for their gas.

Overall gas business charges recovered from shippers in 2013-14 are 21% lower in real terms than in 2004-5. We continually seek to achieve operational savings and efficiencies. Since the gas businesses joined the Mutual Energy group costs have been reduced by bringing a number of contracts together with the electricity business, such as sub-sea surveys and site security. 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.

Strategic report



Financial highlights

Revenue, Profitability and Reserves

Revenue in the year ended 31 March 2015 was £7.0m (2014: £6.1m). Group operating profit before interest and tax was £0.7m (2014: £0.7m). After accounting for debt service, the group made an after-tax loss of £3.4m (2014: £0.9m).

Cash flow and liquidity position

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.

Belfast Gas Transmission group was cash generative during the year. The group holds a high level of cash reserves to allow unforeseen requirements and indeed is obliged to hold significant cash reserves as conditions of their financing arrangements. Cash reserves in Belfast Gas Transmission group amounted to £12.9m at year end.

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. The shippers who currently use our system are Centrica, Phoenix, AES Ballylumford, Coolkeeragh/ESB, Airtricity Gas Supply, Firmus, Electric Ireland and Vayu, along with the addition of LCC Power and Flogas in the year.

Stakeholders

For most of its business activities, the group relies on its network of professional advisers and contractors. While ensuring that contracts are at market rates, the group aims to build relatively long-term relationships of the order of five years.

During the year, the group continued to maintain good relations with the respective bond financiers and work with them to reflect any necessary changes arising from changes in the business environment. Our key financiers are Assured Guaranty (Europe) Limited as controlling creditor and Prudential Trustee Company Limited as trustee.

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 3 to 9.

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 12, for the benefit of employees, contractors and the wider public. We comply with the Employments Rights Act and all other applicable UK law as an absolute minimum and

Strategic report

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 2015 and up to the date of approval of the annual report and financial statements.

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

The Board, 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

The principal risks of the group are:

Risk description and potential impact	Mitigation
<i>Operational Risk</i>	
Poor operational performance could result in impaired availability, damage to assets and/or reputation, loss of revenue or 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.
Inadequate management of health and safety matters could lead to third party and/or employee injury.	The group promotes a strong health and safety culture, has a well defined health and safety management system, follows industry standard practices and maintains regular formal interaction with key subcontractors. Site security is maintained to a standard suitable to the nature of the sites.
<i>Financial Risk</i>	
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.
Poor financial management could result in breach of financing covenants or compliance failure.	The Board reviews and agrees policies for addressing these compliance risks and senior management are specifically delegated the task of ensuring compliance.
Liquidity risk could result in business disruption, 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.
<i>Business environment and market risk</i>	
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 page 6.
<i>Regulatory risk</i>	
Changes in economic regulation or government policy could have an adverse effect on our financial position.	The group's relationships with the Utility Regulator for Northern Ireland and DETI are managed at senior level through frequent meetings and correspondence. A proactive approach is taken to consultations on any issue which could affect the group's business interests, with legal advice sought where appropriate.
<i>Corporate strategy and communication risk</i>	
The group could follow an inappropriate corporate strategy or communicate poorly with external stakeholders which 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.
<i>Project delivery risk</i>	
Poor contracting or management, insufficient resources or delays could result in financial losses, reputational damage 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

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 NI Emergency Offsite plan was tested in June 2014, with Gas Supply Emergency and Gas Capacity Shortfall Exercises being carried out in December 2014 at Mutual Energy's offices.

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.

No Prohibition Notices, or Improvement Notices have been issued by HSE or HSENI and there are no known investigations by any Health & Safety enforcing body.

All the operating companies of the group have delivered reliable energy transmission services to their customers without lost time or public safety incidents. They continue to maintain regular contact with the landowners through whose land its pipelines and cables pass, to ensure that any land issues are addressed and that no works by others are taking place in the vicinity of its installations.

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:

Emissions from:	Tonnes of CO ₂ e	
	2015	2014
Usage of gas in operations	1,303	1,340
Emissions per GWh energy transmission	0.9	0.10

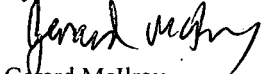
Methodology

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
22 June 2015

Directors' report for the year ended 31 March 2015

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2015.

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 £3,446,000 (2014: £939,000). The directors do not recommend the payment of a dividend (2014: £nil).

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

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 2015 (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

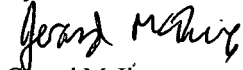
So far as each of the directors in office at the date of approval of the directors report is aware:

- 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.

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board



Gerard McIlroy
Company secretary
22 June 2015

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 2015 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

Belfast Gas Transmission Financing plc's financial statements comprise:

- the group statement of comprehensive income for the year ended 31 March 2015;
- the group and parent company balance sheets as at 31 March 2015;
- 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 applicable law and IFRSs as adopted by the European Union 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
- the company financial statements are not in agreement with the accounting records and returns.

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

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 14, 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
26 June 2015

Group statement of comprehensive income for the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Revenue – continuing operations		6,982	6,121
Operating costs	2	(6,210)	(5,405)
Earnings before interest, tax, depreciation and amortisation (“EBITDA”)		4,218	4,158
Amortisation of intangible assets		(2,487)	(2,487)
Depreciation (net of amortisation of government grants)		(959)	(955)
Operating profit		772	716
Finance income	4	55	53
Finance costs	4	(4,529)	(6,381)
Finance costs – net	4	(4,474)	(6,328)
Loss before income tax		(3,702)	(5,612)
Income tax credit	5	256	4,673
Loss for the year attributable to the owners of the parent	13	(3,446)	(939)

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

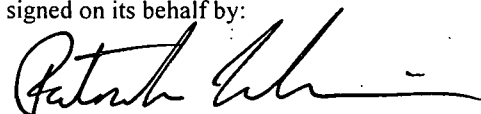
There are no changes in equity other than the results shown in the statement of comprehensive income and therefore a separate statement of changes in equity for the group and company has not been presented.

Group and parent company balance sheets as at 31 March 2015

	Note	Group		Company	
		2015 £'000	2014 £'000	2015 £'000	2014 £'000
Assets					
Non-current assets					
Property, plant and equipment	7	29,862	31,109	-	-
Intangible assets	8	92,006	94,493	-	-
Investment in subsidiary undertaking	9	-	-	112,384	112,384
		121,868	125,602	112,384	112,384
Current assets					
Trade and other receivables	10	1,449	1,300	23,865	21,603
Cash and cash equivalents	11	12,899	11,619	1	751
		14,348	12,919	23,866	22,354
Total assets		136,216	138,521	136,250	134,738
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	12	50	50	50	50
Retained earnings	13	(23,074)	(19,628)	8,520	8,119
Total equity		(23,024)	(19,578)	8,570	8,169
Liabilities					
Non-current liabilities					
Borrowings	14	125,446	125,287	125,446	125,287
Deferred income tax liabilities	15	21,694	22,507	-	-
Government grant	16	6,622	6,910	-	-
		153,762	154,704	125,446	125,287
Current liabilities					
Trade and other payables	17	3,940	1,976	984	151
Borrowings	14	1,250	1,131	1,250	1,131
Government grant	16	288	288	-	-
		5,478	3,395	2,234	1,282
Total liabilities		159,240	158,099	127,680	126,569
Total equity and liabilities		136,216	138,521	136,250	134,738

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

The group financial statements on pages 17 to 37 were authorised for issue by the Board of Directors on 22 June 2015 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 2015

		Group		Company	
		2015	2014	2015	2014
	Note	£'000	£'000	£'000	£'000
Cash flows from operating activities					
Loss before income tax		(3,702)	(5,612)	-	-
Adjustments for:					
Finance costs/(income) - net		4,474	6,328	(13)	(14)
Depreciation of property, plant and equipment		1,247	1,243	-	-
Amortisation of government grant		(288)	(288)	-	-
Amortisation of intangible assets		2,487	2,487	-	-
Movement in trade and other receivables		(511)	980	(1,370)	(242)
Movement in trade and other payables		1,125	848	(8)	138
Income tax received		644	58	644	58
Net cash generated from/(used in) operating activities		5,476	6,044	(747)	(60)
Cash flows from investing activities					
Interest received		55	53	4	2
Amounts received from related parties		-	-	4,191	4,044
Net cash generated from investing activities		55	53	4,195	4,046
Cash flows from financing activities					
Interest paid		(3,106)	(2,958)	(3,053)	(2,911)
Repayment of borrowings		(1,145)	(1,026)	(1,145)	(1,026)
Net cash used in financing activities		(4,251)	(3,984)	(4,198)	(3,937)
Movement in cash and cash equivalents		1,280	2,113	(750)	49
Cash and cash equivalents at the beginning of the year	11	11,619	9,506	751	702
Cash and cash equivalents at the end of the year	11	12,899	11,619	1	751

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

Notes to the financial statements for the year ended 31 March 2015

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 22 June 2015 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 27.

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 Mutual Energy Limited 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 2015 and that are relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2015 and are relevant to the group's operations but have no material impact:

IAS 27 (revised 2011) 'Separate financial statements' (effective 1 January 2014)
IAS 32 (amendment) 'Financial Instruments' on asset and liability offsetting (effective 1 January 2014)
IAS 36 (amendment) 'Impairment of assets' on recoverable amount and disclosure (effective 1 January 2014)
IFRS 10 'Consolidated financial statements' (effective 1 January 2014)
IFRS 12 'Disclosure of interests in other entities' (effective 1 January 2014)

Standards, amendments and interpretations effective in the year to 31 March 2015 and that are not relevant to the group and parent company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2015 but they are not relevant to the group's or parent company's operations:

Notes to the financial statements for the year ended 31 March 2015

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

IAS 28 (revised 2011) 'Associates and joint ventures' (effective 1 January 2014)

IAS 39 (amendment) 'Financial Instruments' on novation of derivatives and hedge accounting (effective 1 January 2014)

IFRIC 21 'Levies' (effective 1 January 2014)*

IFRS 10 / 12 / IAS 27 (amendment) 'Consolidation for Investment Entities' (effective 1 January 2014)

IFRS 11 'Joint arrangements' (effective 1 January 2014)

Standards, amendments and interpretations to existing standards that are not yet effective and adopted by the European Union, and have not been early adopted

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 company's financial statements in the period of initial application.

Standards, amendments and interpretations to existing standards that are not yet effective and adopted by the European Union, and have not been early adopted (continued)

IAS 16 (amendment) 'Property, Plant and Equipment' on depreciation (effective 1 January 2016)*

IAS 19 (amendment) 'Employee benefits' on defined benefit plans (effective 1 July 2014)

IAS 38 (amendment) 'Intangible assets' on amortisation (effective 1 January 2016)*

IFRS 11 (amendment) 'Joint arrangements' on acquisition of an interest in a joint operation (effective 1 January 2016)*

IFRS 14 'Regulatory deferral accounts' (effective 1 January 2016)*

IFRS 15 'Revenue from contracts with customers' (effective 1 January 2016)*

IFRS 10 and IAS 28 (amendment) 'Consolidated financial statements' and 'Associates and joint ventures' on sale or contribution of assets and on investment entities applying the consolidation exemption (effective 1 January 2016)*

IFRS 9 'Financial instruments' (effective 1 January 2018)*

IAS 27 (amendment) 'Separate financial statements' (effective 1 January 2016)*

IAS 1 (amendment) 'Presentation of financial statements' on disclosure initiative (effective 1 January 2016)*

* Not yet endorsed by the EU.

Notes to the financial statements for the year ended 31 March 2015

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

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 2015. 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 2015

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 37 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.

Notes to the financial statements for the year ended 31 March 2015

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

Classification of financial instruments

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 2015

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 2015

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 £1,292,000.

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 2015

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 25 years at the beginning of the year. If the remaining useful economic life had been assessed at 26 years depreciation would have decreased by £48,000 and if the remaining useful economic life had been assessed at 24 years depreciation would have increased by £52,000.

Notes to the financial statements for the year ended 31 March 2015

2 Expenses by nature – operating costs

Group	2015 £'000	2014 £'000
Depreciation and amortisation	3,734	3,730
Amortisation of deferred government grant	(288)	(288)
Operating lease payments	14	13
Fees payable to the company's auditor in respect of the audit of the group and subsidiary financial statements	10	10
Other expenses	2,740	1,940
Total operating costs	6,210	5,405

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 (2014: none). The group's directors were not remunerated for their services to the group (2014: £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	2015 £'000	2014 £'000
Interest expense:		
Short term bank deposits	53	49
Borrowing (including borrowing fees)	4,476	6,332
Finance costs	4,529	6,381
Interest income:		
Short-term bank deposits	(55)	(53)
Finance income	(55)	(53)
Finance costs – net	4,474	6,328

Notes to the financial statements for the year ended 31 March 2015

5 Income tax credit

	2015	2014
Group	£'000	£'000
Current income tax:		
Group relief surrendered	(188)	(644)
Adjustments in respect of previous periods	745	(151)
Total current income tax	557	(795)
Deferred income tax:		
Origination and reversal of temporary differences	(561)	(4,023)
Adjustments in respect of previous periods	(252)	145
Total deferred income tax (note 15)	(813)	(3,878)
Income tax credit	(256)	(4,673)

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 21% (2014: 23%). The differences are reconciled below:

	2015	2014
	£'000	£'000
Loss before income tax	(3,702)	(5,612)
Tax calculated at the UK standard rate of corporation tax of 21% (2014: 23%)	(777)	(1,291)
Effects of:		
Reduction in rate of corporation tax on deferred tax liabilities	28	(3,376)
Adjustments in respect of previous periods	493	(6)
Income tax credit	(256)	(4,673)

Future tax changes

The standard rate of corporation tax in the UK reduced from 23% to 21% with effect from 1 April 2014 and accordingly the company's losses for the financial year were taxed at an effective rate of 21%. From 1 April 2015, the UK main corporation tax rate will be reduced to 20%. This rate has been used to calculate the deferred tax balance.

6 Profit 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 profit dealt with in the financial statements of the parent company is £401,000 (2014: £1,459,000).

Notes to the financial statements for the year ended 31 March 2015

7 Property, plant and equipment

Group	Pipeline £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 April 2013	38,480	17	38,497
Additions	-	63	63
At 31 March 2014 and at 31 March 2015	38,480	80	38,560
Accumulated depreciation			
At 1 April 2013	6,206	2	6,208
Provided during the year	1,242	1	1,243
At 31 March 2014	7,448	3	7,451
Provided during the year	1,241	6	1,247
At 31 March 2015	8,689	9	8,698
Net book amount			
At 31 March 2015	29,791	71	29,862
At 31 March 2014	31,032	77	31,109
At 31 March 2013	32,274	15	32,289

Depreciation expense of £1,247,000 (2014: £1,243,000) 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 2013, 31 March 2014 and at 31 March 2015	109,413
Accumulated amortisation	
At 1 April 2013	12,433
Provided during the year	2,487
At 31 March 2014	14,920
Provided during the year	2,487
At 31 March 2015	17,407
Net book amount	
At 31 March 2015	92,006
At 31 March 2014	94,493
At 31 March 2013	96,980

Notes to the financial statements for the year ended 31 March 2015

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 2015, of 37 years.

Amortisation expense of £2,487,000 (2014: £2,487,000) has been fully charged to operating costs.

9 Investment in subsidiary undertakings

Company	£'000
Cost	
At 1 April 2013, 31 March 2014 and at 31 March 2015	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	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Trade receivables	254	235	-	-
Amounts owed by related parties	462	834	23,743	21,479
Prepayments and accrued income	733	231	122	124
	1,449	1,300	23,865	21,603

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.

11 Cash and cash equivalents

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Cash at bank and in hand	12,899	11,619	1	751

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 0.1%.

Notes to the financial statements for the year ended 31 March 2015

12 Ordinary shares

	2015	2014
Group and company	£'000	£'000
Allotted and fully paid		
50,000 ordinary shares of £1 each	50	50

13 Retained earnings

Group	£'000
At 1 April 2013	(18,689)
Total comprehensive income for the year	(939)
At 31 March 2014	(19,628)
Total comprehensive income for the year	(3,446)
At 31 March 2015	(23,074)

Company	£'000
At 1 April 2013	6,660
Total comprehensive income for the year	1,459
At 31 March 2014	8,119
Total comprehensive income for the year	401
At 31 March 2015	8,520

14 Borrowings

	2015	2014
Group and company	£'000	£'000
Non-current		
2.207% Index linked guaranteed secured bond	125,446	125,287
Current		
2.207% Index linked guaranteed secured bond	1,250	1,131
Total borrowings	126,696	126,418

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 £122,712,000 (2014: £100,935,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 2.42% (2014: 3.63%) 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 2014

15 Deferred income tax liabilities

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

Group	£'000
At 1 April 2013	26,385
Income statement credit for the year	(3,878)
At 31 March 2014	22,507
Income statement credit for the year	(813)
At 31 March 2015	21,694

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 2013	4,080	22,305	26,385
Income statement credit for the year	(471)	(3,407)	(3,878)
At 31 March 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

The group and company have £5,711,310 (2014: £3,798,131) of tax losses available for carry forward against future taxable profits arising from the same trade. The related deferred tax asset of £1,142,262 (2014: £759,626) 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 £17,903,000 (2014: £18,401,000). 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 £1,773,000 (2014: £3,129,000).

16 Government grant

Group	£'000
At 1 April 2013	7,486
Amortised during the year	(288)
At 31 March 2014	7,198
Amortised during the year	(288)
At 31 March 2015	6,910

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 (2014: £288,000) and the non-current portion is £6,622,000 (2014: £6,910,000).

Notes to the financial statements for the year ended 31 March 2015

17 Trade and other payables

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Trade payables	6	16	-	8
Amounts owed to related parties	2,417	566	980	139
Other tax and social security	1,248	1,022	-	-
Other payables	5	128	-	-
Accruals and deferred income	264	244	4	4
	3,940	1,976	984	151

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

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:

	2015	2014
Group	£'000	£'000
Not later than one year	14	14
After one year but not more than five years	57	57
After five years	444	458
	515	529

Notes to the financial statements for the year ended 31 March 2015

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:

Group	Amount owed (to)/from related party	
	2015	2014
	£'000	£'000
Parent undertakings – current assets	50	50
Fellow subsidiary undertakings – current assets	412	784
Parent undertakings – current liabilities	(18)	(31)
Fellow subsidiary undertakings – current liabilities	(2,399)	(535)

Group	Nature of transaction	Value of transaction	
		2015	2014
		£'000	£'000
Parent undertakings	Charges payable	(257)	(298)
Fellow subsidiary undertakings	Group relief (claimed)/surrendered	(557)	795
Fellow subsidiary undertakings	Charges payable	(1,503)	(739)

Company	Amount owed (to)/from related party	
	2015	2014
	£'000	£'000
Subsidiary undertaking – current assets	23,281	20,645
Fellow subsidiary undertaking – current liabilities	(980)	(139)
Parent undertaking – current assets	50	50
Fellow subsidiary undertakings – current assets	412	784

Company	Nature of transaction	Value of transaction	
		2015	2014
		£'000	£'000
Fellow subsidiary undertakings	Group relief (claimed)/surrendered	(557)	795
Subsidiary undertaking	Group relief surrendered	959	644
Subsidiary undertaking	Interest receivable	4,485	6,343

Notes to the financial statements for the year ended 31 March 2015

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 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	2,962	-	-	-	-	-	2,962
	7,002	4,119	4,201	4,286	4,371	165,203	189,182

As at 31 March 2014 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	3,915	3,995	4,073	4,155	4,239	167,688	188,065
Trade and other payables	954	-	-	-	-	-	954
	4,869	3,995	4,073	4,155	4,239	167,688	189,019

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

As at 31 March 2014 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	3,915	3,995	4,073	4,155	4,239	167,688	188,065
Trade and other payables	151	-	-	-	-	-	151
	4,066	3,995	4,073	4,155	4,239	167,688	188,216

Notes to the financial statements for the year ended 31 March 2015

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.