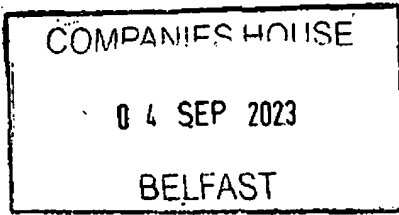


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**Belfast Gas Transmission Financing plc**

**Annual report**

**for the year ended 31 March 2023**

# **Belfast Gas Transmission Financing plc**

**Annual report for the year ended 31 March 2023**

<b>Contents</b>	<b>Pages</b>
Directors and advisers	1
Strategic report	2 - 22
Directors' report	23 – 25
Independent auditors' report to the members of Belfast Gas Transmission Financing plc	26 - 33
Consolidated statement of profit and loss and other comprehensive income	34
Consolidated and Parent Company balance sheet	35
Consolidated and Parent Company statement of changes in equity	36
Consolidated and Parent Company cash flow statements	37
Notes to the financial statements	38 – 57

# **Belfast Gas Transmission Financing plc**

1

## **Directors and advisers**

### **Directors**

Patrick Larkin  
Gerard McIlroy

Executive director  
Executive director

### **Company secretary**

Gerard McIlroy

### **Registered office**

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

### **Principal place of business**

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

### **Solicitors**

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Victoria House  
15-17 Gloucester Street  
Belfast  
BT1 4LS

### **Bankers**

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

### **Independent auditors**

Grant Thornton (NI) LLP  
Chartered Accountants and Statutory Auditors  
12-15 Donegall Square West  
Belfast  
BT1 6JH

## Strategic report for the year ended 31 March 2023

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:

- Safe, cost efficient operation
- Return savings to consumers
- Decarbonise
- Manage market change

Each of these elements have KPIs associated with them. These are outlined in more detail over the subsequent pages.

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

# Safe, cost efficient operation

*Operate assets safely and cost effectively, outsourcing where appropriate*

### How we deliver

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

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

We operate a Health & Safety system based on the “Plan, Do, Check, Act” approach and have an Asset Management System which is accredited to the ISO 55001 standard.

Further information on asset operation can be found on pages 8 and 9.

### How we measure success

- 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 (KPI 1);
- For the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs. (KPI 2);
- Our safety is measured by the safe operation of our staff and contractors via lost time incidents (KPI 3) and a series of detailed health & safety targets;
- We have detailed maintenance and contracting milestones which are monitored at contract meetings; and
- We use detailed monthly budgets which are monitored over a rolling five year horizon.

#### Availability (KPI 1)

$$\frac{\text{Capacity Available} \times \text{Hours Available}}{\text{Total Plant Capacity} \times \text{Hours in Year}}$$

Note that unavailability excludes upstream outages over which we have no control.

Total plant capacity relates to capacity under existing connection agreements

#### Operational Savings (KPI 2)

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.

#### Lost time incidents (KPI 3)

Lost time incidents are calculated as the number of lost time incidents per 100,000 hours worked by staff and contractors.

### *Return savings to consumers*

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*Deliver savings to current and future Northern Ireland consumers over the life of the assets*

#### **How we deliver**

Group strategy involves returning all savings or cash surpluses to Northern Ireland consumers evenly 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.

#### **How we measure success**

Our measures of success include:

- For the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs (KPI 2). **Operational savings versus forecasts** for the gas businesses are shown on page 10.
- Savings incurred on the Group's financing costs compared to the costs which would have been incurred if financed by a Northern Ireland energy utility comparator (KPI 4). This is a direct saving to consumers. **Cost of capital of Mutual Energy versus an NI comparator** can be seen on page 10.
- **Cash generated** (KPI 5) which will be used to avoid future charges to consumers. Cash generated can be seen in the graphs on page 10.

#### **Cost of capital v an NI comparator (KPI 4)**

The Group incurs financing costs in respect of debt entered into for the purpose of the business. The Group's average cost of capital is compared to the costs which would have been incurred if financed at the rates charged by a Northern Ireland energy utility comparator over this period.

The KPI is the savings made as a result of the lower cost of capital than the comparator company. The savings are calculated as the cost which would have been incurred by a comparator financing the Group's debt compared to the costs actually incurred.

#### **Cash generated from operations (KPI 5)**

Cash generated in the businesses post tax.

# Decarbonise

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

### How we deliver

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<sub>2</sub> content of the 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 11-13.

### How we measure success

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<sub>2</sub> saving (KPI 6) made by these connections over a 15 year period, as well as monitoring the annual CO<sub>2</sub> savings made by industrial consumers compared to using oil (see page 11).

Finally, on a business operating level, the Group will seek to minimise the emissions from its own operations, encompassing operational activity, transport and other activities ancillary to running the business.

The Group can contribute to the reduction in CO<sub>2</sub> across three key strategic areas:

1. Enabling access to lower carbon fuels – facilitating our consumers to move from higher CO<sub>2</sub> emitting fossil fuel to lower emitting fossil fuels;
2. Greening the existing networks – developing options for lower or zero emission fuels to transport through the networks; and
3. Influencing policy and participating in projects which further decarbonisation – working to develop and promote the larger, secure, decarbonised energy system, new ways of working, extensive integration of electricity and gas and different technologies needed to allow decarbonisation to happen.

The total of the CO<sub>2</sub> savings is the KPI for this activity and a graph showing the results can be found on page 11.

## Strategic report for the year ended 31 March 2023 (continued)

### CO2 savings (KPI 6)

Enabling switching to lower carbon fuels - CO2 savings from facilitating our consumers moving to lower emitting fossil fuels

#### *Domestic heating*

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.

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.

#### *Industrial and commercial*

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.

#### *Power generation*

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.

The comparison fuel is power station specific and dependent on its historic fuel, and the calculation uses the UK Government 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.

**Greening the existing networks – developing options for lower or zero emission fuels to transport through the networks**

#### *Biomethane injection*

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.

### CO2 saved in Group operations

CO2 usage is calculated in accordance with guidance provided by the Department of Business, Energy and Industrial Strategy ('BEIS'), for conversion of different fuel types.



## *Manage market change*

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### *Manage market change and regulatory development to minimise risks to the Northern Ireland consumer*

#### **How we deliver**

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 pages 14 to 15.

#### **How we measure success**

Our measures of success include:

- avoidance of changes which would compromise the financing structures of the Group;
- monitoring of individual projects against initial objectives and implementation plans with milestone dates; and
- GMO NI<sup>1</sup> uses a Market Improvement Register to identify and manage changes to the gas market in Northern Ireland, and to aid with planning of work and resources. The register weights each change from minor updates to larger implementations of key regulatory changes. Market improvements implemented can be seen in the graph on page 14 (KPI 7).

#### **Market improvements implemented (KPI 7)**

Number of market improvements implemented within each financial year.

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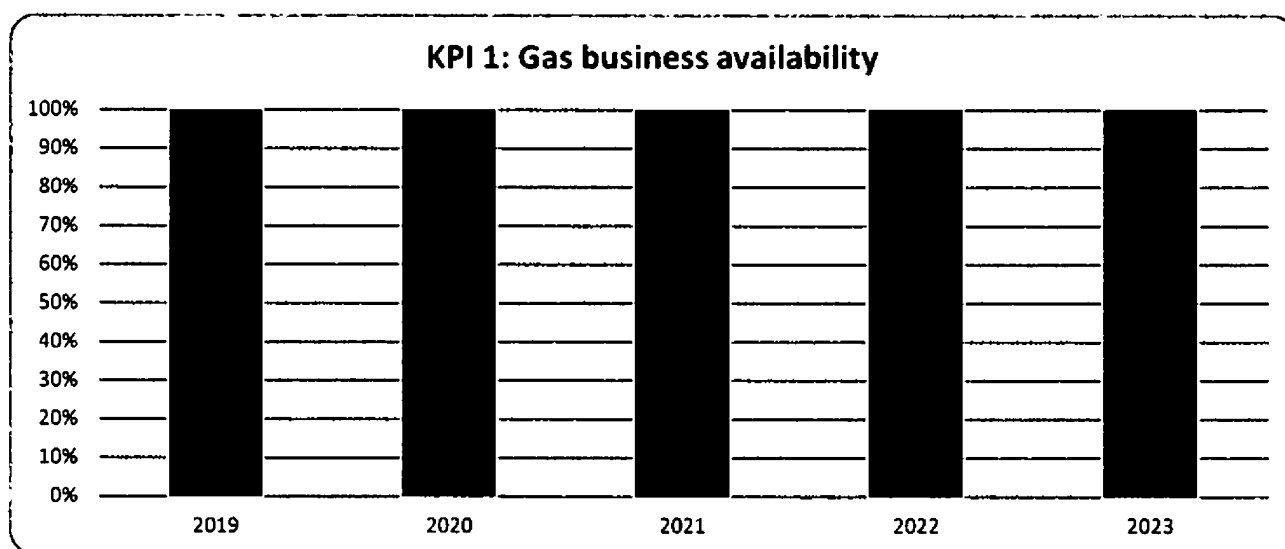
<sup>1</sup> Gas Market Operator for Northern Ireland (GMO NI)

## Strategic report for the year ended 31 March 2023 (continued)

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

### *Operational performance*

Winter 2022/23 was relatively mild with the exception of two cold snaps mid-December and February through which Northern Ireland's daily gas demand peaked at 7.0 million standard cubic meters per day ("mscm/d"). The gas market in Northern Ireland continues to increase in size, with increased connections to the distribution networks and increased reliance on gas fired generation to back up intermittent renewables, as well as providing baseload generation. Despite the mild weather and high prices suppressing domestic heating demand, our peak of 7.0mscm/d was only marginally below the previous peak day demand of 7.1mscm/d.



The availability of the gas system through the year was 100% (KPI 1). Whilst much planning was put in place for responding to potential shortfalls in supply across Europe, there were no issues with gas supply in the GB gas market impacting on NI's ability to access natural gas.

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

### *Asset Management*

Several key maintenance and inspection activities of the gas transmission assets were undertaken during the year. The submarine inspection of the underwater lengths of the SNIP pipeline and the pipelines in Belfast and Larne Loughs was carried out.

This external inspection uses cameras and acoustic technology to map the seabed through which the pipeline transverses, and avails of technology to assess the effectiveness of the corrosion protection system. The pipeline environment remains stable and the protection systems effective.

### *Financial performance*

The gas businesses revenue entitlement is calculated for each gas year, which runs to 30<sup>th</sup> September. 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 2022 were £3.1m above the forecasts used for predicting tariffs (September 2021: £0.2m below) (KPI 2). Further information on this is available on page 10.

The businesses are cash generative and able to meet their debt service obligations. However, because of their 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 where capital repayments will exceed reindexation of the debt.

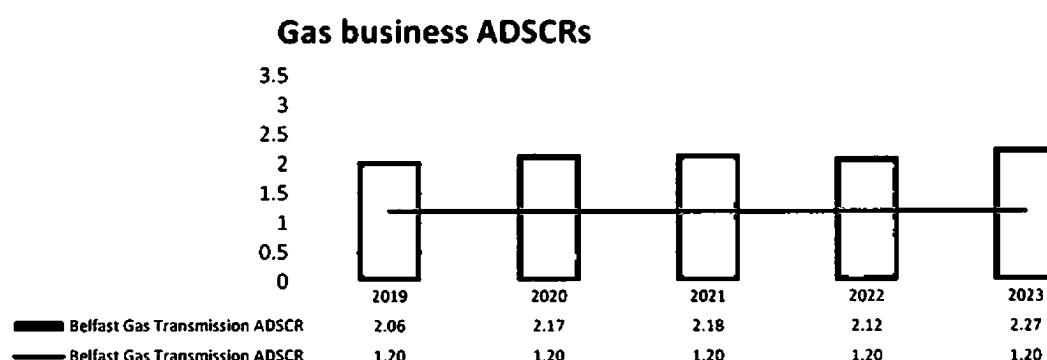
## Strategic report for the year ended 31 March 2023 (continued)

**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.



### *Future development – asset performance and utilisation*

The gas network has remained fairly stable over the last decade, with a steady growth in the distribution sector (driven by a gradually increasing customer base and the introduction of gas to the west of Northern Ireland), aligned with a small fall in power generation consumption as more wind generators came on the network. Recently demand for gas for power generation has increased markedly and the upcoming conversion of Kilroot from coal to gas will increase this further. Annual consumption of gas for the power generation sector had decreased with intermittent renewables contributing more to the electricity mix, though the removal of coal and overall demand growth makes further reductions in the near term less likely, however the peak daily requirement for power generation (required on the days the renewables are not available) is set to increase as more new connections to gas fired electricity generation come on stream.

We completed the construction works necessary to facilitate the gas connection to Kilroot Power Station and expect a significant step increase in peak daily capacity in the coming year. Network modelling of NI gas capacity<sup>2</sup> forecasts that once the new gas powered generator at Kilroot comes on line, the peak day demand will exceed that which can be transported through the Moffat Entry Point to the NI network (8.08mscm/d).

The second entry point to the NI network at Gormanston in the Republic of Ireland is expected to be needed for the first time. We have been planning for this transition through 2022/23 and will work with gas shippers, GMO NI and the other NI TSO, GNI (UK) Limited, to enable a smooth transition to the new operating regime.

Network planning becomes ever more important with the medium-term forecasts for gas including higher peaks and potentially higher throughput. Increases are expected in both the power generation and domestic sectors, some of which may be met with new biomethane injection points in the distribution network. We have been engaging pro-actively with other network operators to consider the robustness of the overall Northern Ireland network in light of the current pattern of ever-increasing domestic connections and the heavy power sector reliance on gas. This may well result in the need for network reinforcements.

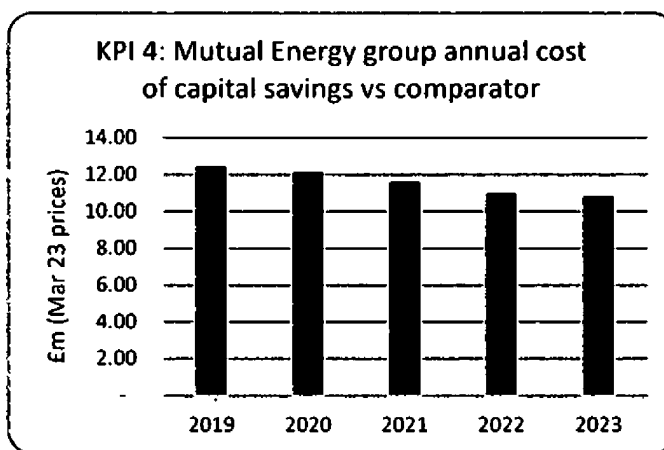
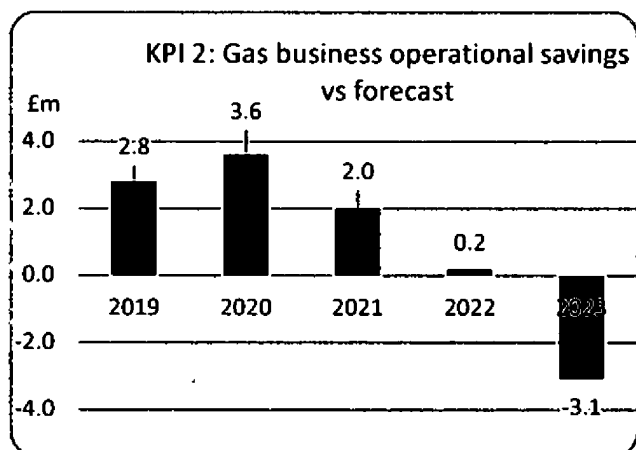
## Strategic report for the year ended 31 March 2023 (continued)

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

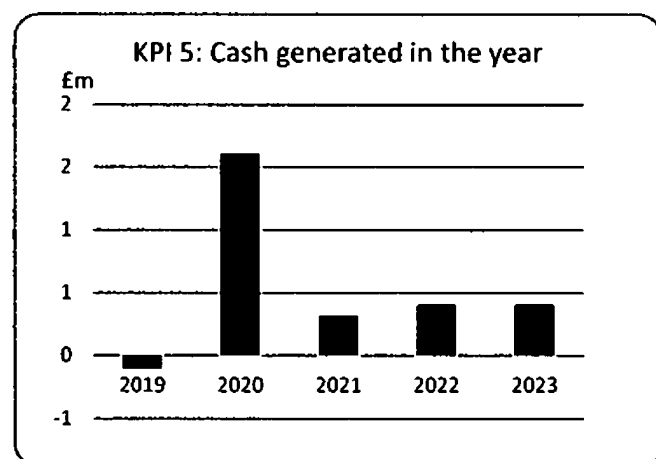
Whilst savings against the forecasts and the use or return of these to shippers are very welcome, the main means by which the businesses deliver savings to the consumers in Northern Ireland is through providing a low cost of capital. The costs of the gas transmission assets are charged to the respective 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 2021-22 gas year (excluding the new West Transmission assets) were 20% lower (2020-21: 20% 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). The most recent gas year costs exceeded forecast which was largely due to high gas prices increasing upstream fuel gas costs and high inflation levels driving up debt payments. We pay for the gas used to run the compressors which “push” the gas through to Northern Ireland. These fuel gas costs have increased from £1.6m to £5m from the previous gas year.



There is also a further inherent saving provided to customers. The Mutual Energy Group requires a lower use of system charge in the first place because it has a low cost of capital. A way of measuring the benefit which will flow to consumers is to calculate the cost of capital savings for the Group compared to a Northern Ireland energy utility comparator (KPI 4). The chart above shows the annual savings in March 2023 prices over the last 5 years. Cumulative savings to 31 March 2023 have exceeded £190m (2022: £160m in March 2022 prices).



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 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.

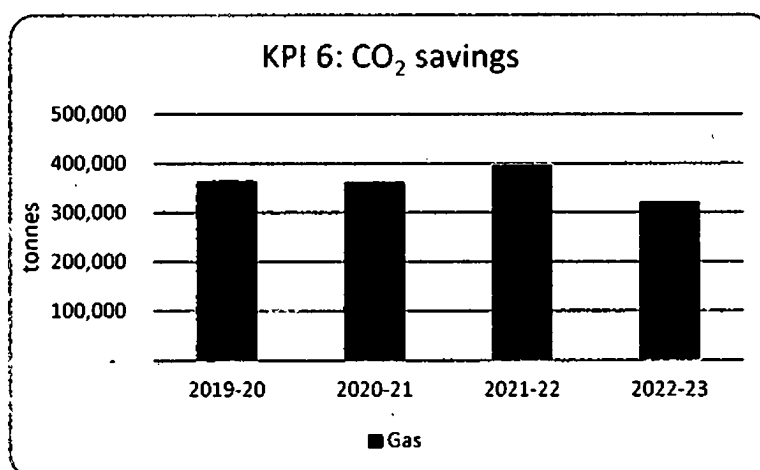
## Strategic report for the year ended 31 March 2023 (continued)

**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**

Given the nature of our business, a significant quantity of carbon emissions associated with the fuel we transport are recorded downstream of our operations when the fuel is ultimately used, therefore the facilitation of CO<sub>2</sub> savings by others is the key contribution the Group can make to achieving net zero. Further information on our strategy, operations and governance arrangements with respect to climate related issues, as well as carbon emissions reporting, is included within Mutual Energy's annual report.

The Group intends to specifically set targets to align with government policy. The 2021 Energy Strategy published by the NI Department for the Economy sets the framework for a series of action plans were due in 2022 and 2023. We aim to align with these plans once they are developed.

The business activities allow users of our assets to reduce their CO<sub>2</sub> and measure the CO<sub>2</sub> savings as outlined in the graph below (KPI 6). The facilitation of CO<sub>2</sub> 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 CO<sub>2</sub> emitting fuels with lower CO<sub>2</sub> 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 operational energy use.

### Strategic performance on greenhouse gas reduction

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.

### Enabling access to lower carbon fuels

The most immediate way to reduce CO<sub>2</sub> is to facilitate higher CO<sub>2</sub> emitting sectors converting to lower CO<sub>2</sub> emitting gas and this continues to be a core business focus. For domestic and commercial customers this is often 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 gas fired plant. The CO<sub>2</sub> savings from this change will be evident once the new plant comes online.

## Strategic report for the year ended 31 March 2023 (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)**

We also monitor the domestic connections made to the transmission network and calculate the CO<sub>2</sub> saving (KPI 6) made by these connections over a 15 year period, as well as monitoring the annual CO<sub>2</sub> savings made by industrial consumers compared to using oil (see page 11).

Key highlights during the financial year include:

- 11,000 new domestic gas connections facilitated, resulting in lifetime saving of c110,000 tonnes CO<sub>2</sub> in 2022
- Industrial & commercial gas customers saved over 210,000 tonnes CO<sub>2</sub> in the year compared to using oil

### Greening the existing networks

Longer term, we aim to facilitate the progressive reduction of the CO<sub>2</sub> 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 initially take place on the distribution networks, with first injections hopefully in the 23/24 year.

Other progress continues to be slow as the Northern Ireland energy strategy remains in its early stages, and the Utility Regulator position is that it requires more policy direction before 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.

On the research side the 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.

We engaged with the Energy Networks Association, in collaboration with the gas network operators in GB, on the production of a Hydrogen Vision report, to set out an ambitious yet realistic scenario for the role hydrogen could play in the energy system of the future.

In Northern Ireland, this foresaw potential for a green hydrogen 'valley' to emerge around the Greater Belfast area from 2030, comprising of a relatively small corridor of transmission pipeline infrastructure to connect electrolysis production sites ('green hydrogen') at potential offshore wind grid connection locations, current thermal power stations, salt cavern storage sites and the existing gas transmission system. Downstream gas assets could then be potentially repurposed to hydrogen in the future to support an industrial hydrogen cluster, including the production of synthetic e-fuels. By 2040, the report foresaw development of hydrogen interconnection infrastructure to GB and RoI. Considering NI's comparatively more significant biomethane opportunity relative to GB, it was projected that the equivalent of 20-30% of properties in NI may be supplied with hydrogen by 2050.

The Mutual Energy Limited annual report includes consolidated energy usage and emissions disclosures for the Mutual Energy Group as 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.

**Strategic report for the year ended 31 March 2023 (continued)****Ballylumford Power-to-X Project**

In 2022, Mutual Energy joined with other partners B9 Energy, Islandmagee Energy Storage and the Net Zero Technology Centre to undertake Phase One of the Ballylumford Power-to-X project. This assessed the feasibility of storing surplus renewable electricity in the form of hydrogen and then reconverting this back to electricity when required, for example when wind generation is low.

The viability study, funded by the UK Government, looked at the potential of grid connected electrolysis producing green hydrogen for storage in an underground salt cavern, alongside distribution and use in power generation, in a first-of-a kind solution to the curtailment problem. The work completed included a front-end engineering study (FEED) that has produced valuable knowledge and practical experience of developing strategic hydrogen infrastructure, critical to helping Northern Ireland and the wider UK meet their decarbonisation obligations.

The FEED study found that the project was technically feasible. With a flexible proton exchange membrane (PEM) type electrolyser, it would be able to match the changes in wind generation in real-time. A 100% hydrogen pipeline would be deliverable with the appropriate design and approach to safety and asset management, as would salt cavern storage. Finally, existing electricity generators can operate with a 40-60% hydrogen blend, however the FEED study demonstrated that generator manufacturers are developing turbines that are compatible with 100% hydrogen fuel.

While there are no real technical blockers to the project progressing, there are commercial and regulatory issues which would need to be overcome. For salt cavern storage to be commercially viable, for example, this project would need to operate at a significant scale. A 100MWe electrolyser operating at 40% duty factor would need to run for around one year to fill a single gas cavern with hydrogen, for example.

Additionally, hydrogen needs an appropriate regulatory framework to provide the certainty required by investors, as well as protect energy consumers. It should be regulated in the same way that the natural gas network is currently regulated in order to boost investor confidence.

While the project would need to be developed at scale to make it viable, there is a significant issue in terms of lack of demand for hydrogen. While it will clearly be required for the energy transition, currently there is insufficient demand for hydrogen in Northern Ireland. Rapid development of government policy and funding is urgently required to stimulate growth in hydrogen demand in Northern Ireland, for example by setting target dates for electricity generators to move to 100% hydrogen.

Finally, there needs to be a variety of sources of hydrogen demand to minimise risk for investors. Having a single large user of hydrogen would not be enough. To this end, hydrogen blending into the existing gas network could create a diverse 'demand sink' to reduce risk to investors in hydrogen production.

## Strategic report for the year ended 31 March 2023 (continued)

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

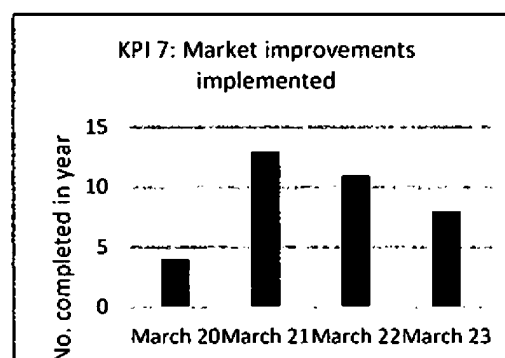
The Gas Market Operator for Northern Ireland (GMO NI) monitors the potential for market changes and regulatory developments through various methods including Shipper and industry feedback from bilateral meetings, forums and questionnaires, attending external forums and webinars on future potential developments, and attending various working groups on specific aspects of gas market and regulatory change. During the 2022/23 year GMO NI facilitated and held 5 Shipper forums and 4 other forums as well as 14 direct bilateral meetings with various individual Shippers relating to topical matters regarding the gas market. GMO NI held 10 update meetings with NIAUR and the TSOs, along with facilitating 3 webinars ensuring that its activities were communicated to key stakeholders and gaining input accordingly. In terms of working groups these include the ENTSOG – UK TSO Task Force, and the Moffat Interconnectors Group as well as local working groups on biomethane.

The above engagement activities are essential in the process of managing change to ensure that the gas market rules remain suitable for the current climate and in line with legislation or relevant regulations. It is also essential to be proactive in gaining foresight for any changes whether they may be driven by the market or regulation and to ensure that these are acceptable to the NI TSOs. GMO NI manages change through its market improvement register.

#### 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



There were 8 changes implemented in the year ending 31 March 2023. Some of these changes were very impactful, such as the implementation of aggregate balancing across Northern Ireland. This change means that, rather than having to balance across individual networks, shippers only have to balance across Northern Ireland as a whole. This substantial change accommodates the injection of biomethane at distribution level and the associated trading and transportation across NI and indeed back to GB in order to access subsidies. Without these arrangements biomethane injection would be unlikely to be viable.

In anticipation of the main entry point to Northern Ireland, the Moffat Entry Interconnection Point, being full at some point in 2023 or 2024, the GMO conducted a pro-active messaging campaign encouraging Shippers to start considering registering for the South North Interconnection Point to ensure readiness for this potential congested situation. Four Shippers have now registered, or are in the process of doing so.

Other changes included implementing a process improvement surrounding the submission of Daily Forecasting information from the Distribution Network Operators to GMO NI.

As of March 2023, there are 20 improvements which are ongoing and include the implementation of Short Term Exit Products, the introduction of the Kilroot Exit Point for the new gas fired generating units into the code and IT system, investigating commercial tools to enable efficient management of the NI network in the future, and starting to look at a review of the Virtual Reverse Flow (VRF) product in NI and associated rules.



**Strategic report for the year ended 31 March 2023 (continued)****Biomethane Injection**

Biomethane (also known as “renewable natural gas”) is produced by biogas upgraders which remove the CO<sub>2</sub> and other impurities to become an almost identical composition to natural gas. Biomethane is produced from biogas that is derived from organic matter such as human waste/sewage, food waste, distillery waste or agricultural materials. These materials naturally decompose in a relatively short period to produce CO<sub>2</sub>. If the material is digested anaerobically then methane is produced which when burned will produce the same CO<sub>2</sub> expected if the material had decomposed naturally.

Biomethane has the same characteristics as natural gas and can be injected into the grid with benefits for energy transition and the reduction of greenhouse gas emissions. Mutual Energy has been developing arrangements to support and enable the injection of biomethane into the gas network in conjunction with GNI (UK), the Distribution System Operators and NIAUR.

The gas distribution networks are in the process of dealing with a number of applications for biomethane injection points, which, if and when they are constructed, will meet a substantial portion of gas demand in Northern Ireland. We have already made changes to the NI Network Gas Transmission Code (Code) and the gas transportation IT System (Delphi) to support the injection of biomethane into the distribution network to ensure that the injected biomethane market potential is maximised – i.e. that it can be injected in any distribution zone and transported anywhere in Northern Ireland, traded with other entities at the NI balancing points or transported virtually back to GB or Ireland if required to avail of certain incentive schemes. For this to happen it was necessary for a Shippers portfolio, at an NI level, to include all inputs and outputs whether at distribution or transmission level, and it's this “aggregate balancing” that was implemented during the financial year to help enable the biomethane revolution.

Such is the scale of the potential for biomethane in Northern Ireland, we expect to need to move the biomethane back from the distribution networks into the transmission network for wider use, particularly in the summertime.

## Strategic report for the year ended 31 March 2023 (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 (2022: 19) are currently registered to use our gas system.

#### Partners and contractors

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

#### Regulators and government departments

The Mutual Energy group works closely with the NIAUR and the Department for the Economy (DfE), where appropriate, to ensure that the interests of Northern Ireland's energy consumers are protected. Following the publication of DfE's Energy Strategy in December 2021 the Group continues to work with the Department to determine how we 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 15.

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 21, 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.

### Risk management

Risk management is overseen by Mutual Energy on behalf of the whole Mutual Energy group. The Mutual Energy group's risk process was revised during 2021/22 to 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. The revised process is now well established and has improved risk management across the business.

## Strategic report for the year ended 31 March 2023 (continued)

### 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 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.

Strategic risks are reported to the Asset Oversight Committee and Audit and Risk 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 was responsible for managing the risks of the Control System upgrade until substantive project completion. The Asset Oversight Committee reports to the Audit and Risk Committee after each meeting

Assessment of risk was carried out, throughout the year ended 31 March 2023 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.

## Strategic report for the year ended 31 March 2023 (continued)

### Risk management (continued)

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

The principal risks of Mutual Energy relevant to the Premier Transmission Group 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.	➡
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, retain and motivate competent staff 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 Resource 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.  Risks associated with long term weather, or ground condition, flooding etc associated with climate change are included in this risk.	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.	➡

## Strategic report for the year ended 31 March 2023 (continued)



### Risk management (continued)

#### Operational risk (continued)

Risk description and potential impact	Mitigations and actions taken	Risk trend
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. A Cyber Security Policy is in place along with access security and protocols. 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. 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.	
Security of supply risk: Single point of failure, including pipelines and critical equipment, could fail and lead to loss of gas supply for an unacceptable amount of customers for a sustained period.	A gas asset management system is in place based on the "Plan, Do, Check, Act" approach. There is currently an increased level of interaction with NIAUR and DfE in relation to security of supply in order fully explore the risk and mitigation options.	New Risk

#### 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 A strict ring back process is in place to verify 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 £15m 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 2023 (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
<p>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.</p> <p>Longer term the market changes could be driven by climate change and net zero targets.</p>	<p>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 pages 14-15. Risk has increased in the period due to the need for market changes to meet decarbonisation targets.</p>	


#### 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
<p>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.</p>	<p>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.</p>	
<p>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.</p>	<p>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.</p>	

#### 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
<p>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.</p>	<p>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.</p>	

## Strategic report for the year ended 31 March 2023 (continued)

### Risk management (continued)

#### 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.	<p>The Mutual Energy group's decarbonisation strategic objective ensures the Board's cycle of strategy evaluation and business planning gives explicit regard to energy transition. This, along with investment in an energy transition staff, seeks to involve the business as much as possible in future developments and manage the risk in this area.</p> <p>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.</p>	

### Health, Safety and Wellbeing

The Mutual Energy group continues to put a high value on the Health and Safety of its operations and the wellbeing of the staff is considered extremely important to the business.

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 2021, with an improvement having been obtained on the already strong result from the previous audit in 2018/19. A plan to deliver the recommendations and further considerations was put into place to progress any 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, as the Northern Ireland Network Emergency Co-ordinator (NINEC), coordinated the annual Gas Supply Exercise in November, testing the response to an incident on one of the Gas Transmission Pipelines in Northern Ireland. Gas operators, SONI, UR, DfE and HSE participated in the event; lessons learnt are being implemented and another exercise is planned for November 2023.

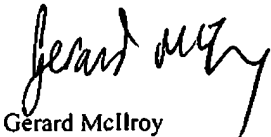
The Mutual Energy group is committed to good environmental performance and holds under review its policies and strategies to monitor and deliver on this commitment, in the context of shifting societal awareness and priority on improving environmental performance. No breach of any environmental licence or permits (which included those issued for Gas to the West construction and subsea surveys) were recorded in the year.

## Strategic report for the year ended 31 March 2023 (continued)

### 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

26 June 2023



## Directors' report for the year ended 31 March 2023

The directors present their annual report and the audited financial statements of the Group and Parent Company for the year ended 31 March 2023.

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 £14,588,000 (2022: £13,356,000). The directors do not recommend the payment of a dividend (2021: £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 21 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 2023 (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 21 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 (2022: £nil).

### Streamlined Energy & Carbon Report

Mutual Energy Limited, the ultimate parent undertaking, reports energy and carbon information on behalf of the entire Mutual Energy group, including the Group and Company. This information can be found in Mutual Energy's Strategic Report within their Annual Report.

### Other information

An indication of likely future developments in the business have been included in the strategic report on pages 2 to 15.

### 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.

## Directors' report for the year ended 31 March 2023 (continued)

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

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

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.

### 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

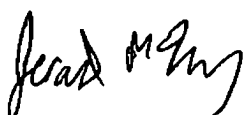
In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of Grant Thornton (NI) LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

### 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

26 June 2023

# Independent auditor's 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 Company") and its subsidiary ("the Group"), which comprise the Consolidated statement of profit and loss and other comprehensive income, the Consolidated and Parent Company balance sheet, the Consolidated and Parent Company statement of changes in equity and the Consolidated and Parent Company cash flow statements for the year ended 31 March 2023, and the related notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and accounting standards including UK-adopted international accounting standards (UK-adopted IAS).

In our opinion, Belfast Gas Transmission Financing plc's financial statements:

- give a true and fair view in accordance with UK-adopted IAS of the financial position of the Group and the Company as at 31 March 2023 and of the Group financial performance and the Group and Parent Company cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the 'Responsibilities of the auditor for the audit of the financial statements' section of our report. We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the FRC's Ethical Standard and the ethical pronouncements established by Chartered Accountants Ireland, applied as determined to be appropriate in the circumstances for the entity. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

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

- We assessed and challenged the key assumptions used by management in prospective financial information, namely budgets and forecasts which covered at least 12 months from date of approval of financial statements. In particular we carried out an analysis on the key assumptions within the model to determine the level of working capital head room available for the Group under normal trading conditions;
- We compared budgeted financial results to actual financial results for the current year to critically assess management's point of estimate;
- We inspected the financing agreement from the lender of the level of committed financing, and the associated covenant requirements where applicable; and
- We inspected the financing agreement to assess the restriction on the use of funds and compared these with the restrictions to management's model.

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 and 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.

## Independent auditor's report to the members of Belfast Gas Transmission Financing plc

### **Conclusions relating to going concern (continued)**

We have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

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

### **Other matter**

The financial statements of Belfast Gas Transmission Financing plc for the year ended 31 March 2022, were audited by KPMG who expressed an unmodified opinion on those statements on 1 July 2022.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current financial period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and the directing of 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 therefore we do not provide a separate opinion on these matters.

### **Overall audit strategy**

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including evaluating whether there was any evidence of potential bias that could result in a risk of material misstatement due to fraud.

Based on our considerations as set out below, our areas of focus included:

- Valuation of intangible assets; and
- Valuation of investment in subsidiary.

### **How we tailored the audit scope**

The Group has one operating segment, being the operation of the gas pipeline which transports gas from the pressure reduction station at Ballylumford to the Greater Belfast and Larne areas. We tailored the scope of our audit taking into account the areas where the risk of misstatement was considered material to the Group and Company, taking into account the nature of the Group and Company's business and the industry in which it operates. We performed an audit of the complete financial information of the Group's component. Components represent business units across the Group considered for audit scoping purposes.

In establishing the overall approach to our audit, we assessed the risk of material misstatement at a Group and Company level, taking into account the nature, likelihood and potential magnitude of any misstatement. As part of our risk assessment, we considered the control environment in place at Belfast Transmission Financing plc.

## Independent auditor's report to the members of Belfast Gas Transmission Financing plc

### **Materiality and audit approach**

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, such as our understanding of the entity and its environment, the history of misstatements, the complexity of the Group and Company and the reliability of the control environment, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £300k (2022: £1,160k) for the year ended 31 March 2023, determined as being 0.25% of total assets (2022: 1%). We have applied this benchmark because the main objective of the Group is to operate the Belfast Gas Transmission pipelines and associated assets, and to repay loans used to purchase the assets which serve the principal activity of the business.

We have set Performance materiality for the Group at £180k (2022: £870k), having considered the risk of misstatements in prior years, business risks and fraud risks associated with the entity and it's the control environment. This is to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.

We agreed with the audit committee that we would report to them misstatements identified during our audit above 5% of overall Group materiality.

Based on our professional judgement, we determined materiality for the Parent Company financial statements as a whole to be £456k (2022: £1,144k) for the year ended 31 March 2023, determined as being 0.25% of total assets (2022: 1%). We have applied this benchmark because the main objective of the company is to operate the Moyle Interconnector asset and to repay loans used to purchase the assets which serve the principal activity of the business.

We have set Performance materiality for the Parent Company at £274k (2022: £858k), being 60% of materiality, having considered the risk of misstatements in prior years, business risks and fraud risks associated with the entity and it's the control environment. This is to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.

We agreed with the audit committee that we would report to them misstatements identified during our audit above 5% of overall Parent Company materiality.

### **Significant matters identified**

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are set out below as significant matters together with an explanation of how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole. This is not a complete list of all risks identified by our audit.

# Independent auditor's report to the members of Belfast Gas Transmission Financing plc

*Valuation of intangible assets (Group) £72m (2022: £75m)*

Description of significant matter	Our audit approach
<p>There is a risk that the intangibles held by the Group are not carried at their realisable value on the statement of financial position, in line with the requirements of UK-adopted IAS. The Group has intangible assets of £72m which were created in the consolidation of the Parent and the Subsidiary undertaking. The carrying value of these intangible assets are material to the user of the financial statements.</p> <p>Significant auditor's attention was deemed appropriate because of the materiality of the intangible assets. The recoverability of the carrying value the Group's intangible assets are supported by the overall performance of the business, including consideration of prospective information.</p> <p>Impairment is considered annually at the reporting date by the directors.</p> <p>As a result, we considered this to be a key audit matter.</p> <p>Information on the intangible asset can be found in note 9 to the financial statements.</p>	<p>Our procedures included, but not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the license, and direction with the Group's regulator. The license allows the Group to operate the gas network;</li> <li>• Obtaining financial projections of the Group and critically assessing the key assumptions made by the directors in respect of predicting the expected revenue receipts and costs incurred for the remaining life of the license;</li> <li>• Reviewing and challenging the assumptions regarding the remaining useful economic life of the licence, and assessed the accuracy of the closing balance and amortisation charged in the year;</li> <li>• Assessing the level of headroom available between the projected discounted surplus at the end of the life of the license and the carrying value of the license; and</li> <li>• Reviewing the accounting treatment and associated disclosures in the financial statements for conformity with the requirements of UK-adopted IAS.</li> </ul> <p>We completed our planned audit procedures, with no exceptions noted.</p>

# Independent auditor's report to the members of Belfast Gas Transmission Financing plc

*Valuation of investment in subsidiary undertaking (Parent Company) £112m (2022: £112m)*

Description of significant matter	Our audit approach
<p>The Parent Company has an investment in a subsidiary undertaking of £112m. There is no observable market price quoted for this investment. There is a risk that the investment held by the Parent Company is not carried at realisable value on the statement of financial position, in line with the requirements of UK-adopted IAS.</p> <p>Significant auditor's attention was deemed appropriate because of the materiality of the investment. The recoverability of carrying value the Parent Company's investment is supported by the overall performance of the business, including consideration of prospective information.</p> <p>Impairment is considered annually at the reporting date by the directors.</p> <p>As a result, we considered this to be a key audit matter.</p> <p>Information on the investment can be found in note 10 to the financial statements.</p>	<p>Our procedures included, but not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the underlying investment in the subsidiary and how this links to the overall performance of the Group;</li> <li>• Obtaining financial projections for the subsidiary and Group and critically assessing the key assumptions made by the directors in respect of predicting the expected revenue receipts and costs incurred for the remaining life of the assets;</li> <li>• Assessing the level of headroom available between the projected discounted surplus at the end of the life of the subsidiary's assets and the carrying value of the investment in subsidiary; and</li> <li>• Reviewing the accounting treatment and associated disclosures in the financial statements for conformity with the requirements of UK-adopted IAS.</li> </ul> <p>We completed our planned audit procedures, with no exceptions noted.</p>

## Other information

Other information comprises information included in the annual report, other than the financial statements and our auditor's report thereon, including the Directors' Report and the Strategic Report.

The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies in the financial statements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.



## Independent auditor's report to the members of Belfast Gas Transmission Financing plc

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### **Responsibilities of management and those charged with governance for the financial statements**

As explained more fully in the Directors' responsibilities statement, management is responsible for the preparation of the financial statements which give a true and fair view in accordance with UK-adopted IAS, and for such internal control as directors determine necessary to enable the preparation of financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for 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 management either intends to liquidate the Group or company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group and Company's financial reporting process.

### **Responsibilities of the auditor for the audit of the financial statements**

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

A further description of an auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Independent auditor's report to the members of Belfast Gas Transmission Financing plc

### ***Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud***

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatement in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to compliance with Stock Exchange Listing Rules, Prudential Regulatory Authority, and Financial Conduct Authority, Data Privacy law, Employment Law, Environmental Regulations, Pensions Legislation, Health & Safety and the Utilities Regulator in Northern Ireland, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and UK tax legislation.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial performance and management bias through judgements and assumptions in significant accounting estimates, in particular in relation to significant one-off or unusual transactions. We apply professional scepticism through the audit to consider potential deliberate omission or concealment of significant transactions, or incomplete/inaccurate disclosures in the financial statements.

In response to these principal risks, our audit procedures included but were not limited to:

- enquiries of management, the board, and the audit committee on the policies and procedures in place regarding compliance with laws and regulations, including consideration of known or suspected instances of non-compliance and whether they have knowledge of any actual, suspected or alleged fraud;
- inspection of the Group's regulatory and legal correspondence and review of minutes of board and audit committee meetings during the year to corroborate inquiries made;
- gaining an understanding of the Group's current activities, the scope of authorisation and the effectiveness of its control environment to mitigate risks related to fraud;
- discussion amongst the engagement team in relation to the identified laws and regulations and regarding the risk of fraud, and remaining alert to any indications of non-compliance or opportunities for fraudulent manipulation of financial statements throughout the audit;
- identifying and testing journal entries to address the risk of inappropriate journals and management override of controls
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing
- challenging assumptions and judgements made by management in their significant accounting estimates, including estimating the useful economic life of assets and judgements made in the continuing implementation of IFRS 16 Leases;
- review of the financial statement disclosures to underlying supporting documentation and inquiries of management; and
- the audit engagement partner considered the experience and expertise of the engagement team to ensure that the team had appropriate competence and capabilities to identify or recognise non-compliance with the laws and regulation.

The primary responsibility for the prevention and detection of irregularities including fraud rests with those charged with governance and management. As with any audit, there remains a risk of non-detection or irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or override of internal controls.

## Independent auditor's report to the members of Belfast Gas Transmission Financing plc

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


This 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.

### **Report on other legal and regulatory requirements**

We were appointed by the Board of Directors on 25 November 2022 to audit the financial statements for the year ended 31 March 2023. This is the first year we have been engaged to audit the financial statements of the Group and the Parent Company.

We have not provided non-audit services prohibited by the FRC's Ethical Standard and have remained independent of the entity in conducting the audit.

The audit opinion is consistent with the additional report to the audit committee.



Louise Kelly (Senior Statutory Auditor)  
For and on behalf of  
Grant Thornton (NI) LLP  
Chartered Accountants & Statutory Auditors  
Belfast  
26<sup>th</sup> June 2023

## Consolidated statement of profit and loss and other comprehensive income for the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Revenue – continuing operations	2	10,452	8,395
Operating expenses	3	(6,214)	(5,496)
<b>Operating profit</b>		<b>4,238</b>	<b>2,899</b>
Finance income	5	296	16
Finance expenses	5	(23,010)	(14,029)
<b>Finance expenses – net</b>	<b>5</b>	<b>(22,714)</b>	<b>(14,013)</b>
<b>Loss before income tax</b>		<b>(18,476)</b>	<b>(11,114)</b>
Taxation	6	3,888	(2,242)
<b>Loss and total comprehensive expense for the year attributable to the owners of the parent</b>	<b>14</b>	<b>(14,588)</b>	<b>(13,356)</b>

All results arise from continuing operations.


The notes on pages 38 to 57 are an integral part of these consolidated financial statements.

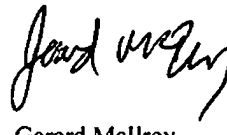
## Consolidated and Parent Company balance sheet as at 31 March 2023

		Group		Company	
	Note	2023 £'000	2022 £'000	2023 £'000	2022 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	8	27,790	25,348	-	-
Intangible assets	9	72,112	74,599	-	-
Investment in subsidiary undertaking	10	-	-	112,384	112,384
Deferred tax assets	17	5,415	3,499	5,415	3,499
		105,317	103,446	117,799	115,883
<b>Current assets</b>					
Trade and other receivables	11	2,409	1,418	64,810	45,583
Cash and cash equivalents	12	12,263	11,852	11	30
		14,672	13,270	64,821	45,613
<b>Total assets</b>		<b>119,989</b>	<b>116,716</b>	<b>182,620</b>	<b>161,496</b>
<b>Equity and liabilities</b>					
<b>Equity attributable to the owners of the parent</b>					
Share Capital	13	50	50	50	50
Retained earnings	14	(72,917)	(58,329)	22,586	17,757
<b>Total equity</b>		<b>(72,867)</b>	<b>(58,279)</b>	<b>22,636</b>	<b>17,807</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Interest bearing loans and borrowings	15	157,937	142,022	156,798	141,045
Deferred tax liabilities	17	22,131	22,337	-	-
Government grant	18	4,836	4,994	-	-
		184,904	169,353	156,798	141,045
<b>Current liabilities</b>					
Trade and other payables	19	4,590	2,834	25	30
Interest bearing loans and borrowings	15	3,203	2,649	3,161	2,614
Government grant	18	159	159	-	-
		7,952	5,642	3,186	2,644
<b>Total liabilities</b>		<b>192,856</b>	<b>174,995</b>	<b>159,984</b>	<b>143,689</b>
<b>Total equity and liabilities</b>		<b>119,989</b>	<b>116,716</b>	<b>182,620</b>	<b>161,496</b>

The notes on pages 38 to 57 are an integral part of these consolidated financial statements.

The Group financial statements on pages 34 to 57 were authorised for issue by the Board of Directors on 26 June 2023 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 2023

<b>Group</b>	<b>Share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
At 1 April 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)
Total comprehensive expense for the year	-	(14,588)	(14,588)
<b>At 31 March 2023</b>	<b>50</b>	<b>(72,917)</b>	<b>(72,867)</b>

<b>Company</b>	<b>Share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
At 1 April 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
Total comprehensive income for the year	-	4,829	4,829
<b>At 31 March 2023</b>	<b>50</b>	<b>22,586</b>	<b>22,636</b>

The notes on pages 38 to 57 are an integral part of these consolidated financial statements.

## Consolidated and Parent Company cash flow statements for the year ended 31 March 2023

		Group	Company		
	Note	2023 £'000	2022 £'000	2023 £'000	2022 £'000
<b>Cash flows from operating activities</b>					
Loss before income tax		(18,476)	(11,114)	-	-
<b>Adjustments for:</b>					
Finance expense/(income) - net		22,714	14,013	(33)	(25)
Depreciation of property, plant and equipment	8	855	844	-	-
Amortisation of government grant	18	(158)	(159)	-	-
Loss on disposal of property, plant and equipment		-	168	-	-
Amortisation of intangible assets	9	2,487	2,487	-	-
Movement in trade and other receivables		(121)	186	(3)	(8)
Movement in trade and other payables		2,717	686	(4)	24
Income tax received		-	(50)	-	-
Net cash generated from/(used in) operating activities		10,018	7,061	(40)	(9)
<b>Cash flows from investing activities</b>					
Interest received		251	4	1	-
Amounts received from related parties		-	-	6,700	5,826
Purchase of property, plant and equipment		(3,085)	(770)	-	-
Net cash generated (used in)/generated from investing activities		(2,834)	(766)	6,701	5,826
<b>Cash flows from financing activities</b>					
Interest paid		(5,012)	(4,247)	(4,953)	(4,187)
Repayment of borrowings		(1,727)	(1,614)	(1,727)	(1,614)
Lease payments	16	(34)	(28)	-	-
Net cash used in financing activities		(6,773)	(5,889)	(6,680)	(5,801)
<b>Movement in cash and cash equivalents</b>					
Cash and cash equivalents at 1 April	12	11,852	11,446	30	14
Cash and cash equivalents at 31 March	12	12,263	11,852	11	30

The notes on pages 38 to 57 are an integral part of these consolidated financial statements.

## Notes to the financial statements for the year ended 31 March 2023

### 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 26 June 2023 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 pages 45-46.

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:

Reference to the Conceptual Framework (Amendments to IFRS 3)

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

Annual Improvements (2018-2020 Cycle):

- Subsidiary as a First-time Adopter (Amendments to IFRS 1)
- Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments to IFRS 9)
- Lease Incentives (Amendments to IFRS 16)
- Taxation in Fair Value Measurements (Amendments to IAS 41).



## Notes to the financial statements for the year ended 31 March 2023

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

#### New standards, amendments or interpretations (continued)

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)
- Amendments to IFRS 17 'Insurance Contracts' (Amendments to IFRS 17 and IFRS 4)
- 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)
- 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 2023. 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 2023

### 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.

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

#### 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 2023

### 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 8 and 15 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 29 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 cost less impairment.

## Notes to the financial statements for the year ended 31 March 2023

### 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 or CGU. 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; fair value through profit and loss; or fair value through other comprehensive income (FVOCI) – equity investment.

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 2023

### 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 2023

### 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 2023

### 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 32.5 years (2022: 33.5) years at the beginning of the year. If the remaining useful economic life had been assessed at 33.5 years (2022: 34.5) years depreciation would have decreased by £20,000 (2022: £20,000) and if the remaining useful economic life had been assessed at 31.5 years (2022: 32.5) years depreciation would have increased by £22,000 (2022: £21,000). The net book value of the pipeline asset is disclosed in note 8.

The remaining useful economic life of the licences was determined as approximately 30 (2022: 31) years at the beginning of the year. If the remaining useful economic life had been assessed at 31 (2022: 32) years amortisation would have decreased £80,000 (2022: £78,000) and if the remaining useful economic life had been assessed at 29 (2022: 30) years amortisation would have increased by £86,000 (2022: £83,000). The net book value of the licences is disclosed in note 9.

## Notes to the financial statements for the year ended 31 March 2023

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

#### *Judgements made in the implementation of IFRS 16 Leases*

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

### 2 Revenue

Revenue comprises the fair value of the consideration received or receivable from the sale of capacity on the gas pipeline which links the gas transmission systems of Northern Ireland and Scotland. 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 in accordance with the terms of the licence issued by the regulatory authority, namely in line with the applicable costs incurred by the Group over the same period.

The Group's accrued income meets the definition of a contract asset. The Group's contract assets are disclosed in note 8.

### 3 Operating expenses

	2023	2022
Group	£'000	£'000
Depreciation and amortisation (excluding right-of-use assets)	3,304	3,299
Depreciation of right-of-use assets	38	32
Loss on disposal of tangible assets	-	168
Amortisation of deferred government grant	(158)	(159)
Auditors' remuneration:		
Audit of these financial statements	18	3
Audit of financial statements of subsidiary	22	7
Other services	3	2
Maintenance and insurance	927	730
Other expenses	2,060	1,414
<b>Total operating expenses</b>	<b>6,214</b>	<b>5,496</b>

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

### 4 Staff numbers and costs

The Group and Company have no employees other than its directors (2022: 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:

	2023	2022
	£'000	£'000
<b>Directors' emoluments</b>		
Aggregate emoluments	32	28

The portion of remuneration and amounts receivable under long term incentive schemes of the highest paid director attributable to the Group was £18,000 (2022: £15,000).



## Notes to the financial statements for the year ended 31 March 2023

### 5 Finance income and expense

	2023	2022
Group	£'000	£'000
<b>Finance expense:</b>		
Bank charges	45	61
Borrowings (including borrowing fees)	22,965	13,968
<b>Finance expense</b>	<b>23,010</b>	<b>14,029</b>
<b>Finance income:</b>		
Short-term bank deposits	(287)	(9)
Lease interest	(9)	(7)
<b>Finance income</b>	<b>(296)</b>	<b>(16)</b>
<b>Finance expense - net</b>	<b>22,714</b>	<b>14,013</b>

### 6 Taxation

	2023	2022
Group	£'000	£'000
<b>Recognised in profit and loss</b>		
<b>Current income tax:</b>		
Adjustments in respect of prior years	(954)	-
Group relief claimed	(812)	932
<b>Total current income tax</b>	<b>(1,766)</b>	<b>932</b>
<b>Deferred income tax:</b>		
Origination and reversal of temporary differences	(3,388)	(3,901)
Adjustments in respect of prior years	1,266	-
Change in deferred tax rate	-	5,211
<b>Total deferred income tax (note 17)</b>	<b>(2,122)</b>	<b>1,310</b>
<b>Income tax (credit)/charge</b>	<b>(3,888)</b>	<b>2,242</b>

The income tax credit in the statement of profit and loss for the year is higher than the standard rate of corporation tax in the UK of 19% (2022: income tax charge is higher than the standard rate of corporation tax in the UK of 19%). The differences are reconciled below:

	2023	2022
Reconciliation of effective tax rate	£'000	£'000
<b>Loss before income tax</b>	<b>(18,476)</b>	<b>(11,114)</b>
Tax calculated at the UK standard rate of corporation tax of 19% (2022: 19%)	(3,510)	(2,112)
<b>Effects of:</b>		
Tax exempt revenue	-	(44)
Change in deferred tax rate	-	5,211
Adjustments in respect of prior years	312	-
Impact of change in tax rates	(690)	(813)
<b>Income tax (credit)/charge</b>	<b>(3,888)</b>	<b>2,242</b>

## Notes to the financial statements for the year ended 31 March 2023

### 6 Taxation (continued)

#### Future tax changes

The Finance Act 2021 confirmed that the corporation tax rate will be increased to 25% on 1 April 2023 for companies generating taxable profits of more than £250,000. The current 19% tax rate will continue to apply to 'small' companies with profits less than £50,000, with a 'taper relief rate' for those companies with profits between these thresholds. 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 17).

### 7 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 £4,829,000 (2022: £3,499,000).

### 8 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 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
Additions	-	-	3,085	212	3,297
At 31 March 2023	37,044	2,033	3,627	1,339	44,043
<b>Accumulated depreciation</b>					
At 1 April 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
Depreciation charge for the year	680	137	-	38	855
At 31 March 2023	15,598	521	-	134	16,253
<b>Net book value</b>					
At 31 March 2023	21,446	1,512	3,627	1,205	27,790
At 1 April 2022	22,126	1,649	542	1,031	25,348
At 1 April 2021	22,976	1,551	-	1,063	25,590

Depreciation expense of £855,000 (2022: £844,000) 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.

## Notes to the financial statements for the year ended 31 March 2023

### 9 Intangible assets

Group	Licences £'000
Cost	
At 1 April 2021, 31 March 2022 and at 31 March 2023	109,413
Accumulated amortisation	
At 1 April 2021	32,327
Amortisation for the year	2,487
At 31 March 2022	34,814
Amortisation for the year	2,487
At 31 March 2023	37,301
Net book value	
At 31 March 2023	72,112
At 31 March 2022	74,599
At 1 April 2021	77,086

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 2023, of 29 years (30 years as at 31 March 2022).

Amortisation expense of £2,487,000 (2022: £2,487,000) has been fully charged to operating expenses.

### 10 Investment in subsidiary undertaking

Company	£'000
Cost and carrying amount	
At 1 April 2021, 31 March 2022 and at 31 March 2023	112,384

Investments in subsidiaries are recognised initially at fair value and subsequently measured at cost less impairment.

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

### 11 Trade and other receivables

	Group		Company	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Trade receivables	1,147	1,073	-	-
Trade and other receivables due from related parties	871	39	64,649	45,439
Prepayments	351	295	158	141
Accrued income	40	4	-	-
Other receivables	-	7	3	3
	2,409	1,418	64,810	45,583

## Notes to the financial statements for the year ended 31 March 2023

### 11 Trade and other receivables (continued)

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 (2022: £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 £61,699,000 (2022: £45,402,000) which carries interest at a rate of 2.207% (2022: 2.207%). All other amounts owed to related parties are interest free.

### 12 Cash and cash equivalents

	Group		Company	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Cash and cash equivalents	12,263	11,852	11	30

Cash and cash equivalents earn interest at Bank of England base rate less 0.20%, or nil if higher. None of the cash deposits are restricted.

### 13 Share Capital

	2023	2022
	£'000	£'000
<b>Group and Company</b>		
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.

### 14 Retained earnings

Group	£'000
At 1 April 2021	(44,973)
Total comprehensive loss for the year	(13,356)
At 31 March 2022	(58,329)
Total comprehensive loss for the year	(14,588)
<b>At 31 March 2023</b>	<b>(72,917)</b>
<b>Company</b>	<b>£'000</b>
At 1 April 2021	14,258
Total comprehensive income for the year	3,499
At 31 March 2022	17,757
Total comprehensive income for the year	4,829
<b>At 31 March 2023</b>	<b>22,586</b>

## Notes to the financial statements for the year ended 31 March 2023

### 15 Interest bearing loans and borrowings

	Group		Company	
Group	2023 £'000	2022 £'000	2023 £'000	2022 £'000
<b>Non-current</b>				
2.207% Index linked guaranteed secured bond	156,798	141,045	156,798	141,045
Lease liabilities	1,139	977	-	-
<b>Total Non-current</b>	<b>157,937</b>	<b>142,022</b>	<b>156,798</b>	<b>141,045</b>
<b>Current</b>				
2.207% Index linked guaranteed secured bond	3,161	2,614	3,161	2,614
Lease liabilities	42	35	-	-
<b>Total Current</b>	<b>3,203</b>	<b>2,649</b>	<b>3,161</b>	<b>2,614</b>
<b>Total borrowings</b>	<b>161,140</b>	<b>144,671</b>	<b>159,959</b>	<b>143,659</b>

#### Changes in liabilities from financing activities

	Group		Company	
	Loans and Borrowings £'000	Lease liabilities £'000	Total £'000	Loans and Borrowing £'000
Balance at 1 April 2021	135,492	1,047	136,539	135,492
<b>Changes from financing cash flows</b>				
Repayment of borrowings	(1,614)	-	(1,614)	(1,614)
Lease payments	-	(28)	(28)	-
Interest paid	(4,187)	-	(4,187)	(4,187)
<b>Total changes from financing cash flows</b>	<b>(5,801)</b>	<b>(28)</b>	<b>(5,829)</b>	<b>(5,801)</b>
<b>Non cash changes</b>				
Interest expense	13,968	-	13,968	13,968
Lease interest income	-	(7)	(7)	-
<b>Total non cash changes</b>	<b>13,968</b>	<b>(7)</b>	<b>13,961</b>	<b>13,968</b>
Balance at 31 March 2022	143,659	1,012	144,671	143,659
<b>Changes from financing cash flows</b>				
Repayment of borrowings	(1,727)	-	(1,727)	(1,727)
Lease payments	-	(34)	(34)	-
Interest paid	(4,938)	-	(4,938)	(4,938)
<b>Total changes from financing cash flows</b>	<b>(6,665)</b>	<b>(34)</b>	<b>(6,699)</b>	<b>(6,665)</b>
<b>Non cash changes</b>				
Increase in lease	-	212	212	-
Interest expense	22,965	-	22,965	22,965
Lease interest income	-	(9)	(9)	-
<b>Total non cash changes</b>	<b>22,965</b>	<b>203</b>	<b>23,168</b>	<b>22,965</b>
<b>Balance at 31 March 2023</b>	<b>159,959</b>	<b>1,181</b>	<b>161,140</b>	<b>159,959</b>

## Notes to the financial statements for the year ended 31 March 2023

### 15 Interest bearing loans and borrowings (continued)

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 £172,474,000 (2022: £219,704,000). This fair value has been calculated by discounting the future contracted interest cash flows using a discount rate of 1.62% (2022: -0.84%) 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 £161,958,000/£183,962,000 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% (2022: 2.18%). 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 16).

### 16 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 8), 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	2023 £'000	2022 £'000
Depreciation expense in respect of right-of-use assets	38	32
Lease liabilities interest income	(9)	(7)

#### *Amounts recognised in statement of cash flows*

Group	2023 £'000	2022 £'000
Total cash outflow for leases	34	28

## Notes to the financial statements for the year ended 31 March 2023

### 17 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	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Deferred income tax assets	(5,415)	(3,499)	(5,415)	(3,499)
Deferred income tax liabilities	22,131	22,337	-	-
<b>Deferred income tax liabilities/(assets) - net</b>	<b>16,716</b>	<b>18,838</b>	<b>(5,415)</b>	<b>(3,499)</b>

Movement in deferred tax during the year:

	Group	Company
	£'000	£'000
At 1 April 2021	17,528	-
Recognised in profit and loss	1,310	(3,499)
At 31 March 2022	18,838	(3,499)
Recognised in profit and loss	(2,122)	(1,916)
<b>At 31 March 2023</b>	<b>16,716</b>	<b>(5,415)</b>

	Losses	Accelerated capital allowances	Valuation of intangible assets	Total
Group	£'000	£'000	£'000	£'000
At 1 April 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
Recognised in profit and loss	(1,916)	267	(473)	(2,122)
<b>At 31 March 2023</b>	<b>(5,415)</b>	<b>4,103</b>	<b>18,028</b>	<b>16,716</b>

Company	Losses
	£'000
At 1 April 2022	(3,499)
Recognised in profit and loss	(1,916)
<b>At 31 March 2023</b>	<b>(5,415)</b>

The Group and Company have a further £11,027,166 (2022: £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 (2022: £2,756,792) 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 2023

### 18 Government grant

Group	£'000
At 1 April 2021	5,312
Amortised during the year	(159)
At 31 March 2022	5,153
Amortised during the year	(158)
At 31 March 2023	4,995

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 (2022: £159,000) and the non-current portion is £4,836,000 (2022: £4,994,000).

### 19 Trade and other payables

	Group		Company	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Trade payables	1	21	-	17
Trade payables due to related parties	1,434	1,395	-	-
VAT	669	634	-	-
Other payables	148	10	-	-
Accruals	52	64	25	13
Deferred income	2,286	710	-	-
	4,590	2,834	25	30

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 2023

### 20 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	
	2023 £'000	2022 £'000
Parent undertakings – current assets	98	38
Fellow subsidiary undertakings – current assets	773	1
Parent undertakings – current liabilities	(9)	(98)
Fellow subsidiary undertakings – current liabilities	(1,425)	(1,297)

Group	Nature of transaction	Value of transaction	
		2023 £'000	2022 £'000
Parent undertakings	Charges payable	(148)	(127)
Parent undertakings	Group relief surrendered	157	-
Fellow subsidiary undertakings	Group relief surrendered/(claimed)	1,609	(932)
Fellow subsidiary undertakings	Charges payable	(4,281)	(1,501)

Company	Amount owed (to)/from related party	
	2023 £'000	2022 £'000
Subsidiary undertaking – current assets	63,778	45,401
Fellow subsidiary undertakings	773	-
Parent undertaking – current assets	98	38

Company	Nature of transaction	Value of transaction	
		2023 £'000	2022 £'000
Fellow subsidiary undertakings	Group relief surrendered	773	-
Parent undertaking	Group relief surrendered	60	-
Subsidiary undertaking	Group relief surrendered	2,079	-
Subsidiary undertaking	Interest receivable	22,997	13,994
Subsidiary undertaking	Receipts in respect of investing activities	6,700	5,826

### 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 4.

## Notes to the financial statements for the year ended 31 March 2023

### 21 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 2023 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	6,674	6,807	6,944	7,084	7,222	179,018	213,749
Lease liabilities	43	42	42	42	41	971	1,181
Trade and other payables*	1,635	-	-	-	-	-	1,635
	8,352	6,849	6,986	7,126	7,263	179,989	216,565

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 2023 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	6,674	6,807	6,944	7,084	7,222	179,018	213,749
Trade and other payables	25	-	-	-	-	-	25
	6,699	6,807	6,944	7,084	7,222	179,018	213,774

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

\*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 £1,467,000 (2022: £1,385,000). A recurring annual retail price index of 2% would increase the total repayments on the 2.207% bond by £118,276,000 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 2023

### 21 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.

### 22 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.

### 23 Subsequent events

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