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Belfast Gas Transmission Financing plc
Annual report
for the year ended 31 March 2022

Belfast Gas Transmission Financing plc

Annual report for the year ended 31 March 2022

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Belfast Gas Transmission Financing plc

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Directors and advisers

Directors

Patrick Larkin
Gerard McIlroy

Executive director
Executive director

Company secretary

Gerard McIlroy

Registered office

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Bankers

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Independent auditors

KPMG
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Strategic report for the year ended 31 March 2022

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, Belfast Gas Transmission and West Transmission assets, are therefore considered as a whole.

Strategic objectives

Our strategy is made up of four key elements:

Strategy	How we deliver	How we measure success
Safe, cost efficient operation Operate the best model to minimise costs and overheads including outsourcing	We provide a safe, reliable and efficient transmission service to the electricity and gas suppliers of Northern Ireland. Delivery is achieved through a competitive tendering process for operational activities and the development of a comprehensive contracting strategy and partnership approach with key contractors. We operate a Health & Safety system based on the Plan, Do, Check, Act approach. Further information on asset operation can be found on pages 5-6.	Our success measures include: <ul style="list-style-type: none"> - availability targets for our assets (KPI 1); - operational savings against forecast (KPI 2); - lost time incidents (KPI 3) and a series of detailed health & safety targets; - detailed maintenance and contracting milestones which are monitored at contract meetings; and - detailed monthly budgets which are monitored over a rolling five year horizon.
Return savings to consumer Deliver savings to all consumers evenly over the life of the assets	Group strategy involves returning all savings or cash surpluses to the generality of Northern Ireland consumers as evenly as possible over the life of the assets. In doing so, where possible, we seek to build up reserves to smooth future cash flows and minimise energy price increases and fluctuations associated with our assets. Where appropriate, reserves will be used to provide capital for future investments. Delivery of savings is discussed in more detail on page 7.	Our measures of success include: <ul style="list-style-type: none"> - operational savings against forecast (KPI 2); - cost of capital of Mutual Energy vs NI comparator (KPI 4); and - cash generated from operations (KPI 5).
Decarbonise Take an active role in collaboration with key stakeholders in the acceleration of decarbonisation through interventions and investments which benefit NI energy consumers	The Group's strategy is to adapt its structure and focus of the business to rise to the challenge of facilitating the decarbonisation of both the gas and electricity networks in Northern Ireland and facilitating customers who wish to use the networks as a means of decarbonising other sectors. We will also target the CO ₂ content of the electricity and gas transported on our networks, playing our part in reducing this by facilitating the connection of both customers and producers. Decarbonisation is discussed in more detail on pages 8-9.	A key factor to enable decarbonisation is the ability of system operators to balance the network and generators to respond flexibly to changes in renewable generation. Success is measured by the flexibility we will be able to supply our customers. In our gas businesses the flexibility we provide is measured by the rate of change we facilitate, and the volume of capacity we can make available. We also monitor the domestic connections made to the transmission network and calculate the CO ₂ saving (KPI 6) made by these connections over a 15 year period, as well as monitoring the savings made by industrial consumers compared to using oil (see page 8). Finally, we aim to reduce the emissions in our own business and have agreed a baseline and target for reductions (see page 16).
Manage market change Manage market changes to minimise risks to NI consumer	Our key focus is to ensure, so far as possible, that changes driven by EU, national or other bodies do not impact negatively on our business, our financing arrangements or energy consumers in Northern Ireland. We seek to achieve this by influencing discussions at stakeholder meetings, actively participating in the work of the EU and GB system operator confederations and by assisting the regulators and relevant government departments to identify and address issues particularly relevant to Northern Ireland. The market environment is discussed in more detail on page 10.	Our measures of success include: <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 - market improvements implemented (KPI 7).

Strategic report for the year ended 31 March 2022 (continued)

Key Performance Indicators (“KPIs”)

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

Key Performance Indicator	Definition of KPI
1. Availability <p>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.</p> <p>A graph showing availability can be found on page 5.</p>	Availability <p>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.</p>
2. Operational savings against forecast <p>For the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs.</p> <p>Operational savings vs forecasts for the gas businesses are shown on page 7.</p>	Operational savings against forecast <p>The KPI for gas business operational savings is calculated by subtracting the actual required revenue for the gas year, calculated in accordance with the gas companies’ licences, from the forecast required revenue submitted in advance of the year.</p>
3. Lost time incidents <p>Our safety is measured by the safe operation of our staff and contractors as noted on page 5.</p>	Lost time incidents <p>Lost time incidents are calculated as the number of lost time incidents per 100,000 hours worked by staff and contractors.</p>
4. Cost of capital of Mutual Energy vs NI comparator <p>Savings incurred on the Mutual Energy group’s financing costs compared to the costs which would have been incurred if financed by a Northern Ireland energy utility comparator. This is a direct saving to consumers.</p> <p>Cost of capital of Mutual Energy vs NI comparator can be seen on page 7.</p>	Cost of capital of Mutual Energy vs NI comparator <p>The Mutual Energy group incurs financing costs in respect of debt entered into for the purpose of the business. The Mutual Energy group’s average cost of capital is compared to the costs which would have been incurred if financed at the rates charged by a Northern Ireland energy utility comparator over this period.</p> <p>The KPI is the savings made as a result of the lower cost of capital than the comparator company. The savings are calculated as the cost which would have been incurred by a comparator financing the Mutual Energy group’s debt compared to the costs actually incurred.</p>
5. Cash generated from operations <p>Cash generated which will be used to avoid future charges to consumers.</p> <p>Cash generated can be seen in the graph on page 7.</p>	Cash generated from operations <p>Cash generated post tax.</p>
6. CO₂ savings <p>The Group can contribute to the reduction in CO₂ by facilitating changes on its network to allow:</p> <ol style="list-style-type: none"> 1. consumers to move from higher CO₂ emitting fossil fuel to lower emitting fossil fuels; 2. lower or zero emission fuels to transport through the networks; and 3. different industry types, such as transport, to access electricity or natural gas to lower their CO₂ emissions. <p>In addition the Mutual Energy group will seek to minimise the emissions from its own operations, encompassing operational activity, transport and other activities ancillary to running the business.</p> <p>The total of the CO₂ savings is the KPI for this activity and a graph showing the results can be found on page 8.</p>	<p>CO₂ savings from moving to lower emitting fossil fuels</p> <p>Domestic heating</p> <p>The lifetime saving associated with a connection is calculated using Northern Ireland average consumption and applying CO₂ conversion factors for oil vs gas based on UK government figures over an assumed 15 year life.</p> <p>The total for the year is calculated by multiplying by the number of new domestic gas connections in the year using figures from the Utility Regulator (‘NIAUR’) Quarterly Transparency Reports.</p> <p>Industrial and commercial</p> <p>The annual CO₂ saving from industrial and commercial customers burning natural gas compared to CO₂ emissions which would have been generated had the customers been operating on oil. The annual consumption from medium and large industrial and commercial customers on the Northern Ireland network is taken from the quarterly transparency report from NIAUR and the CO₂ savings are calculated by applying CO₂ conversion factors for oil vs gas based on UK government figures.</p>

Belfast Gas Transmission Financing plc

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Strategic report for the year ended 31 March 2022 (continued)

Key Performance Indicators (“KPIs”) (continued)

Key Performance Indicator	Definition of KPI
6. CO₂ savings (continued)	<p><i>CO₂ savings from moving to lower emitting fossil fuels (continued)</i></p> <p>Power generation</p> <p>The annual CO₂ saving of connecting a unit to the gas network is the emissions of the gas burned in a year compared to the emissions that would have been generated had that unit been operating on another fuel.</p> <p>The comparison fuel is power station specific, and dependent on its historic fuel and the calculation uses the UK Government Greenhouse Gas (‘GHG’) Conversion factors as appropriate. Where the capacity of a unit has changed as part of the gas conversion process, we only compare new emissions to the lower of the old and new generation capacity. Only plant connected in the timeframe Mutual Energy owned the pipelines are included.</p> <p>Lower or zero emission fuels to transport through the networks</p> <p>Biomethane injection</p> <p>CO₂ savings from connecting low CO₂ gas producers are calculated by comparing the CO₂ content of gas from the UK Government to the content of the gas injected.</p> <p>CO₂ saved in Mutual Energy group operations</p> <p>These are calculated in accordance with guidance provided by the Department of Business, Energy and Industrial Strategy (‘BEIS’), for conversion of different fuel types, to calculate the CO₂ usage.</p>
7. Market improvements implemented¹ <p>GMO NI uses a Market Improvement Register to identify and manage changes to the gas market in Northern Ireland, and to aid with planning or work and resources. The register weights each change from minor updates to larger implementations of key regulatory changes.</p> <p>Market improvements implemented can be seen in the graph on page 10.</p>	<p>Market improvements implemented</p> <p>Number of market improvements implemented within each financial year.</p>
8. Annual Debt Service Cover Ratio <p>The ability to acquire infrastructure at low cost to the consumer is critically dependent upon our track record with the existing asset financing.</p> <p>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.</p> <p>A graph showing these ratios can be found on page 6.</p>	<p>Annual Debt Service Cover Ratio</p> <p>The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the bonds for each operational company.</p> <p>The basis of calculation is Available Cash / Debt Service in the next 12 months.</p> <p>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.</p>

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

¹ “Market change date milestones met” KPI was replaced with “Market improvements” KPI this year as the previous KPI was based on EU requirements which had fixed dates, however, this is no longer the case for many of the market improvements following Brexit

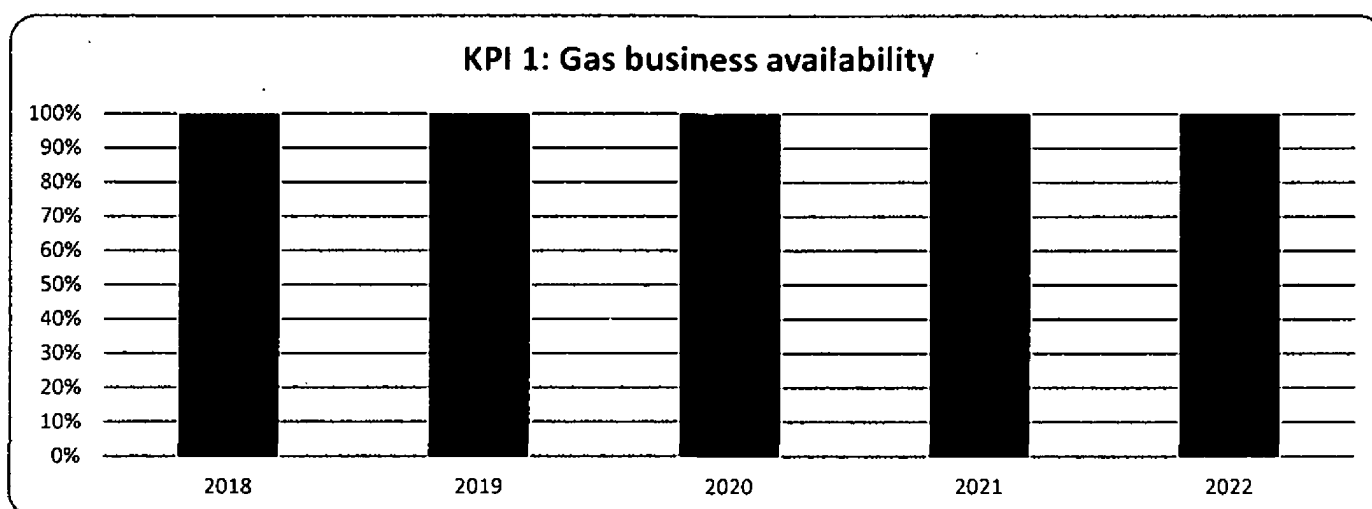
Strategic report for the year ended 31 March 2022 (continued)

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

Operational performance

It was a relatively mild winter, the peak day gas demand occurring on 24th January 2022 6.4mscm/d, less than the forecasted 7.5mscm/d and the previous year's peak of 7.01mscm/day on 10th February 2021. Wholesale gas prices were high and Ukraine conflict occurring late February did raise concern on gas supply, but there were no supply issues in GB and no operational issues with our gas transmission network so we are very pleased to have maintained the availability of the gas system through the year at 100% (KPI 1). The expansion of the distribution sector continues apace with almost 17,000 additional domestic connections in the 2021 calendar year, creating an approximate lifetime CO₂ emissions saving of c170,000 tonnes. Annual consumption of gas for the power generation sector continues to decrease with intermittent renewables contributing more to the electricity mix. That said, the peak daily requirement for power generation remains at the same levels on the days the renewables are not available and is set to take a step increase as more new connections to gas fired electricity generation come on stream.

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



We continued the roll out of the replacement control computers on the sites and working with adjacent transmission system operators began to implement changes in the operational pressures in the network in preparation for increasing peak day demands.

Financial performance

The combined gas business costs for Mutual Energy's subsidiaries (Premier Transmission, Belfast Gas Transmission and West Transmission) for the gas year ending on 30 September 2021 were £0.2m below the forecasts used for predicting tariffs (September 2020: £2.0m below) (KPI 2).

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

Strategic report for the year ended 31 March 2022 (continued)

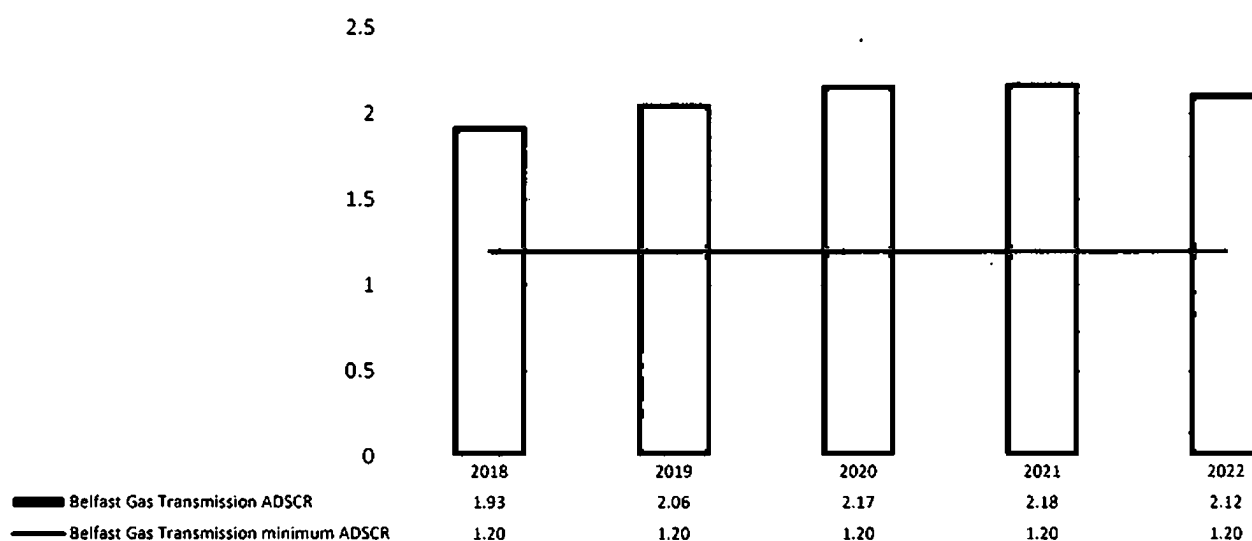
Strategic objective: Operate assets safely and cost effectively, outsourcing where appropriate (continued)

Financial performance (continued)

The Annual Debt Service Cover Ratio (ADSCR) will tend to average towards 2.0. Over-performance above 2.0 in earlier years will reverse in the future and will result in future ADSCR below 2.0 when this cash is released to the benefit of consumers. The timing of tax payments can have a similar effect.

The ADSCRs can be seen in the following graph.

KPI 8: Gas business ADSCRs



Future development – asset performance and utilisation

We will soon connect the Kilroot Power Station to the Belfast Gas Transmission pipeline and integrate the operation of the connecting site and pipeline into the overall operation of the gas transmission assets. The renewables-based electricity system requires dispatchable flexible generation to have available for the substantial periods when intermittent renewable generation is insufficient. During the year, Kilroot submitted a formal connection request for circa 750MW of gas-powered plant at Kilroot. This will start to contribute to peak daily gas requirements from 2023. The step up in gas capacity required to fuel the 750MW electrical plant will take overall NI daily capacity beyond the 8.08mscm/d that is available through Twynholm and the SNIP pipeline, which will lead to the commercial use of the Gormanston supply point into NI as a minimum. The potential increased load, essential to keeping the electrical system functioning effectively, will push the NI gas transmission system close to the limits of its physical capacity and bring likely bring forward the first use of existing capacity constraint management arrangements. The NI TSOs and Gas Market Operator are seeking information on running regimes from the electrical system operators which will guide any capital expenditure or system changes to help facilitate this unprecedented increase in load. Preliminary analysis of the operating regime suggests that, in open cycle mode, the new plant may want to have offtake rates on the system in excess of all the existing gas-powered plant combined. The timeline for changes to the system will be determined in 2022 once the proposed requirements of the electrical system are confirmed, including outline timelines for any required capital expenditure.

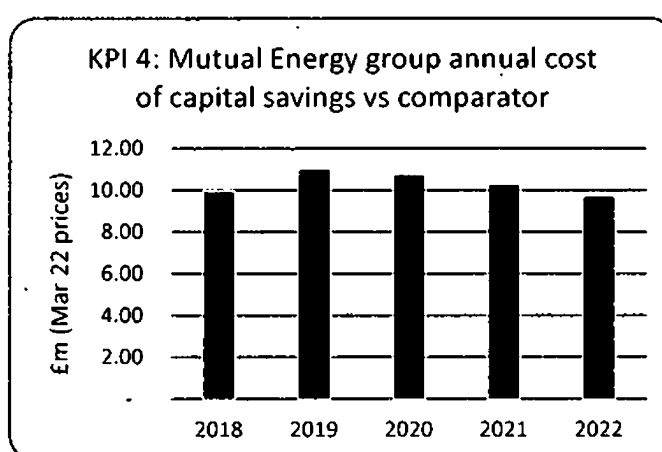
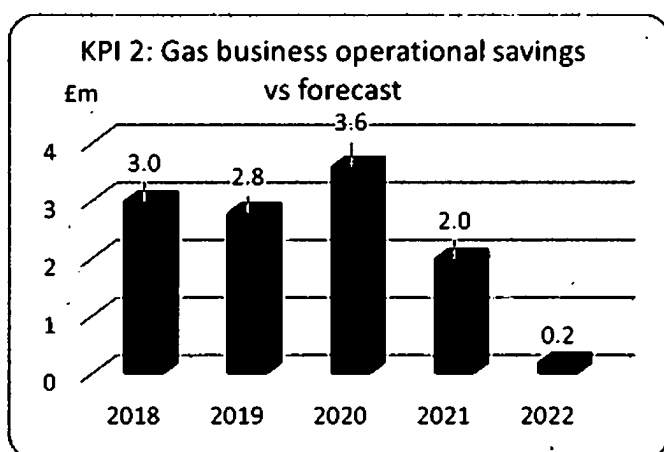
Strategic report for the year ended 31 March 2022 (continued)

Strategic objective: Deliver savings to current and future consumers over the life of the assets

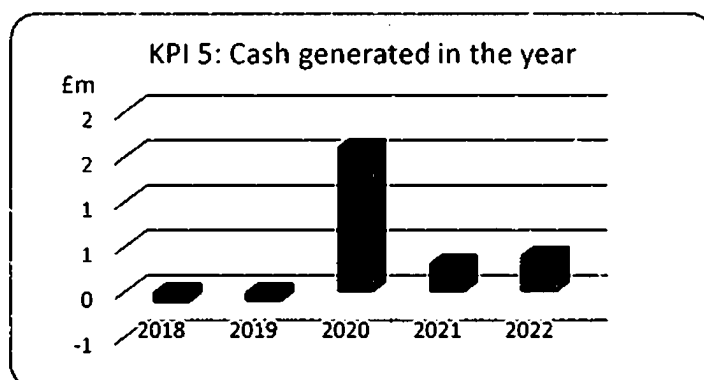
In the gas year 2019-20 it was agreed with the Utility Regulator (NIAUR) to set aside £2.7m of the money saved in Mutual Energy's gas businesses to assist in the cash flow of our shippers should any shipper default in its payment obligations due to the impact of the COVID-19 pandemic. This reserve continues to be held, primarily in Premier Transmission, given recent market conditions and high gas prices.

Whilst savings against the forecasts and the use or return of these to shippers are very welcome, the main means by which the businesses deliver savings to the consumers in Northern Ireland is through providing a low cost of capital. The costs of the gas transmission assets are charged to the respective shippers through a "use of system" charge which happens automatically through the postalised transmission system charging methodology. The savings achieved due to our low costs of capital are therefore passed on to shippers, allowing them to charge the end consumer less for their gas. Overall gas business charges recovered from shippers in the 2020-21 gas year (excluding the new West Transmission assets) were 20% lower (2019-20: 13% lower) in real terms than in 2004-05, before the mutualisation of Mutual Energy's gas assets. We continually seek to achieve operational savings and efficiencies.

Year on year the business measures its progress with reference to the annual forecast provided for the tariff calculation, as shown in the following chart (KPI 2). Savings in the most recent year were reduced by increased spend in negotiating the upstream Transportation Agreement with GNI(UK), the outcome of which was significant future savings for NI consumers.



The Mutual Energy group passes further savings on to consumers through its low cost of capital. A way of measuring the benefit which will flow to consumers is to calculate the cost of capital savings for the Mutual Energy group compared to a Northern Ireland energy utility comparator (KPI 4). The chart above shows the annual savings in March 2022 prices over the last 5 years. Cumulative savings to 31 March 2022 have exceeded £160m.



KPI 5 shows the movement in the cash balance (including deposits and investments with maturity of less than 1 year) from the previous year.

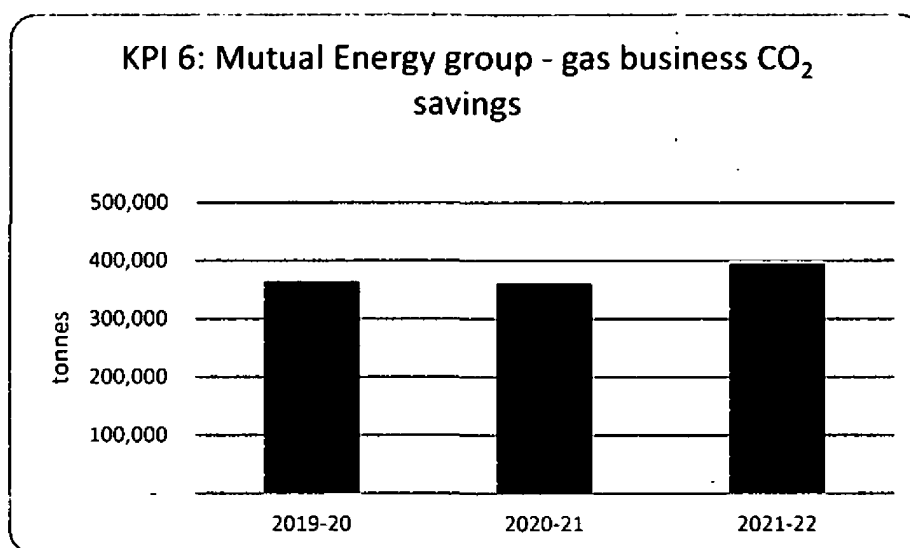
The Northern Ireland consumer will face significant costs as government policy changes to seek to decarbonise the economy, and the ability to generate savings and then return them to customers or absorb some of these additional costs will become an important part of our strategy going forward.

Strategic report for the year ended 31 March 2022 (continued)

Strategic objective: Take an active role in collaboration with key stakeholders in the acceleration of decarbonisation through interventions and investments which benefit Northern Ireland energy consumers

Future development – energy transition

The Mutual Energy group targets its activities to allow users of our assets to reduce their CO₂ and measures the CO₂ savings which are facilitated by the business as outlined in the graph below (KPI 6). The facilitation of CO₂ savings by others is the key contribution the group can make to achieving net zero. The direction of our efforts to facilitating replacement of higher CO₂ emitting fuels with lower CO₂ emitting fuels and transporting lower carbon energy, as measured by this KPI, will provide a benefit of many multiples the savings we can make in our own energy use.



The most immediate way to reduce CO₂ is to facilitate higher CO₂ emitting sectors converting to lower CO₂ emitting gas and this continues to be a core business, with domestic and commercial customers steadily moving from oil to gas for heating purposes. A key ongoing project is the connection of the Kilroot power station to the gas network, enabling the coal fired plant to be replaced by a gas fired plant. The CO₂ savings from this change will be evident once the new plant comes online.

Longer term we aim to facilitate the progressive reduction of the CO₂ content of the gas we transport through our assets. The first milestone in this process is the ability to accept biogas in the networks, and our Gas Market Operator has successfully adapted the commercial framework for gas transportation to facilitate this injection which will take place on the distribution networks, with first injections hopefully in the 22/23 year. Other progress continues to be difficult as Northern Ireland is still in the process of developing an energy strategy, and the Utility Regulator are not adopting any framework to support regulated entities in making any substantive progress. We continue to engage with both parties to identify areas where progress can be made.

Another complement to biogas reducing the carbon footprint of transported gas is the use of hydrogen. During the year we partnered with B9 Energy, Islandmagee Energy Storage and the Net Zero Technology centre to develop the “Ballylumford Power to X” project which aims to convert excess renewable electricity into hydrogen, store it and then use the hydrogen to create electricity when renewable electricity is not available. This project is at a very early stage, but has received funding from BEIS and will provide a practical insight into one possible solution to the fundamental problem of the intermittency of renewable energy.

On the research side the Mutual Energy group continue to work with the Hylight collaboration, bringing together research expertise from Dublin City University, National University of Ireland, Galway and University College Cork and a large number of interested companies to assess the potential for hydrogen in Ireland.

Strategic report for the year ended 31 March 2022 (continued)

Strategic objective: Take an active role in collaboration with key stakeholders in the acceleration of decarbonisation through interventions and investments which benefit Northern Ireland energy consumers (continued)

Future development – energy transition (continued)

Ballylumford Power to X project

Our Energy Transition team worked closely with the Net Zero technology centre, Islandmagee Energy Storage and B9 Energy to identify the opportunity to address one of the core challenges in decarbonising the electricity sector: dispatchable low carbon power generation. The potential solution is to store surplus renewable electricity in the form of hydrogen and then reconvert this back to electricity when required. BEIS has awarded over £986,000 to this 12-month Power-to-X Project as part of its support for the UK's first ever Hydrogen Strategy, and this project will drive forward the commitments laid out in the UK Government's Ten Point Plan for a Green Industrial Revolution which includes the ambition to deliver 5GW of low carbon hydrogen production capacity by 2030.

Phase one of the Power-to-X Project will see the delivery of a front-end engineering design (FEED) to demonstrate the concept of innovative, first-of-a-kind, longer duration energy storage technologies which can be deployed at scale, and where green hydrogen from renewable energy sources, such as wind and solar, will be stored for later use as carbon free fuel in both the transport and power generation sectors.

Ultimately the Ballylumford Power-to-X Project seeks to create a full-cycle hydrogen economy, from production, storage and distribution to usage at the site. The FEED study will establish a set of requirements to improve the security and reliability of Northern Ireland and Ireland's power system through curtailment management and the provision of a range of system services including electrolysers and a gas turbine.

The Ballylumford power generation site has unique significance because it combines strong connection to the gas and electricity transmission networks, interconnection with Scotland through the SNIP and Moyle pipeline and cables respectively, along with power generation and salt cavern storage that allow optimum conditions for green hydrogen production, storage and use, and for delivering security of supply in a not-too-distant net zero world.

This project will provide invaluable knowledge and open opportunities – allowing the generation of real-world data and practical experience in developing a high pressure 100% hydrogen network and building an understanding of the associated legislative and regulatory framework surrounding such networks. All this will be critical both to delivering the crucially important energy transition for Northern Ireland and maintaining a robust security of energy supply in the future.

Strategic report for the year ended 31 March 2022 (continued)

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

UK-EU New Working Arrangements

As a result of Brexit, the EU legislation that drives many of our market rules were transposed into UK Law on an as-is basis, and in addition the UK transmission companies were no longer able to continue membership of the European Network of Transmission System Operators (“ENTSO”). However, it was felt that strong working relationships need to continue to try to minimise divergence over time and to align arrangements where possible between the EU and the UK for an efficient and seamless gas market. A Working Arrangements Agreement (“WAA”) has been agreed in principle between the UK TSOs and ENTSOG, with approval pending from the EU. A Task Force has been enacted and meets quarterly to discuss common items and identify any workstreams that need to be progressed between the parties. For example, the EU has recently consulted on an update to the 3rd gas package to cover renewable gases and is proposing arrangements that would impact cross border flows with the UK. This arrangement stemming from the WAA is in its infancy with the agreement being developed and the first meeting being held within the last financial year. As this work progresses it is seen as a critical forum to monitor regulatory developments and manage market change especially in areas related to the energy transition impacting on cross border flows between the EU and the UK. GMO NI has been involved in the development of this, along with the parent NI TSOs and will be attending the meetings to cover any NI gas market related activities moving forward.

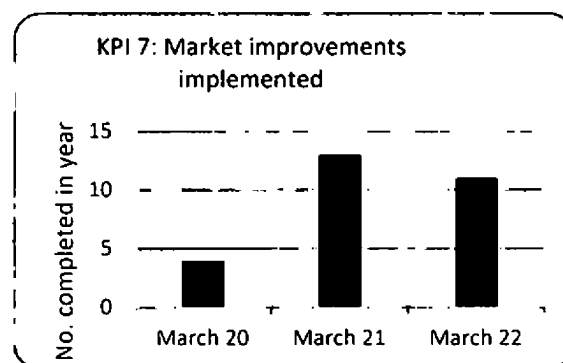
Biomethane Implementation

The largest market change over the last financial year has been designing and updating arrangements to accept biomethane injection within NI. At the transmission level this involves allowing injected gas to trade across to a different distribution network than where it was injected, or even virtually reverse flow the biomethane back through Moffat (the NI entry point from National Grid) to claim incentives available within GB. For these activities virtual flow on the transmission network is needed. GMO NI has worked with the distribution system operators, NIAUR, and engaged with stakeholders to develop rules to allow the potential of biomethane to be maximised and to ensure arrangements are suitable to accommodate this, mainly by the introduction of aggregate balancing across both the distribution and transmission networks. The last year has seen the design, engagement and consultation with industry on business rules along with the initial IT systemisation to accommodate this, with the final phase of IT systemisation, code modifications and full implementation to be completed later in 2022. In terms of transmission injection although no entities have made approaches to inject into the transmission grid, GMO NI has worked to progress and outline a connection process along with certain documentation and base case rules to ensure that, when an entity does request a biomethane injection connection to the transmission network, there is a defined process and necessary documentation required for the application to progress successfully.

Market improvements implemented (KPI 7)

The GMO NI Market Improvement Register is reviewed quarterly and considers changes in the following areas, all weighted depending on their significance:

- **Market:** Changes which improve transparency / information provision or may increase efficiency, flexibility or liquidity and therefore directly benefit the Shipper either via cost savings or otherwise
- **Operational:** Changes that improve the operation of the network
- **External:** Includes work such as accommodating a new connection point onto the network or a regulatory change that requires updates to the business
- **Process:** Changes which are beneficial to Shippers or the transporters in their daily interactions associated with the NI gas transmission market



Changes implemented in the year ended 31 March 2022 include the transition of the Trustee and Account Bank to new providers, the design and implementation of business rules for aggregate balancing arrangements across transmission and distribution networks, amendments to the Stranraer tariffing arrangements and inclusion within the annual reconciliation process for legislative compliance, and increased stakeholder engagement with Shippers via a winter webinar series.

Strategic report for the year ended 31 March 2022 (continued)

Stakeholders, relationships and resources

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

Customers

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

The Premier Transmission Pipeline System provides a service to shippers from Moffat in Scotland to exit points at EP Ballylumford, the connection with Gas Networks Ireland (NI) ('GNI') pipelines at Carrickfergus, Belfast Gas exit points in Belfast and Larne, and West Transmission's exit points at Maydown and in the West of Northern Ireland via offtakes from GNI(UK)'s pipelines. A total of 19 shippers (2021: 18) are currently registered to use our gas system.

Partners and contractors

There has been no change to the major outsourced contractors in the year with SGN carrying out the routine maintenance, emergency response, and monitoring our system from their gas control centre in Horley, outside London. The gas control contract, which is an important partnership for the Group, has been extended for a further 10 years to 2032 following a procurement exercise under the new post Brexit procurement regulations.

Regulators and government departments

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

Bondholders and financiers

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

Social, community and human rights issues

The Mutual Energy group has a fundamental community focus through its purpose: to own and operate energy infrastructure in the long-term interest of energy consumers in Northern Ireland. This is also reflected through all of our strategic objectives which include cost effective operation to deliver savings and minimise risks of market change to Northern Ireland consumers. More information on how the Group delivers these objectives can be found on pages 2 to 10.

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 Mutual Energy group ensures robust Health & Safety systems are in place as discussed on page 15, for the benefit of employees, contractors and the wider public. We comply with the Employments Rights Act, Modern Slavery Act and all other applicable UK law as an absolute minimum and recognise the importance of treating all of our employees fairly. We are committed to conducting business in an honest and ethical manner and act according to our Code of Ethics, which is integral to our business and sets out a range of principles we adhere to. We do not tolerate bribery or corruption of any kind and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships. The Mutual Energy group is a member of Business in the Community and continues to explore options for positive improvements to our environment, community and workforce.

Strategic report for the year ended 31 March 2022 (continued)

Risk management

Risk management is overseen by Mutual Energy on behalf of the whole Mutual Energy group. The Mutual Energy group carried out a comprehensive review of its risk processes during 2020/21. The Group's risk process was subsequently revised and changes were implemented during the year to encompass feedback from the review. These changes will ensure that risk appetite is more clearly defined and that risk assessment is fully embedded throughout all areas and levels of the business, ensuring effective risk management.

Risk management structure

The Mutual Energy Board approves the overall risk management process and the Audit and Risk committee approves all the policies covered by the framework. The new process implemented in the year ensures that people at all levels of the Group feed into the risk assessment process. Staff from each business function meet quarterly to identify and assess the risks faced and the functional risk registers produced at these meetings are then shared with senior management. Senior management also meet quarterly to identify strategic risks, taking into consideration the functional risks reported.

As part of the new risk process implementation some changes were made to the Mutual Energy Board's committees, effective 1 October 2021, including changes to the composition of the committees and updates to the names and terms of reference of the existing Audit Committee and Risk Committee. Strategic risks are now reported to the Asset Oversight Committee (formerly the Risk Committee) and Audit and Risk Committee (formerly the Audit Committee) at least twice yearly, with an annual review of these also being carried out by the Board.

Responsibility for ensuring compliance with the policies is delegated to the Audit and Risk Committee who delegate asset-related risks (including Health & Safety) to the Asset Oversight Committee. Moyle Control System Upgrade Subcommittee is responsible for managing the risks of the Control System upgrade. The Asset Oversight Committee reports to the Audit and Risk Committee after each meeting. The Moyle Control System Upgrade Subcommittee reports to the Board as appropriate.

Assessment of risk was carried out, throughout the year ended 31 March 2022 and up to the date of approval of the annual report and financial statements, in line with the risk process in effect at that time.



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 Mutual Energy Board, Audit and Risk Committee, and Asset Oversight Committee review the risk registers regularly and consider the approach to risk recording, management, and mitigation and how this remains appropriate in the current market environment. The Mutual Energy Board, during its annual review of the effectiveness of the group's internal control and risk management systems, did not identify, nor was advised of, any failings or weaknesses which it has determined to be significant.

The principal risks of Mutual Energy relevant to the Belfast Gas Transmission Group have changed considerably as a result of the risk process refresh, with many risks being reclassified or separately identified as a result of the changes in the process, and are set out below.

Operational risk






The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The risk encompasses internal failures, such as poor processes or insufficient or untrained staff, and external actions such as cyber threats, or 3rd party accidental or malicious actions which restrict the ability of our assets to operate, either physically or commercially.

Risk description and potential impact	Mitigations and actions taken	Risk trend
Ineffective processes, procedures or management of third party activities enable ignorant or negligent third parties to cause catastrophic failure of the pipelines or cables onshore or offshore leading to loss of gas supply, costly and lengthy repairs and reputational damage.	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. As part of this process, we require the contractors to work under a set of processes and procedures which enable us to manage the associated risks of the networks.	
Reliance on 3rd Parties to supply business critical services can result in counterparty risk. Exposure to a limited number of counterparties interested in providing services could lead to uncompetitive pricing.	Contract management plans are in place which identify key deliverables and ensure regular reporting and meetings with contractors. Due diligence is performed where required to ensure financial stability. Termination rights and exit planning are in place where appropriate.	

Strategic report for the year ended 31 March 2022 (continued)



Risk management (continued)

Operational risk (continued)

Risk description and potential impact	Mitigations and actions taken	Risk trend
Health & safety risk: Failure to maintain robust and effective health and safety practices, or failure to identify and manage wellbeing in the workforce may lead to injury to staff, contractor or public or have an adverse impact on the organisation's operations.	A Health & Safety policy, management system, and plans are in place which are reviewed annually. Risk assessments, method statements, audits, inspections and training are regularly performed.	
People and HR risk: The failure to effectively manage talent, ensure appropriate training and resourcing, and plan for leadership succession could impede the realisation of strategic objectives.	The business operates a performance-based culture with competitive pay and conditions benchmarked against the market, engaging closely with staff and utilising performance management and development programmes and succession planning. Human Resources policies are in place, the operation of which mitigate risks in this area. Risk has increased in this area due to skills shortages observed in the market and difficulties recruiting staff.	
Business continuity risk: One-off events or public health emergencies, epidemics or pandemics, have the potential to significantly impact the Group's operations through a fall in demand for the Group's products/services, a reduction in staff availability and business interruption.	A business continuity plan is in place, with key tasks identified and more than one individual trained in each. This system has been thoroughly tested and is proven to work well.	
IT and cyber risk: The Group is dependent on information and operational technology systems to support its business activities. Any significant operational event, whether caused by external attack, insider threat or error, could lead to loss of access to systems or data, adversely impacting business operations across both the Information Technology and Operational Technology networks.	A business continuity plan is in place with resilient infrastructure and disaster recovery environments available. Access security and protocols are in place and penetration testing is carried out at regular intervals. The business liaises with the National Centre for Cyber Security and the Centre for the Protection of National Infrastructure and utilises security consultants as required.	
Gas system flexibility deteriorates: Either through increases or changes in demand profile or reductions in upstream pressure or changes in rules we are unable to provide the flexibility our customers expect, even if we are operating within our contractual entitlement.	Longer term systems planning is in place through annual gas capacity statement. The Northern Ireland network code and upstream Transportation Agreement with GNI(UK) define the business rules and capacity levels. Capacities and pressures are monitored to make sure they are not breached. System constraint arrangements and emergency response arrangements are in place. Risks have increased as generation load on the gas network is expected to increase significantly in the near term and this will lead to additional challenges in managing the network.	

Financial risk

The risk of failing to safeguard the organisation's assets, financial impropriety or financial misreporting. Inadequate financing, liquidity problems, non-compliance with covenants, market changes or failure of counterparties could lead to failure of financial structure. It includes fraud risk which is seen as the risk of internal or external fraud leading to financial loss, service disruption and reputational damage.


Risk description and potential impact	Mitigations and actions taken	Risk trend
Poor financial management could result in breach of financing covenants, compliance failure or financial loss.	Controls are in place which cover authority limits, budgeting and financial processes and the overall governance structure. The most recent changes include implementation of a strict ring back process for payee changes.	
Inadequate financing, liquidity problems, non-compliance with covenants, market changes or failure of counterparties could lead to failure of financial structure.	Financing costs from borrowing arrangements are fully recovered through income allowances reducing the Group's exposure to inflation risk. Processes are in place to monitor covenant compliance and there is active management of market changes. Treasury policies are aimed at minimising the risks associated with the Group's financial assets and liabilities and financial counterparty failure clauses are included in financing documents. The Group has low liquidity risk due to its strong cash flows and the reserve accounts and liquidity facilities required by its financing documents. The required reserve accounts remain fully funded and £7m of liquidity facilities were in place throughout the year. Business planning processes are in place to identify cash requirements in advance.	

Strategic report for the year ended 31 March 2022 (continued)

Risk management (continued)



Business environment and market risk

The risk to the organisation of potentially failing to meet its objectives following significant changes or negative events within the external environment in which it operates. Examples of external risk include but are not limited to: sectoral risks such as Brexit; the impact of global factors and market conditions such as economic slowdown; external political environment or 'global shocks' such as terrorist attacks; extreme weather events, third party damage to assets etc.

Risk description and potential impact	Mitigations and actions taken	Risk trend
Market changes for gas and electricity in Northern Ireland could result in reduced volumes transported through the assets, insufficient revenue recovery, default on debt, damage to reputation of mutual model or fines.	Licence provisions implementing the postalised charges system in the gas business are designed to offset the impact of such changes. An influencing strategy is in place to positively impact market developments. Recent and future market development are discussed on page 10. Risk has increased in the period due to the need for market changes to meet decarbonisation targets.	




Political and regulatory risk

Risks driven by regulatory or political attitudes to the industry generally or the Group in particular.

Risk description and potential impact	Mitigations and actions taken	Risk trend
As the business is regulated it is exposed to regulatory risk. Changes in economic regulation or government policy could have an adverse impact on our financial position.	The Group's relationships with NIAUR and DfE are managed at senior level through frequent meetings and correspondence in line with the Group's communication strategy. The Group coordinates with other EU system operators on EU issues. A proactive approach is taken to consultations on any issue which could affect the Group's business interests, with legal advice sought where appropriate.	
As the Group is subject to growing number of laws and regulations, the cost of compliance or the failure to comply with current and future laws/regulations may negatively affect the Group's business and our financial position.	There is a full suite of processes in place to ensure compliance. Our asset management systems and Health and Safety management and environmental systems are essential in ensuring legislative compliance.	

Corporate strategy and communication risk

The risk associated with failure to achieve the strategic and business objectives. Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.


Risk description and potential impact	Mitigations and actions taken	Risk trend
Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.	The Mutual Energy Board retains responsibility for strategy as a reserved matter and manages communications directly in line with its communication plan, using outsourcing as appropriate. A member of staff has been appointed to have oversight of the day to day operation of Group communications and management of the external consultant.	
Risk of failure to develop brand and reputation to successfully deliver on strategic objectives.	The key control in this area is the communications plan and Board's involvement in this. As part of the execution of the current communications plan, there has been extensive recent engagement with the relevant politicians.	
Failure to prepare for energy transition and/or inadequate operating model to support the energy transition could result in significant financial, operational and reputational impacts.	The Group strategy has been amended to concentrate on this area and the Board's cycle of strategy evaluation and business planning gives explicit regard to energy transition. The refocus of the organisation structure and investment in two full time staff seeks to involve the business as much as possible in future developments and has decreased the risk in this area. Gas industry wide co-ordination is relatively new, has become more formal and progress is now being made as resources are applied from all companies.	

Strategic report for the year ended 31 March 2022 (continued)

Risk management (continued)

Project delivery risk

The risk of an event or occurrence that may negatively impact on the delivery of a project.

Risk description and potential impact	Mitigations and actions taken	Risk trend
Poor contracting or management, insufficient resources or extreme weather could cause project delays resulting in financial losses, reputational damage, damage to assets or loss of availability.	A project governance structure exists with sufficiently qualified and trained resources. Controls are project specific, but centre round project execution plans and project governance arrangements for each project. Contractors are closely monitored and stakeholder engagement plans and insurance are in place.	

Mutual Energy'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.

Health, Safety and Environment

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. The wellbeing of the Group's staff is considered extremely important to the business and particular focus was paid to this area in the year, given the potential impact of the COVID-19 pandemic on employees.

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

A Royal Society for the Prevention of Accidents (RoSPA) Quality Safety Audit was carried out in the year, with an improvement having been obtained on the already strong result from the previous audit in 2018/19. A plan is being put into place to progress the further improvements identified.

Our gas business runs simulated gas emergency exercises to ensure a robust response plan is in place to manage gas supply emergencies and pipeline incidents. Mutual Energy Limited, having taken over as the Northern Ireland Network Emergency Co-ordinator (NINEC) in November 2019, coordinated the annual Gas Supply Exercise in November, testing the response to an incident on one of the Gas Transmission Pipelines in Northern Ireland. An actual Gas Supply Emergency would be co-ordinated and managed in the same manner as that tested in the exercise.

The Mutual Energy group is committed to good environmental performance and holds under review its policies and strategies to monitor and deliver on this commitment, in the context of shifting societal awareness and priority on improving environmental performance. No breach of any environmental licence or permits were recorded in the year.

Strategic report for the year ended 31 March 2022 (continued)

Health, Safety and Environment (continued)

Greenhouse gas emissions reporting

The Mutual Energy group continues to strive to increase the scope of our carbon monitoring and reporting with a view to reduce our overall emissions by 30% by 2030, with the clear objective of achieving the net zero targets in line with Northern Ireland policy timelines as outlined in the Northern Ireland Climate Change No. 2 bill.

As part of this process in improvement in reporting we will be monitoring our emissions on both the contract-based method and the location-based method as recommended by the US environmental protection agency based on The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (GHG Protocol) developed by the World Resources Institute (WRI). The contract-based method helps support renewables on the widest viewpoint, by allowing companies to support offsetting renewable investment at the most appropriate sites rather than always at the point of use, which is rarely possible. The location-based method helps incentivise actual reductions in energy use as well as investments in self supply of electricity.

The Mutual Energy group has further targets to improve monitoring and estimations in areas such as emissions during maintenance activities, and to extend the scope of our monitoring to "scope 3" emissions.

The table below sets out our greenhouse gas (GHG) emissions, energy use and energy intensity ratio for the current and prior year for Mutual Energy's gas businesses:

	Location-based calculation		Contract-based calculation	
	2022	2021	2022	2021
Usage of gas (GWh)	4.7	4.0	4.7	4.0
Usage of gas in operations (tCO ₂ e)	860	737	860	737
Usage of electricity (GWh)	0.3	0.3	0.3	0.3
Usage of electricity in operations (tCO ₂ e)	69	76	69	76
Gas intensity ratio - emissions per GWh gas transmitted to distribution networks	0.12	0.11	0.12	0.11

Whilst we will actively target improvements in our own emissions, our main focus will remain the emissions savings we can help achieve in the wider decarbonisation of the electricity and gas networks, where our progress to date has an impact many hundreds of times greater.

Methodology

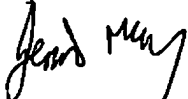
We have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 and Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Emissions have been calculated using UK Government guidelines for conversion of natural gas and grid electricity. Scope 3 emissions have not been reported. It is not practical as yet for the company to publish information in respect of its consumption of fuel for the purposes of transport, which consists only of fuel used in personal/hire cars for business use. All energy usage and emissions are in respect of UK operations.

Intensity ratios are influenced by a range of factors including ambient temperatures and pressures.

Forward-looking statements

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

By order of the Board



Gerard McIlroy

Director

1 July 2022

Directors' report for the year ended 31 March 2022

The directors present their annual report and the audited financial statements of the Group and Parent Company for the year ended 31 March 2022.

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 £13,356,000 (2021: £1,832,000). The directors do not recommend the payment of a dividend (2020: £nil).

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

Going concern

The Group has recurring accounting losses and accordingly net liabilities. In view of the structure of the Group from its initial set up, including the acquisition of Belfast Gas Transmission Limited and the issuing of a bond, the Group will make losses in earlier years, and profits in later years. It is expected that the Group will become profitable in 10-15 years' time, at which point the net liabilities position will begin to reverse. The Group is, however, cash generative and is forecast to remain cash positive over that 10-15 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 20 to these financial statements for a description of the financial risks that the Group faces and how it addresses those risks.

Post balance sheet events

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

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 2022 (continued)

Corporate Governance

The Company is subject to and complies with UK law comprising the Companies Act 2006 and the Disclosure and Transparency Rules, and the Listing Rules of the UK Listing Authority. The Company does not apply additional requirements to those required by the above. Each of the service providers engaged by the Company is subject to their own corporate governance requirements.

The directors are responsible for establishing and maintaining adequate internal control and risk management systems of the Company in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Company's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process.

For further details, refer to the notes to the financial statements, particularly note 20 on financial risk management.

Political contributions

Neither the Company nor its subsidiary made any political donations or incurred any political expenditure in the current year (2021: £nil).

Other information

An indication of likely future developments in the business have been included in the strategic report on pages 2 to 16.

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

The directors are responsible for preparing the annual report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with UK adopted international accounting standards and applicable law, and have elected to prepare the Company financial statements on the same basis.

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 Company and of their profit or loss for that period. In preparing each of the Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, and Corporate Governance Statement that complies with that law and those regulations.

Directors' report for the year ended 31 March 2022 (continued)

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

Each of the Directors, whose names and functions are listed on page 1 of this annual report, confirm that, to the best of each person's knowledge and belief:

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

Auditor

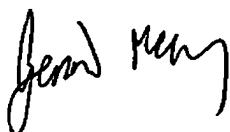
In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Statement of disclosure of information to auditor

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 auditor is unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Group and Parent Company's auditor is aware of that information.

On behalf of the Board



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

1 July 2022



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

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Belfast Gas Transmission Financing plc ('the Parent Company') and its consolidated undertakings ('the Group') for the year ended 31 March 2022 set out on pages 26 to 49, which comprise the consolidated statement of profit and loss and other comprehensive income, consolidated and parent company balance sheets, consolidated and parent company statement of changes in equity, consolidated and parent company cash flow statements and related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is UK Law, UK adopted international accounting standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- 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 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards, 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 17 December 2016. The period of total uninterrupted engagement is for the six financial years ended 31 March 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with UK ethical requirements, including the Financial Reporting Council (FRC)'s Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Conclusions relating to going concern

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

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

Report on the audit of the financial statements (continued)

Conclusions relating to going concern (continued)

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

- Critically assessing assumptions in base case scenario, in particular by comparing to overlaying knowledge of the entity's plans based on approved budgets and our knowledge of the entity and the sector in which it operates. Assessing the working capital assumptions inherent in the forecasts to actual recent experience and existing supplier/customer arrangements.
- We also compared past budgets to actual results to assess the directors' track record of budgeting accurately.
- We inspected the confirmation from the lender of the level of committed financing, and the associated covenant requirements. We inspected the finance agreement to assess the restrictions on the use of funds and compared these restrictions to management's model.
- We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks. We assessed the completeness of the going concern disclosure.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue as a going concern for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

Detecting irregularities including fraud

We identified the areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements and risks of material misstatement due to fraud, using our understanding of the entity's industry, regulatory environment and other external factors and inquiry with the directors. In addition, our risk assessment procedures included:

- Inquiring with the directors and other management as to the Group's policies and procedures regarding compliance with laws and regulations, identifying, evaluating and accounting for litigation and claims, as well as whether they have knowledge of non-compliance or instances of litigation or claims.
- Inquiring of directors, the audit committee and management, as well as inspection of policy documentation, as to the Group's policies and procedures to prevent and detect fraud and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Inquiring of directors and the audit committee regarding their assessment of the risk that the financial statements may be materially misstated due to irregularities, including fraud.
- Inspecting the Group's regulatory and legal correspondence.
- Reading Board and audit committee minutes.
- Performing planning analytical procedures to identify any unusual or unexpected relationships.

We discussed identified laws and regulations, fraud risk factors and the need to remain alert among the audit team.

Firstly, the Group and Company is subject to laws and regulations that directly affect the financial statements including companies and financial reporting legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items, including assessing the financial statement disclosures and agreeing them to supporting documentation when necessary.

Secondly, the Group and Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's and Company's licence to operate.

We identified the following areas as those most likely to have such an effect: Government utility regulations and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these non-direct laws and regulations to inquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

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

Report on the audit of the financial statements (continued)

Detecting irregularities including fraud (continued)

We assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. As required by auditing standards, we performed procedures to address the risk of management override of controls. On this audit we do not believe there is a fraud risk related to revenue recognition. We did not identify any additional fraud risks.

In response to the fraud risks, we also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation.
- Assessing significant accounting estimates for bias.
- Assessing the disclosures in the financial statements.

As the Group and Company are regulated, our assessment of risks involved obtaining an understanding of the legal and regulatory framework that the Group and Company operates and gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

Owing to the inherent limitations of an audit there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2021):

Group recoverability of intangible assets £74,599k (2021: £77,086k)

Parent Company recoverability of investment in subsidiary £112,384k (2021: £112,384k)

Refer to page 33 (accounting policy) and page 40 and 41 (financial disclosures)

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

Report on the audit of the financial statements (continued)

Key audit matters: our assessment of risks of material misstatement (continued)

The key audit matter	How the matter was addressed in our audit
64% of the group's total assets (by value) consist of intangible assets in relation to the consolidation of its subsidiary, Belfast Gas Transmission Limited, for which no quoted market prices are available.	Our audit procedures included but were not limited to: In assessing whether an indicator exists, the context of the overall lifecycle of the investment is relevant. We have considered the license and direction in place with the Company's regulator in assessing the overall lifecycle of revenue and costs of the Group and Parent Company. Considering the agreements in place, we inspected the validity of the directors' conclusion that the funding mechanisms in place result in the operations of the Group and subsidiary (being the transmission of gas) returning at least a break-even position over the life of the operations.
70% of the parent company's total assets (by value) consist of investment in its subsidiary for which no quoted market prices are available.	Based on whether an indication exists, we have reviewed and challenged management's impairment workings and assumptions, inputs and techniques used in the impairment model.
There is a risk over the recoverability of the Group's intangible assets and the Parent Company's investments due to the carrying values not being supported by performance of the investment where economic conditions have negatively affected profitability, or where there are poor trading conditions.	We found that the director's assessment made in relation to the recoverability of the group's intangible assets and the parent company's investment in its subsidiary and the related disclosures to be reasonable.
The Directors assess the intangible assets and the Parent Company's investment in the subsidiary for indicators of impairment annually and have assessed there to be no indicators of impairment in the current year.	

Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £1,160k (2021: £1,160k), determined with reference to a benchmark of total assets, of which it represents 1% (2021: 1% of total assets). We consider total assets to be the most appropriate benchmark as the group operates a 'Not for Profit' model which is asset intensive.

In addition, we applied materiality of £168k (2021: £110k) to revenue and direct third-party expenses for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could be reasonably expected to influence the Group's members' assessment of the financial performance of the group.

In applying our judgement in determining the most appropriate benchmark, the factors, which had the most significant impact were:

- our understanding/view that one of the principal considerations for users of the financial statements in assessing the financial performance is Group total assets; and
- the stability of the Group, resulting from its nature, where the Group is in its life cycle and the industry in which the Group operates.

In applying our judgement in determining the percentage to be applied to the benchmark, the following qualitative factors, had the most significant impact, decreasing our assessment of materiality:

- the fact that external debt on the Group's balance sheet is listed.

We applied Group materiality to assist us determine the overall audit strategy.

We set Group performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 75% of group materiality (2021: 75%).

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

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

Our application of materiality and an overview of the scope of our audit (*continued*)

In applying our judgement in determining performance materiality, the following factors were considered to have the most significant impact, increasing our assessment of performance materiality:

- the low number and value of misstatements detected in the prior year financial statement audit;
- the low number and severity of deficiencies in control activities identified in the prior year financial statement audit; and
- the stability in the senior management and key financial reporting personnel over the last 5 years.

We applied Group performance materiality to assist us determine what risks were significant risks for the Group

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £58k, or £8k for revenue and direct third-party expenses, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Materiality for the Company financial statements as a whole was set at £1,144k (2021: £1,430k) determined by reference to total assets, and represents 0.7% of the company's total assets (2021: 1%). We consider total assets to be the most appropriate benchmark as the company operates a 'Not for Profit' model which is asset intensive.

We set Company performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Company performance materiality was set at 75% of Company materiality (2021: 75%).

In applying our judgement in determining performance materiality, the following factors were considered to have the most significant impact, increasing our assessment of performance materiality:

- the low number and value of misstatements detected in the prior year financial statement audit;
- the low number and severity of deficiencies in control activities identified in the prior year financial statement audit; and
- the stability in the senior management and key financial reporting personnel over the last 5 years.

The group team approved the component materialities, which ranged from £310k to £1,144k (2021: £310k to £1,430).

Of the group's two (2021: two) reporting components, we subjected two (2021: two) to full scope audits for group purposes. The work on the components was performed by the group team, including the audit of the Company, at the group's offices in Belfast.

Other information

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

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

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

Report on the audit of the financial statements (continued)

Opinions on other matters prescribed by the Companies Act 2006

Strategic report and directors' report

Based solely on our work on the other information undertaken during the course of the audit:

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Parent 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 18, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

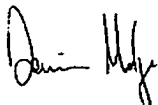
Auditor's responsibilities for the audit of the financial statements

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

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

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

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



4 July 2022

Dominic Mudge, Senior Statutory Auditor
for and on behalf of
KPMG Statutory Auditor
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

Consolidated statement of profit and loss and other comprehensive income for the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Revenue – continuing operations		8,395	8,278
Operating expenses	2	(5,496)	(5,376)
Operating profit		2,899	2,902
Finance income	4	16	12
Finance expenses	4	(14,029)	(5,176)
Finance expenses – net	4	(14,013)	(5,164)
Loss before income tax		(11,114)	(2,262)
Taxation	5	(2,242)	430
Loss and total comprehensive expense for the year attributable to the owners of the parent	13	(13,356)	(1,832)

All results arise from continuing operations.


The notes on pages 30 to 49 are an integral part of these consolidated financial statements.

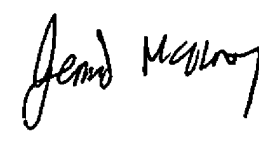
Consolidated and Parent Company balance sheet as at 31 March 2022

		Group		Company	
	Note	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Assets					
Non-current assets					
Property, plant and equipment	7	25,348	25,590	-	-
Intangible assets	8	74,599	77,086	-	-
Investment in subsidiary undertaking	9	-	-	112,384	112,384
Deferred tax assets	16	3,499	-	3,499	-
		103,446	102,676	115,883	112,384
Current assets					
Trade and other receivables	10	1,418	1,599	45,583	37,406
Cash and cash equivalents	11	11,852	11,446	30	14
		13,270	13,045	45,613	37,420
Total assets		116,716	115,721	161,496	149,804
Equity and liabilities					
Equity attributable to the owners of the parent					
Share Capital	12	50	50	50	50
Retained earnings	13	(58,329)	(44,973)	17,757	14,258
Total equity		(58,279)	(44,923)	17,807	14,308
Liabilities					
Non-current liabilities					
Interest bearing loans and borrowings	14	142,022	134,237	141,045	133,225
Deferred tax liabilities	16	22,337	17,528	-	-
Government grant	17	4,994	5,153	-	-
		169,353	156,918	141,045	133,225
Current liabilities					
Trade and other payables	18	2,834	1,265	30	4
Interest bearing loans and borrowings	14	2,649	2,302	2,614	2,267
Government grant	17	159	159	-	-
		5,642	3,726	2,644	2,271
Total liabilities		174,995	160,644	143,689	135,496
Total equity and liabilities		116,716	115,721	161,496	149,804

The notes on pages 30 to 49 are an integral part of these consolidated financial statements.

The Group financial statements on pages 26 to 49 were authorised for issue by the Board of Directors on 1st July 2022 and were signed on its behalf by:


Patrick Larkin
Director


Gerard McIlroy
Director

Consolidated and Parent Company statement of changes in equity for the year ended 31 March 2022

Group	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2020	50	(43,141)	(43,091)
Total comprehensive expense for the year	-	(1,832)	(1,832)
At 31 March 2021	50	(44,973)	(44,923)
Total comprehensive expense for the year	-	(13,356)	(13,356)
At 31 March 2022	50	(58,329)	(58,279)

Company	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2020	50	13,283	13,333
Total comprehensive income for the year	-	975	975
At 31 March 2021	50	14,258	14,308
Total comprehensive income for the year	-	3,499	3,499
At 31 March 2022	50	17,757	17,807

The notes on pages 30 to 49 are an integral part of these consolidated financial statements.

Consolidated and Parent Company cash flow statements for the year ended 31 March 2022

		Group		Company	
	Note	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Cash flows from operating activities					
Loss before income tax		(11,114)	(2,262)	-	-
Adjustments for:					
Finance expense/(income) - net		14,013	5,164	(25)	(19)
Depreciation of property, plant and equipment	7	844	817	-	-
Amortisation of government grant	17	(159)	(159)	-	-
Loss on disposal of property, plant and equipment		168	28	-	-
Amortisation of intangible assets	8	2,487	2,487	-	-
Movement in trade and other receivables		186	492	(8)	265
Movement in trade and other payables		686	(721)	24	(13)
Income tax received		(50)	253	-	-
Net cash generated from/(used in) operating activities		7,061	6,099	(9)	233
Cash flows from investing activities					
Interest received		4	2	-	-
Amounts received from related parties		-	-	5,826	5,121
Purchase of property, plant and equipment		(770)	(306)	-	-
Net cash generated (used in)/generated from investing activities		(766)	(304)	5,826	5,121
Cash flows from financing activities					
Interest paid		(4,247)	(3,943)	(4,187)	(3,883)
Repayment of borrowings		(1,614)	(1,507)	(1,614)	(1,507)
Lease payments	15	(28)	(28)	-	-
Net cash used in financing activities		(5,889)	(5,478)	(5,801)	(5,390)
Movement in cash and cash equivalents		406	317	16	(36)
Cash and cash equivalents at 1 April	11	11,446	11,129	14	50
Cash and cash equivalents at 31 March	11	11,852	11,446	30	14

The notes on pages 30 to 49 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2022

1 Accounting policies 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 a public company limited by shares and incorporated, registered and domiciled in Northern Ireland. The registered number of the company is NI067348 and the address of its registered office is First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.

The Group 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 Parent Company's assets and liabilities are denominated in Sterling. The Group financial statements consolidate those of the Company and its subsidiary (together referred to as the "Group"). The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements were authorised for issue by the Board of Directors on 1 July 2022 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 Group financial statements have been prepared and approved by the directors in accordance with UK adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006 and have elected to prepare the Company financial statements on the same basis. The financial statements have been prepared on a going concern basis, under the historical cost convention. The preparation of financial statements in conformity with Adopted IFRSs 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 37.

The Company has availed of the exemption permitted by Section 408 of the Companies Act 2006, and so the Parent Company's statement of profit and loss and other comprehensive income has not been included in these financial statements.

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, the Group will make losses in earlier years, and profits in later years. It is expected that the Group will become profitable in 10-15 years' time, at which point the net liabilities position will begin to reverse. The Group is, however, cash generative and is forecast to remain cash positive over that 10-15 year period. The forecast cash generated is adequate to meet the Group's liabilities as they fall due over the 12 months from the date of approval of the financial statements including the scheduled partial repayment of bond capital and interest. 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.

New standards, amendments or interpretations

The Group has adopted the following IFRSs in these financial statements:

- Amendments to IFRS 9: Interest Rate Benchmark Reform Phase 2 has been adopted from 1 April 2021. The Phase 2 has been applied retrospectively, however, in accordance with the exceptions permitted in the Phase 2 amendments, the Group has elected not to restate comparatives for the prior periods to reflect the application of these amendments. Since the Company has no transactions for which the benchmark rate had been replaced with an alternative benchmark as at 31 March 2021, there is no impact on the opening equity balances as a result of retrospective application. The details of the accounting policies are disclosed in note 1. See also note 20 for related disclosures about risks and hedge accounting.

Notes to the financial statements for the year ended 31 March 2022

1 Accounting policies and critical accounting estimates/judgements (continued)

New standards, amendments or interpretations (continued)

- Amendments to IFRS 16: Leases Covid-19 Related Rent Concessions has been adopted. The amendment introduces an optional practical expedient for leases in which the Group is a lessee. For leases to which the Group applies the practical expedient, the Group is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic are lease modifications. The Group has applied the amendment retrospectively. The details of the accounting policies are disclosed in note 1 and see also note 15 for related disclosures. The further amendment, which extended the concession period, has been early adopted.

The adoption of these amendments to IFRSs did not result in material changes to the Group or Parent Company financial statements.

Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied by the Group or Parent Company in these financial statements. Their application is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 17 Insurance Contracts (effective date 1 January 2023)
- Deferred tax related to assets and liabilities arising from a single transaction (effective date 1 January 2023)
- Definition of accounting estimates (effective date 1 January 2023)
- Disclosure of accounting policies (amendments to IAS 1 and IFRS Practice Statement 2) (effective date 1 January 2023)
- Annual improvements to IFRS 2018-2020 (effective date 1 January 2022)
- Onerous contracts - cost of fulfilling a contract (effective date 1 January 2022)
- Property plant and equipment: proceeds before intended use (effective date 1 January 2022)
- Reference to the conceptual framework (effective date 1 January 2022)
- Classification of liabilities as current or non-current (effective date deferred until not earlier than 1 Jan 2024)

Basis of consolidation

The consolidated financial statements consolidate the financial statements of Belfast Gas Transmission Financing plc and its subsidiary undertaking drawn up to 31 March 2022. 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. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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.

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, and rebates and after eliminating income 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.

Notes to the financial statements for the year ended 31 March 2022**1 Accounting policies and critical accounting estimates/judgements (continued)****Finance income and finance expenses**

Finance income comprises interest income on funds invested, negative interest on leases. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance expenses include interest expense on borrowings. Interest expense is recognised as it accrued in profit or loss using the effective interest method. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

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. An asset is derecognised upon disposal or when no future economic benefit is expected to arise from the asset. All other repairs and maintenance are charged to the statement of profit and loss during the financial period in which they are incurred.

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

The useful economic lives of each major class of depreciable asset are as follows:

Pipeline	58 years
Plant and machinery	15 years
Right-of-use assets	36 years

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

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

Leases

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

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

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

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Notes to the financial statements for the year ended 31 March 2022

1 Accounting policies and critical accounting estimates/judgements (continued)

Leases (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the asset are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise a purchase extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'interest bearing loans and borrowings' in the balance sheet (see notes 7 and 14 respectively).

Short-term leases and leases of low-value assets

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

Intangible assets

Acquired licences are shown at historical cost. 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 30 years. The useful economic life of the licence is linked to the allowances to cover repayment of debts and is independent of the full term of the licence or the useful life of the assets.

Investments

Investments in subsidiaries are recognised initially at fair value and subsequently measured at amortised cost less impairment using the effective interest method.

Notes to the financial statements for the year ended 31 March 2022

1 Accounting policies and critical accounting estimates/judgements (continued)

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, 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 profit and loss in those expense categories consistent with the function of the impaired asset.

Reversal of Impairment losses

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial instruments

(i) Recognition and initial measurement

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

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

(ii) Classification and subsequent measurement

Financial assets

(a) *Classification*

On initial recognition, a financial asset is classified as measured at: amortised cost.

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

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

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

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes to the financial statements for the year ended 31 March 2022

1 Accounting policies and critical accounting estimates/judgements (continued)

Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets (continued)

(b) Subsequent measurement and gains and losses

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

Financial liabilities and equity

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

- (a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Financial liabilities are classified as measured at amortised cost. Financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Impairment

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets and contract assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Notes to the financial statements for the year ended 31 March 2022

1 Accounting policies and critical accounting estimates/judgements (continued)

Financial instruments (continued)

(iii) Impairment (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Derecognition - financial assets

The Group derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
- substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Derecognition - financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

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 profit and loss over the period of the borrowings using the effective interest method.

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

(b) Trade and other payables

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

Notes to the financial statements for the year ended 31 March 2022

1 Accounting policies and critical accounting estimates/judgements (continued)

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

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

Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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.

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 33.5 years (2021: 34.5) years at the beginning of the year. If the remaining useful economic life had been assessed at 34.5 years (2021: 35.5) years depreciation would have decreased by £20,000 (2021: £19,000) and if the remaining useful economic life had been assessed at 32.5 years (2021: 33.5) years depreciation would have increased by £21,000 (2021: £20,000).

The remaining useful economic life of the licences was determined as approximately 31 (2021: 32) years at the beginning of the year. If the remaining useful economic life had been assessed at 32 (2021: 33) years amortisation would have decreased £78,000 (2021: £75,000) and if the remaining useful economic life had been assessed at 30 (2021: 31) years amortisation would have increased by £83,000 (2021: £80,000).

Judgements made in the implementation of IFRS 16 Leases

The remaining useful lives of the right-of-use assets in respect of the Company's Crown Estate lease was determined to be in line with the useful life of the Belfast Gas Transmission Pipeline. Extension options which are reasonably certain to be exercised have therefore been included within the lease term.

Notes to the financial statements for the year ended 31 March 2022

2 Operating expenses

	2022	2021
Group	£'000	£'000
Depreciation and amortisation (excluding right-of-use assets)	3,299	3,270
Depreciation of right-of-use assets	32	34
Loss on disposal of tangible assets	168	28
Amortisation of deferred government grant	(159)	(159)
Auditors' remuneration:		
Audit of these financial statements	3	3
Audit of financial statements of subsidiary	7	7
Other services	2	2
Maintenance and insurance	730	649
Other expenses	1,414	1,542
Total operating expenses	5,496	5,376

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

3 Staff numbers and costs

The Group and Company have no employees other than its directors (2021: none).

The Group's directors were not remunerated for their services to the Company but instead received emoluments for their services to the Mutual Energy group of companies. The portion of these costs recharged to the Belfast Gas Transmission Financing group are set out below:

	2022	2021
	£'000	£'000
Directors' emoluments		
Aggregate emoluments	28	26

The portion of remuneration and amounts receivable under long term incentive schemes of the highest paid director attributable to the Group was £15,000 (2021: £15,000).

4 Finance income and expense

	2022	2021
Group	£'000	£'000
Finance expense:		
Bank charges	61	62
Borrowings (including borrowing fees)	13,968	5,114
Finance expense	14,029	5,176
Finance income:		
Short-term bank deposits	(9)	-
Lease interest	(7)	(12)
Finance income	(16)	(12)
Finance expense - net	14,013	5,164

Notes to the financial statements for the year ended 31 March 2022

5 Taxation

Group	2022	2021
Recognised in profit and loss	£'000	£'000
Current income tax:		
Group relief claimed	932	50
Total current income tax	932	50
Deferred income tax:		
Origination and reversal of temporary differences	(3,901)	(480)
Change in deferred tax rate	5,211	-
Total deferred income tax (note 16)	1,310	(480)
Income tax charge/(credit)	2,242	(430)

The income tax charge/(credit) in the statement of profit and loss for the year differs from the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are reconciled below:

	2022	2021
Reconciliation of effective tax rate	£'000	£'000
Loss before income tax	(11,114)	(2,262)
Tax calculated at the UK standard rate of corporation tax of 19% (2021: 19%)	(2,112)	(430)
Effects of:		
Tax exempt revenue	(44)	-
Change in deferred tax rate	5,211	-
Impact of change in tax rates	(813)	-
Income tax charge/(credit)	2,242	(430)

Future tax changes

The Finance Act 2021 confirmed that the corporation tax rate will be increased to 25% on 1 April 2023. This was substantially enacted on 24 May 2021 therefore deferred tax has been calculated at the rate at which the balances are expected to be settled, based on tax rates that have been substantively enacted at the balance sheet date (see note 16).

6 Profit attributable to members of the parent company

As permitted by Section 408 the Companies Act 2006, the Parent Company's statement of profit and loss has not been included in these financial statements. The profit dealt with in the financial statements of the Parent Company is £3,499,000 (2021: £975,000).

Notes to the financial statements for the year ended 31 March 2022

7 Property, plant and equipment

Group Cost	Pipeline £'000	Plant and machinery £'000	Assets under construction £'000	Right-of-use assets £'000	Total £'000
Balance at 1 April 2020	37,503	1,499	-	1,051	40,053
Additions	-	306	-	76	382
Disposals	(66)	-	-	-	(66)
At 31 March 2021	37,437	1,805	-	1,127	40,369
Additions	-	228	542	-	770
Disposals	(393)	-	-	-	(393)
At 31 March 2022	37,044	2,033	542	1,127	40,746
Accumulated depreciation					
At 1 April 2020	13,812	158	-	30	14,000
Depreciation charge for the year	687	96	-	34	817
Disposals	(38)	-	-	-	(38)
At 31 March 2021	14,461	254	-	64	14,779
Depreciation charge for the year	682	130	-	32	844
Disposals	(225)	-	-	-	(225)
At 31 March 2022	14,918	384	-	96	15,398
Net book value					
At 31 March 2022	22,126	1,649	542	1,031	25,348
At 1 April 2021	22,976	1,551	-	1,063	25,590
At 1 April 2020	23,691	1,341	-	1,021	26,053

Depreciation expense of £844,000 (2021: £817,000) has been fully charged to operating expenses. Borrowings of the Company are secured on the property, plant and equipment of the Group.

Assets under construction relate to plant and machinery work in progress to facilitate an additional network connection and block valve.

8 Intangible assets

Group Cost	Licences £'000
At 1 April 2020, 31 March 2021 and at 31 March 2022	109,413
Accumulated amortisation	
At 1 April 2020	29,840
Amortisation for the year	2,487
At 31 March 2021	32,327
Amortisation for the year	2,487
At 31 March 2022	34,814
Net book value	
At 31 March 2022	74,599
At 31 March 2021	77,086
At 1 April 2020	79,573

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 2022, of 30 years (31 years as at 31 March 2021).

Amortisation expense of £2,487,000 (2021: £2,487,000) has been fully charged to operating expenses.

Notes to the financial statements for the year ended 31 March 2022

9 Investment in subsidiary undertaking

Company	£'000
Cost and carrying amount	
At 1 April 2020, 31 March 2021 and at 31 March 2022	112,384

Investments in subsidiaries are recognised initially at fair value and subsequently measured at amortised cost less impairment using the effective interest method.

The Company's subsidiary undertaking, which is incorporated in Northern Ireland and whose registered address is First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH, 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	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Trade receivables	1,073	1,189	-	-
Trade and other receivables due from related parties	39	184	45,439	37,270
Prepayments	295	225	141	133
Accrued income	4	-	-	-
Other receivables	7	1	3	3
	1,418	1,599	45,583	37,406

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 and no impairment losses on trade and other receivables were recognised in profit and loss in the year (2021: £nil). No provisions were deemed to be required at the reporting date as the Group and Company has no history of default in respect of its trade and other receivables and no current expectation of such. 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.

Trade and other receivables due from related parties are unsecured and repayable on demand. Included within Trade and other receivables due from related parties within the Company is an amount of £45,402,000 (2021: £36,258,000) which carries interest at a rate of 2.207% (2021: 2.207%). All other amounts owed to related parties are interest free.

11 Cash and cash equivalents

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Cash and cash equivalents	11,852	11,446	30	14

Cash and cash equivalents earn interest at Bank of England base rate less 0.20%, or nil if higher.

Notes to the financial statements for the year ended 31 March 2022

12 Share Capital

	2022	2021
Group and Company	£'000	£'000
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	50	50

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

13 Retained earnings

Group	£'000
At 1 April 2020	(43,141)
Total comprehensive loss for the year	(1,832)
At 31 March 2021	(44,973)
Total comprehensive loss for the year	(13,356)
At 31 March 2022	(58,329)
Company	£'000
At 1 April 2020	13,283
Total comprehensive income for the year	975
At 31 March 2021	14,258
Total comprehensive income for the year	3,499
At 31 March 2022	17,757

14 Interest bearing loans and borrowings

	Group		Company	
	2022	2021	2022	2021
Group	£'000	£'000	£'000	£'000
Non-current				
2.207% Index linked guaranteed secured bond	141,045	133,225	141,045	133,225
Lease liabilities	977	1,012	-	-
Total Non-current	142,022	134,237	141,045	133,225
Current				
2.207% Index linked guaranteed secured bond	2,614	2,267	2,614	2,267
Lease liabilities	35	35	-	-
Total Current	2,649	2,302	2,614	2,267
Total borrowings	144,671	136,539	143,659	135,492

Notes to the financial statements for the year ended 31 March 2022

14 Interest bearing loans and borrowings (continued)

Changes in liabilities from financing activities

	Loans and Borrowings £'000	Group Lease liabilities £'000	Total £'000	Company Loans and Borrowing £'000
Balance at 1 April 2020	135,768	1,011	136,779	135,768
<i>Changes from financing cash flows</i>				
Repayment of borrowings	(1,507)	-	(1,507)	(1,507)
Lease payments	-	(28)	(28)	-
Interest paid	(3,883)	-	(3,883)	(3,883)
Total changes from financing cash flows	(5,390)	(28)	(5,418)	(5,390)
<i>Non cash changes</i>				
Interest expense	5,114	-	5,114	5,114
Increased lease payments	-	76	76	-
Lease interest income	-	(12)	(12)	-
Total non cash changes	5,114	64	5,178	5,114
Balance at 31 March 2021	135,492	1,047	136,539	135,492
<i>Changes from financing cash flows</i>				
Repayment of borrowings	(1,614)	-	(1,614)	(1,614)
Lease payments	-	(28)	(28)	-
Interest paid	(4,187)	-	(4,187)	(4,187)
Total changes from financing cash flows	(5,801)	(28)	(5,829)	(5,801)
<i>Non cash changes</i>				
Interest expense	13,968	-	13,968	13,968
Lease interest income	-	(7)	(7)	-
Total non cash changes	13,968	(7)	13,961	13,968
Balance at 31 March 2022	143,659	1,012	144,671	143,659

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 (RPI). The bond is listed on the London Stock Exchange and 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 £219,704,000 (2021: £212,654,000). This fair value has been calculated by discounting the future contracted interest cash flows using a discount rate of -0.84% (2021: -0.90%) that reflects the maturity profile of the Group's and the Company's borrowings. Increasing/decreasing the discount rate by 0.5% would result in a fair value of £204,058,000/£236,968,000 respectively. In calculating fair value, RPI interest is excluded from the bond's future cash flows and excluded from the related discount rate. The current effective interest rate of the bond, inclusive of interest and RPI indexation, is 2.18% (2021: 2.08%). The undiscounted maturity profile of the Group's and the Company's borrowings are shown in note 20.

Lease liabilities represent future payments in respect of Crown Estate leases and anticipated extensions (see note 15).

Notes to the financial statements for the year ended 31 March 2022

15 Leases

The Group holds Crown Estate leases, entered into in 2008, which give exclusive right to use and maintain the pipelines which are on or under the seabed within Belfast and Larne Loughs. The leases run to 31 December 2051 but allow for further extension, with terms to be agreed upon extension. The Group is reasonably certain these contracts will be extended in line with the useful life of its pipeline and costs for this extended term have been assumed in line with the current costs. Lease payments are subject to review in 2031 and 2043. The lease provides for uplifts on rent payments every 3 years in line with changes in the Retail Prices Index. The Group is restricted from entering into any sub-lease arrangements in relation to these leases.

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

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

Right-of-use assets

The right-of-use assets, as presented in property, plant and equipment (see note 7), relate to the Crown Estate leases noted above.

Amounts recognised in the profit or loss

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

Group	2022 £'000	2021 £'000
Depreciation expense in respect of right-of-use assets	32	34
Lease liabilities interest income	(7)	(12)

Amounts recognised in statement of cash flows

Group	2022 £'000	2021 £'000
Total cash outflow for leases	28	28

Notes to the financial statements for the year ended 31 March 2022

16 Deferred tax assets and liabilities

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

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Deferred income tax assets	(3,499)	-	(3,499)	-
Deferred income tax liabilities	22,337	17,528	-	-
Deferred income tax liabilities/(assets) - net	18,838	17,528	(3,499)	-

Movement in deferred tax during the year:

	Group	Company
	£'000	£'000
At 1 April 2020	18,008	-
Recognised in profit and loss	(480)	-
At 31 March 2021	17,528	-
Recognised in profit and loss	1,310	(3,499)
At 31 March 2022	18,838	(3,499)

	Losses	Accelerated capital allowances	Valuation of intangible assets	Total
	£'000	£'000	£'000	£'000
At 1 April 2020	-	2,890	15,118	18,008
Recognised in profit and loss	-	(8)	(472)	(480)
At 31 March 2021	-	2,882	14,646	17,528
Recognised in profit and loss	(3,499)	954	3,855	1,310
At 31 March 2022	(3,499)	3,836	18,501	18,838

	Losses
	£'000
At 1 April 2021	-
Recognised in profit and loss	(3,499)
At 31 March 2022	(3,499)

The Group and Company have a further £11,027,166 (2021: £11,027,166) of tax losses available for carry forward against future taxable profits arising from the same trade. The related deferred tax asset of £2,756,792 (2021: £2,095,162) 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.

Notes to the financial statements for the year ended 31 March 2022

17 Government grant

Group	£'000
At 1 April 2020	5,471
Amortised during the year	(159)
At 31 March 2021	5,312
Amortised during the year	(159)
At 31 March 2022	5,153

The government grant relates to £12,748,523 grant provided to the Group for the purpose of its expenditure on its property, plant and equipment. All obligations in respect of this grant have now been met. The current portion of the government grant is £159,000 (2021: £159,000) and the non-current portion is £4,994,000 (2021: £5,153,000).

18 Trade and other payables

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Trade payables	21	-	17	-
Trade payables due to related parties	1,395	503	-	-
VAT	634	601	-	-
Other payables	10	10	-	-
Accruals	64	80	13	4
Deferred income	710	71	-	-
	2,834	1,265	30	4

All of the Group's and Company's trade and other payables are denominated in Sterling. The fair value of trade and other payables is not materially different from their carrying value.

Trade payables due to related parties are unsecured, interest free and are repayable on demand.

Notes to the financial statements for the year ended 31 March 2022

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	
	2022 £'000	2021 £'000
Parent undertakings – current assets	38	38
Fellow subsidiary undertakings – current assets	1	146
Parent undertakings – current liabilities	(98)	(57)
Fellow subsidiary undertakings – current liabilities	(1,297)	(446)

Group	Nature of transaction	Value of transaction	
		2022 £'000	2021 £'000
Parent undertakings	Charges payable	(127)	(115)
Fellow subsidiary undertakings	Group relief claimed	932	50
Fellow subsidiary undertakings	Charges payable	(1,501)	(1,189)

Company	Amount owed (to)/from related party	
	2022 £'000	2021 £'000
Subsidiary undertaking – current assets	45,401	37,232
Parent undertaking – current assets	38	38

Company	Nature of transaction	Value of transaction	
		2022 £'000	2021 £'000
Fellow subsidiary undertakings	Group relief surrendered	-	975
Subsidiary undertaking	Interest receivable	13,994	5,134
Subsidiary undertaking	Receipts in respect of investing activities	5,826	5,121

Key management compensation

Key management personnel are considered to be the directors, being those persons having authority and responsibility for planning, directing and controlling the activities of the Group, both directly and indirectly. Key management compensation is given in note 3.

Notes to the financial statements for the year ended 31 March 2022

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	Financial assets at amortised cost
Cash and cash equivalents	Financial assets at amortised cost
Interest bearing loans and 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 2022 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	5,771	5,885	6,002	6,123	6,246	164,219	194,246
Lease liabilities	35	35	34	34	34	840	1,012
Trade and other payables*	1,490	-	-	-	-	-	1,490
	7,296	5,920	6,036	6,157	6,280	165,059	196,748

As at 31 March 2021 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	5,245	5,352	5,458	5,566	5,678	158,084	185,383
Lease liabilities	35	35	34	34	34	874	1,047
Trade and other payables*	593	-	-	-	-	-	593
	5,873	5,387	5,493	5,600	5,712	158,958	187,023

As at 31 March 2022 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	5,771	5,885	6,002	6,123	6,246	164,219	194,246
Trade and other payables	30	-	-	-	-	-	30
	5,801	5,885	6,002	6,123	6,246	164,219	194,276

As at 31 March 2021 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	5,245	5,352	5,458	5,566	5,678	158,084	185,383
Trade and other payables	4	-	-	-	-	-	4
	5,249	5,352	5,458	5,566	5,678	158,084	185,387

*The Group's Trade and other payables excludes deferred income and VAT.

Financial risk management

Financial risk factors

The Group operates the gas pipeline which links the gas transmission systems of Ballylumford and the Greater Belfast and Larne areas under a licence agreement with the Northern Ireland Authority for Utility Regulation. Under the licence agreement Belfast Gas Transmission Limited, together with its parent undertaking, receives revenue that allows full recovery of their 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 expenses, loss and equity during the year by £1,385,000 (2021: £1,387,000). A recurring annual retail price index of 2% would increase the total repayments on the 2.207% bond by £113,531,000 over the lifetime of the bond, which would be recovered from customers under the Group's license.

Notes to the financial statements for the year ended 31 March 2022

20 Financial instruments (continued)

Financial risk factors (continued)

(a) Market risk (continued)

Under the terms of its licence agreement the Group receives sufficient revenue to settle its operating expenses 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, including amounts due from related parties, are not impaired or past due and management does not expect any losses from non-performance by its customers.

(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.

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.

21 Ultimate parent undertaking

The immediate parent undertaking is Belfast Gas Transmission Holdings Limited, a company incorporated in Northern Ireland and whose registered address is First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH. Group financial statements for this company are 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.

22 Subsequent events

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