Registered number: NI067348

Belfast Gas Transmission Financing plc

Annual report

for the year ended 31 March 2021

Belfast Gas Transmission Financing plc

Annual report for the year ended 31 March 2021

Contents | Pages

Directors and advisers

Directors

Patrick Larkin	Executive director
Gerard McIlroy	Executive director

Company secretary

Gerard McIlroy

Registered office

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

Principal place of business

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

Solicitors

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

Bankers

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

Independent auditors

KPMG
Chartered Accountants and Statutory Auditors
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

Strategic report for the year ended 31 March 2021

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

Strategic objectives

Our strategy is made up of four key elements:

Strategy	How we deliver	How we measure success
Safe, cost efficient operation Operate the best model to minimise costs and overheads including outsourcing	We provide a safe, reliable and efficient transmission service to the electricity and gas suppliers of Northern Ireland. Delivery is achieved through a competitive tendering process for operational activities and the development of a comprehensive contracting strategy and partnership approach with key contractors. We operate a Health & Safety system based on the Plan, Do, Check, Act approach. Further information on asset operation can be found on pages 5-6.	Our success measures include: - availability targets for our assets (KPI 2); - operational savings against forecast (KPI 3); - lost time incidents (KPI 4) and a series of detailed health & safety targets; - detailed maintenance and contracting milestones which are monitored at contract meetings; and - detailed monthly budgets which are monitored over a rolling five year horizon.
Return savings to consumer Deliver savings to all consumers evenly over the life of the assets	Group strategy involves returning all savings or cash surpluses to the generality of Northern Ireland consumers as evenly as possible over the life of the assets. In doing so, where possible, we seek to build up reserves to smooth future cash flows and minimise energy price increases and fluctuations associated with our assets. Where appropriate, reserves will be used to provide capital for future investments. Delivery of savings is discussed in more detail on page 7.	Our measures of success include: - operational savings against forecast (KPI 3); - cost of capital of Mutual Energy vs NI comparator (KPI 5); and - cash generated from operations (KPI 6).
Decarbonise Take an active role in collaboration with key stakeholders in the acceleration of decarbonisation through interventions and investments which benefit NI energy consumers	The Group's strategy is to adapt its structure and focus of the business to rise to the challenge of facilitating the decarbonisation of both the gas and electricity networks in Northern Ireland and facilitating customers who wish to use the networks as a means of decarbonising other sectors. We will also target the CO_2 content of the electricity and gas transported on our networks, playing our part in reducing this by facilitating the connection of both customers and producers. Decarbonisation is discussed in more detail on pages 8-9.	A key factor to enable decarbonisation is the ability of system operators to balance the network and generators to respond flexibly to changes in renewable generation. Success is measured by the flexibility we will be able to supply our customers. In our gas businesses the flexibility we provide is measured by the rate of change we facilitate, and the volume of capacity we can make available. We also monitor the domestic connections made to the transmission network and calculate the CO_2 saving (KPI 1) made by these connections over a 15 year period, as well as monitoring the savings made by industrial consumers compared to using oil (see page 8). Finally, we aim to reduce the emissions in our own business by determining a baseline and, once this has been determined, targeting reductions.
Manage market change Manage market changes to minimise risks to NI consumer	Our key focus is to ensure, so far as possible, that changes driven by EU, national or other bodies do not impact negatively on our business, our financing arrangements or energy consumers in Northern Ireland. We seek to achieve this by influencing discussions at stakeholder meetings, actively participating in the work of the EU system operator confederations and by assisting the regulators and relevant government departments to identify and address issues particularly relevant to Northern Ireland. The market environment is discussed in more detail on page 10.	Our measures of success include: - avoidance of changes which would compromise the financing structures of the Group; - monitoring of individual projects against initial objectives and implementation plans with milestone dates; and - the percentage of market change date milestones met (KPI 7).

Key Performance Indicators ("KPIs")

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

Key Performance Indicator	Definition of KPI
1. CO_2 savings The Group can contribute to the reduction in CO_2 by facilitating changes on its network to allow: 1. consumers to move from higher CO_2 emitting fossil fuel to lower emitting fossil fuels; 2. lower or zero emission fuels to transport through the networks; and 3. different industry types, such as transport, to access electricity or natural gas to lower their CO_2 emissions. In addition MEL will seek to minimise the emissions from its own operations, encompassing operational activity, transport and other activities ancillary to running the business. The total of the CO_2 savings is the KPI for this activity and a graph showing the results can be found on page 8.	**CO_2 savings from moving to lower emitting fossil fuels** ***Domestic heating*** The lifetime saving associated with a connection is calculated using Northern Ireland average consumption and applying CO_2 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 CO_2 saving from industrial and commercial customers burning natural gas compared to CO_2 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 CO_2 savings are calculated by applying CO_2 conversion factors for oil vs gas based on UK government figures. ***Power generation*** The annual CO_2 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 Greenhouse Gas ('GHG') Conversion factors as appropriate. Where the capacity of a unit has changed as part of the gas conversion process, we only compare new emissions to the lower of the old and new generation capacity. Only plant connected in the timeframe MEL owned the pipelines are included. **Lower or zero emission fuels to transport through the networks** ***Biomethane injection*** CO_2 savings from connecting low CO_2 gas producers are calculated by comparing the CO_2 content of gas from the UK Government to the content of the gas injected. **CO_2 saved in MEL operations** These are calculated in accordance with guidance provided by Department of Business, Energy and Industrial Strategy ('BEIS'), for conversion of different fuel types, to calculate the CO_2 usage.

Strategic report for the year ended 31 March 2021 (continued)

Key Performance Indicators ("KPIs") (continued)

Key Performance Indicator	Definition of KPI
2. Availability The quality of service to our direct customers is determined by the performance of our assets, of which the principal measure is the availability of transmission capacity. A graph showing availability can be found on page 5.	**Availability** Availability is calculated as the number of hours available (excluding upstream outages) x capacity available / total plant capacity under connection agreements x the number of hours in the year.
3. Operational savings against forecast For the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs. Operational savings vs forecasts for the gas businesses are shown on page 7.	**Operational savings against forecast** 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.
4. Lost time incidents Our safety is measured by the safe operation of our staff and contractors as noted on page 5.	**Lost time incidents** Lost time incidents are calculated as the number of lost time incidents per 100,000 hours worked by staff and contractors.
5. Cost of capital of Mutual Energy vs NI comparator Savings incurred on MEL's financing costs compared to the costs which would have been incurred if financed by a Northern Ireland energy utility comparator. This is a direct saving to consumers. Cost of capital of Mutual Energy vs NI comparator can be seen on page 7.	**Cost of capital of Mutual Energy vs NI comparator** MEL incurs financing costs in respect of debt entered into for the purpose of the business. MEL'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 Mutual Energy group's debt compared to the costs actually incurred.
6. Cash generated from operations Cash generated which will be used to avoid future charges to consumers. Cash generated can be seen in the graph on page 7.	**Cash generated from operations** Cash generated post tax.
7. Market change date milestones met Market change date milestones are set to meet EU obligations, the Northern Ireland gas market targets, or internal market improvement targets. Performance is measured against the deadlines set to show the percentage of the milestones which were met in each financial year. Market change date milestones met can be seen in the graph on page 10.	**Market change date milestones met** Market change date milestones met is the percentage of the milestones due in each financial year which were delivered on time.
8. Annual Debt Service Cover Ratio The ability to acquire infrastructure at low cost to the consumer is critically dependent upon our track record with the existing asset financing. As well as compliance with the respective financing covenants, the principal requirements of all financiers are the maintenance of Annual Debt Service Cover Ratios (ADSCR) of greater than 1.20. A graph showing these ratios can be found on page 6.	**Annual Debt Service Cover Ratio** The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the bonds for each operational company. The basis of calculation is Available Cash / Debt Service in the next 12 months. In each case Available Cash = the difference between income and expenses in the period + cash in designated bank accounts, where cash in the designated bank accounts is limited to 1x Debt service.

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

Strategic report for the year ended 31 March 2021 (continued)

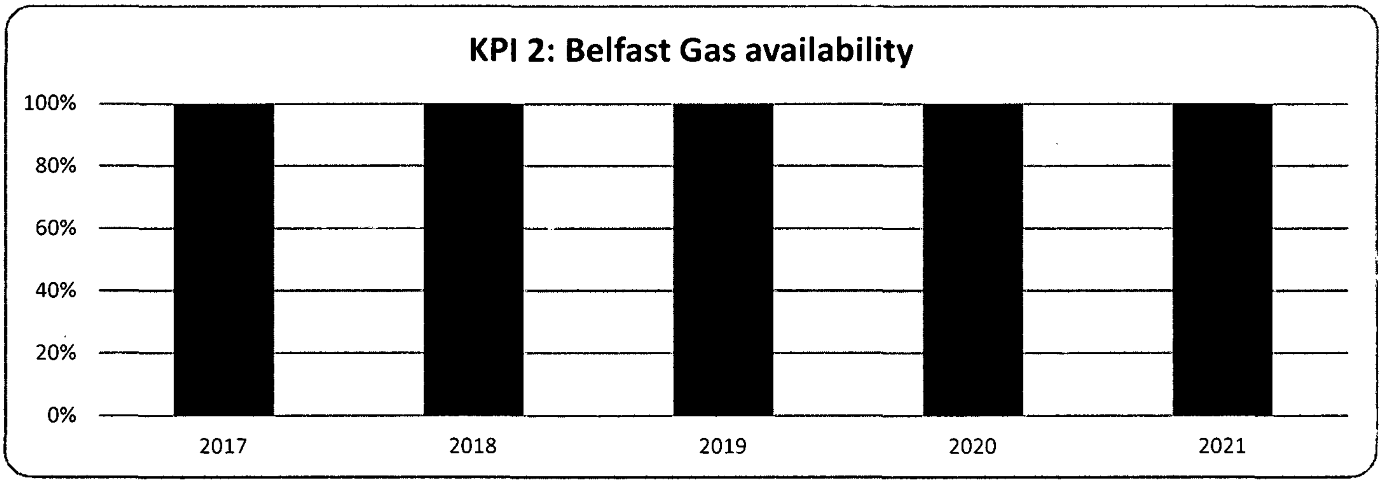
Gas business review

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

Operational performance

The current year saw the daily gas demand exceed the previous peak on three separate days with the new peak day demand now set at 7.08mscm/day on 10th February 2021. There were no supply issues in GB and no operational issues with our gas transmission network so we are very pleased to have maintained the availability of the gas system through the year at 100% (KPI 2). The expansion of the distribution sector continues apace with over 10,000 additional connections in the 9 months to 31 December 2020 (Q1 2021 was not available at the time of writing) with an approximate lifetime CO_2 emissions saving of over 100,000 tonnes. Although the distribution sector is growing, the annual consumption of gas for power generation sector has decreased with intermittent renewables contributing more to the electricity mix. That said, the peak daily requirement for power generation remains at the same levels on the days the renewables are not available. Our gas network must remain flexible to provide fuel for the power generation needed to complement the intermittent renewables. This flexibility will be tested further with the increasing reliance which will be placed upon the use of gas as a back-up fuel in the future, as seen by the formal connection request for circa 650MW of gas-powered plant at Kilroot. This will start to contribute to peak daily gas requirements from 2023 at which stage we envisage NI's peak day demand will exceed 8.08mscm/day, which our network makes available, and the second supply point into NI will be utilised on a commercial basis.

There were no lost time incidents in the year (KPI 4).



The restrictions resulting from the COVID-19 pandemic at the start of the financial year did cause some maintenance and inspections to be rescheduled, but all were completed by year end. Surveys of the submarine pipelines including the Belfast and Larne Lough crossings were unaffected and we actually employed a new more cost effective and innovative technique. We continued the roll out of the replacement control computers on the sites.

Financial performance

The combined gas business costs for Mutual Energy's subsidiaries (Premier Transmission, Belfast Gas Transmission and West Transmission) for the gas year ending on 30 September 2020 were £2.0m below the forecasts used for predicting tariffs (September 2019: £3.6m below) (KPI 3).

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

Strategic report for the year ended 31 March 2021 (continued)

Gas business review (continued)

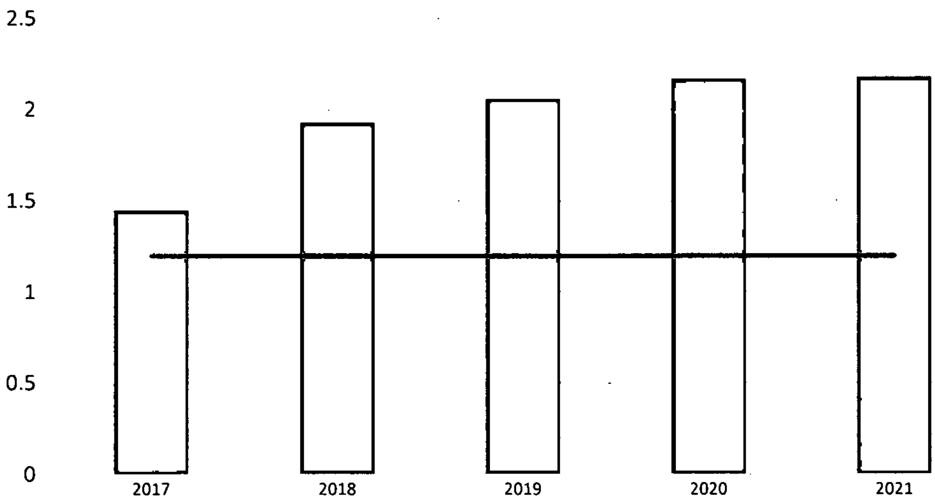
Strategic objective: Operate assets safely and cost effectively, outsourcing where appropriate (continued)

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 and is the cause of Belfast Gas Transmission's lower ADSCR in 2017.

The ADSCRs for the gas businesses can be seen in the following graph.

KPI 8: Belfast Gas ADSCR



	2017	2018	2019	2020	2021
Belfast Gas Transmission ADSCR	1.45	1.93	2.06	2.17	2.18
Belfast Gas Transmission minimum ADSCR	1.20	1.20	1.20	1.20	1.20

Future development – asset performance and utilisation

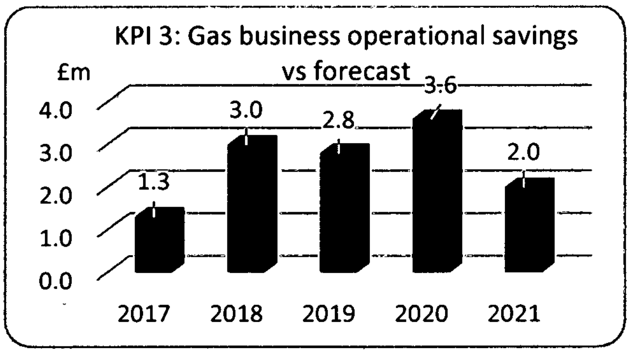
As we continue through our mid-life repair and refurbishment program we have replaced all the essential pre-heating systems on the network, with just one less critical system at Larne planned for 2023, as well as continuing the roll out of replacement of on-site control systems (which capture data from site and relay it to the control room), due to be completed 2022. As noted above, as the network changes we will begin to see a need for connections to our system for the first time under our ownership, starting with the new gas-fired power station at Kilroot.

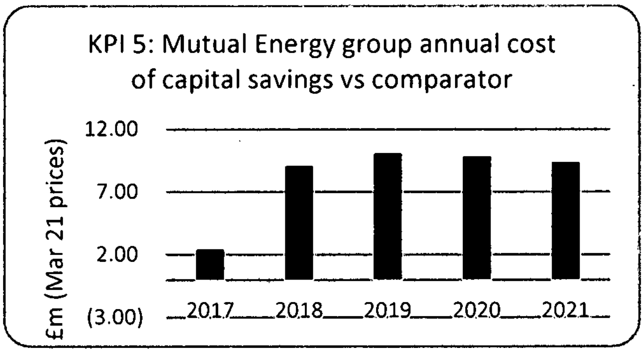
Strategic objective: Deliver savings to current and future consumers over the life of the assets

The COVID-19 pandemic was clearly a challenge to society as a whole, and gas shippers and customers were no exception. In the gas year 2019-20 the Utility Regulator (NIAUR) agreed to set aside £2.7m saved by the gas businesses to assist in the cash flow of our shippers should any shipper default in its payment obligations. We have agreed with NIAUR to review this reserve in 2023 to assess whether it should be retained.

Whilst savings against the forecasts and the use or return of these to shippers are very welcome, the main means by which the company delivers savings to the consumers in Northern Ireland is through providing a low cost of capital. The costs of the gas transmission assets are charged to the respective shippers through a "use of system" charge which happens automatically through the postalised transmission system charging methodology. The savings achieved due to our low costs of capital are therefore passed on to shippers, allowing them to charge the end consumer less for their gas. Overall gas business charges recovered from shippers in the 2019-20 gas year (excluding the new West Transmission assets) were 13% lower (2018-19: 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.

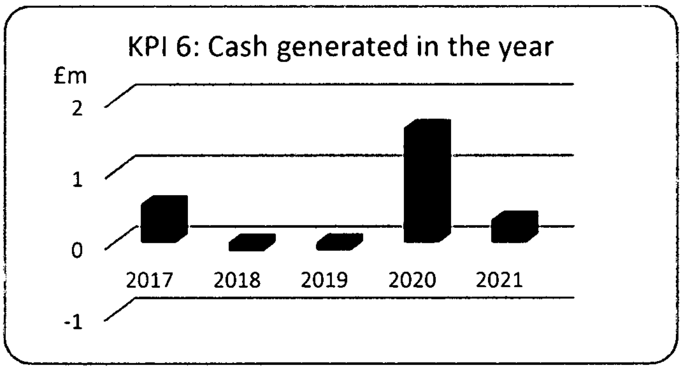
Year on year the business measures its progress with reference to the annual forecast provided for the tariff calculation, as shown in the following chart (KPI 3).





The Mutual Energy group passes further savings on to consumers through its low cost of capital. A way of measuring the benefit which will flow to consumers is to calculate the cost of capital savings for the Mutual Energy group compared to a Northern Ireland energy utility comparator (KPI 5). The chart above shows the annual savings in March 2021 prices over the last 5 years. Cumulative savings to 31 March 2021 have exceeded £140m.

KPI 6 shows the movement in the cash balance (including deposits and investments with maturity of less than 1 year) from the previous year.



The cash generated in 2021 reflects the agreement with NIAUR to set aside the additional reserve to help shipper liquidity in the event of a shipper defaulting.

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

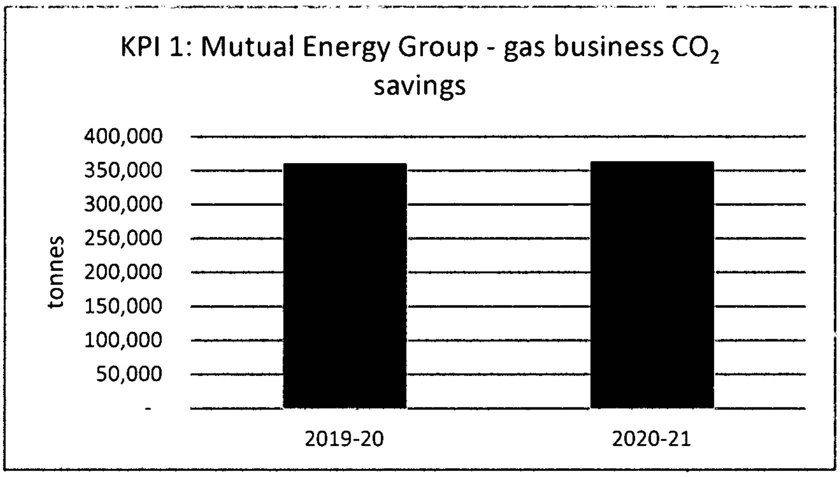
Strategic report for the year ended 31 March 2021 (continued)

Gas business review (continued)

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

Future development – energy transition

In recognition of the newly adopted strategy, MEL has developed a new KPI which measures the CO_2 savings which are facilitated by the MEL's gas businesses as outlined in the graph below (KPI 1). The facilitation of CO_2 savings by others is the key contribution MEL can make to achieving net zero. The direction of our efforts to facilitating replacement of higher CO_2 emitting fuels with lower CO_2 emitting fuels and transporting lower carbon energy, as measured by this KPI, will provide a benefit of many multiples the savings we can make in our own energy use.



Whilst the objective was only formally approved in January 2021, the business was already actively promoting decarbonisation and reducing CO_2. Our approach is to look first to facilitate higher CO_2 emitting sectors converting to lower CO_2 emitting gas and to progressively reduce the CO_2 content of the gas provided. During the year the gas system contributed over 360,000 tonnes saving out of the total monitored by KPI 1. We continue to follow the initiatives in GB and elsewhere to facilitate the energy transition. As Northern Ireland is still in the process of developing an energy strategy, the Utility Regulator has no legal framework to support regulated entities in making any substantive progress. We have, however, been working with other gas utilities in Northern Ireland to assist the regulator in catching up to provide a regime which will allow biogas to be injected onto the Northern Ireland network. This is relatively commonplace in GB and many European countries, and we are hopeful NIAUR will have a regime in place in 2021. We also recognise the long-term potential for the gas network to become key contributors to hard to decarbonise transport, such as HGVs or other heavy vehicles with prolonged daily use and are assisting developers in their discussions with NIAUR on prospective connections to the network for compressed natural gas (CNG) stations. Ultimately, we expect the gas networks to decarbonise over time with biogas and or hydrogen and it is heartening to see the first projects coming on stream, with NI Water's hydrogen electrolyser near our site at Knocknagoney and Translink's first four hydrogen buses. Whilst these are small steps and funded from the public sector we do hope that the Energy Strategy will facilitate the regulated utilities becoming involved and contributing their expertise in the near future.

There are four gas transportation companies in Northern Ireland (three of which are owned by Mutual Energy) and three gas distribution companies. The companies have come together to coordinate initiatives to promote decarbonisation and each now have dedicated energy transition teams. Such coordination will allow the siting of any facilities to support the reduction of transport emissions and receive biogas to be located on the most suitable network, whether that be transmission or distribution level. The companies have been able to work together to support NIAUR on the technical side of introducing biogas onto the network and each have been looking to identify suitable test sites for the deployment of hydrogen or hydrogen blends.

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

Future development – energy transition (continued)

Looking further afield MEL has signed up to the Hylight collaboration, bringing together research expertise from Dublin City University, National University of Ireland, Galway and University College Cork and practical expertise from key companies to assess the potential for hydrogen in Ireland.

Hylight project

MEL is involved in a collaborative research project involving three Irish universities and a number of industrial partners, all part funded by a grant from Science Foundation Ireland. The project will run for three years and cover a number of key areas essential to the hydrogen energy transition:

Hydrogen Production. Developing a description and business model for green hydrogen production on the Island of Ireland, from both a technical and economic perspective. It will identify suitable technologies, electrical grid services that can be provided, suitable production locations and scales. Technical barriers concerning the electricity grid, including constraints and curtailment, and the opportunity to overcome them with hydrogen will be examined.

Hydrogen Storage and Delivery. Documenting the engineering and economic descriptions of the means for storing and delivering hydrogen on the island of Ireland. Storage options include geological and pressurised/cryogenic tank storage, and conversion to hydrogen carriers (ammonia, liquid organics, power to gas, methanol). Delivery options include the natural gas network and trucks. With respect to the gas grid, constraints on hydrogen concentration limits in the grid will be explored, preferred gas grid injection sites will be identified and a technical hydrogen safety framework developed. For truck transport, optimal supply chains will be devised for large potential users.

Hydrogen Demand. Determining the evolving market and potential demand for hydrogen in Ireland in all energy applications, but especially the hard-to-abate sectors. This includes road transport (heavy goods vehicles, bus fleets, other fleet vehicles), trains, maritime and air transport (pure hydrogen and synthetic liquid fuels), high-temperature industrial heat, industrial chemical (including oil refining), feedstock, data centre backup and/or on-site generation, heat for residential and commercial applications for which direct electrification is not feasible, electrical demand-side management and export.

Hydrogen in the Irish Energy System. Examining the role of hydrogen in the Irish energy system as a whole, and specifically its potential to enable deep energy system sector integration. The relationships between hydrogen and onshore and offshore variable renewable capacities, electrification scenarios, future energy system demand, all-island greenhouse gas (GHG) emissions, all-island energy security, and future economic growth.

Hydrogen Policies, Social and Economic Aspects. Determining the policy environment necessary to maximise Irish energy system decarbonisation. Incentives, the role of carbon pricing, and the EU and global energy and environmental policy outlook will be considered. Issues of public perception and adoption will be incorporated. The national economic costs (infrastructure) and benefits (jobs, new industries) of large-scale hydrogen rollout will be explored.

Strategic report for the year ended 31 March 2021 (continued)

Gas business review (continued)

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

European energy regulation

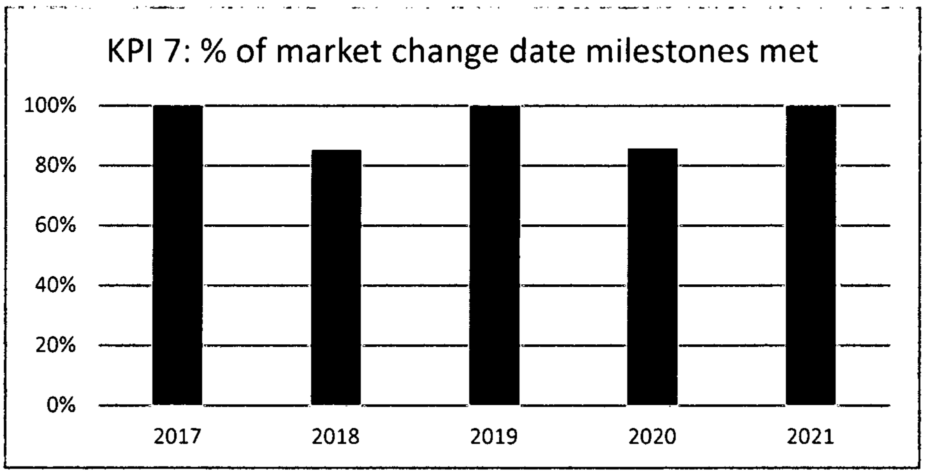
European legislation continues to be a driver for changes in our market arrangements and contracts with shippers. The relevant EU legislation has been transposed into UK legislation meaning that the gas businesses still have the obligation to implement the rules introduced as the part of the EU Gas Target Model. The first major deadline for implementation was October 2015, with others following until 2019. The gas businesses have achieved further compliance with the Balancing Network Code this year by reducing imbalance tolerances and aligning the charges shippers pay for imbalances with the specified limits. The gas businesses are awaiting a decision from the Utility Regulator on the approval of the Interim Measures Second Update Report submitted in 2018 and subsequently updated in 2019 and 2020. The lack of liquidity in Northern Ireland means that it not possible to introduce a trading platform as required under the Balancing Network Code without shippers incurring significant costs and receiving minimal benefit in return. Given the NI market's proximity to the GB market and that currently there is only one utilised source of gas, it is not anticipated there will be changes to the liquidity until there are major market changes such as a storage facility or frequent use of the South North Interconnection Point. The gas businesses will continue to implement the Balancing Network Code by monitoring liquidity within the Northern Ireland market as well as incorporating changes to the Northern Ireland balancing arrangements as required. Future adoption of changes to the existing regulations and new harmonised rules will be dependent on the outcome of the cooperation arrangements currently being put in place between the UK and EU.

Impact of Brexit

The transition period ended on 31st December 2020. As a result of the Northern Ireland protocol the business now has to report on the movement of gas between GB and Northern Ireland. The company continues to adopt an approach of complying fully with all EU obligations as transposed into UK legislation. In practice there is little change in ongoing operations flowing from Brexit.

The UK gas companies' membership of European Network of Transmission System Operators for Gas (ENTSOG) will cease in 2021 as required under the Trade and Cooperation Agreement (TCA). The TCA has outlined specific areas where all parties are obligated to cooperate. These include gas markets, security of supply and the efficient use of interconnectors. The long term relationship between UK gas companies and ENTSOG is being coordinated in collaboration with all the UK gas transmission companies with formal arrangements expected to be in place by the end of 2021.

The graph below shows the percentage of market changes which were implemented on time in each financial year (KPI 7).



2018 market changes included 3 connected tasks in relation to a Cost Benefit Analysis (CBA) in relation to information provision due on 1 October 2017. As the Gas Market Operator for Northern Ireland only became operational on this date the CBA was delayed to allow one year of operation of the new arrangements so that a CBA could be carried out under these modified arrangements. In 2020 all internal market change milestone were completed on time. In 2021, the imbalance tolerances and changes to imbalance prices were completed within the timescales outlined to industry and the Utility Regulator. There continue to be delays in the final stage milestones: the Utility Regulator has not yet approved of the Interim Measures Second Update Report (ongoing).

Strategic report for the year ended 31 March 2021 (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 AES Ballylumford, the connection with Gas Networks Ireland ('GNI') (NI) 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 18 shippers (2020: 18) are currently registered to use our gas system.

Partners and contractors

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

Regulators and government departments

MEL works closely with the Northern Ireland Authority for Utility Regulation and the Department for the Economy (DfE), where appropriate, to ensure that the interests of Northern Ireland's energy consumers are protected. MEL welcomes the commencement of DfE's new Energy Strategy and continues to work with the Department to determine how MEL 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 group has a fundamental community focus through its purpose: to own and operate energy infrastructure in the long-term interest of energy consumers in Northern Ireland. This is also reflected through all of our strategic objectives which include cost effective operation to deliver savings and minimise risks of market change to Northern Ireland consumers. More information on how the Group delivers these objectives can be found on pages 2 to 10.

The group also continues to consider its impact on the environment and remains committed to reducing our energy consumption and related emissions where possible, as well as reducing our wider impacts such as resource use and waste to landfill. MEL ensures robust Health & Safety systems are in place as discussed on page 14, 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. MEL is a member of Business in the Community and continues to explore options for positive improvements to our environment, community and workforce.

Strategic report for the year ended 31 March 2021 (continued)

Risk management

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

Risk management structure

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

The risk register records key risks identified and how they are being managed and is reviewed regularly by the board and the relevant board committees. This process has been in place for the full year ended 31 March 2021 and up to the date of approval of the annual report and financial statements.

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

The Board, Audit and Risk Committees 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 Board, during its annual review of the effectiveness of MEL'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. MEL completed a comprehensive review of the risk processes in use throughout the businesses for 2020/21 as part of our normal approach to drive improvements in all areas of the business, and will be implementing some changes during 2021/22. These changes will better record group risk appetite and change the allocation of responsibility between the Risk and Audit Committees.

The principal risks of MEL relevant to the Belfast Gas Transmission Group are:

Risk description and potential impact	**Mitigation**	**Assessment of risk movement from March 2020**
Operational risk		
Poor operational performance could result in impaired availability, damage to assets and/or reputation, injury to third party and/or employees, loss of revenue, loss of licence.	Experienced qualified maintenance subcontractors are used and are managed through the contractual process, frequent performance monitoring, and maintaining a high standard of eligibility for tendered work. Structured maintenance plans are followed. The Group promotes a strong health and safety culture, has a well-defined health and safety management system and follows industry standard practices.	➡
The failure to effectively manage talent, ensure appropriate training and resourcing, and plan for leadership succession could impede the realisation of strategic objectives. Ineffective processes or procedures could compromise the functioning of the business or affect the reliability of the assets.	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.	➡
Extraneous events such as damage caused by landowners or contractors, malicious interference such as cyber-attack or other outside factors including natural disasters which adversely affect the running of the business.	A business continuity plan is in place with key tasks identified and more than one individual trained in each. Helicopter and submarine surveys carried out at regular intervals to inspect the assets and cyber resilience testing carried out frequently with periodic engagement with relevant security organisations.	➡

Risk management (continued)

Risk description and potential impact	Mitigation	Assessment of risk movement from March 2020
Financial risk		
Poor financial management could result in breach of financing covenants, compliance failure or financial loss.	The Board reviews and agrees policies for addressing these compliance risks and senior management are specifically delegated the task of ensuring compliance.	➡
Inadequate financing, liquidity problems, non-compliance with covenants, market changes or failure of counterparties could lead to failure of financial structure.	Borrowing arrangements align the financing costs to the income allowances. Processes are in place to monitor covenant compliance and there is active management of market changes. Treasury policies are aimed at minimising the risks associated with the Group's financial assets and liabilities and financial counterparty failure clauses are included in financing documents. The Group has low liquidity risk due to its strong cash flows and the reserve accounts and liquidity facilities required by its financing documents. The required reserve accounts remain fully funded and £7m of liquidity facilities were in place throughout the year. Business planning processes are in place to identify cash requirements in advance.	➡
Business environment and market risk, including Brexit risk		
Market changes for gas in Northern Ireland could result in reduced volumes transported through the assets, insufficient revenue recovery, default on debt, damage to reputation of mutual model or fines.	Licence provisions implementing the postalised charges system in the gas business are designed to offset the impact of such changes. An influencing strategy is in place to positively impact market developments. Recent and future market development are discussed on pages 10. Risk has increased in the period due to the need for market changes to meet decarbonisation targets.	⬆
Regulatory and political risk		
As the Group consists primarily of regulated businesses it is exposed to regulatory risk. Changes in economic regulation or government policy could have an adverse effect on our financial position.	The Group's relationships with the Northern Ireland Authority for Utility Regulation (NIAUR) and DfE are managed at senior level through frequent meetings and correspondence in line with the Group's communication strategy. The Group coordinates with other EU system operators on EU issues. A proactive approach is taken to consultations on any issue which could affect the Group's business interests, with legal advice sought where appropriate. The risk assessment stabilised with the return of government in NI. Whilst this has had no direct adverse impact in the period the risk assessment is a recognition of potential unforeseen issues in the future.	➡
Corporate strategy and communication risk		
Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.	The Board retains responsibility for strategy as a reserved matter and manages communications directly in line with its communication plan, using outsourcing as appropriate.	➡

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

Strategic report for the year ended 31 March 2021 (continued)

Environment and safety

The Group continues to put a high value on the Health and Safety of its operations and to recognise the importance of minimising the impact of its activities on the environment, both locally and in the global context. The wellbeing of the Group's staff is considered extremely important to the business and particular focus was paid to this area in the year, given the potential impact of the COVID-19 pandemic on employees.

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

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

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

MEL 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.

Greenhouse gas emissions reporting

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

	2021	**2020**
Usage of gas (GWh)	**4.0**	3.2
Usage of gas in operations (tCO2e)	**737**	588
Gas intensity ratio - emissions per GWh gas transmitted to distribution networks	**0.10**	0.08

Methodology
The group is not required to prepare an Energy and Carbon Report as this is reported in the annual report of the Group's parent company, Mutual Energy Limited. The above information has been presented here voluntarily. The above reporting for Mutual Energy's gas businesses includes all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 and Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Emissions have been calculated using UK Government guidelines for conversion of natural gas and grid electricity. Scope 3 emissions have not been reported. It is not practical for the company to publish information in respect of its consumption of fuel for the purposes of transport, which consists only of fuel used in personal/hire cars for business use. All energy usage and emissions are in respect of UK operations.

In the prior year, reporting included emissions for a site, owned by Gas Networks Ireland, which supplies our network, however, since we do not have control over this site (either financial, operational or equity share), these figures are no longer included and have been removed from the prior year figures within the table above.

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

Strategic report for the year ended 31 March 2021 (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
1 July 2021

Directors' report for the year ended 31 March 2021

The directors present their annual report and the audited financial statements of the Group and Parent Company for the year ended 31 March 2021.

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 £1,832,000 (2020: £5,204,000). The directors do not recommend the payment of a dividend (2019: £nil).

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

Going concern

The Group has recurring accounting losses and accordingly net liabilities. In view of the structure of the Group from its initial set up, including the acquisition of Belfast Gas Transmission Limited and the issuing of a bond, the Group will make losses in earlier years, and profits in later years. It is expected that the Group will become profitable in 10-15 years' time, at which point the net liabilities position will begin to reverse. The Group is, however, cash generative and is forecast to remain cash positive over that 10-15 year period. The forecast cash generated is adequate to meet the Group's liabilities as they fall due over the next 12 months including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the Group being short of adequate cash to service the bond the market arrangements approved by the Northern Ireland Authority for Utility Regulation would ensure bond payments are made. Accordingly, in view of the above the directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

Directors

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

Patrick Larkin
Gerard McIlroy

Financial risk management

Please refer to note 20 to these financial statements for a description of the financial risks that the Group faces and how it addresses those risks.

Post balance sheet events

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

Directors' indemnities

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

Directors' report for the year ended 31 March 2021 (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 1 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 (2020: £nil).

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 Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and international accounting standards in conformity with the requirements of the Companies Act 2006 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 Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent 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 Parent 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 Parent 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 Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent 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 are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Directors' report for the year ended 31 March 2021 (continued)

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and international accounting standards in conformity with the requirements of the Companies Act 2006, 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 Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Auditor

In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forth-coming 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 1 July 2021
Director
First Floor
The Arena Building
85 Ormeau Road
Belfast
BT7 1SH

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Belfast Gas Transmission Financing plc ('the Company') and its consolidated undertakings ('the Group') for the year ended 31 March 2021 set out on pages 25 to 48, which comprise the consolidated statement of profit and loss and other comprehensive income, consolidated and parent company balance sheets, consolidated and parent company statement of changes in equity, consolidated and parent company cash flow statements and related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is UK Law, International Financial Reporting Standards (IFRS) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006;
- the Group financial statements have been prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were appointed as auditor by the directors on 17 December 2016. The period of total uninterrupted engagement is for the five financial years ended 31 March 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements, including the Financial Reporting Council (FRC) Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Conclusions relating to going concern

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

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

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

Conclusions relating to going concern (continued)

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

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Parent 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.

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

Detecting irregularities including fraud

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

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

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

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

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

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

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

Detecting irregularities including fraud *(continued)*

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

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

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

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

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

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

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

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

Key audit matters: our assessment of risks of material misstatement

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

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2020):

Group recoverability of intangible assets £77,086k (2020: £79,573k)
Parent Company recoverability of investment in subsidiary £112,384k (2020: £122,384k)

Refer to page 32 (accounting policy) and page 39 and 40 (financial disclosures)

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

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

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

The key audit matter	How the matter was addressed in our audit
67% of the Group's total assets (by value) consist of intangible assets in relation to the consolidation of its subsidiary, Belfast Gas Transmission Limited, for which no quoted market prices are available. 75% of the Parent Company's total assets (by value) consist of investment in its subsidiary for which no quoted market prices are available. There is a risk over the recoverability of the Group's intangible assets and the Parent Company's investments due to the carrying values not being supported by performance of the investment where economic conditions have negatively affected profitability, or where there are poor trading conditions. The Directors assess the intangible assets and the parent company's investment in the subsidiary for indicators of impairment annually and have assessed there to be no indicators of impairment in the current year.	Our procedures included: Assessing the Group and Parent Company's assessment of indicators of impairment. In assessing whether an indicator exists, the context of the overall lifecycle of the investment is relevant. We have considered the license and direction in place with the company's regulator in assessing the overall lifecycle of revenue and costs of the Group and Parent Company. Considering the agreements in place, we inspected the validity of the directors' conclusion that the funding mechanisms in place result in the operations of the Group and subsidiary (being the transmission of gas) returning at least a break-even position over the life of the operations. There is no event that is deemed to be anything other than remote which could lead to accumulated losses arising over the life of the project. We found that the director's assessment made in relation to the recoverability of the Group's intangible assets and the Parent Company's investment in its subsidiary and the related disclosures to be reasonable.

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

Materiality for the Group financial statements as a whole was set at £1,160k (2020: £122k), determined with reference to a benchmark of total assets, of which it represents 1% (2020: 1% of total expenses). We consider total assets to be the most appropriate benchmark as the group operates a 'Not for Profit' model which is asset intensive.

In addition, we applied materiality of £110k (2020: £122k) to revenue and direct third-party expenses for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could be reasonably expected to influence the Group's members' assessment of the financial performance of the group.

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

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

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

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

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

We set Group performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 75% of group materiality (2020: 75%).

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

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

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

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

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

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

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £58k, or £6k for revenue and direct third-party expenses, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Materiality for the Parent Company financial statement as a whole was set at £1,430k (2020: £79k) determined by reference to total assets, and represents 1% of the company's total assets (2020: 0.05%). We consider total assets to be the most appropriate benchmark as the company operates a 'Not for Profit' model which is asset intensive.

We set Parent Company performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Parent Company performance materiality was set at 75% of Company materiality (2020: 75%).

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

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

The group team approved the component materialities, which ranged from £310k to £1,430k (2020: £79k to £96k).

Of the group's two (2020: two) reporting components, we subjected two (2020: two) to full scope audits for group purposes. The work on the components was performed by the group team, including the audit of the Parent Company, at the group's offices in Belfast.

Other information

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

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

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

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

Opinions on other matters prescribed by the Companies Act 2006

Strategic report and directors' report

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 17, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group and Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Our report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Poole
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

[Date]

Consolidated statement of profit and loss and other comprehensive income for the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Revenue – continuing operations		**8,278**	8,133
Operating expenses	2	**(5,376)**	(5,341)
Operating profit		**2,902**	2,792
Finance income	4	**12**	64
Finance expenses	4	**(5,176)**	(6,928)
Finance expenses – net	4	**(5,164)**	(6,864)
Loss before income tax		**(2,262)**	(4,072)
Taxation	5	**430**	(1,132)
Loss and total comprehensive expense for the year attributable to the owners of the parent	13	**(1,832)**	(5,204)

All results arise from continuing operations.

The notes on pages 29 to 48 are an integral part of these consolidated financial statements.

Consolidated and Parent Company balance sheet as at 31 March 2021

		Group		Company	
		2021	2020	**2021**	2020
	Note	**£'000**	£'000	**£'000**	£'000
Assets					
Non-current assets					
Property, plant and equipment	7	**25,590**	26,053	**-**	-
Intangible assets	8	**77,086**	79,573	**-**	-
Investment in subsidiary undertaking	9	**-**	-	**112,384**	112,384
		102,676	105,626	**112,384**	112,384
Current assets					
Trade and other receivables	10	**1,599**	2,181	**37,406**	36,680
Cash and cash equivalents	11	**11,446**	11,129	**14**	50
		13,045	13,310	**37,420**	36,730
Total assets		**115,721**	118,936	**149,804**	149,114
Equity and liabilities					
Equity attributable to the owners of the parent					
Share Capital	12	**50**	50	**50**	50
Retained earnings	13	**(44,973)**	(43,141)	**14,258**	13,283
Total equity		**(44,923)**	(43,091)	**14,308**	13,333
Liabilities					
Non-current liabilities					
Interest bearing loans and borrowings	14	**134,237**	134,660	**133,225**	133,680
Deferred tax liabilities	16	**17,528**	18,008	**-**	-
Government grant	17	**5,153**	5,183	**-**	-
		156,918	157,851	**133,225**	133,680
Current liabilities					
Trade and other payables	18	**1,265**	1,769	**4**	13
Interest bearing loans and borrowings	14	**2,302**	2,119	**2,267**	2,088
Government grant	17	**159**	288	**-**	-
		3,726	4,176	**2,271**	2,101
Total liabilities		**160,644**	162,027	**135,496**	135,781
Total equity and liabilities		**115,721**	118,936	**149,804**	149,114

The notes on pages 29 to 48 are an integral part of these consolidated financial statements.

The Group financial statements on pages 25 to 48 were authorised for issue by the Board of Directors on 1st July 2021 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 2021

Group	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2019	50	(37,937)	(37,887)
Total comprehensive expense for the year	-	(5,204)	(5,204)
At 31 March 2020	50	(43,141)	(43,091)
Total comprehensive expense for the year	-	(1,832)	(1,832)
At 31 March 2021	**50**	**(44,973)**	**(44,923)**

Company	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 April 2019	50	11,946	11,996
Total comprehensive income for the year	-	1,337	1,337
At 31 March 2020	50	13,283	13,333
Total comprehensive income for the year	-	975	975
At 31 March 2021	**50**	**14,258**	**14,308**

The notes on pages 29 to 48 are an integral part of these consolidated financial statements.

Consolidated and Parent Company cash flow statements for the year ended 31 March 2021

		Group		Company	
	Note	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Cash flows from operating activities					
Loss before income tax		**(2,262)**	(4,072)	-	-
Adjustments for:					
Finance expense/(income) - net		**5,164**	6,864	**(19)**	(19)
Depreciation of property, plant and equipment	7	**817**	782	-	-
Amortisation of government grant	17	**(159)**	(287)	-	-
Loss on disposal of property, plant and equipment		**28**	327	-	-
Amortisation of intangible assets	8	**2,487**	2,487	-	-
Movement in trade and other receivables		**492**	18	**265**	1,006
Movement in trade and other payables		**(721)**	1,521	**(13)**	(1)
Income tax received		**253**	-	-	-
Net cash generated from operating activities		**6,099**	7,640	**233**	986
Cash flows from investing activities					
Interest received		**2**	62	-	2
Amounts received from related parties		-	-	**5,121**	4,226
Purchase of property, plant and equipment		**(306)**	(793)	-	-
Net cash generated (used in)/generated from investing activities		**(304)**	(731)	**5,121**	4,228
Cash flows from financing activities					
Interest paid		**(3,943)**	(3,868)	**(3,883)**	(3,809)
Repayment of borrowings		**(1,507)**	(1,405)	**(1,507)**	(1,405)
Lease payments		**(28)**	(28)	-	-
Net cash used in financing activities		**(5,478)**	(5,301)	**(5,390)**	(5,214)
Movement in cash and cash equivalents		**317**	1,608	**(36)**	-
Cash and cash equivalents at 1 April	11	**11,129**	9,521	**50**	50
Cash and cash equivalents at 31 March	11	**11,446**	11,129	**14**	50

The notes on pages 29 to 48 are an integral part of these consolidated financial statements.

Notes to the financial statements for the year ended 31 March 2021

1 Accounting policies and critical accounting estimates/judgements

General information

The Group's principal activity during the year was the financing and operation through its subsidiary of the Belfast Gas Transmission Pipeline which transports gas from Ballylumford to Greater Belfast and Larne. The Company is a public company limited by shares and incorporated, registered and domiciled in Northern Ireland. The registered number of the company is NI067348 and the address of its registered office is First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.

The Group financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. All of the Group and Parent Company's assets and liabilities are denominated in Sterling. The Group financial statements consolidate those of the Company and its subsidiary (together referred to as the "Group"). The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements were authorised for issue by the Board of Directors on 1 July 2021 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 International Financial Reporting Standards (IFRS) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the Company financial statements on the same basis. The financial statements have been prepared on a going concern basis, under the historical cost convention. The preparation of financial statements in conformity with Adopted IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 36.

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

Going concern

The Group has recurring accounting losses and accordingly net liabilities. In view of the structure of the Group from its initial set up, including the acquisition of Belfast Gas Transmission Limited and the issuing of a bond, the Group will make losses in earlier years, and profits in later years. It is expected that the Group will become profitable in 10-15 years' time, at which point the net liabilities position will begin to reverse. The Group is, however, cash generative and is forecast to remain cash positive over that 10-15 year period. The forecast cash generated is adequate to meet the Group's liabilities as they fall due over the 12 months from the date of approval of the financial statements including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the Group being short of adequate cash to service the bond the market arrangements approved by the Northern Ireland Authority for Utility Regulation would ensure bond payments are made. Accordingly, in view of the above the directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

New standards, amendments or interpretations

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

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform has been adopted from 1 April 2020.
- Amendments to IFRS 3: Definition of a Business has been adopted from 1 April 2020.
- Amendments to References to the Conceptual Framework in IFRS Standards.
- Amendments to IAS 1 and IAS 8: Definition of Material.

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

Notes to the financial statements for the year ended 31 March 2021

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

Adopted IFRS not yet applied

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

- IFRS 17 Insurance Contracts (effective date 1 January 2023)
- Deferred tax related to assets and liabilities arising from a single transaction (effective date 1 January 2023)
- Definition of accounting estimates (effective date 1 January 2023)
- Disclosure of accounting policies (amendments to IAS 1 and IFRS Practice Statement 2) (effective date 1 January 2023)
- Annual improvements to IFRS 2018-2020 (effective date 1 January 2022)
- Onerous contracts - cost of fulfilling a contract (effective date 1 January 2022)
- Property plant and equipment: proceeds before intended use (effective date 1 January 2022)
- Reference to the conceptual framework (effective date 1 January 2022)
- Classification of liabilities as current or non-current (effective date 1 January 2023)
- COVID-19 – related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) (effective date 1 April 2021)

There has been an IFRIC agenda decision on Hedging Variability in Cash Flows due to Real Interest Rates (IFRS 9) under consideration for a number of months and a decision has recently been sent to the International Accounting Standards Board for its approval. The agenda decision states that IFRIC do not believe that inflation can be identified as a distinct component of the interest cash flows in an instrument and, therefore, cannot be separated out for cashflow hedging purposes. We believe this decision may impact the Group's use of a real interest rate curve for estimating the fair value of the inflation linked bonds. The impact of the agenda decision is currently being considered and the Group's methodology for arriving at fair value is being reassessed to identify whether or not there is a more appropriate methodology that should be applied.

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 2021. 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.

Finance income and finance expenses

Finance income comprises interest income on funds invested and negative interest on leases. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance expenses comprise interest expense on borrowings. 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.

Notes to the financial statements for the year ended 31 March 2021

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

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 comprehensive income during the financial period in which they are incurred.

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

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

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

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

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

Leases

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

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

- the contract involves the use of an identified asset;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period; and
- the Group has the right to direct the use of the asset.

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 2021

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

Leases (continued)

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

Intangible assets

Acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. The remaining estimated useful lives of the licences are 31 years. The useful economic life of the licence is linked to the allowances to cover repayment of debts and is independent of the full term of the licence or the useful life of the assets.

Investments

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

Notes to the financial statements for the year ended 31 March 2021

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

Impairment of non-financial assets

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

Financial instruments

(i) Recognition and initial measurement

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

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

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

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

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

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

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

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

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

Notes to the financial statements for the year ended 31 March 2021

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 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 2021

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.

Financial liabilities at amortised cost (financial instruments)

(a) Borrowings

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

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

(b) Trade and other payables

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

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

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 goodwill; 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.

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

Notes to the financial statements for the year ended 31 March 2021

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.

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 34.5 years (2020: 35.5) years at the beginning of the year. If the remaining useful economic life had been assessed at 35.5 years (2020: 36.5) years depreciation would have decreased by £19,000 (2020: £19,000) and if the remaining useful economic life had been assessed at 33.5 years (2020: 34.5) years depreciation would have increased by £20,000 (2020: £20,000).

The remaining useful economic life of the licences was determined as approximately 32 (2020: 33) years at the beginning of the year. If the remaining useful economic life had been assessed at 33 (2020: 34) years amortisation would have decreased £75,000 (2020: £73,000) and if the remaining useful economic life had been assessed at 31 (2020: 32) years amortisation would have increased by £80,000 (2020: £78,000).

Judgements made in the implementation of IFRS 16 Leases

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

Notes to the financial statements for the year ended 31 March 2021

2 Operating expenses

Group	2021 £'000	2020 £'000
Depreciation and amortisation (excluding right-of-use assets)	**3,270**	3,239
Depreciation of right-of-use assets	**34**	30
Loss on disposal of tangible assets	**28**	327
Amortisation of deferred government grant	**(159)**	(287)
Auditors' remuneration:		
Audit of these financial statements	**3**	3
Audit of financial statements of subsidiary	**7**	6
Other services	**2**	2
Maintenance and insurance	**649**	740
Other expenses	**1,542**	1,281
Total operating expenses	**5,376**	5,341

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

3 Staff numbers and costs

The Group and Company have no employees other than its directors (2020: 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:

	2021 £'000	2020 £'000
Directors' emoluments		
Aggregate emoluments	**25**	33
Contributions paid to defined contribution pension scheme	**1**	2
	26	35

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

4 Finance income and expense

Group	2021 £'000	2020 £'000
Finance expense:		
Bank charges	**62**	59
Borrowings (including borrowing fees)	**5,114**	6,869
Finance expense	**5,176**	6,928
Finance income:		
Short-term bank deposits	**-**	(60)
Lease interest	**(12)**	(4)
Finance income	**(12)**	(64)
Finance expense - net	**5,164**	6,864

Notes to the financial statements for the year ended 31 March 2021

5 Taxation

Group Recognised in profit and loss	2021 £'000	2020 £'000
Current income tax:		
Group relief surrendered	**50**	(684)
Adjustments in respect of prior years	-	3
Total current income tax	**50**	(681)
Deferred income tax:		
Origination and reversal of temporary differences	**(480)**	(90)
Adjustments in respect of prior years	-	(2)
Change in deferred tax rate	-	1,905
Total deferred income tax (note 16)	**(480)**	1,813
Income tax (credit)/charge	**(430)**	1,132

The income tax (credit)/ charge in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are reconciled below:

Reconciliation of effective tax rate	2021 £'000	2020 £'000
Loss before income tax	**(2,262)**	(4,072)
Tax calculated at the UK standard rate of corporation tax of 19% (2020: 19%)	**(430)**	(774)
Effects of:		
Change in deferred tax rate	-	1,905
Adjustments in respect of prior years	-	1
Income tax	**(430)**	1,132

Future tax changes

The Finance Bill 2020 confirmed that the rate of corporation tax would remain at the rate of 19% from 1 April 2020 and this is the rate at which deferred tax has been provided. The Finance Bill 2021 announced an increase in the rate of corporation tax from April 2023 to 25%. This Finance Bill was substantively enacted on 24 May 2021 and does not impact these accounts as this was post the balance sheet date. Deferred tax balances are likely to increase significantly in 2022 as a result of this change (see note 16).

6 Profit attributable to members of the parent company

As permitted by Section 408 the Companies Act 2006, the Parent Company's statement of comprehensive income has not been included in these financial statements. The profit dealt with in the financial statements of the Parent Company is £975,000 (2020: £1,337,000).

Notes to the financial statements for the year ended 31 March 2021

7 Property, plant and equipment

Group Cost	Pipeline £'000	Plant and machinery £'000	Right-of-use assets £'000	Total £'000
Balance at 1 April 2019	38,241	706	577	39,524
Additions	-	793	474	1,267
Disposals	(738)	-	-	(738)
At 31 March 2020	37,503	1,499	1,051	40,053
Additions	-	306	76	382
Disposals	(66)	-	-	(66)
At 31 March 2021	37,437	1,805	1,127	40,369
Accumulated depreciation				
At 1 April 2019	13,527	102	-	13,629
Depreciation charge for the year	696	56	30	782
Disposals	(411)	-	-	(411)
At 31 March 2020	13,812	158	30	14,000
Depreciation charge for the year	687	96	34	817
Disposals	(38)	-	-	(38)
At 31 March 2021	14,461	254	64	14,779
Net book value				
At 31 March 2021	**22,976**	**1,551**	**1,063**	**25,590**
At 1 April 2020	23,691	1,341	1,021	26,053
At 1 April 2019	24,714	604	577	25,895

Depreciation expense of £817,000 (2020: £782,000) has been fully charged to operating costs. Borrowings of the Company are secured on the property, plant and equipment of the Group.

8 Intangible assets

Group Cost	Licences £'000
At 1 April 2019, 31 March 2020 and **at 31 March 2021**	**109,413**
Accumulated amortisation	
At 1 April 2019	27,353
Amortisation for the year	2,487
At 31 March 2020	29,840
Amortisation for the year	2,487
At 31 March 2021	**32,327**
Net book value	
At 31 March 2021	**77,086**
At 31 March 2020	79,573
At 1 April 2019	82,060

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 2021, of 31 years (32 years as at 31 March 2020).

Amortisation expense of £2,487,000 (2020: £2,487,000) has been fully charged to operating costs.

Notes to the financial statements for the year ended 31 March 2021

9 Investment in subsidiary undertaking

Company	£'000
Cost and carrying amount	
At 1 April 2019, 31 March 2020 and **at 31 March 2021**	**112,384**

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

The Company's subsidiary undertaking, which is incorporated in Northern Ireland and whose registered address is First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH, is:

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

10 Trade and other receivables

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Trade receivables	**1,189**	1,034	-	-
Trade and other receivables due from related parties	**184**	221	**37,270**	36,535
Prepayments	**225**	230	**133**	140
Accrued income	-	586	-	1
Other receivables	**1**	110	**3**	4
	1,599	2,181	**37,406**	36,680

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 (2020: £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 £36,258,000 (2020: £35,340,000) which carries interest at a rate of 2.207% (2020: 2.207%). All other amounts owed to related parties are interest free.

11 Cash and cash equivalents

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Cash and cash equivalents	**11,446**	11,129	**14**	50

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

Notes to the financial statements for the year ended 31 March 2021

12 Share Capital

Group and Company	**2021 £'000**	2020 £'000
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	**50**	50

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

13 Retained earnings

Group	£'000
At 1 April 2019	(37,937)
Total comprehensive loss for the year	(5,204)
At 31 March 2020	(43,141)
Total comprehensive loss for the year	(1,832)
At 31 March 2021	**(44,973)**

Company	£'000
At 1 April 2019	11,946
Total comprehensive income for the year	1,337
At 31 March 2020	13,283
Total comprehensive income for the year	975
At 31 March 2021	**14,258**

14 Interest bearing loans and borrowings

	Group		Company	
Group	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Non-current				
2.207% Index linked guaranteed secured bond	**133,225**	133,680	**133,225**	133,680
Lease liabilities	**1,012**	980	-	-
Total Non-current	**134,237**	134,660	**133,225**	133,680
Current				
2.207% Index linked guaranteed secured bond	**2,267**	2,088	**2,267**	2,088
Lease liabilities	**35**	31	-	-
Total Current	**2,302**	2,119	**2,267**	2,088
Total borrowings	**136,539**	136,779	**135,492**	135,768

Notes to the financial statements for the year ended 31 March 2021

14 Interest bearing loans and borrowings (continued)

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 2019	134,113	-	134,113	134,113
Changes from financing cash flows				
Repayment of borrowings	(1,405)	-	(1,405)	(1,405)
Lease payments	-	(28)	(28)	-
Interest paid	(3,809)	-	(3,809)	(3,809)
Total changes from financing cash flows	(5,214)	(28)	(5,242)	(5,214)
Non cash changes				
Interest expense	6,869	-	6,869	6,869
Lease recognised upon adoption of IFRS16	-	568	568	-
Increased lease payments	-	475	475	-
Lease interest income	-	(4)	(4)	-
Total non cash changes	6,869	1,039	7,908	6,869
Balance at 31 March 2020	135,768	1,011	136,779	135,768
Changes from financing cash flows				
Repayment of borrowings	(1,507)	-	(1,507)	(1,507)
Lease payments	-	(28)	(28)	-
Interest paid	(3,883)	-	(3,883)	(3,883)
Total changes from financing cash flows	(5,390)	(28)	(5,418)	(5,390)
Non cash changes				
Interest expense	5,114	-	5,114	5,114
Increased lease payments	-	76	76	-
Lease interest income	-	(12)	(12)	-
Total non cash changes	5,114	64	5,178	5,114
Balance at 31 March 2021	**135,492**	**1,047**	**136,539**	**135,492**

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 £212,654,000 (2020: £194,067,000). This fair value has been calculated by discounting the future contracted interest cash flows using a discount rate of -0.90% (2020: -0.20%) 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 £196,861,000/ £230,150,000 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 2.08%. The undiscounted maturity profile of the Group's and the Company's borrowings are shown in note 20.

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

Notes to the financial statements for the year ended 31 March 2021

15 Leases

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

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

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

Right-of-use assets

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

Amounts recognised in the profit or loss

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

Group	**2021** **£'000**	2020 £'000
Depreciation expense in respect of right-of-use assets	**34**	30
Lease liabilities interest income	**(12)**	(4)

Amounts recognised in statement of cash flows

Group	**2021** **£'000**	2020 £'000
Total cash outflow for leases	**28**	28

Notes to the financial statements for the year ended 31 March 2021

16 Deferred tax assets and liabilities

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

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Deferred tax liabilities	**17,528**	18,008	-	-

Movement in deferred tax during the year:

	Group	Company
	£'000	£'000
At 1 April 2019	16,195	(248)
Recognised in profit and loss	1,813	248
At 31 March 2020	18,008	-
Recognised in profit and loss	(480)	-
At 31 March 2021	**17,528**	-

Group	Losses £'000	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Total £'000
At 1 April 2019	(248)	2,493	13,950	16,195
Recognised in profit and loss	248	397	1,168	1,813
At 31 March 2020	-	2,890	15,118	18,008
Recognised in profit and loss	-	(8)	(472)	(480)
At 31 March 2021	-	**2,882**	**14,646**	**17,528**

Company	Losses £'000
At 1 April 2019	(248)
Recognised in profit and loss	248
At 31 March 2020 and **at 31 March 2021**	-

The Group and Company have a further £11,027,166 (2020: £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 £2,095,162 (2020: £2,095,162) has not been recognised as it is more likely than not that the Group and Company will not make sufficient taxable profits from the same trade, from which the tax losses can be deducted.

The portion of the Group's deferred tax liability arising from intangible assets that is expected to fall due after more than 12 months is £14,174,000 (2020: £14,645,000). It is not possible to determine the portion of the Group's deferred tax liability arising from accelerated capital allowances that is expected to fall due after more than 12 months as this is dependent on future profits and management decisions.

Notes to the financial statements for the year ended 31 March 2021

17 Government grant

Group	£'000
At 1 April 2019	5,758
Amortised during the year	(287)
At 31 March 2020	5,471
Amortised during the year	(159)
At 31 March 2021	**5,312**

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 (2020: £288,000) and the non-current portion is £5,153,000 (2020: £5,183,000).

18 Trade and other payables

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Trade payables	**-**	21	**-**	8
Trade payables due to related parties	**503**	1,071	**-**	-
Taxation and social security	**601**	484	**-**	-
Other payables	**10**	10	**-**	-
Accruals	**80**	183	**4**	5
Deferred income	**71**	-	**-**	-
	1,265	1,769	**4**	13

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 2021

19 Related party transactions

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

During the year the Group entered into transactions, in the ordinary course of business, with related parties. Transactions entered into, and balances outstanding at 31 March with related parties, are as follows:

	Amount owed to/from related party	
	2021	2020
Group	**£'000**	£'000
Parent undertakings – current assets	**38**	12
Fellow subsidiary undertakings – current assets	**146**	209
Parent undertakings – current liabilities	**(57)**	-
Fellow subsidiary undertakings – current liabilities	**(446)**	(1,071)

		Value of transaction	
		2021	2020
Group	**Nature of transaction**	**£'000**	£'000
Parent undertakings	Charges payable	**(115)**	(161)
Parent undertakings	Group relief claimed	**50**	3
Fellow subsidiary undertakings	Group relief surrendered	**-**	684
Fellow subsidiary undertakings	Charges payable	**(1,189)**	(1,632)

	Amount owed (to)/from related party	
	2021	2020
Company	**£'000**	£'000
Subsidiary undertaking – current assets	**37,232**	36,245
Parent undertaking – current assets	**38**	34
Fellow subsidiary undertakings – current assets	**-**	256

		Value of transaction	
		2021	2020
Company	**Nature of transaction**	**£'000**	£'000
Parent undertaking	Group relief claimed	**-**	3
Fellow subsidiary undertakings	Group relief surrendered	**975**	684
Subsidiary undertaking	Group relief surrendered	**-**	905
Subsidiary undertaking	Interest receivable	**5,134**	6,884

Key management compensation

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

Notes to the financial statements for the year ended 31 March 2021

20 Financial instruments

The Group's and Company's financial instruments are classified as follows:

Assets and liabilities	Category of financial instrument
Trade and other receivables	Financial assets at amortised cost
Cash and cash equivalents	Financial assets at amortised cost
Interest bearing loans and borrowings	Financial liabilities at amortised cost
Trade and other payables	Financial liabilities at amortised cost

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

As at 31 March 2021 Group	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.207% bond	5,245	5,352	5,458	5,566	5,678	158,084	185,383
Lease liabilities	35	35	35	34	34	874	1,047
Trade and other payables*	593	-	-	-	-	-	593
	5,873	5,387	5,493	5,600	5,712	158,958	187,023

As at 31 March 2020 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	5,074	5,175	5,280	5,385	5,492	161,571	187,977
Lease liabilities	28	28	28	28	28	809	949
Trade and other payables*	1,285	-	-	-	-	-	1,285
	6,387	5,203	5,308	5,413	5,520	162,380	190,211

As at 31 March 2021 Company	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.207% bond	5,245	5,352	5,458	5,566	5,678	158,084	185,383
Trade and other payables	4	-	-	-	-	-	4
	5,249	5,352	5,458	5,566	5,678	158,084	185,387

As at 31 March 2020 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	5,074	5,175	5,280	5,385	5,492	161,571	187,977
Trade and other payables	13	-	-	-	-	-	13
	5,087	5,175	5,280	5,385	5,492	161,571	187,990

*The Group's Trade and other payables excludes deferred income and taxation and social security.

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 costs, loss and equity during the year by £1,387,000 (2020: £1,351,000). A recurring annual retail price index of 2% would increase the total repayments on the 2.207% bond by £117,694,000 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 2021

20 Financial instruments (continued)

Financial risk factors (continued)

(a) Market risk (continued)

Under the terms of its licence agreement the Group receives sufficient revenue to settle its operating costs and its repayments of borrowings. Accordingly the Group does not need to actively manage its exposure to interest rate risk.

(b) Credit risk

The Group has limited exposure to credit risk as its customers are high profile gas suppliers, who are reliant on the use of the Group's transmission assets. Given the nature of the industry in which the Group operates, its customers are regulated by the Northern Ireland Authority for Utility Regulation. The Group's trade and other receivables, including amounts due from related parties, are not impaired or past due and management does not expect any losses from non-performance by its customers.

(c) Liquidity risk

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

Capital risk management

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

21 Ultimate parent undertaking

The immediate parent undertaking is Belfast Gas Transmission Holdings Limited, a company incorporated in Northern Ireland and whose registered address is First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH. Group financial statements for this company are not prepared.

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

22 Subsequent events

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