mutualenergy

A **Northern Ireland** company
working for **consumers**

2017

ANNUAL REPORT AND ACCOUNTS

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Contents

A **Northern Ireland** company working for **consumers**

Regina Finn, Chairman

2017 saw significant progress – both on our flagship projects and on the efficient management and running of our core business.

Along with our partners, SGN, we celebrated an important milestone in our high profile project to deliver gas to the west of Northern Ireland when the Maydown site, which feeds Strabane, became fully operational in mid-January 2017. The rest of this strategically critical project is also progressing well with designs agreed, planning submitted and approved and key contracts placed. The project is on track to deliver gas to the main leg of the development in late 2018, and by bringing gas to 7 towns in the west of Northern Ireland, will help support economic growth and business as well as giving retail customers important choice and diversity of energy sources.

Just as important was the completion of the project to replace the Moyle Interconnector return cables. The project, which had considerable engineering, commercial and management challenges, was completed on time and well within budget. We are proud that with over 250,000 man hours worked there were no lost time accidents, reflecting our strong commitment to health and safety.

Whilst these high profile projects have been clearly visible, they could not have been successfully progressed without an unrelenting focus on delivering our core business to the highest standards. Our business model involves working closely with our partners who provide much of our operational resource, and we renewed or extended many of our critical contracts during the year including Moyle's long-term maintenance agreement (LTMA), the gas businesses' maintenance and emergency response contract (MERC) and our group audit and tax contracts. Because ensuring the health and resilience of our assets is critical to our core business, we were pleased to complete the submarine surveys of our assets during the year. We also successfully installed a new boiler house at Belfast Gas' Torytown site.

Energy markets around the world are changing in response to developments such as increased penetration of renewable generation and the development of distributed generation and our market is no exception. This is affecting how electricity networks are used and how they can recover their costs. We have sought out new opportunities in this changing environment and have successfully concluded new agreements for services to the grid, such as providing flexibility and capacity. This increases our revenue stream from these types of services and will ultimately reduce the income that will need to be recovered from consumers. The final payments from our insurers in connection with the low voltage cable faults on the Moyle cable were also received during the year and this too contributes towards keeping down the amount we need to collect from consumers.

There are more changes ahead driven by: the need to comply with EU rules; the requirements to develop the new all-island electricity market (I-SEM); and the Northern Ireland regulator's requirement for a single Gas Market Operator (GMO) to be established. This places considerable new demands on the business and we are pleased that the team's hard work has resulted in the gas business meeting all of its October 2016 compliance deadlines, as well as making good progress towards the establishment of the GMO that is due to commence operation in October 2017. We continue to work with stakeholders to influence the design of the I-SEM to protect our business position and as a result, the interests of Northern Ireland electricity consumers.

With so much good progress during the year we were very disappointed to experience a further Moyle cable fault in February 2017. The fault is of a different nature to the previous faults, occurring in the vicinity of a joint on the high voltage cable, rather than in the low voltage cables which were the source of the previous faults. Although different in nature, we were able to use our considerable expertise gained from the previous faults to rapidly put in place a repair plan. The first phase of these works - the de-burying and cutting of the cable – was successfully completed in May 2017. Our aim is to complete the repair and restore the cable to full capacity by Autumn 2017.

The hard work and commitment of the Mutual team – both on the high profile projects and on the core business – has continued to impress me, and my Board colleagues, throughout the year. I am grateful also for the vigilance and dedication of our members as they hold the business to account for delivering for Northern Ireland consumers. I would like to thank our partners and contractors, our wider stakeholders including the teams at the Regulator and Department of the Economy, and my Board colleagues for their continued commitment and support. I want to note in particular the outstanding contribution of Stephen Kirkpatrick, Non-Executive Director and Chair of our Audit Committee, who left in September 2016 after a highly successful two terms on the Board.

Regina Finn

26 June 2017

Regina Finn

Our strategy and business model

Our purpose

To own and operate energy infrastructure in the long term interest of Northern Ireland energy consumers

Our strategy

1. Operate assets safely and cost effectively, outsourcing where appropiate
2. Deliver savings to all Northern Ireland consumers evenly over the life of the assets
3. Manage market changes to minimise risks to the NI consumer
4. Acquire stable energy infrastructure assets at low cost to the consumer

Our strategy and performance measures are discussed in more detail on pages 10 to 11

Our business model

What we do

Mutual Energy group owns and operates both gas and electricity assets and operates businesses providing services to the main asset companies.

- Operation of assets See pages 12&17
- Cost savings See pages 14&18
- Market environment See pages 15&19
- Infrastructure acquisition See page 20

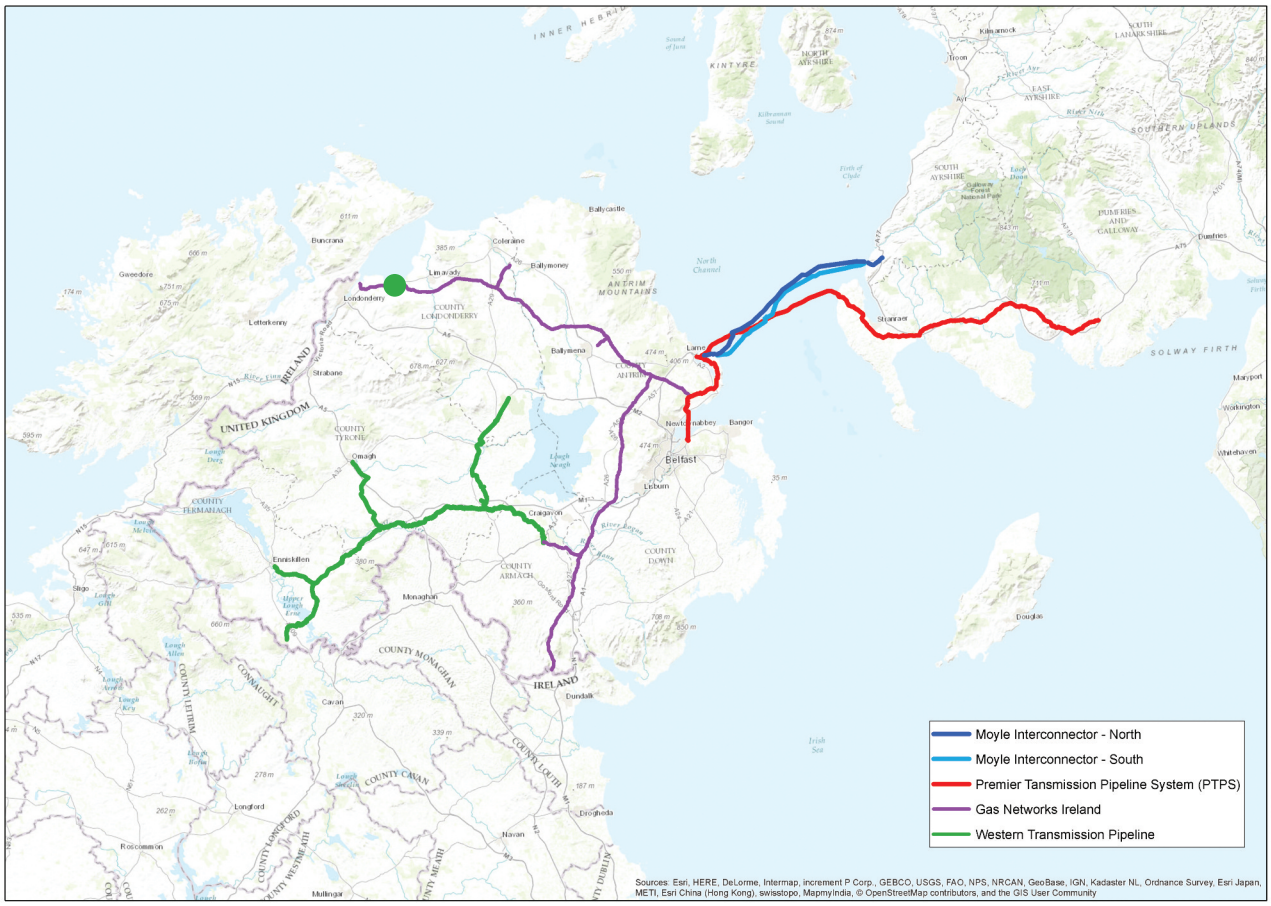
How we do it

Mutual Energy operates using a mutual model to manage assets for the benefit of energy consumers in Northern Ireland.

- Business structure See pages 8-9
- Governance structure See pages 28-32
- Risk management See pages 24-25
- Executive remuneration See pages 33-44

Business structure

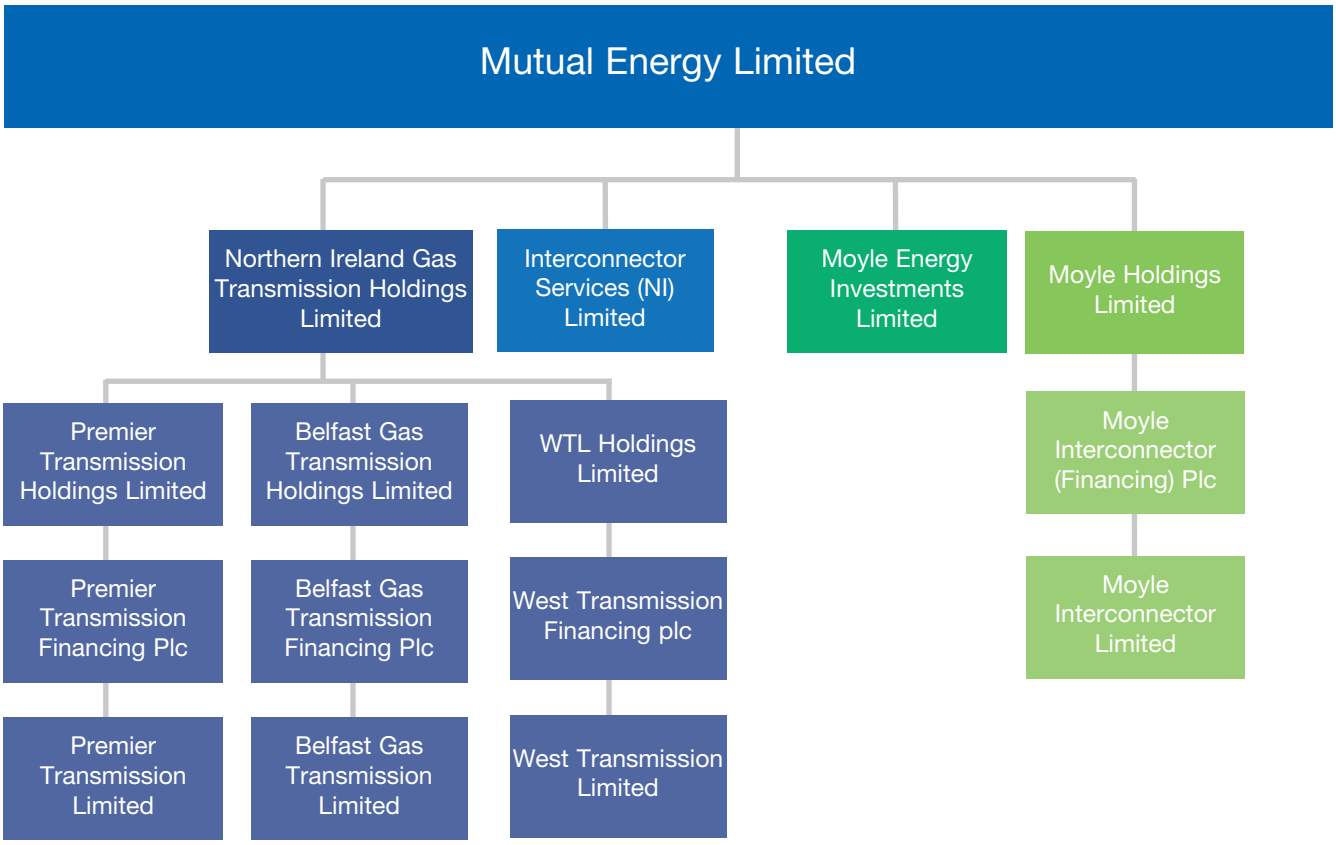
Mutual Energy owns and operates the Moyle Interconnector (Moyle) which links the electricity systems of Northern Ireland and Scotland, and the Premier Transmission Pipeline System (PTPS), which consists of the Scotland to Northern Ireland natural gas transmission pipeline (SNIP) and the Belfast Gas Transmission Pipeline (BGTP) operated by Premier Transmission Limited and Belfast Gas Transmission Limited respectively. These strategically important assets provide vital energy links with Great Britain, and Mutual Energy aims to manage them to the highest standards of safety, reliability and efficiency. The group, through West Transmission Limited, is in the process of extending the Northern Ireland gas network to the western part of Northern Ireland. More detail on this is available in the infrastructure acquisition section on page 20.



Mutual Energy's existing transmission assets.

Mutual Energy is a company limited by guarantee with no shareholders, commonly known as a mutual. The mutual model and our licence structures are attractive to long term stable investors, enabling the company to operate without equity and therefore allowing a lower cost of capital than would otherwise be the case. The bonds held by the group have obtained real interest rates of between 2.207% and 2.9376%.

The group's principal stakeholders are the energy consumers of Northern Ireland and the financiers of its debt-financed subsidiaries. The group's structure can be seen in the diagram below:



As well as each main operating company and their respective financing and holding companies, the group includes Moyle Energy Investments Limited and Interconnector Services (NI) Limited. Moyle Energy Investments manages the longer term cash reserves of the Moyle business and Interconnector Services provides services to the operational assets of the group where savings can be achieved by combining the provision of these services.

The principal risks affecting the business are discussed on page 24. More information regarding our customers, stakeholders and staff can be found on page 21.

Strategic objectives

Our strategy is made up of four key elements:

OUR OBJECTIVE	HOW DO WE DELIVER?	HOW DO WE MEASURE SUCCESS?
Operate assets safely and cost effectively, outsourcing where appropriate	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. Further information on asset operation can be found on pages 12 and 17.	Our key success measures include: • Availability targets for our assets (KPI 1); • Operational savings against forecast (KPI 2); • Lost time incidents (KPI 3); • Detailed maintenance and contracting milestones which are monitored at contract meetings; and • Detailed monthly budgets which are monitored over a rolling five year horizon.
Deliver savings to all Northern Ireland consumers evenly over the life of the assets	Group strategy involves returning all savings or cash surpluses to the generality of Northern Ireland consumers as evenly as possible over the life of the assets. In doing so, where possible, we seek to build up reserves to smooth future cash flows and minimise energy price increases and fluctuations associated with our assets. Where appropriate, reserves will be used to provide capital for future investments. Cost smoothing is discussed in more detail on page 18.	Our key measures of success include: • Operational savings against forecast (KPI 2); • Cash reinvested to avoid charging consumers (KPI 4); and • Cash generated from operations (KPI 5).
Manage market changes to minimise risks to the NI consumer	Our key focus is to ensure, so far as possible, that changes driven by EU, national or other 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 EU 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 pages 15 and 19.	Our measures of success include: • Avoidance of changes which would compromise the financing structures of the group; • Monitoring of individual projects against initial objectives and implementation plans with milestone dates; and • The number of code modifications issued (KPI 6).
Acquire stable energy infrastructure assets at low cost to the consumer	Acquire stable energy infrastructure assets at low cost to the consumer The group looks to acquire stable energy infrastructure assets which it can own and operate at lower cost than otherwise would be the case to benefit consumers. We achieve lower cost through a long term reduced cost of capital and operating efficiencies. Delivery involves: • the assessment of potential assets, both acquisition and new build, on an ongoing basis; • the development of working relationships with potential partners and developers; and • continued innovation in reviewing financing and licencing structures to ensure low cost to the consumer. This objective is discussed in more detail on page 20.	• Success is measured with reference to the quality of the projects brought to the board as potential opportunities to develop; • The progress of individual projects is measured against project-specific milestones; • In acquiring assets the group will not overpay the going market rate; and • Compliance with key covenants on our existing asset base is measured as a KPI for maintaining investor confidence (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. 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. Graphs showing availability can be found on pages 12 and 17.	**Availability** Availability is calculated as the number of hours available (excluding upstream outages) x capacity available / total plant capacity under connection agreements x the number of hours in the year.
2. Operational savings against forecast For the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs. Operational savings vs forecasts for the gas businesses are shown on page 14.	**Operational savings against forecast** The KPI for gas business operational savings is calculated by subtracting the actual agreed revenue for the gas year, calculated in accordance with the gas companies' licences, from the forecast required revenue submitted in advance of the year.
3. Lost time incidents Our safety is measured by the safe operation of our staff and contractors as noted on pages 12 and 17.	**Lost time incidents** Lost time incidents are calculated as the number of lost time incidents per 100,000 hours worked by staff and contractors.
4. Cash reinvested to reduce charge to consumers Cash reinvested in the business to reduce the direct charge to consumers for the provision of the Moyle Interconnector asset. Cash reinvested to avoid charging consumers can be seen on page 18.	**Cash reinvested to avoid charging consumers** The Moyle Interconnector can charge consumers for the benefit of the interconnector through their electricity bill, in a similar way that other electricity infrastructure is charged. The KPI is the cash actually transferred into the current account to reduce the charge to consumers.
5. Cash generated from operations Cash generated in each of the businesses which will be used to avoid future charges to consumers. Cash generated in the gas and electricity businesses can be seen in the graphs on pages 14 and 18.	**Cash generated from operations** Cash generated in each of the businesses post tax.
6. Code modifications issued The number of code modifications issued are monitored as these are a measure of progress in implementing the changes required by EU legislation. Code modifications issued can be seen in the graph on page 15.	**Code modifications issued** Code modifications issued is the sum of the code modifications made to each of the gas company's network codes.
7. 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 1.15 for Moyle, 1.25 for Premier Transmission and 1.20 for Belfast Gas Transmission. Graphs showing these ratios can be found on pages 13 and 17.	**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 a corporate level to monitor other aspects of business performance, including corporate responsibility KPIs and Employee KPIs. These are included later in this report.

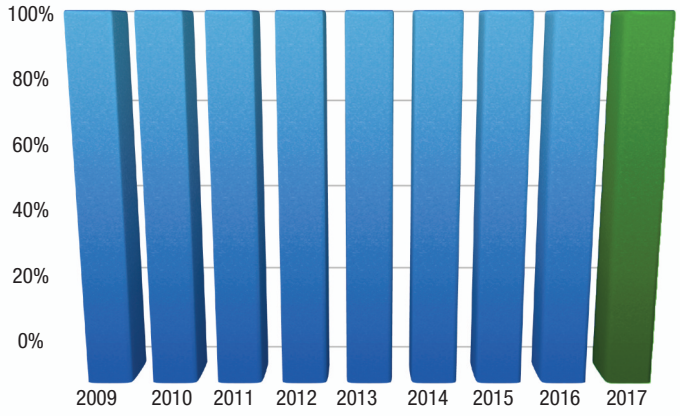
Business performance
Gas business review

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

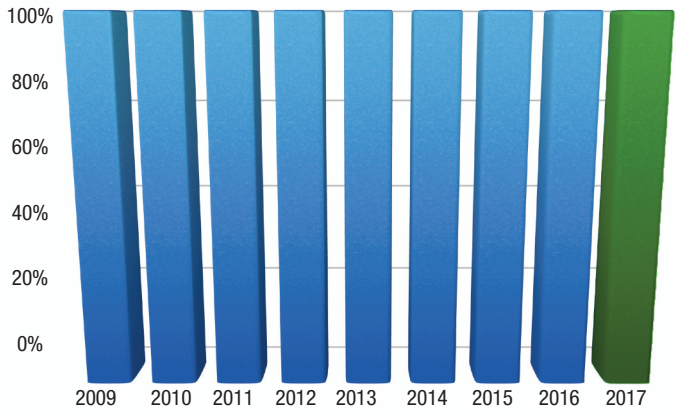
Operational performance

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

KPI 1: Premier Transmission availability



KPI 1: Belfast Gas Transmission availability



Premier Transmission incurred £0.6m costs in the year (2016: £3.8m) as a result of major works carried out to Gas Networks Ireland's upstream assets, a share of which is rechargeable to Premier Transmission under its Transportation Agreement. Engineering works were also carried out in line with site maintenance plans and statutory examination schedules, including an external (marine survey) inspection of the subsea pipeline between South Cairn, Scotland and Ballylumford, Northern Ireland.

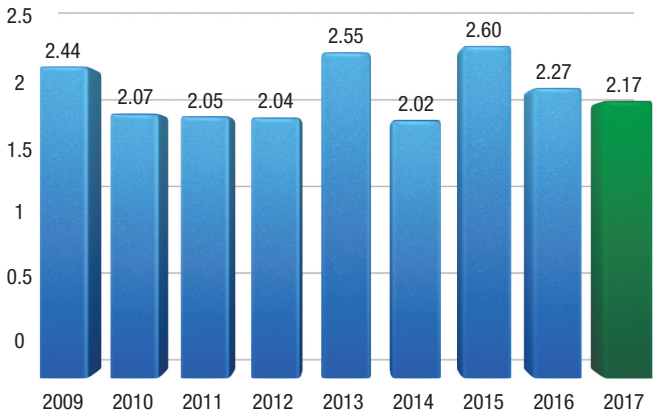
Signing the Gas to the West Project Agreement: Gerard McIlroy (Finance Director, Mutual Energy), John Morea (CEO, SGN) and Paddy Larkin (CEO, Mutual Energy).

Financial performance

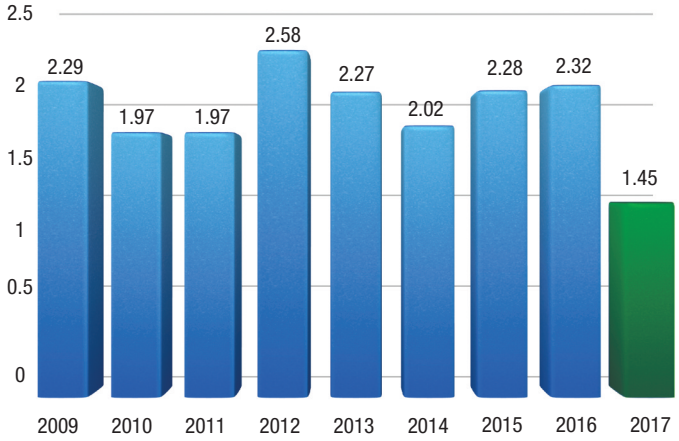
The combined gas business costs for the regulated gas tariff year ending on 30 September 2016 were £1.3m below the forecasts used for predicting tariffs (September 2015: £0.5m below) (KPI 2).

The businesses are cash generative and able to meet their debt service obligations, though because of the bond structures they are not expected to be profitable in the earlier years of the bonds when interest costs incurred are in excess of debt repayments. This situation will then reverse in later years. In terms of the Annual Debt Service Cover Ratio (ADSCR) both gas groups will tend to average towards 2.0. Over-performance above 2.0 in the early 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 both companies can be seen in the graphs below.

KPI 7: Premier Transmission ADSCR



KPI 7: Belfast Gas Transmission ADSCR



Future development

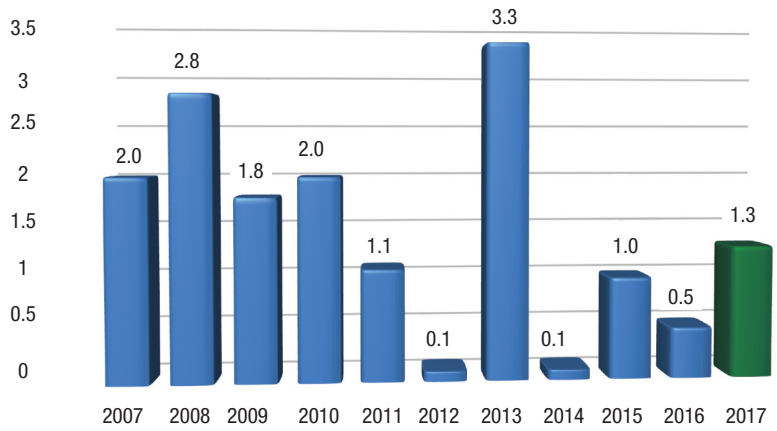
The annual Northern Ireland Gas Capacity Statements published by the Utility Regulator show that, although gas demand is expected to remain relatively stable, over the next ten years the annual peak demand is expected to increase considerably, most notably with the increased use of gas powered electricity generation on the no-wind days and the growth of the domestic gas sector. These reports indicate that the Northern Ireland transmission network does not have sufficient capacity via SNIP to meet a severe winter peak day firm demand in 2017/18 and beyond under minimum operating parameters, and anticipates that capacity short fall measures or the use of the South-North pipeline would be required in such conditions. The changing needs of the power generation shippers, or indeed the successful introduction of some proposed new gas CCGTs, married with potential upstream pressure reductions (as highlighted in the annual Gaslink Winter Outlook), are likely to require investment in the NI gas transmission network over the next 10 years. Any reinforcement would require significant lead times and no specific transmission projects are earmarked for development at present.

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

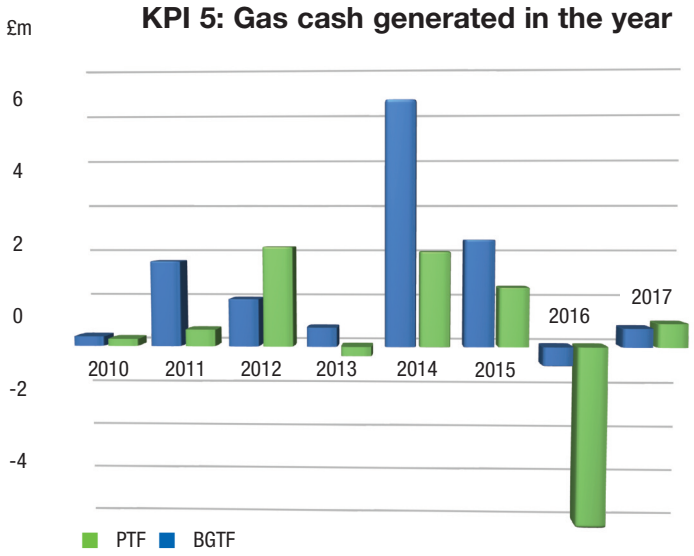
The main means by which the company delivers savings to the consumers in Northern Ireland is through providing a low cost of capital. The costs of the gas transmission assets are charged to the respective shippers through a "use of system" charge which happens automatically through the postalised transmission system 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 2015-16 gas year were 13% lower in real terms than in 2004-5, before the mutualisation of Mutual Energy's gas assets. We continually seek to achieve operational savings and efficiencies.

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

KPI 2: Gas business operational savings vs forecast



KPI 5: Gas cash generated in the year



KPI 5 shows a cash outflow in 2015/16 which is the result of timing of payments in relation to tax from prior years. The graph shows the movement in the cash balance (including deposits with maturity of more than three months) from the previous year.

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

European energy regulation

European legislation continues to be the main driver for changes in our market arrangements and contracts with shippers. The EU regulation has driven a "Gas Target Model" to be implemented by our gas businesses. The first major deadline for implementation was October 2015, with others following until 2017. This year, processes were developed and Network Codes updated for compliance with the modifications to the Capacity Allocation Mechanisms regulation concerning incremental capacity. The current focus is on the implementation of the Tariff Network Code which came into force in April 2017. It should be expected that there will be further changes coming from the EU over the upcoming years as the work continues to deliver the Gas Target Model.

Impact of Brexit

The business is adopting an approach of complying in full with all EU obligations until there is a clear rationale not to. As our assets are fully within the UK, downside risks of Brexit are less than if we were connecting to another EU country at a border (although we do connect to assets in the UK owned by Gas Networks Ireland and Northern Ireland gas is co-mingled with gas destined for the Republic of Ireland). There is an element of uncertainty with regard to EU obligations. Throughout the upcoming year and beyond engagement will be required with stakeholders including ENTSOG, National Regulatory Authorities, Adjacent Transporters, Government Departments and Shippers whilst Brexit arrangements are negotiated and finalised.

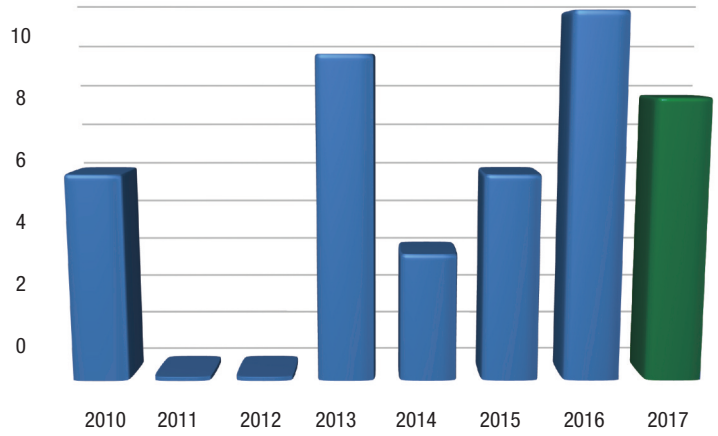
Single System Operation

In addition to the changes required by the EU legislation, the Northern Ireland Utility Regulator (NIAUR) determined that a single system operator for Northern Ireland should be put in place for Q4 2017 by the existing Transmission System Operators – affiliates of Mutual Energy and Gas Networks Ireland. This is not a requirement of the legislation itself.

This will result in a number of changes, notably the development of a single network code, a single market facing body and a single IT system. This will change the market arrangements and means a considerable amount of work has been completed and is still needed in a short period. Work has also been progressing on the development of associated contractual agreements and licence changes.

Code modifications are required to implement these changes within our network code and the graph below shows the number of code modifications made in recent years.

KPI 6: Modifications made to gas network codes

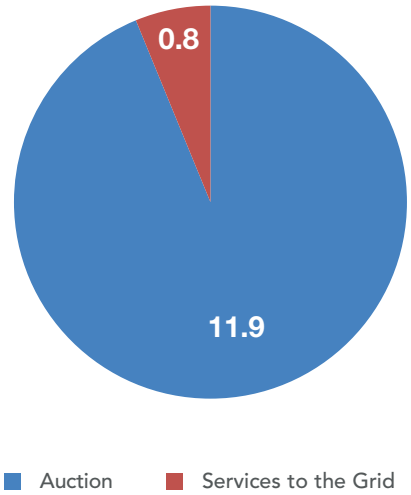


Electricity business review

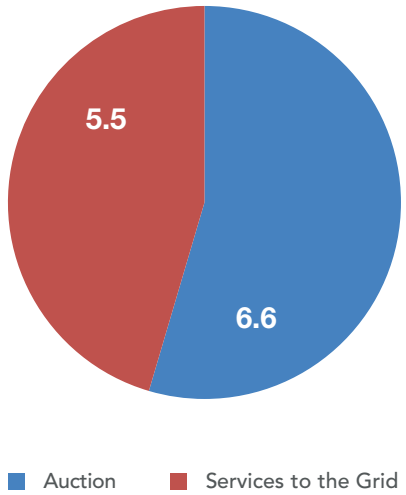
The electricity business depends upon two types of flows for its revenue: commercial flows from contracts with electricity market participants, and flows from the tariff mechanism, which is charged by the System Operator Northern Ireland to electricity suppliers and passed through to Moyle Interconnector Ltd. The electricity business is undergoing a significant change in the commercial revenue flows, with much more originating from services for the system operators, as the value of interconnection between markets with high renewable penetration comes to be recognised. Moyle capacity continues to be sold to electricity traders in annual, half-yearly, quarterly, monthly and daily explicit auctions, on contracts ranging from one day to one year. Additional unused capacity is implicitly allocated within the electricity market trading day and a charge applied after use. Recent narrowing of the price differences between NI and GB markets has reduced auction income.

The charts below show the change in make-up of the commercial revenue from 2014 to 2017 which demonstrates the shift:

2014 commercial income (£m)



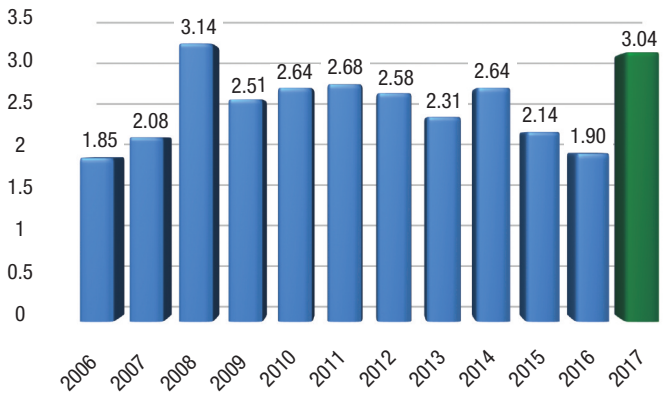
2017 commercial income (£m)



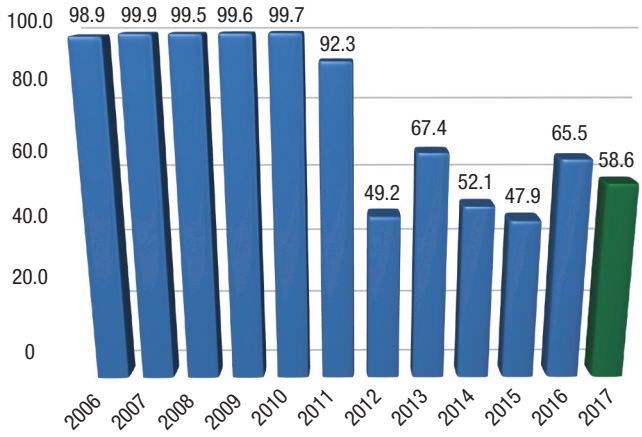
The charges through the tariff mechanism are known as the Collection Agency Income Requirement (CAIRt). The CAIRt charge of £12.49m was made for the 12 months to 30 September 2017 (£24m year to 30 September 2016) which covered approximately 40% of the costs forecast for the period as at the CAIRt calculation date. Page 18 provides more explanation of our historic use of reserves to waive CAIRt calls in order to deliver savings to consumers evenly over the life of the asset.

The group made an operating profit of £25.5m (2016: profit of £24.3m as restated). The ADSCR for the year was 3.04 due to strong auction revenues and increased ancillary services income, as well as the receipt of insurance proceeds in respect of the 2011 cable faults (included within operating costs in line with the costs incurred).

KPI 7: Moyle ADSCR



KPI 1: Moyle Availability (%)



Strategic objective: Operate asset safety and cost effectively, outsourcing where appropriate

From 2010 Moyle suffered a series of faults on its low voltage return conductors' insulation, ultimately requiring a new low voltage return conductor to be laid. This project was successfully completed in October 2016, so eliminating the reliance on the weaker insulation. Despite over 150 person years of work in this project there were no lost time incidents (KPI 3).

In February 2017 Moyle suffered a fault in the vicinity of a subsea joint made during a cable repair in January 2012. The fault in the high voltage conductor insulation was unconnected to the previous issues. The causes of the fault are currently under investigation, with the faulted cable removed from the seabed in May 2017, and a repair program scheduled to commence in August and complete the works in September 2017.

The impact of the fault, combined with a National Grid outage of 15 weeks during Summer 2016, has been to reduce availability to 58.6% (KPI 1).

Signing of the Siemens long-term maintenance agreement: Stephen Hemphill (Operations Director, Mutual Energy), Paddy Larkin (CEO, Mutual Energy), Colin McKay (Operations Manager HVDC, Siemens) and Ann Thornton (Business Manager Operations & Maintainance, Siemens).

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

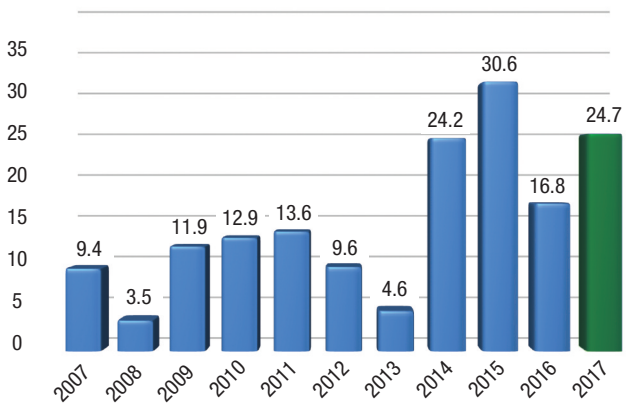
The interconnector business has the ability to waive use of system charges, rather than automatically charging these to supply companies and hence on to end customers. To the extent that this reduces the profit otherwise made by shippers, this is a direct benefit to customers. **Over its 14 years of operation Moyle has waived over £100m in use of system revenue it was otherwise entitled to collect**. Year on year this is monitored by way of KPI on cash reinvested as part of the Collection Agency Income (CAIRt) process to avoid charging consumers. Whilst all initial modelling and expectations forecast auction revenue to be immaterial, the historic market conditions and active management of the auction opportunities resulted in this being a major source of income, to the extent that it was possible to provide the considerable benefits of the interconnector to the Northern Ireland market for some time free of any use of system charge. Auction revenues have reduced considerably as a result of the Electricity Market Reform in Great Britain (see page 19) and consequently it is anticipated that CAIRt calls will be required for the foreseeable future.

Investing to smooth costs

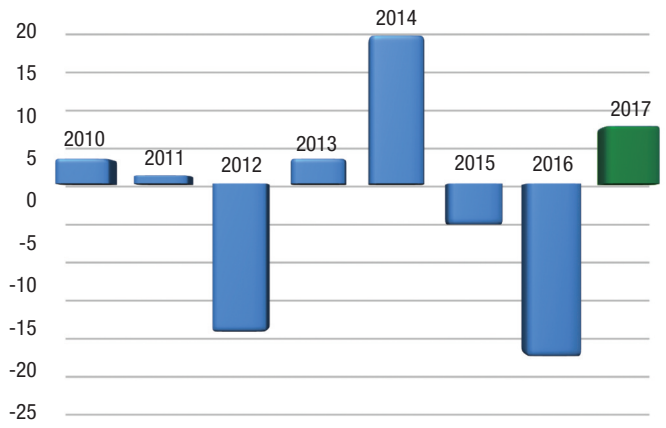
A key part of our delivery of cost savings to the consumers is an approach to smooth some of the ebbs and flows of the business cash flows before they are passed through in charges to consumers. This approach enabled the Moyle business to absorb the cost of the sub-sea repairs in 2011/12 without passing the costs through into use of system tariffs. The use of reserves to fund a large portion of the Moyle return conductor project has also reduced the impact of these works on electricity customers.

Cash generated in the business in recent years can be seen in the graph below (KPI 5). Within year cash is managed within the business and the subsidiary Moyle Energy Investments Ltd manages the longer term cash reserves of the Moyle business.

KPI 4: Cash reinvested to reduce charge to consumers (£m)



KPI 5: Moyle cash generated in the year (£m)



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

European legislation is driving changes to the electricity market in Ireland. The "Electricity Target Model" does not align with the current all-island Single Electricity Market for Ireland (SEM), and as a result the SEM market design is being replaced. A substantial project is in progress, led by the regulatory authorities, to implement an Integrated Single Electricity Market (I-SEM) for Ireland and Northern Ireland. The new market arrangements are due to go-live in May 2018 (previously expected to be October 2017), with the current structure being maintained until then. Moyle will continue its involvement in these developments to try and ensure a satisfactory outcome. The impact of Brexit on this market is not yet certain.

Major changes for interconnectors in the I-SEM include selling financial transmission rights rather than physical capacity, day ahead and intraday market price coupling with GB, the introduction of a balancing market (and participant balance responsibility) and allocation of capacity via a central European auction platform. A capacity market comprising of "centralized reliability options" is also to be introduced and interconnector owners will participate directly in this market. In the new market arrangements interconnectors will earn revenue from a number of different sources which also introduce new challenges. Further details are available at www.semcommittee.com.

Ahead of, and alongside, the I-SEM project EirGrid are delivering a project known as DS3 ("Delivering a Secure, Sustainable Electricity System"). The aim of this project is to give the system operator(s) on the island of Ireland the tools to operate the transmission system with increasing levels of wind penetration. For Moyle this means that the system support (or ancillary) services that can be provided are increasingly valued. Implementation of the initial phase of this project has led to increased ancillary services revenues and we will seek to ensure that Moyle's value in this area is appropriately rewarded as DS3 evolves. Similarly, with tight capacity margins and increasing renewables penetration in GB, National Grid have also benefitted from Moyle's flexibility over the past year and we will continue to explore maximising ancillary services revenues at both ends of the cable.

Under the Electricity Market Reform capacity payments have been introduced in Britain, with the general principle being that generators are paid for availability, particularly during 'system stress' events. While one would expect this to exert downward pressure on GB wholesale electricity prices it is uncertain how this might affect trading between the two markets, given the extent of change in the coming years. It has been decided that interconnectors will directly participate in this capacity market from 2015 (for 2020 delivery). This therefore represents an additional revenue stream but will be subject to the efficient functioning of the interconnector and electricity markets in 2020. We have had some success in modifying the rules to recognize the benefits Moyle brings to the GB system and will continue these efforts. In addition, an interim arrangement has been implemented which will allow us to receive our first revenue from the GB capacity market in winter 2017.

Signing the Long-term Cable Storage and Maintenance Support Agreement: Ragnhild Katteland (Vice President, Subsea Energy Systems Nexans) and Paddy Larkin (CEO, Mutual Energy).

Strategic objective: Acquire stable infrastructure assets at a low cost to the consumer

Gas to the West

Mutual Energy's subsidiary, West Transmission Limited was awarded a licence for gas transmission to the West of Northern Ireland in February 2015. West Transmission will own and operate the high pressure transmission pipeline to the West which will be constructed by SGN (the UK's second largest network company, operating across Scotland and southern England). SGN will own and operate the low pressure pipelines (the mains, services and meters) which deliver the gas to customer premises within the eight towns identified in the licence: Strabane, Dungannon, Coalisland, Cookstown, Magherafelt, Omagh, Enniskillen and Derrylin.

The project is progressing well, with our part of the Strabane leg now fully operational. Planning permission for the main leg of the project was granted in early 2017 and multiple construction contracts are in various stages of completion to enable the first construction work to take place in the summer and autumn of 2017.

Mutual Energy is in a unique position to provide cost efficiency in the operation of this transmission network. We have a proven process for providing energy infrastructure at the lowest cost of capital in the UK and we have a clear track record in successfully mutualising infrastructure assets. Whilst this cost effectiveness is vital we also aim to bring significant cost synergies with our two existing gas businesses through the access to our IT systems, network control and operations and staff resources.

Gas storage

Mutual Energy continues to work closely with the Islandmagee Gas Storage (IMSL) project. In September 2016 InfraStrata UK Limited (IS UK), acquired an additional 25% equity stake in Islandmagee Storage Limited (IMSL). Following the acquisition IS UK now own 90% of IMSL and Moyle Energy Investments Limited (Moyle) hold the remaining 10%.

The company is now in the first phase of Front End Engineering Design ("FEED"), known as Concept Evaluation, for its Islandmagee gas storage project (the "Project"). During the Concept Evaluation, the FEED contractors will undertake a value enhancement exercise on the Project's current design basis.

Moyle Energy Investments continues to hold an option to exit the project should the risk profile of the project prove unsuitable.

Utility Regulator Board on a visit to Maydown pressure reduction station.

Group Financial highlights

Cash flow and liquidity position

The majority of the finance costs are non-cash and the mechanisms which are in place to generate group income are aligned to the cash requirements to cover the bonds, both interest and principal.

Moyle Interconnector, Premier Transmission and Belfast Gas Transmission sub groups and West Transmission had a net cash inflow in the period. All three subgroups hold high levels of cash reserves to allow for unforeseen requirements and indeed are obliged to hold significant cash reserves as conditions of their financing arrangements. Cash reserves in Premier Transmission group amounted to £34.5m at year end (including cash on deposit classified as financial assets), Belfast Gas Transmission held £9.7m and West Transmission held £0.4m. At 31 March 2017 Moyle held operating cash reserves of £39.8m. Total cash holdings (including cash held on deposit which is classified as financial assets) by the group at year end amounted to £89.2m (2016: £78.3m).

Revenue, profitability and reserves

After accounting for debt service, the group made an after-tax profit of £9.1m (2016: £15.4m profit as restated).

Finance costs

Included within finance costs is £16.3m (2016: £14.1m) in respect of borrowing costs arising on the group's index linked issued bonds. These borrowing costs are made up of three elements:

- actual interest charge was £9.0m (2016: £9.1m);
- £6.1m (2016: £3.8m) required to restate bond liability to latest applicable Retail Price Index; and
- bond fees, liquidity facility fees and other charges £1.2m (2016: £1.2m).

The Group bonds are overseen by our financiers. Our key financiers are: for Moyle, Assured Guaranty (Europe) Limited as controlling creditor and the Bank of New York Mellon as trustee; for Belfast Gas, Assured Guaranty (Europe) Limited as controlling creditor and Prudential Trustee Company Limited as trustee; and, for PTL, Financial Guaranty Insurance Company ("FGIC") as controlling creditor and Prudential Trustee Company Limited as trustee.

Stakeholders, relationships and resources

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.

During the year the number of customers registered to use Moyle remained at 18. The Premier Transmission Pipeline System provides a service to shippers from Moffat in Scotland to exit points at AES Ballylumford, the connection with Gas Networks Ireland (NI) pipelines at Carrickfergus and Belfast Gas exit points in Belfast and Larne, as well as West Transmission's exit point at Maydown which is an offtake from GNI's pipeline. A total of 17 shippers 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 the System Operator for Northern Ireland (SONI) overseeing the operation and administration of the Moyle Interconnector, Siemens plc undertaking the long term maintenance of the electricity convertor stations and SGN carrying out the routine maintenance, emergency response, and monitoring our system from their gas control centre in Horley, outside London.

Staff

The group is committed to maintaining a high quality and committed workforce. Our vision is to have an innovative corporate culture and employees who will look to constantly improve all aspects of the business to achieve the corporate strategy.

The group employs a personal performance evaluation system with assessment of targets and training needs to encourage performance. Succession planning is periodically reviewed by the board. Remuneration is linked to performance throughout the organisation.

Employee diversity

The group recognises the importance of diversity amongst its employees and is committed to ensuring that employees are selected and promoted on the basis of merit and ability, regardless of age, gender, race, religion, sexual orientation or disability. The gender split across the group as at 31 March 2017 is illustrated in the table below:

	Male	Female
Board	5	2
Senior management	9	3
All employees	18	10

Employee KPIs

The group monitor a number of employee related KPIs, as noted below:

KPI	2017	2016
Training days per employee	3.7	3.2
Sickness absence days per employee	9.8	1.1
Personal Pension take up	96%	96%

Due to the group's small number of staff a few longer term illnesses in the period have had a significant impact on the sickness absence rate, as can be seen by the increase in this KPI from 2016 to 2017. Appropriate actions, such as the use of temporary staff and consultants, were taken by the business to ensure business continuity during these periods of absence.

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 10 to 20.

The group also continues to consider its impact on the environment and remains committed to reducing our energy consumption and related emissions where possible, as well as reducing our wider impacts such as resource use and waste to landfill. The group ensures robust Health & Safety systems are in place as discussed on page 25, 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.

Utility Regulator Board visit to Maydown pressure reduction station

Risk Management

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

Risk management structure

The Board approves the overall risk management process, known as the group risk governance framework, and approves all the policies covered by the framework. Responsibility for ensuring compliance with the policies is divided between the Risk Committee and the Audit Committee. The Risk Committee deals with all risks that are inherently operational in nature (including Health & Safety), while the Audit Committee monitors all financial and other risks. In addition, the Moyle Project Committee manages the risks of the Moyle return conductor project and reports to the Board in this respect.

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 2017 and up to the date of approval of the annual report and financial statements.

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

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

Moyle Return Cable Project Team.

The principal risks of the group are:

Risk description and potential impact	Mitigation	Assessment of risk movement from March 2016
Operational risk		
Poor operational performance could result in impaired availability, damage to assets and/or reputation, injury to third party and/or employees, loss of revenue, loss of licence.	Experienced qualified maintenance subcontractors are used and are managed through the contractual process, frequent performance monitoring and maintaining a high standard of eligibility for tendered work. Structured maintenance plans are followed. The group promotes a strong health and safety culture, has a well-defined health and safety management system and follows industry standard practices.	→
Financial risk		
Poor financial management could result in breach of financing covenants, compliance failure or financial loss.	The Board reviews and agrees policies for addressing these compliance risks and senior management are specifically delegated the task of ensuring compliance.	→
Inadequate financing, non-compliance with covenants, market changes or failure of counterparties could lead to failure of financial structure..	Borrowing arrangements align the financing costs to the income allowances. Processes are in place to monitor covenant compliance and there is active management of market changes. Treasury policies are aimed at minimising the risks associated with the group's financial assets and liabilities and financial counterparty failure clauses are included in financing documents.	→
Liquidity risk could result in insufficient cash being available to meet the business' needs, controlling creditor intervention, default on bonds, or reputational damage.	The group has low liquidity risk due to its strong cash flows and the reserve accounts and liquidity facilities required by its financing documents. The required reserve accounts were fully funded and £28m of liquidity facilities were in place throughout the year for Moyle, Belfast Gas Transmission and Premier Transmission. Banking counterparties are only used where they meet the criteria requirements of our financing documents. Liquidity risks from customers is minimised through requirements for security and protection measures built into the postalisation arrangements for the gas businesses. Business planning processes are in place to identify cash requirements in advance.	→
Business environment and market risk		
Market changes for gas and electricity in Northern Ireland could result in reduced volumes transported through the assets, insufficient revenue recovery, default on bonds, damage to reputation of mutual model or fines.	Licence provisions implementing a collection agency agreement in the electricity business and the postalised charges system in the gas business are designed to offset the impact of such changes. An influencing strategy is in place to positively impact market developments. Recent and future market development are discussed on pages 15 and 19.	↑
Regulatory risk		
As the group consists primarily of regulated businesses it is exposed to regulatory risk. Changes in economic regulation or government policy could have an adverse effect on our financial position..	The group's relationships with the Northern Ireland Authority for Utility Regulation (NIAUR) and DETI are managed at senior level through frequent meetings and correspondence in line with the group's communication strategy. The group coordinates with other EU system operators on EU issues. A proactive approach is taken to consultations on any issue which could affect the group's business interests, with legal advice sought where appropriate.	→
Corporate strategy and communication risk		
Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.	The Board retains responsibility for strategy as a reserved matter and manages communications directly in line with its communication plan, using outsourcing as appropriate. Risk profile has increased with two major projects, the Moyle fault repairs and Gas to the West construction, ongoing simultaneously.	↑
Project delivery risk		
Poor contracting or management, insufficient resources or extreme weather could cause project delays resulting in financial losses, reputational damage, damage to assets or loss of availability.	A project governance structure exists with sufficiently qualified and trained resources. Contractors are closely monitored and stakeholder engagement plans and insurance are in place.	→

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

Environment and safety

The group continues to put a high value on the Health and Safety of its operations and to recognise the importance of minimising the impact of its activities on the environment, both locally and in the global context. Our gas business runs simulated gas supply emergency exercises to ensure a robust response plan is in place and Premier Transmission Ltd and Northern Ireland Network Emergency Co-ordinator (NINEC) coordinate the exercises for the gas industry in Northern Ireland, as they would in the event of an actual Northern Ireland Gas Supply Emergency. A Gas Supply Emergency desktop exercise with all the appropriate stakeholders was held in October 2016.

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

Further work to build on the recommendations from the 2015 British Safety Council Five-Star Occupational Health and Safety Audit was carried out through the year.

The challenging MRC cable project was completed in 2016 with over 150 person years being worked without lost time injury or ill-health throughout the project.

The group is committed to environmental performance, with no breach of any environmental licence or permit recorded in the year. Usage of gas for pre heating and auxiliary electricity used in the main electricity sites is monitored to help target improvements.

Greenhouse gas emissions reporting

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

	Tonnes of CO_2e	
Emissions from:	**2017**	**2016**
Usage of gas in operations	2,874	1,762
Electricity consumption at convertor stations	1,104	1,279
Electricity, heat, steam and cooling purchased for own use	25	29
Total emissions	4,003	3,070
Emissions per GWh energy transmission	0.25	0.18

Methodology

We have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. Emissions have been calculated using UK Government guidelines for conversion of natural gas and grid electricity.

Forward-looking statements

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

By order of the Board

Gerard McIlroy
Company secretary
26 June 2017

The Mutual Energy Board

Regina Finn (50) Chairman

Regina Finn was appointed Chair of Mutual Energy in December 2013 having spent five years as a Non-Executive Director of MEL and Chair of the company's Remuneration Committee. She is also a Director of Lucerna Partners Limited, a UK based consultancy specialising in regulation, competition and consumer policy. Regina previously held non-executive position at the Channel Islands Competition Authority (CICRA) and Irish Water. From 2006 to 2013, Regina was Chief Executive of Ofwat, the economic regulator for the water and waste water sectors in England and Wales. Before that she was a Commissioner for Energy Regulation in Dublin where she worked on the establishment of the all-island energy market. She has also held positions as Head of Market Operations and Deputy Director of the Office of the Director of Telecommunications (now ComReg) in Dublin, and Director of the Office of Utility Regulation in Guernsey in the Channel Islands which she set up to regulate the electricity, post and telecommunications sectors there.

Paddy Larkin (48) Chief Executive

Paddy Larkin was appointed Chief Executive Officer of Mutual Energy on 1st January 2010. He joined what was then Northern Ireland Energy Holdings in 2007 as an executive director and managing director for the Moyle Interconnector. After studying mechanical engineering at Queen's University Belfast, he started work with NIE at Ballylumford power station in 1991 just before privatisation. In 1992 British Gas bought Ballylumford Power station and Paddy continued to work with Premier Power, initially in breakdown maintenance before moving to the business side of the operation where he helped to oversee the change in practices from a nationalised to a private company. Later he was involved in the buy out of the long term contracts and construction of the combined cycle gas turbine and served as the station's Chief Executive.

Gerard McIlroy (48) Finance Director

Gerard McIlroy joined Mutual Energy in July 2006 and was appointed Finance Director for the group in January 2010. A Fellow of the Institute of Chartered Accountants in Ireland, Gerard trained with Coopers and Lybrand in Belfast and has previous experience in the health, retail and energy sectors within Northern Ireland. He joined Mutual Energy after five years with the Viridian Group where he was Finance Manager within their unregulated energy supply business covering both the Northern Ireland and Republic of Ireland market.

Patrick Anderson (43)

Patrick Anderson is the CFO of Translink, one of Northern Ireland's leading companies. A member of the Northern Ireland Transport Holding Company's Board, Paddy's corporate responsibilities include Finance, Procurement, Commercial Property, Claims and Ticketing. Paddy has an extensive range of Board level experience in both the private and public sectors. A Fellow of the Institute of Chartered Accountants in Ireland, he spent seven years with Viridian Group PLC, where he held a number of senior Finance positions. Paddy spent his early career with PricewaterhouseCoopers in Belfast. He currently sits on the Audit and Risk Committee of the Department for Communities as an independent member and is a Fellow of the Institute of Directors.

Clarke Black (63) Senior Independent Director

Clarke Black was Chief Executive of the Ulster Farmers' Union until his retirement in May 2015 and also served on several agri food related bodies which are closely involved in agriculture and food policy. He is a Fellow of the Royal Agricultural Societies and was previously employed by Northern Bank Limited as a Regional Agribusiness Manager, which laterally entailed a secondment to National Irish Bank, Dublin, where he established the Bank's Agribusiness segment in Ireland. Clarke is also an Independent Board Member on the Departmental Board of the Department of Justice.

Stephen Kirkpatrick (Until 29 September 2016) (53)

Stephen Kirkpatrick was a Non-Executive Director and Audit Committee Chair of Mutual Energy from 2010 until his retirement in September 2016. Stephen has enjoyed a successful executive career in banking, real estate and professional services. During 15 years with the Bank of Ireland Group, Stephen held a number of senior leadership roles including CEO of the Northern Ireland business and Head of Retail Credit for the Group. Stephen is currently a Director of Corbo Limited, a large retail investment property group, having previously been CEO. In April 2017 he was appointed as Independent Non-Executive Chairman of the leading business advisory firm, BDO Northern Ireland. Stephen also chairs the UK Board of Xperi Corporation, a $2 billion listed US technology group. Stephen was a Non-Executive Director and Audit Committee Chair of Wireless Group plc (formerly UTV Media plc) from 2012-2016, stepping down following the sale of the business to News Corp. Stephen is a Chartered Accountant and was previously a member of the Governing Council of Chartered Accountants Ireland, where he chaired the Finance Board.

Kate Mingay (51)

Kate Mingay acts as Senior Adviser to a subsidiary of Hitachi, on the financing for the first of their multibillion new build nuclear projects in the UK and is Non-Executive Director of Ansaldo STS, a listed Italian transportation company with a global presence in railway signalling and integrated transport systems. She is also Senior Adviser to Cambridge Economics Policy Associates (CEPA), where she provides corporate finance expertise to their economic and financial policy advisory business in the UK transport and other infrastructure sectors. Previously, she was a Director at the UK Department for Transport for 10 years where she built and led a highly regarded in-house corporate and infrastructure finance team. She worked on complex new transport infrastructure projects: these included structuring and negotiating finance for the £5.4 billion UK Intercity Express Programme, the £2.1 billion sale of the High Speed 1 concession, as well as the £14.2 billion funding for Crossrail. In the aviation and rail sectors Kate was deeply involved in a wide range of regulation, investment and corporate finance issues. She began her career at UBS, and later Goldman Sachs, where she gained extensive financing transaction experience, particularly in the economically regulated sectors of water and electricity. She was a founding member of the HM Treasury's Major Projects Review Group, which gives independent assurance on the largest government projects.

Chris Murray (61)

Chris Murray is a member of the National Grid Leadership Team and Chief Executive Officer of Xoserve Limited. Xoserve provide data management services for the UK gas industry on behalf of all the major gas network transportation companies and provide one consistent service point for companies who use the networks to deliver gas to end users. He has over 39 years' experience in the energy industry and has held numerous operational directorates ranging from leadership of commercial areas to operation of both the national electricity and gas networks. Prior to his roles with National Grid, Chris was the founding CEO of Phoenix Natural Gas and before that worked for East Midlands Gas and British Gas. Chris is the Special Adviser to the Board of the Energy and Utility Skills Council, a Fellow of the Energy Institute, Past President, Fellow and past Midlands Section Chairman of the Institution of Gas Engineers and Managers and a member of the Institute of Directors.

Corporate governance statement

The group is committed to high standards of corporate governance. The Board leads the group's governance through the Group Corporate Governance Framework and associated policies. This statement describes how, during the year ended 31 March 2017, the group has applied the main and supporting principles of corporate governance.

The only listed securities of the group are the debt securities of Moyle Interconnector (Financing) plc, Premier Transmission Financing plc and Belfast Gas Transmission Financing plc. As such the group is not obliged to comply with the provisions set out in the UK Corporate Governance Code (September 2014) (the Code). Instead the group uses its provisions as a guide to the extent considered appropriate to the circumstances of the group.

The Board

An effective board of directors leads and controls the group. The Board, is responsible for the overall conduct of the group's business and has powers and duties pursuant to the relevant laws of Northern Ireland and our articles of association. Board meetings are usually held 6 to 8 times per year, with 7 meetings being held in the year.

The Board:

- is responsible for setting the group strategy and for the management, direction and performance of our businesses;
- is responsible for the long-term success of the group, having regard to the wider interests of energy consumers in Northern Ireland;
- is responsible for ensuring the effectiveness of and reporting on our system of corporate governance; and
- is accountable to members for the proper conduct of the business.

The Board has a formal schedule of matters reserved for its decision and these include:

- long term objectives, strategy and major policies;
- business plans and budgets;
- the review of management performance;
- the approval of the annual operating plan and the financial statements;
- major expenditure;
- the system of internal control; and
- corporate governance.

Directors are sent papers for meetings of the Board and those committees of which they are a member, whether they are able to attend the meeting or not. In the event that a director is unable to attend a meeting, they are able to relay their views and comments via another committee or Board member. The Board also receives presentations and oral updates at the meetings which are minuted, as well as regular updates on changes and developments to the business, legislative and regulatory environments. This ensures that all directors are aware of, and are in a position to monitor, major issues and developments within the group.

In the event that specific business arises requiring Board discussion or action between scheduled meetings, special Board meetings are held.

The executive and non-executive directors are equal members of the Board and have collective responsibility for the group's direction.

In particular, non-executive directors are responsible for:

- bringing a wide range of skills and experience, including independent judgement on issues of strategy, performance, and risk management;
- constructively challenging the strategy proposed by the Chief Executive and

executive directors; and

- scrutinising and challenging performance across the group's business.

A procedure is in place for directors to obtain independent professional advice in respect of their duties. All directors have access to the advice and services of the Company Secretary and the company solicitors. New directors receive induction on their appointment to the board covering the activities of the group and its key business and financial risks, the terms of reference of the board and its committees and the latest financial information about the group. Non-executive directors receive on-going training in line with the Board timetable, a process overseen by the Chairman, and are encouraged to attend the annual members' day to ensure they have an understanding of the members' opinions.

The Board and committees of Moyle Interconnector (Financing) plc, Belfast Gas Transmission Financing plc and Premier Transmission Financing plc meet concurrently with those of Mutual Energy Limited.

Board membership

The number of meetings attended compared to those the director was entitled to attend are outlined in the following table:

Directors and meetings attended	Board	Nominations Committee	Remuneration Committee	Audit Committee	Risk Committee
Regina Finn	7/7	3/3	1/1	-	-
Patrick Anderson	4/4	-	-	3/3	-
Clarke Black	7/7	3/3	1/1	5/5	-
Stephen Kirkpatrick	3/3	3/3	-	2/2	-
Chris Murray	6/7	3/3	1/1	-	4/4
Kate Mingay	7/7	3/3	-	5/5	-
Paddy Larkin	7/7	3/3	-	-	4/4
Gerard McIlroy	7/7	3/3	-	-	-

The names of the directors of each of the group companies and their details appear on the first page of the Directors' Report for that company.

Throughout the year, the Chairman and the other non-executive directors were independent of management and were independent of any business relationship with the group.

The Senior Independent Director throughout the year was Clarke Black. The Senior Independent Director's responsibilities include leading the non-executive directors' annual consideration of the Chairman's performance. From time to time the non-executive directors, including the Chairman, met independently of management.

Board appointments and evaluation

All non-executive Directors joining the Board are required to submit themselves for election at the AGM following their appointment. Thereafter, they are subject to re-election annually. The non-executive directors are expected to serve only two terms of three years, but may be extended in exceptional circumstances up to a further three years. The process for recruiting directors is co-ordinated by the nominations committee (see below).

During the year, the Board conducted an evaluation of its own performance and that of its committees and individual directors. The Chairman and Board members completed a questionnaire on the effectiveness of the Board, and Clarke Black, as Senior Independent Director, led a meeting of the non-executive directors to appraise the performance of the Chairman. The Board then discussed the findings of these exercises at a full meeting of the Board. The evaluation covered the role and organisation of the Board, meeting arrangements, information provision and committee effectiveness. Where areas for improvement have been identified, actions have been agreed.

Board committees

There are a number of standing Committees of the Board to which various matters are delegated. The Committees all have formal Terms of Reference that have been approved by the Board and can be found on the group's website at www.mutual-energy.com. Details are set out below:

Audit Committee

Stephen Kirkpatrick was Audit Committee Chair until his retirement in September 2016, at the end of his second term. Patrick Anderson became Chair of the Audit Committee in October 2016. The Audit Committee also comprised Clarke Black and Kate Mingay throughout the year. The requirement for the committee to have recent and relevant financial experience was met by the Audit Committee Chair, with both Stephen Kirkpatrick and Patrick Anderson being Chartered Accountants. Audit Committee meetings were also attended, by invitation, by the executive directors of the group, the external auditors, tax advisors, other advisors and other finance employees as considered necessary.

The role and responsibilities of the Audit Committee are set out in its terms of reference and are described in more detail in the Audit Committee Report.

Remuneration Committee

The Remuneration Committee was chaired by Clarke Black throughout the year, with Chris Murray and Regina Finn also on the committee. The committee comprises solely non-executive directors. The role of this committee and details of how the company applies the principles of the Code in respect of directors' remuneration are set out in the Remuneration Committee Report.

Nominations Committee

The Nominations Committee comprises all the non-executive directors and is chaired by the Chairman.

The Committee meets as necessary and the attendance during the year is listed in the previous table. The Committee is responsible for considering and recommending to the Board persons who are appropriate for appointment as executive and non-executive directors. The Nominations Committee is also responsible for succession planning and Board evaluation. The role and responsibilities of the Nominations Committee are set out in its terms of reference.

Risk Committee

The Risk Committee is chaired by Chris Murray, non-executive director, and also comprises Paddy Larkin, Chief Executive, along with other engineering and operations employees. It is the responsibility of the committee to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor operational non-financial risks.

The role and responsibilities of the Risk Committee are set out in its terms of reference.

Membership Selections Committee

The Membership Selections Committee comprises two non-executive directors, two members who are not also directors of the company and two independents appointed by NIAUR. The non-executive directors on the

Committee were Patrick Anderson and Clarke Black.

The role of the Membership Selections Committee is to select and recommend to the Board the appointment of suitable potential members of the company (see section below). The Committee is tasked to ensure that the membership is large enough and sufficiently diverse as to:

- adequately represent all stakeholders and in particular adequately represent energy consumers in Northern Ireland; and
- have the necessary skills, expertise, industry experience and/or capacity to contribute to its key governance role.

The Membership Selections Committee procures candidates through two routes:

a) requests to key stakeholders and consumer groups determined by the Membership Selections Committee to put forward candidates for consideration; and

b) an open and transparent recruitment process similar to that used for public appointments.

Moyle Project Committee

Moyle Project Committee was set up in March 2015 to oversee the Moyle low voltage cable replacement project which is now complete. The Committee is chaired by Chris Murray, non-executive director, and also comprises Paddy Larkin and Clarke Black.

The role and responsibilities of the Moyle Project Committee are set out in its terms of reference.

Internal control and risk management

The Board has overall responsibility for the group's system of internal control and risk management and for reviewing its effectiveness. In discharging that responsibility, the Board confirms that it has established the procedures necessary to apply the Code, as far as it is relevant, including clear operating procedures, lines of responsibility and delegated authority.

A discussion of the process of identifying, evaluating and managing the significant financial, operational, compliance and general risks to the group's business and of the key risks identified is included in the Risk Management section of the strategic report.

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

Any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. Management is required to apply judgement in evaluating the risks we face in achieving our objectives, in determining the risks that are considered acceptable to bear, in assessing the likelihood of the risks concerned materialising, in identifying our ability to reduce the incidence and impact on the business of risks that do materialise, and in ensuring that the costs of operating particular controls are proportionate to the benefit.

Long term viability

The ultimate viability of the group is subject to the protections which exist under its electricity and gas transmission licences, which allow for full recovery of costs, including finance costs. The directors have therefore focused their assessment of the group's prospects on whether there is a risk that it will have to call upon these protections more than is forecast in the ex-ante setting of tariffs, resulting in a delay in the recovery of entitled revenue.

The directors have assessed the prospects of the group over a five-year period to March 2022, taking account of the group's current position and the potential impact of the principal risks documented in the Strategic report. The most relevant of the principal risks in this regard was determined to be the operational risk associated with the major works on the Moyle Interconnector. Based on this assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over this period. The plan includes detailed financial budgets and cashflow projections, and additional sensitivity and scenario analysis including plausible severe scenarios. The forecast cash generated over the five-year period is adequate to meet the group's anticipated liabilities as they fall due, including the scheduled partial repayment of bond capital and interest.

Going concern

The directors have a reasonable expectation that the group has adequate resources for a period of at least 12 months from the date of approval of the financial statements and have therefore assessed that the going concern basis of accounting is appropriate in preparing the financial statements and that there are no material uncertainties to disclose. This conclusion is based on a review of the resources available to the group, taking account of the group's financial projections together with available cash and committed borrowing facilities, as well as consideration of the group's capital adequacy.

Bondholders

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

Members

As Mutual Energy Limited, the holding company of the group, is a company limited by guarantee the Board of Directors are supervised in their leadership and control of the group by the members. During the year three members retired from the company. One new member was appointed in the year, following a recruitment exercise.

The individuals who were members of the company for some part of the year are listed below:

Mutual Energy Members during 2016/17	
Patrick Anderson (appointed 01/10/16)	Robert McConnell
Declan Billington	Brendan Milligan
Clarke Black	Kate Mingay
Margaret Butler	Nevin Molyneaux
John Cherry	Chris Murray
Robin Davey	Colin Oxton
Joe Doherty	Conor Quinn
Stephen Ellis	Robert Richmond
Regina Finn	Ben Robinson (resigned 27/01/17)
Brian Fitzpatrick	Gavin Thompson (resigned 15/06/16)
Andrew Frew (resigned 14/11/16)	Patrick Thompson
Trevor Greene	Gerry Walsh
Wesley Henderson	Peter Warry
Chris Horner	Noel Williams
Gillian Hughes	Mark Wishart
Stephen Kirkpatrick	

Directors' Remuneration Report

THE INFORMATION PROVIDED IN THIS PART OF THE DIRECTORS' REMUNERATION REPORT IS NOT SUBJECT TO AUDIT

Clarke Black
Chairman
Remuneration
Committee

The Chairman's annual statement

I am pleased to present the Directors' remuneration report for the financial year which ended on 31 March 2017. The directors' remuneration is reported in line with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The group reassessed the remuneration policy for directors and senior management in 2013 and at our 2014 AGM the revised policy was approved by the members. At the 2017 AGM we will again be presenting the remuneration policy to the AGM, in line with our remuneration reporting requirements. The policy has been operating well and we believe it ensures the alignment of the directors' interests with the long-term interests of the business and of NI consumers therefore we expect to keep the policy largely in line with that currently being implemented. The group's senior management remuneration structure includes performance related pay, the majority of which is deferred in order to incentivise longer term performance in line with business-critical projects, and the remainder of which relates to in-year performance based on operational targets.

The Directors' Remuneration Report includes, in addition to this statement, the Directors' remuneration policy report and the annual report on remuneration. The remuneration policy can be found on pages 34 to 39 and was approved by the members at the 2014 AGM. This policy is effective for 3 years from 1 October 2014, unless otherwise amended and approved by a further binding vote. The annual report on remuneration can be found on pages 40 to 44.

Clarke Black

26 June 2017

THE INFORMATION PROVIDED IN THIS PART OF THE DIRECTORS' REMUNERATION REPORT IS NOT SUBJECT TO AUDIT

Introduction

This report summarises the activities of the remuneration committee for the period to 31 March 2017. It sets out the remuneration policy and remuneration details for the executive and non-executive directors of the company and has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended August 2013. The report is split into three main areas: the statement by the chair of the remuneration committee, the policy report and the annual report on remuneration. The policy report was approved by a binding vote at the 2014 Annual General Meeting and applies for three years from 1 October 2014, subject to any future changes approved by the members. The annual report on remuneration provides details on remuneration in the period and other information required by the Regulations.

The Companies Act 2006 requires the auditors to report to the shareholders on certain parts of the Directors' Remuneration Report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the annual report on remuneration that are subject to audit are indicated in that report. The statement by the chair of the remuneration committee and the policy report are not subject to audit.

The role of the remuneration committee

The role of the Remuneration Committee is to determine and agree the remuneration policies of the company and its subsidiaries, which are presented to the members for approval every 3 years, and specifically:

- to monitor, review and make recommendations to the Board on the Executive structure of the group;
- to review and agree the broad policy and framework for the remuneration of the Chairman, Executive Directors, Company Secretary and senior staff;
- to determine the nature and scale of performance arrangements that encourage enhanced performance and reward the Executive Directors in a fair and responsible manner for their contributions to the success of the group whilst reviewing and having regard to remuneration trends across the company or group;
- to review and set the group's remuneration of the Executive Directors including determining targets for performance related pay;
- to determine the policy for, and scope of, pension arrangements for each executive director and other senior designated employees;
- to benchmark the remuneration of the Executive Directors and the Company Secretary against remuneration of similar persons in similarly sized companies, as required;
- to make recommendations to the Board, for it to put to the AGM for their approval in general meeting, in relation to the remuneration of the Executive Directors; and
- to agree the policy for authorising claims for expenses from the directors.

Remuneration Policy

The Remuneration Policy set out in this report, was approved at the 2014 AGM, and came into effect on 1 October 2014. The policy will be reapproved at the 2017 AGM.

Future policy table

The policy is to pay no more than is necessary to attract, motivate and retain individuals of the calibre necessary to run a group of the scale and complexity of Mutual Energy. The committee believes that a substantial proportion of the package should be performance related.

Remuneration policy for executive directors

The following table provides a summary of the key components of the remuneration package for executive directors:

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Salary and fees	Part of a basic competitive package to recruit and retain individuals of the necessary calibre to execute the group's business strategy.	Reviewed annually and fixed for 12 months commencing 1 April. Decision influenced by: - role, experience or performance; - average change in broader workforce salary; - group performance and prevailing market conditions; and - external benchmarking of similar roles at comparable companies.	Increases only for inflation and in line with other employees unless there is a change in role, responsibility or to reflect market conditions.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Taxable benefits	Providing employee protection in interest of employee and group.	Insured healthcare cover set at suitable protection level and premiums paid monthly.	Cost of healthcare insurance as part of group scheme. Additional benefits may also be provided where they are made available to the wider workforce or to take account of any changes to general taxation rules.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Annual performance-related pay	Focus attention on group KPIs, incentivise outperformance of targets and provide a competitive total annual earnings opportunity.	The remuneration committee sets targets which are linked to operational performance and determines the percentages of salary achievable for each and at what performance level these are receivable. Performance-related pay is calculated and awarded based on the financial year end to which it relates. Discretion may be used where circumstances necessitate the adjustment of targets within the year. Awards are paid in cash except where a director chooses to take all or a portion of the performance-related pay as company paid pension contributions. Where individuals receive their performance-related pay as pension this reduces the company's National Insurance Contributions and this saving is also credited to the individual's pension (currently 13.8% of the amount exchanged).	Normal annual performance-related pay is expected to be 17% of salary with a maximum annual performance-related pay potential of 25% of salary.	Performance-related pay elements are based on group KPIs for the year and include: • Availability and asset integrity improvements; • Revenue; • Costs and cost savings; and • Compliance and health and safety improvements Performance below the threshold usually results in zero payment. Payments rise from 0% to 100% of the maximum opportunity for levels of performance between the threshold and maximum. As these elements are fundamental to the business the company sets its target performance at 100% of the maximum potential performance-related pay.	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Deferred performance-related pay	Align executives with long term interests of the group and encourage retention of key employees.	Each year a predetermined % of salary is set aside for each director as deferred performance-related pay. After 3 years half of the total which has been deferred to date becomes available for payment. Payment of this performance-related pay will be linked to key deliverables in the business plan in order to align payment with longer term goals. Discretion may be used to calculate the amount payable where appropriate.	It is expected that each year up to 33% of salary will be deferred. However this amount can be in the range 25-35% to give a total annual and deferred performance-related pay receivable of 50% in relation to each year. No deferred performance-related pay will be paid until the third year of operation of the policy, after which up to half of the amount set aside may be paid in cash or pension contributions as requested by the director.	The payment of the deferred performance-related pay is linked to the group strategic business plan and the key deliverables in that plan. Milestones for award are linked to the business plan projections. Targets are set for each of the relevant categories with the percentage of performance-related pay obtainable for each target to be determined each year by the remuneration committee. The categories for which targets are set include asset performance, financial and regulatory/market performance.	No recovery or withholding applies to any performance-related pay paid in cash. The deferred performance-related pay may be subject to forfeiture where the participant leaves the employment of the group prior to vesting. Forfeiture is at the discretion of the committee.
Pensions	To provide funding for retirement.	Defined contribution plan for all Executive Directors. The group also operates a pension salary sacrifice arrangement where individuals can exchange part of their salary for Company paid pension contributions, with NIC cost savings being credited to the individual's pension.	The company pension contribution is expected to be 16% of salary but no more than 25%, excluding any employee salary sacrifice.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.

The committee selected the performance conditions because these are central to the company's overall strategy and are the key metrics used by the executive directors to oversee the operation of the business. The performance targets for both annual and deferred bonus are determined each year by the Committee, reflecting both financial and non-financial measures, and are typically set at a level that is aligned with company forecasts.

The Committee is of the opinion that the performance targets for the annual and deferred performance-related pay are commercially sensitive in respect of the group and that it would be detrimental to the interests of the group to disclose them before the start of the financial year. The targets will be disclosed after the end of the relevant financial year in that year's remuneration report, to the extent that they do not remain commercially sensitive at that time.

In relation to the annual performance-related pay plan, the Committee retains discretion over:

- The participants;
- The timing of grant of a payment;
- The determination of the performance-related pay payment;
- Dealing with a change of control;
- Determination on the treatment of leavers based on the rules of the plan and the appropriate treatment chosen; and
- The annual review of performance measures and weighting, and targets for the annual performance-related pay plan from year to year.

In relation to both the Company's annual and deferred performance-related pay plan, the Committee retains the ability to adjust the targets and/or set different measures if events occur (e.g. material acquisition and/or divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy. Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration.

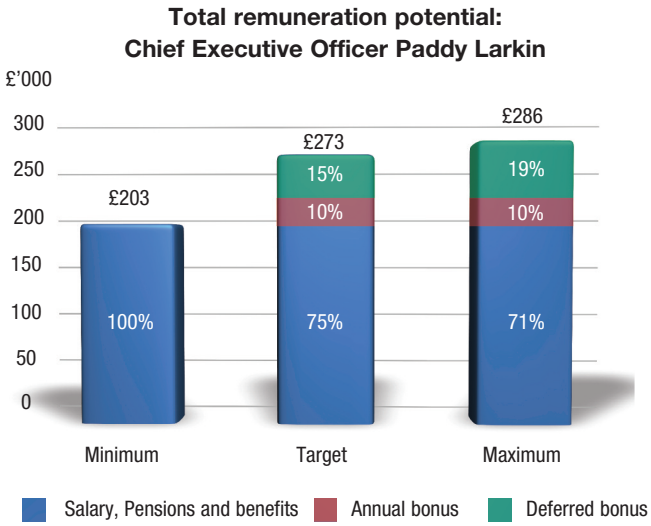
The Remuneration Committee reserves the right to make any remuneration for loss of office payments where the terms were agreed prior to an individual being appointed as a director of the company or prior to the approval of the policy.

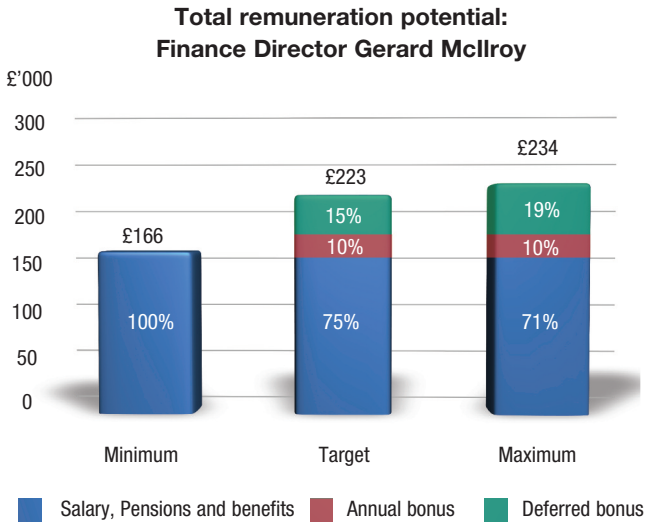
All employees are entitled to base salary, benefits, pension and annual performance-related pay. The remuneration policy for the executive directors is more heavily weighted towards variable pay than for other employees to make a greater part of their pay conditional on the successful delivery of the business strategy. The maximum performance-related pay opportunity available is based on the seniority and responsibility of the role with the employee average potential performance-related pay being 16% at the time of policy setting.

Mutual Energy Board (l-r): Patrick Anderson, Clarke Black, Paddy Larkin, Regina Finn, Kate Mingay, Chris Murray, and Gerard McIlroy.

Illustrations of potential reward opportunities for the executive directors

The total remuneration for each of the executive directors that could result from the remuneration policy in 2017/18 under three different performance levels is shown below:





The following assumptions have been made:

- Minimum (performance below threshold) – Fixed pay only;
- Target – Fixed pay plus 100% of the in-year performance-related pay (as these are based on fundamental operational performance measures and the aim is to meet these in full) plus 75% of the potential maximum deferral; and
- Maximum (performance meets or exceeds maximum) – Fixed pay plus maximum in-year performance-related pay and maximum deferred performance-related pay.

Fixed pay comprises:

- salaries – salary effective as at 1 April 2017;
- benefits – amount received by each Executive Director in the 2016/17 financial year; and
- pension – amount received by each Executive Director in the 2016/17 financial year.

Service contracts and policy on payment for loss of office of the Executive Directors

The executive directors' services agreements normally continue until the Directors' agreed retirement date or such other date as the parties agree, are terminable on 3 months' notice and provide no entitlement to the payment of a predetermined amount on termination of employment in any circumstances. If notice is served by either party the Executive director can continue to receive basic salary, benefits and pension for the duration of their notice period during which time the company may require the individual to continue to fulfil their current duties or may assign a period of garden leave. Payments in relation to annual performance-related pay may be made, payable in cash, on a pro-rata basis, but only for the period of time served from the start of the financial year to the date of termination and not for any period in lieu of notice. There is no entitlement to payments in relation to deferred performance related pay, however, payments may be made at the discretion of the committee. Any performance-related pay (either in-year or deferred) paid would be subject to the normal performance-related pay targets, tested at the end of the year.

Directors' service contracts/letters of appointment are available for inspection at the company's registered office.

Approach to recruitment remuneration

The committee's approach to remuneration is to pay no more than is necessary to attract appropriate candidates to the role. When setting the remuneration package for a new executive director, the committee will apply the same principles and implement the policy as set out in the future policy table. Base salary will be set at a level appropriate to the role and the experience of the director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate. The maximum level of variable pay and structure of remuneration will be in accordance with the policy table. This limit does not include the value of any buy out arrangements. Different performance measures may be set initially for the annual performance-related pay, taking into account the responsibilities of the individual and the point in the financial year in which they joined.

For external appointments, the committee may structure an appointment package that it considers appropriate to recognise awards or benefits that will or may be forfeited on resignation from a previous position, taking into account timing and valuation and such other specific matters as it considers relevant. The policy is that the maximum payment under any such arrangements (which may be in addition to the normal variable remuneration) should be no more than the committee considers is required to provide reasonable compensation to the incoming director. If the director will be required to relocate in order to take up the position, it is the company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the committee.

In the case of an employee who is promoted to the position of director, it is the company's policy to honour pre-existing award commitments in accordance with their terms. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the first AGM following their appointment.

Non-executive director appointments will be through letters of appointment. Non-executive directors' fees, including those of the chairman, will be set in line with the policy for non-executive directors' remuneration.

Statement of consideration of employment conditions elsewhere in company

The committee invites the Executive Directors to present in its meeting in March on the proposals for salary increases for the employee population generally and on any other changes to remuneration within the group. The Executive Directors consult with the Committee on the KPIs for executive directors' performance-related pay and the extent to which these should be cascaded to other employees. The Committee is also provided with data on the

remuneration structure for senior management (other than directors) and uses this information to work with the Finance Director to consider consistency of approach throughout the company. There is no set relationship between director and employee pay.

The Committee does not consult with employees when drawing up the directors' remuneration policy set out in this part of the report.

Statement of consideration of member views

The company remains committed to member dialogue and takes an active interest in voting outcomes. The Chairman of the remuneration committee presented the 2012/13 annual remuneration report and revised executive director remuneration structure for 2013/14 onwards to the members at the 2013 AGM. Questions and comments were invited and members were offered the opportunity to discuss any issues on a one-to-one basis at a later date. The revised structure and levels received unanimous support from the members. Any feedback from members received throughout the year is considered when setting the directors' remuneration policy. Members views will be sought going forward, at a minimum, in line with the 3 year policy approval cycle.

Policy for non-executive directors

The following table provides a summary of the key components of the remuneration package for non-executive directors:

Component	Purpose	Operation	Opportunity	Applicable performance measures	Recovery
Annual fee	Competitive fee to recruit and retain NEDs who have a broad range of experience and skills to oversee the implementation of the group strategy.	The chairman and NEDs are paid an all-inclusive fee for all Board responsibilities. The fees are reviewed annually and fixed for 12 months commencing 1 April. NED fees are determined by the Chairman and executive directors and approved by the Board. The Chairman's fees are set by the committee. No additional fees are payable for the chairmanship of other committees or for the additional responsibilities of the senior independent director. Fees are periodically reviewed against those for NEDs in companies of similar scale and complexity and may be adjusted as appropriate. NEDs are not eligible to receive benefits and do not participate in pension plans or performance-related pay schemes.	Fee levels for incumbents for 2016/17 are as follows: Chairman £77,320p.a. NEDs £33,500p.a.	None.	There are no provisions for the recovery of any sums paid or the withholding of any payments.
Additional fees payable for other duties to the company	To provide the group with services which it requires which do not fall within the normal duties of a director and where there are overriding reasons that make them the most suitably qualified to undertake it.	Where a director possesses skills and experience which the company requires and the director is best-placed to provide them such services may be provided at an arms-length basis, in line with the company's procurement policies. The terms of engagement for such services must be approved by the Board.	Any remuneration will be at the discretion of the Board and will be reported in the annual report.	N/A.	There are no provisions for the recovery of any sums paid or the withholding of any payments.

The Non-Executive Directors' are appointed for an initial three-year term and normally serve two terms or in exceptions three. Their letters of appointment require one month's written notice for early termination by either party. There is no provision for compensation in the event of early termination of their appointment.

Annual report on remuneration

THE INFORMATION PROVIDED IN THIS PART OF THE DIRECTORS' REMUNERATION REPORT IS SUBJECT TO AUDIT

Single total figure of remuneration for each director

The remuneration of the directors for the years 2016/17 and 2015/16 is made up as follows:

Directors' remuneration as a single figure (2016/17)

£'000	Salary and fees[1]	All taxable benefits[2]	Annual performance-related pay[1]	Deferred performance-related pay[6]	Pension[1]	Total
Executive directors						
Paddy Larkin[3]	172	1	19	52	26	270
Gerard McIlroy[4]	140	1	16	43	21	221
Non-executive directors						
Patrick Anderson[5]	17	-	-	-	-	17
Clarke Black	34	-	-	-	-	34
Regina Finn	77	-	-	-	-	77
Stephen Kirkpatrick	17	-	-	-	-	17
Kate Mingay	34	-	-	-	-	34
Chris Murray	34	-	-	-	-	34
	525	**2**	**35**	**95**	**47**	**704**

Directors' remuneration as a single figure (2015/16)

£'000	Salary and fees[1]	All taxable benefits[2]	Annual performance-related pay[1]	Deferred performance-related pay	Pension[1]	Total
Executive directors						
Paddy Larkin[3]	169	1	25	45	25	265
Gerard McIlroy[4]	137	1	21	38	21	218
Non-executive directors						
Clarke Black	34	-	-	-	-	34
Regina Finn	77	-	-	-	-	77
Stephen Kirkpatrick	34	-	-	-	-	34
Kate Mingay	34	-	-	-	-	34
Chris Murray	34	-	-	-	-	34
Total	**519**	**2**	**46**	**83**	**46**	**696**

1 Figures in the table are shown before the effect of salary sacrifices.

2 All taxable benefits consists solely of healthcare benefits provided to executive directors.

3 In the year Paddy Larkin elected to exchange £Nil salary (2016: £17,688) for company paid pension contributions. Under the company's salary sacrifice scheme the employer NIC savings are also credited to the individual's pension giving an additional credit of £Nil in the year (2016: £2,441).

4 Gerard McIlroy elected to exchange £Nil salary (2016: £32,908) for company paid pension contributions in the year. £Nil NIC savings were credited to his pension account in the year (2016: £4,541).

5 Appointed as Director on 1 October 2016. In accordance with the current terms of engagement £4,000 was paid to the director and the remaining £12,750 was elected to be paid to charity (Disability Sport NI).

Determination of 2016/17 annual performance-related pay

Annual performance-related pay awards were determined with reference to performance over the financial year ending 2016/17. The performance-related pay accruing to executive directors is set out below. The particulars of the performance measures have not been disclosed as these are considered commercially sensitive.

	Annual performance related pay (% of salary)				Deferred performance related pay (% of salary)			
	CEO		FD		CEO		FD	
	Maximum	Actual	Maximum	Actual	Maximum	Actual	Maximum	Actual
Asset performance	9.00%	5.00%	9.00%	5.00%	19.00%	18.75%	19.00%	18.75%
Financial performance	6.50%	6.00%	6.50%	6.00%	6.00%	5.50%	6.00%	5.50%
Regulatory/market performance	1.50%	1.50%	1.50%	1.50%	8.00%	7.50%	8.00%	7.50%
	17.00%	**12.50%**	**17.00%**	**12.50%**	**33.00%**	**31.75%**	**33.00%**	**31.75%**

Payments to past directors

No payments were made to past directors in the period.

Payments for loss of office

There were no payments for loss of office made in the year (2016: £Nil).

THE INFORMATION PROVIDED IN THIS PART OF THE DIRECTORS' REMUNERATION REPORT IS NOT SUBJECT TO AUDIT

CEO Remuneration Table

The table below sets out the details for the director undertaking the role of chief executive officer.

Year	CEO single figure of total remuneration (£'000s)	Annual performance-related pay pay-out against maximum %	Deferred performance-related pay pay-out against maximum opportunity %**
2009/10	48*	95%	-
2010/11	197	92%	-
2011/12	189	86%	-
2012/13	203	81%	-
2013/14	257	85%	-
2014/15	260	76%	-
2015/16	265	92%	88%
2016/17	270	71%	92%

* The group did not have a CEO until it was restructured in January 2010. The figure shown therefore only includes 3 months' remuneration from January to March 2010.
** During 2015/16 payments in relation to the deferred bonus were made for the first time since the introduction of the deferred bonus element to the directors' remuneration. The percentage shown represents the amount paid as a percentage of the maximum possible payment.

Percentage change in remuneration of director undertaking the role of chief executive officer

The table below shows the percentage change in remuneration of the director undertaking the role of chief executive officer and the group's employees as a whole between the year 2016/17 and 2015/16.

	Percentage increase in remuneration in 2016/17 compared with remuneration in 2015/16	
	CEO	Group's employees as a whole*
Salary and fees	1.8%	4.5%
All taxable benefits	(2.4)%	(0.8)%
Annual performance-related pay	(23.4)%	(5.1)%
Total	(1.3)%	3.4%

* Reflects the average change in pay for employees (excluding non-executive directors) employed throughout both the year ended 31 March 2016 and the year ended 31 March 2017.

Relative importance of spend on pay

The table below shows the total pay for all of the group's employees, compared with total debt repayments plus cash retained in the business. The group does not pay dividends as there are no shareholders.

	2016/17	2015/16	% Change
	£'000	£'000	
Total employee costs	2,009	2,154	(7)%
Total debt repayments plus cash retained in the business plus cash returned to customers via shippers	35,831	(12,900)	(378%)

Total debt repayments plus cash retained in the business plus cash returned to gas consumers via shippers shows the most significant distributions, payments and uses of cash flow therefore is deemed to be the most appropriate comparator for spend on employees.

Statement of implementation of remuneration policy in 2017/18

The directors' salaries and fees for the 2017/18 year are as follows:

	2017/18	2016/17	Change
	£'000	£'000	
Chief Executive	176	172	2.4%
Financial Director	143	140	2.4%
Chairman	77	77	-
Non-executive directors	34	34	-

The annual performance-related pay for 2017/18 will operate on the same basis as for 2016/17 and will be consistent with the policy detailed in the Remuneration Policy section of this report. The measures have been selected to reflect a range of financial and operational goals that support the key strategic objectives of the group.

The performance measures and weightings for the executive directors will consist of several targets based on assets and costs with overall weightings as shown below.

	Annual performance related pay (max % of salary)		Deferred performance related pay (max % of salary)	
	CEO	FD	CEO	FD
Asset performance & business resilience	10.0%	10.0%	19.0%	19.0%
Financial performance	5.5%	5.5%	6.0%	6.0%
Regulatory/market performance	1.5%	1.5%	8.0%	8.0%
	17.0%	**17.0%**	**33.0%**	**33.0%**

The particulars of the performance targets are considered to be commercially sensitive.

Consideration by the directors of matters relating to directors' remuneration

During the year, the committee met once to consider matters relating to executive directors' remuneration. The directors who were members of the committee during these considerations were Clarke Black, Chris Murray and Regina Finn. The CEO and Finance Director attend meetings by invitation and assist the Committee in its deliberations where appropriate. The executive directors are not involved in deciding their own remuneration. During the year the committee procured advice in respect of their consideration of executive director remuneration structure. Following a tender Towers Watson were appointed to provide these services during 2017/18.

Statement of voting at general meeting

The group is committed to on-going shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to directors' remuneration, the reasons for any such vote will be sought, and any actions in response will be detailed here.

The following table sets out actual voting at the last general meeting in which the remuneration report and the remuneration policy were approved

	Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration report (2016 AGM)	24	100%	-	0%	24	1
Remuneration policy (2015 AGM)	19	100%	-	0%	19	-

Approval

This report was approved by the board of directors on 26 June 2017 and signed on its behalf by:

Clarke Black

26 June 2017

Regina Finn, Chairman, Mutual Energy.

Risk Committee Report

The Risk Committee is a Committee established by the Board of Directors of Mutual Energy Ltd to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to business and operational risks (other than financial risks) and compliance with applicable requirements (other than financial compliance matters).

The terms of reference of the Committee determine that its duties are proactively to review the strategies, policies, management initiatives, targets and performance of the group, and where appropriate, its suppliers and contractors in the following areas:

- Health and Safety;
- Operational safety, including asset engineering fitness for purpose;
- Environment;
- Security; and
- Emergency response.

In relation to the areas noted, the Committee has responsibility for the following:

- Prior to each financial year considering and reviewing the plan for safety and environmental audits;
- Reviewing safety and environmental audits and performance at each meeting held;
- Annually reviewing Health and Safety matters and security matters;
- Oversight of the operational risk management system and its implementation
- Reporting to the Board on all major incidents, potentially serious near misses and any other matters of appropriate significance, with details of follow-¬up action;
- Reviewing the effectiveness of the Committee annually; and
- Advising the Audit Committee on non-financial risks.

The Committee is chaired by Chris Murray, non-executive director, and also comprises Paddy Larkin, Chief Executive, Stephen Hemphill, Group Operations Manager and Roy Coulter, Health and Safety Manager.

Activities in 2016/17

The Committee met on four occasions during the year ended 31 March 2017 in order to review risk registers and business improvement plans, review Health and Safety policies and procedures, and to address specific issues of operational and environmental risk including the Moyle low voltage cable replacement and cyber security risk. Attendance was as listed in the Corporate Governance Statement.

During the year the Committee:

- Reviewed Health and Safety performance including incidents, near-miss and good-catch reports;
- Provided oversight and review of amendments to the 2016 Health and Safety Policy Statement and 2016 Health and Safety Management System to reflect changes in Health and Safety guidance, reviewed the 2016/17 Health and Safety Plans and recommended these documents to the Board for approval;
- Reviewed Site Safety and Work Inspections.
- Reviewed the Environmental Policy.
- Reviewed the progress on recommendations from the 2015 British Safety Council audit.
- Reviewed the arrangements in place to prevent or mitigate against a cyber security breach.
- Reviewed the Business Continuity/Disaster Recovery programme.
- Reviewed the potential implications from 'Brexit'.
- Reviewed the risk registers for both the gas and electricity businesses;
- Reviewed the improvement plan for the gas and electricity businesses, incorporating both Health, Safety, Welfare and asset performance improvement.
- Reviewed risk registers for the Moyle low voltage cable replacement projects.
- Reviewed the Moyle land-based IRC response and repair plan produced by the Cables sub-committee.

The minutes of the Risk Committee are issued to the Audit Committee for information and the proceedings are reported at the subsequent Board meeting.

Chris Murray
Chairman
Risk Committee

Audit Committee Report

Patrick Anderson
Chairman
Audit Committee

The Audit Committee was in place throughout the year ended 31 March 2017 and all its members were independent in accordance with provision B.1.1 of the UK Corporate Governance Code.

I am pleased to present my first statement as Audit Committee Chair, having joined the Board in October 2016. During the year, the group tendered its audit and tax services, separating these services in order to increase auditor independence. These accounts are the first set audited by KPMG, our new auditors, and therefore the committee spent significant time with the auditors during the year, discussing the group and its accounts, particularly in respect of key judgements. The group is complex in nature and a key part of the committee's role is to consider these judgement areas and ensure that it is as comfortable as possible, given the level of subjectivity in some areas. The complexity of the accounts, often driven by our unique revenue model interacting with standards, is seen in the accounting treatment of the Moyle Return Cable works, which has attracted a variety of views from various firms and technical experts. This is discussed in more detail below.

The committee continued to review the effectiveness of the group's internal controls reviewing compliance with the group's policies and approving policy amendments.

Patrick Anderson

26 June 2017

Principal responsibilities

The role of the Audit Committee is to:

- review the effectiveness of the group's financial reporting and internal controls;
- monitor the integrity of the financial statements of the company, reviewing significant financial reporting judgements contained in them;
- review the procedures for the identification, assessment and reporting of risks, and subsequently manage and mitigate risks identified;
- recommend the remuneration and approve the terms of the external auditors, monitoring their independence, objectivity and effectiveness and making recommendations to the Board as to their appointment; and
- monitor the engagement of the external auditors to supply non-audit services.

The Audit Committee delegates management of certain non-financial operating risks to the Risk Committee who provide minutes of each meeting to the Audit Committee. Discussions are held between the Audit Committee and Risk Committee as required and additional reports are provided to the Audit Committee by the Risk Committee when necessary.

Membership

The Committee was chaired by Patrick Anderson since 1 October 2016 and by Stephen Kirkpatrick until his retirement in September 2016. Both chairs are qualified accountants and fulfil the Committee's terms of reference that at least one member of the Audit Committee should have sufficient recent and relevant financial experience. The Committee also comprised Clarke Black and Kate Mingay. Members receive no additional remuneration for their service on the Committee.

The Committee invites the executive directors, the company chairman and other employees to attend its meetings as and when appropriate. The external auditors are also invited to attend meetings of the Committee on a regular basis. During the year, the Committee has met without the executive directors present.

Activities

The Committee met five times in the year ended 31 March 2017 with attendance as listed in the Corporate Governance Statement. The key areas of consideration are set out below, along with a description of the activities carried out in each area during the year.

Audit

A key role of the Committee is to monitor and manage the relationship with the Auditor. The duty to assess the effectiveness of the audit process including the qualifications, expertise and resources of the external auditors is fundamental to the Committee's work. The Committee discharges this responsibility in two stages. Firstly, as part of the audit tender process, the Committee investigates the approach of the firm, the quality of the staff and expected level of effort, comparing these to the rival firms who put forward a proposal. Then, throughout the period of appointment, the Committee reviews the audit planning documentation for each audit, ensuring its consistency with the initial proposal and its ongoing suitability.

The group policy is to tender the audit contract on an approximate 7-year cycle, with consideration on the exact timing taking into account other business activities ongoing at the time. The audit tender includes other services linked to the audit which are pre-approved by the Audit Committee as a matter of policy, namely the audit of regulatory accounts and production of iXBRL versions of the accounts.

The audit engagement was tendered during 2016/17 and the audit and tax services were awarded to separate advisors so as to ensure maximum independence of the auditors.

Audit related matters considered by the Committee in the year included:

- tendering, interviewing and awarding contracts for audit and tax services to the group;
- meeting with the external auditor to confirm their independence and objectivity;
- meeting with the external auditor:
  - at the planning stage before the audit in order to review and approve the annual audit plan, ensuring that it is consistent with the scope of the audit engagement;
  - after the audit at the reporting stage to review the findings of the audit and discuss any major issues which arose during the audit, including any accounting and audit judgements, the levels of errors identified and the effectiveness of the audit; and
  - without management present so that any matters can be raised in confidence;
- monitoring of the statutory audit of the annual financial statements;
- monitoring of the review of Moyle's interim financial statements;
- considering and making recommendations to the Board, to be put to members for approval at the AGM, in relation to the appointment of KPMG as external auditor; pre-approving all non-audit work carried out by the external auditors above a de-minimis level of £5,000, taking into account any relevant ethical guidance on the matter. No non-audit services were provided by the external auditors in the year. Non-audit services are only provided by external auditors where it can be demonstrated as part of the approval process that the engagement is a natural extension of their existing work or there are other overriding reasons that make them the most suitably qualified to undertake it. Where non audit services are provided the Audit Committee ensures, through discussion with the external auditors, that sufficient safeguards are in place to protect auditor independence; and
- considering whether an internal audit function is required. The Committee is satisfied for the present, given the scope of the group's activities, that internal controls and risk management are adequate without such a function. The group has implemented a suite of policies which are approved by the Committee and a compliance review programme is in place which monitors compliance with these policies in line with the schedule approved by the Committee. All findings are presented to the Audit Committee for review and remedial actions are taken if appropriate.

Financial reporting

The Committee considers the significant issues in relation to the financial statements both in advance of their preparation as part of the audit planning, and after the financial statements have been drafted in advance of signing by the Board. Any fundamental issues identified during an audit are considered by the Committee as the audit progresses to ensure timely resolution. As a matter of course, during the planning stage, the auditor puts forward a number of risks and their approach to auditing them. At completion stage a review of the material judgements and issues is provided.

The majority of the matters identified are effectively routine and consistent year on year. In the current year the issues the Committee consider significant were as follows:

Accounting treatment in relation to the Moyle Interconnector

The treatment of the expenditure on the Moyle interconnector integrated return project has proved particularly challenging over the last few years with a clear divergence of views among the professional firms. The committee have firstly had to consider whether the expenditure constituted "repair" or "capital expenditure". As noted in last years' accounts, after much consideration, the costs are treated as capital expenditure.

Once the treatment as capital expenditure is established the issue of impairment needs to be considered. In the prior year, it was considered that the forecasts of future accounting losses was grounds for an impairment review and ultimately an impairment write down.

On appointment of a new auditor the Committee revisited all material accounting judgements, in both the current and prior years. The impairment treatment is a particularly balanced judgement, with a variety of divergent advice from a number of firms. The Committee contracted a leading academic with expertise in financial statements for an opinion. Whilst this view was again different in some respects from a number of firms, the expert view was that the capitalised value of the interconnector should not be regarded as impaired because of the protection of the overarching arrangements. Whilst we still forecast future losses, at the commencement of the licence arrangements the interconnector was not expected to make losses over the lifetime of the licence arrangements and this expectation has not changed. We therefore consider that in applying the guidance in IAS 36, despite the variable timing of returns in individual financial periods, no impairment has arisen by virtue of such timing issues. As a result, the current year accounts contain a prior year adjustment to reverse the impairment charged and the write off of the grant in the previous year, as well as adjusting the depreciation and grant release in that period to match that required had the impairment and grant release never been recognised.

This is a very complex area as evidenced by the differing views of the various professionals who have considered the issue. The committee has spent significant time discussing this treatment in order to get as comfortable as possible that the accounting treatment for these assets is correct, particularly as the future losses projected in our cash flow forecasts are not therefore recognised in the financial statements. Having considered the matter in detail we consider that the treatment adopted is the most appropriate in the company's circumstances, and consider that no indicator of impairment will arise unless there is a change in accounting standards or related guidance or our underlying business model.

Valuation of the Platina Fund

Moyle Energy Investments Limited holds investments in the Platina renewable energy fund, PEN III, (formerly known as European Renewable Energy Fund Limited Partnership). The fair value is based on our share of the projected cash flows for each individual project which combine to constitute the financial instrument. The committee considers the judgements inherent in projecting the cash flows for a non-listed fund, notably timing of divestment, cashflows from individual investments, fund expenses and so on.

Accounting for derivatives

During the period ended 31 March 2006 the group entered into two index-linked based swaps to hedge against index-linked revenues receivable under its agreement with the regulator. In accordance with IFRS these index-linked swaps do not qualify as an accounting

hedge and are therefore accounted for as non-hedging derivative financial instruments. The fair value of these index linked swaps are recognised as a financial liability under non-current liabilities on the balance sheet with fair value movements being reported in the statement of comprehensive income under net finance costs. The statement of comprehensive income has been presented in a 6-column format in order to allow users to appreciate the impact of derivatives on the results for the year. The Directors believe that by separating gains and losses arising from applying the valuation requirements of IAS 39, the users of this financial information will better understand the underlying performance of the group.

During the year, the group novated one of its index-linked swaps from Barclays to BNP Paribas. The committee considered the transaction and the associated documentation and gave approval for the novation. The committee also considered the accounting treatment in relation to the transaction.

Other key judgements and policies are included in note 1 on pages 75 to 76.

The other financial reporting matters which the Committee considered included:

- reviewing and challenging where necessary the consistency of accounting policies; the methods used to account for significant transactions; whether the group has followed appropriate accounting standards and made appropriate estimates and judgements;
- reviewing the clarity of disclosure in the group's financial reports and all material information presented with the financial statements; and
- making recommendations to the Board on the areas within its remit where action or improvement was needed.

Internal controls and risk management systems

The company operates a risk governance framework which is managed by the Audit Committee. Under this framework, the policies which govern the internal control of the group are approved by the Committee, and are only amended with approval of the Committee. During the year, the Committee oversaw the groups' internal controls and risk management systems, with work including:

- reviewing the effectiveness of the group's internal controls and risk management systems including consideration of fraud risk;
- reviewing the outcome of the group's risk register process and making revisions to the risk register in line with changes to the group's business;
- reviewing and approving the statement to be included in the annual report concerning internal controls and risk management;
- determining the schedule and frequency of performance of compliance reviews, reviewing the outcome of these compliance reviews and recommending improvements and policy amendments in areas including: payment of suppliers, risk management, management supervision, treasury management, provision of information to financiers, corporate governance framework, business planning and forecasting, counterparty requirements and procurement;
- reviewing and approving policies including, treasury management, disaster recovery, procurement, security and IT; and
- reviewing cyber-attack resilience.

Members

Declan Billington

Declan Billington is CEO of leading animal feed manufacturer, Thompsons. He is also the current Chair of the NI Food and Drink Association, and the Northern Ireland Poultry Federation. He is a member of the Agri-Food Strategy Board and also represents Northern Ireland on the board of the leading UK based agricultural lobbying body, the Agricultural Industries Confederation. As well as an extensive track record in the agri-food sector, he has also sat on the Ministerial Energy and Manufacturing Advisory Group, advising the DETNI minister. He has specialist experience in environmental regulation, leading NIFDA delegation meetings with the Northern Ireland Environment Agency (NIEA) which resulted in a prosperity agreement with the Agency. Mr Billington has previously held a number of prominent industry positions including Chair of CBI Northern Ireland, Chair of the Economic Development Forum's Skills sub group, and Chair of the Northern Ireland Grain Trade Association.

Margaret Butler

Margaret Butler is a retail banker with multinational experience and a career spanning 46 years in the financial services industry. She has worked in banking in Northern Ireland, England, Scotland and Australia, firstly with Northern Bank and then with National Australia Bank in Executive roles. Margaret is currently a non-executive director of AIB (UK). Margaret has leadership experience across a wide range of disciplines including human resources, business planning, strategy, operations and business transformation. Margaret has an MBA from the University of Ulster. She is a Trustee and Honorary Treasurer of the Northern Ireland Hospice.

John Cherry

John Cherry is an external investigator for a major financial institution and was also a Programme Manager managing the delivery of European Regional Development Funding. John also worked as a consultant providing specialist forensic and advisory support to a leading consultancy firm in Ireland. John has delivered bespoke training on topics such as fraud risk management, corruption and whistle blowing and investigative risk management. He has a BA (Hons) in Public Policy and Management from the University of Ulster, PGD in HRM and Training, University of Leicester, PGD in Professional Management, Open University, PGC in Professional Development, University of Teeside. John is a Fellow of the Chartered Management Institute and a member of the Fraud Advisory Panel.

Robin Davey

Robin Davey has spent a lifetime in industry and energy studies. After graduating from Queen's University, he spent ten years in production management in the food industry in England, Scotland, the Republic of Ireland and Northern Ireland. He then took up a lectureship in Food Technology and Science in the Upper Bann Institute of Further and Higher Education. In this

AGM, September 2016.

position he identified a need for energy management training and on becoming a member in the Energy Institute he developed and directed City and Guilds courses in this diverse field. As the demand for higher level courses developed, he helped to develop and lead the Energy Institute's advanced open learning course TEMOL (Training in Energy Management through Open Leaming). He carried out numerous energy surveys throughout the UK as an accredited energy manager with the Carbon Trust, and more recently as a lead assessor he has completed many energy audits for the ESOS programme. He is a Chartered Scientist, a Chartered Energy Manager, Fellow of the Energy Institute and a past chairman of the Energy Institute Northern Ireland.

Joseph Doherty

Joseph Doherty works as a Curriculum Manager in the Technology Department of Southwest College. This work involves aligning the college's curriculum offer to the needs of local and regional industries (such as developments within the renewable energies fields). He is an associate Inspector with the Employment and Training Inspectorate (ETI) which reviews and evaluates the quality and standards of teaching within various educational and training organisations. He is also the Principal Moderator for CCEA in the area of ICT (Key Skills and Essential Skills).

Stephen Ellis

Stephen Ellis has over 28 years' experience across all sectors of the oil and gas industry, with particular expertise in Liquefied Natural Gas (LNG), gas transmission pipelines and commercial operations. He has held a number of senior positions with BG Group, and has recently established his own energy consultancy, Carbon Consulting, supporting and advising a number of energy projects in the UK, Canada and the US. He has held a number of Board and General Management positions in BG Group's incorporated and joint venture companies including; Director and GM for Premier Transmission, (the operator of the Scotland to Northern Ireland transmission pipeline), Commercial Director for Phoenix Natural Gas, Board Director for Atlantic LNG and Commercial Director for Atlantic LNG in Trinidad. Stephen has an MBA from Bath University and an Honours Degree in Economics from Queen's University.

Members' Day 2017.

AGM, September 2016.

Brian Fitzpatrick

Brian Fitzpatrick is the Managing Director of Isambard Associates Limited. Previous to starting his own company Brian was the Buildings & Facilities Manager for the Central Bank of Ireland and led the FM design input to enable their new headquarters to achieve BREEAM Outstanding. He is a Chartered Engineer and has worked in Ireland for global organisations including: B/E Aerospace , Xerox Corporation, Medtronic AVE, A&L Goodbody Solicitors and internationally for AECOM (formerly Worley Consultants) in Auckland, New Zealand and B&C PTY Ltd, Sydney Australia.

Trevor Greene

Trevor Greene worked for the Northern Ireland Housing Executive before his retirement in 2012. He worked in personnel management until the late 1990s when he took up a post as Business Planning Manager dealing with corporate and business planning; performance and risk management; along with equality of opportunity. He also dealt with governance and compliance issues. He has been involved in a wide range of voluntary and charitable organisations. Along with his role as a Mutual Energy member, he is currently a Director of Hostelling International Northern Ireland, Habinteg Housing Association, First Cast NI (an angling related charity to assist vulnerable people), the Lough Neagh Dollaghan Trust and Ballynure Angling Club.

Wesley Henderson

Wesley Henderson is a retired Director of the Consumer Council for Northern Ireland where his responsibilities included energy policy and corporate services. He is a Council Member and Non-Executive Director of the Advertising Standards Authority (ASA) and an Independent Assessor with the Commissioner for Public Appointments for Northern Ireland. He is also an Education Speaker for Cats Protection, the national animal charity. He previously served as a Lay Representative for the Northern Ireland Medical and Dental Training Agency and was a Public Director with the Lagan Canal Trust.

Members visit to Moyle Convertor Station.

Christopher Horner

Christopher Horner is a chartered civil engineer with over 20 years' experience in the industry. Following graduation from Queen's University he worked for local engineering consultancy, Ferguson & McIlveen, before transferring to the Civil Service where he worked in Water Service, Construction Service (CPD) and Roads Service. Christopher was appointed as Capital Projects and Engineering Manager of George Best Belfast City Airport in 2007 and his responsibilities include major and minor airport developments, the airport facilities department and airfield engineering including the radar and aircraft landing systems. Christopher has a young family and sits on the Board of Governors of his local primary school.

Gillian Hughes

Gillian Hughes is Company Secretary at Northern Ireland Co-ownership Housing Association, the Northern Ireland regional body for shared ownership. She has an MSc in Management and Corporate Governance from the University of Ulster and is a graduate of the Institute of Chartered Secretaries and Administrators, which is the international qualifying and membership body for the Chartered Secretary profession and a recognised authority on governance and compliance.

Robert McConnell

Robert McConnell is a Director with CCP Gransden Ltd, with particular responsibility for the Engineering and Manufacturing division which specialises in manufacturing with advanced composites and thermoplastics. Robert is also the current Technical Committee Chairman for the Northern Ireland Advanced Engineering Competence Centre. Robert is a Fellow of the Institute of Directors and has recently achieved his Chartered Director status, having previously completed his Certificate (Cert.IoD) and Diploma (Dip.IoD) in Company Direction. Robert is also registered as a Chartered Engineer with the Institute of Materials, Minerals and Mining. Robert originally qualified with a BEng (Hons) in Engineering Management, and later with an MSc in International Business, both from Ulster University.

Brendan Milligan

Brendan Milligan qualified in London as a Chartered Accountant. Currently a Financial Controller with Glen Water Limited (a joint venture between Laing O'Rourke and Veolia Water delivering a PFI solution to Northern Ireland Water), much of his recent career has involved change management in complex organisations.

Nevin Molyneaux

Nevin Molyneaux is a Technical Specialist for Schrader Electronics Ltd, where his responsibilities are as a key contributor to the design and development of the company's range of application specific integrated circuits (ASIC's) for sensor technology used in the automotive industry. Nevin is a Chartered Engineer with around 18 years of experience in electronics and embedded software.

Mutual Energy Chief Executive Paddy Larkin, Members Day May 2016.

Colin Oxton

Colin Oxton has a B.Eng (Hons) in Systems and Control Engineering from the University of Sheffield. He holds the position of Lead Process Engineer and has worked in the gas industry for over 20 years on projects throughout the UK and Ireland. He has been a member of the Institute of Measurement and Control since 2008.

Conor Quinn

Conor Quinn is a Chartered Electrical Engineer. With a background in technology companies and funding for research and development he currently works at Queen's University Belfast in the role of Business Alliance Manager. He is responsible for developing collaborative projects with industrial partners accessing public sector support for innovation from regional, UK and EU sources where appropriate.

Robert Richmond

Robert Richmond is a retired dairy farmer and has a keen interest in the development of renewable energy. He has developed his own on-farm wind energy project, and continues to take a keen interest in renewable energy of all sorts.

Patrick Thompson

Patrick Thompson is the Operations Manager at the Energy Saving Trust in Northern Ireland. Patrick has worked at the consumer end of the energy sector since 2001 supporting householders to make informed choices about energy use and carbon emissions through direct advice and the delivery of energy efficiency programmes for government. He currently sits on the Fuel Poverty Coalition

Mutual Energy Chief Executive Paddy Larkin, September 2016 AGM.

Steering Group, NI HECA Panel and the NI Microgeneration Certification Scheme Impartiality Committee. He previously sat on the former DSD fuel Poverty Advisory Group and Green New Deal Housing Group.

Gerry Walsh

Gerry Walsh is an Advisor and Business Consultant in Strategic Management and is also an experienced Executive and Team Coach. Having graduated in Executive Coaching at Henley Business School, he combines his management experience and coaching skills to work at CEO and Director Level and with Executive Teams in a range of Irish businesses. He is a non-executive director in a number of private sector companies. He served on the Board of Mutual Energy for five years. Gerry, a UCC engineering and MBA graduate is a Fellow of Engineers Ireland. Having started his career in the construction industry, he spent over twenty years working in Bord Gáis Eireann (BGE). He filled a number of General Management and Strategic roles in BGE culminating in a seven year period as Chief Executive. He led the transformation of the state-owned business to become a highly successful all Ireland natural gas and electricity supplier and investor in electricity generation. He left BGE in 2007 to work in the private sector as a strategic business consultant, setting up Spruce Consulting Ltd.

Peter Warry

Peter Warry is the chairman of a number of industrial companies. He was previously Chief Executive of Nuclear Electric and a director of British Energy. Peter acted as Senior Industrial Adviser to OFGEM for the 1999-2000 distribution price control review and has been a non-executive director of the Office of Rail Regulation. He graduated in Engineering and Economics and is a Fellow of the Royal Academy of Engineering as well as being a Fellow of the Institutions of Electrical Engineering and Mechanical Engineering. Peter was Chairman of Mutual Energy from 2008 to 2013.

Members' Day 2017.

Members' Day 2017.

Noel Williams

Noel Williams was formerly the Head of the Energy Saving Trust (EST) in Northern Ireland for seven years (2004-2011), where his raison d'etre was to promote the benefits of energy efficiency and to maximise the effectiveness of EST's programmes and oversee its strategy in Northern Ireland. He sought to address the damaging effects of climate change, reducing Northern Ireland's greenhouse gas emissions and tackle Fuel Poverty. He was the Chair of the Northern Ireland Fuel Poverty Advisory Group with the remit to advise the Minister and the Interdepartmental Fuel Poverty Group on fuel poverty issues . He is a former RAF Wing Commander and was a Carrickfergus Borough Councillor (2012-2015) and is currently the Head of Operations for the Alliance Party in East Antrim. Noel has been a member of Mutual Energy since 2008.

Mark Wishart

Mark Wishart works as an Asset Management Adviser for the Strategic Investment Board (NI Ltd). This role involves supporting each of the government departments in Northern Ireland in the development of their asset management strategies, plans and policies to ensure that public sector assets are efficiently and effectively managed. Mark had previously undertaken a review of key economic and social Infrastructure across the region which assessed stock, condition, operational costs, ownership models, capacity, exogenous drivers of changes and investment requirements to inform the development of the next iteration of the Executive's Investment strategy for Northern Ireland. He is a member of the Institute of Asset Management and sits on the Cabinet Office's Property Efficiency Steering Group.

Members day 2017.

Mutual Energy Limited

(a private company limited by guarantee and not having a share capital)

Annual report for the year ended

31 March 2017

Directors

Regina Finn	Chairman	
Patrick Larkin	Executive director	
Gerard McIlroy	Executive director	
Clarke Black	Senior independent director	
Patrick Anderson	Non-executive director	(appointed 1 October 2016)
Stephen Kirkpatrick	Non-executive director	(resigned 29 September 2016)
Kate Mingay	Non-executive director	
Christopher Murray	Non-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 plc
Donegall House
Donegall Square North
Belfast, BT1 5GB

Independent auditors

KPMG
Chartered Accountants and Statutory Auditors
Stokes House
17-25 College Square East
Belfast
BT1 6DH

Registered number: NI045625

Directors' report for the year ended 31 March 2017

The directors present their annual report and the audited financial statements of the group and parent company for the year ended 31 March 2017.

General information on the company can be found on page 59 and within note 1 to the financial statements.

Results

The group's profit for the year is £9,067,000 (2016: £15,400,000 as restated).

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.

Directors

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

Patrick Anderson	(appointed 1 October 2016)
Clarke Black	
Regina Finn	
Stephen Kirkpatrick	(resigned 29 September 2016)
Patrick Larkin	
Gerard McIlroy	
Kate Mingay	
Christopher Murray	

Financial risk management

Please refer to note 1 to these financial statements for a description of the financial risks that the group faces and how it addresses those risks.

Directors indemnities

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

Political donations

Neither the company nor any of its subsidiaries have made any political contributions or incurred any political expenditure in the year.

Corporate governance

Further details in respect of the group's corporate governance statement is set out on pages 28 to 32.

Statement of disclosure of information to auditors

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

- there is no relevant audit information of which the group and parent company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the group and parent company's auditors are aware of that information.

Directors' report for the year ended 31 March 2017 (continued)

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 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 IFRSs as adopted by the EU and applicable law and have elected to prepare the parent 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 and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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 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.

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

On behalf of the board

Gerard McIlroy
Company secretary
26 June 2017

Independent auditors' report to the members of Mutual Energy Limited

We have audited the financial statements of Mutual Energy Limited for the year ended 31 March 2017 set out on pages 63 to 98 which comprise the Group statement of comprehensive income, Group and parent company balance sheet, Group and parent company statement of changes in equity, Group and parent company cash flow statements and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. Our audit was carried out in accordance with International Standards on Auditing (ISA's UK & Ireland).

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

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 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

2 Our conclusions on other matters on which we are required to report by the Companies Act 2006 are set out below

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

3 We have nothing to report in respect of matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent 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.

4 Directors' remuneration report

The parent company voluntarily prepares a Directors' remuneration report in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Directors' remuneration report specified by the Companies Act 2006 to be audited as if the parent company were a quoted company.

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Basis of our report, responsibilities and restrictions on use

As explained more fully in the Directors' responsibilities statement set out on page 60, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent auditors' report to the members of Mutual Energy Limited (continued)

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

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

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions, it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

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

John Poole (Senior Statutory Auditor)
for and on behalf of KPMG, Statutory Auditor
Chartered Accountants
Stokes House
17-25 College Square East
Belfast
BT1 6DH

28 June 2017

Group statement of comprehensive income for the year ended 31 March 2017

		2017			2016 (as restated) (note 25)		
	Note	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000	Results before movements in the fair value of derivatives £'000	Fair value movement in derivatives £'000	Total £'000
Revenue - continuing operations		**60,795**	**-**	**60,795**	68,097	-	68,097
Operating costs	3	**(35,282)**	**-**	**(35,282)**	(43,782)	-	(43,782)
Operating profit		**25,513**	**-**	**25,513**	24,315	-	24,315
Finance income	5	**2,651**	**-**	**2,651**	597	1,498	2,095
Finance costs	5	**(16,442)**	**(1,719)**	**(18,161)**	(14,258)	-	(14,258)
Finance costs – net	5	**(13,791)**	**(1,719)**	**(15,510)**	(13,661)	1,498	(12,163)
Profit/(loss) before income tax		**11,722**	**(1,719)**	**10,003**	10,654	1,498	12,152
Income tax credit/(charge)	6	**(406)**	**(530)**	**(936)**	4,323	(1,075)	3,248
Profit/(loss) for the year attributable to the owners of the parent	16	**11,316**	**(2,249)**	**9,067**	14,977	423	15,400

The notes on pages 67 to 98 are an integral part of these consolidated financial statements.

Group and parent company balance sheet at 31 March 2017

		Group		Company	
	Note	**2017 £'000**	2016 (as restated) (note 25) £'000	**2017 £'000**	2016 £'000
Assets					
Non-current assets					
Property, plant and equipment	8	**236,519**	229,518	**49**	40
Intangible assets	9	**146,510**	152,060	**-**	-
Investments in subsidiaries	10	**-**	-	**5,431**	10,250
Other investments	11	**5,182**	8,897	**-**	-
Deferred income tax assets	19	**6,983**	7,513	**55**	56
		395,194	397,988	**5,535**	10,346
Current assets					
Trade and other receivables	12	**10,544**	15,150	**2,453**	3,337
Financial assets	13	**13,667**	13,511	**-**	-
Cash and cash equivalents	14	**75,548**	64,749	**2,522**	1,167
		99,759	93,410	**4,975**	4,504
Total assets		**494,953**	491,398	**10,510**	14,850
Equity and liabilities					
Equity attributable to the owners of the parent					
Ordinary shares	15	**-**	-	**-**	-
Retained earnings	16	**23,892**	14,825	**(9,118)**	(3,578)
Total equity		**23,892**	14,825	**(9,118)**	(3,578)
Liabilities					
Non-current liabilities					
Borrowings	17	**281,865**	291,081	**18,770**	17,721
Provisions	18	**3,311**	3,201	**-**	-
Deferred income tax liabilities	19	**39,271**	42,196	**-**	-
Government grants	20	**57,931**	61,340	**-**	-
Derivative financial instruments	24	**43,160**	41,441	**-**	-
		425,538	439,259	**18,770**	17,721
Current liabilities					
Trade and other payables	21	**23,662**	17,170	**858**	707
Corporation tax payable		**4,203**	3,012	**-**	-
Borrowings	17	**14,249**	13,723	**-**	-
Government grants	20	**3,409**	3,409	**-**	-
		45,523	37,314	**858**	707
Total liabilities		**471,061**	476,573	**19,628**	18,428
Total equity and liabilities		**494,953**	491,398	**10,510**	14,850

The notes on pages 67 to 98 are an integral part of these financial statements.

The financial statements on pages 63 to 98 were authorised for issue by the Board of Directors on 26 June 2017 and were signed on its behalf by

Patrick Larkin
Director

Patrick Anderson
Non-executive director

Mutual Energy Limited

Registered number: NI053759

Group and parent company statement of changes in equity for the year ended 31 March 2017

Group	Ordinary shares £'000	Retained earnings £'000	Total equity £'000
At 1 April 2015	-	(575)	(575)
Total comprehensive loss for the year	-	(28,557)	(28,557)
At 31 March 2016 (as previously reported)	-	(29,132)	(29,132)
Restatement (*)	-	43,957	43,957
At 31 March 2016 (as restated)	-	14,825	14,825
Total comprehensive income for the year	-	9,067	9,067
At 31 March 2017	**-**	**23,892**	**23,892**

Company	Ordinary shares £'000	Retained earnings £'000	Total equity £'000
At 1 April 2015	-	(3,174)	(3,174)
Total comprehensive loss for the year	-	(404)	(404)
At 31 March 2016	-	(3,578)	(3,578)
Total comprehensive loss for the year	-	(5,540)	(5,540)
At 31 March 2017	**-**	**(9,118)**	**(9,118)**

The notes on pages 67 to 98 are an integral part of these financial statements.

(*) The restatement reflects a prior year adjustment to reverse the impairment of the Moyle Interconnector and the related write down of Moyle's grant, as well as resulting adjustments to depreciation. This has been discussed in more detail at note 25. The subsequent tax impact of this was a corporation tax charge of £2,127,000 and a deferred tax charge of £7,737,000. This adjustment has no impact on the balance sheet or reserves at 1 April 2015.

Group and parent company cash flow statements for the year ended 31 March 2017

		Group		Company	
	Note	**2017 £'000**	2016 (as restated)* £'000	**2017 £'000**	2016 £'000
Cash flows from operating activities					
Profit before income tax		**10,003**	12,152	**(5,699)**	(428)
Adjustments for:					
Finance costs – net		**15,510**	12,163	**1,047**	991
Depreciation of property, plant and equipment		**13,638**	15,325	**31**	26
Amortisation and release of government grants		**(3,409)**	(3,410)	**-**	-
Amortisation of intangible assets		**5,550**	5,550	**-**	-
Fair value adjustment of investment		**2,506**	2,179	**4,819**	-
Movement in trade and other receivables		**4,606**	3,160	**879**	(391)
Movement in trade and other payables		**(4,892)**	(2,398)	**151**	375
Income tax (paid)/received		**(2,140)**	(2,585)	**165**	(312)
Net cash generated from operating activities		**41,372**	42,136	**1,393**	261
Cash flows from investing activities					
Interest received		**396**	598	**2**	2
Investment in financial asset		**(156)**	(13,511)	**-**	-
Purchase of property, plant and equipment		**(8,755)**	(42,123)	**(40)**	(36)
Return of capital on other investments		**1,209**	-	**-**	-
Net cash used in investing activities		**(7,306)**	(55,036)	**(38)**	(34)
Cash flows from financing activities					
Interest paid		**(9,238)**	(9,567)	**-**	-
Repayment of borrowings		**(15,794)**	(15,206)	**-**	-
Other finance income		**1,765**	-	**-**	-
Net cash used in financing activities		**(23,267)**	(24,773)	**-**	-
Movement in cash and cash equivalents		**10,799**	(37,673)	**1,355**	227
Cash and cash equivalents at the beginning of the year	14	**64,749**	102,422	**1,167**	940
Cash and cash equivalents at the end of the year	14	**75,548**	64,749	**2,522**	1,167

The notes on pages 67 to 98 are an integral part of these consolidated financial statements.

* See note 25.

Notes to the financial statements for the year ended 31 March 2017

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

General information

The group's principal activities during the year were the financing and operation through its subsidiaries of the Moyle Interconnector which links the electricity transmission systems of Northern Ireland and Scotland, the Scotland Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland, and the Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne. The company is incorporated and domiciled in Northern Ireland.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. With the exception of the group's investments, all of the group's assets and liabilities are denominated in Sterling. These financial statements were authorised for issue by the Board of Directors on 26 June 2017 and were signed on their behalf by Patrick Larkin and Patrick Anderson. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Mutual Energy Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed on pages 75 to 76.

Statement of compliance with IFRSs

The Group and Parent company financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The company has availed of the exemption permitted by Section 408 of the Companies Act 2006, and so the parent company's statement of comprehensive income has not been included in these financial statements.

Notes to the financial statements for the year ended 31 March 2017

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

New standards, amendments or interpretations

There are a number of new standards, amendments to standards and interpretations that are effective for periods beginning 1 January 2017 and early application is permitted, however the company has not early adopted the following new or amended Standards in preparing these financial statements. The company is reviewing the impact of the implementation of the following.

The new standards, amendments to standards and interpretations that may be relevant to the company are as follows:

	Effective Date – periods beginning on or after*
New currently effective requirements	
Amendments to IFRS 11: Accounting for acquisitions of interests in Joint Operations	1 January 2016
Amendments to IAS 16 and IAS 41 Bearer Plants	1 January 2016
Amendments to IAS 27 Equity Method in Separate Financial Statements	1 January 2016
Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the consolidation exception (December 2015)	1 January 2016
Annual Improvements to IFRSs 2012 to 2014 Cycle	1 January 2016
Amendment to IAS1: Disclosure Initiative	1 January 2016
Forthcoming requirements	
Amendments to IAS 7: Disclosure Initiative	1 January 2017*
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (19 January 2016)	1 January 2017*
IFRS 15 and Clarification to IFRS 15 Revenue from Contracts with customers (issued 12 April 2016)	1 January 2018
IFRS 9 Financial Instruments (issued 24 July 2014)	1 January 2018
Amendments to IFRS 2: Classification and measurement of Share-based Payment Transactions (issued on 20 June 2016)	1 January 2018*
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016)	1 January 2018*
Annual improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016)	1 January 2017 and 1 January 2018*
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)	1 January 2018*
Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016)	1 January 2018*
IFRS 16: Leases (issued on 13 January 2016)	1 January 2019*

*Not EU endorsed

Notes to the financial statements for the year ended 31 March 2017

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

Basis of consolidation

The consolidated financial statements consolidate the financial statements of Mutual Energy Limited and its subsidiary undertakings drawn up to 31 March 2017. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The fair value of consideration paid for an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the fair value of consideration over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the fair value of consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Presentation of statement of comprehensive income

The group has adopted a six column format to the group statement of comprehensive income to allow users to appreciate the impact of the fair value of derivatives on the results for both the current and prior year.

Segment reporting

The group is not within the scope of IFRS 8 as none of its securities are publicly traded, however, the group does provide segment analysis voluntarily. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

Revenue

Revenue comprises the fair value of the consideration received or receivable from the sale of capacity on the Premier Transmission Pipeline which links the gas transmission systems of Northern Ireland and Great Britain, from the sale of capacity on the Belfast Gas Transmission Pipeline which transports gas to Greater Belfast and Larne and from the sale of capacity, from the sale of capacity at West Transmission's offtake at Maydown, and services to the grid on the Moyle Interconnector for the transmission of electricity between Northern Ireland and Scotland. All revenue is generated within the United Kingdom. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

Gas businesses - revenue is recognised in accordance with the terms of the licence issued by the regulatory authority, namely in line with the applicable costs incurred by the company over the same period.

Electricity business – auction and grid services revenues are recognised in the period in which the services are provided to the customers. Collection Agency Income Requirement (CAIRt) revenue is recognised in line with the income recovered by SONI on Moyle's behalf via Northern Ireland electricity tariffs, as provided for in Moyle's Collection Agency Agreement.

Insurance receipts

Insurance receipts are recognised in the financial statement category to which the claim related when received or when the receipt is virtually certain. Insurance receipts are apportioned in the cash flow between receipts for damage to property, plant and equipment (investing activities) and receipts for business interruption (operating activities) by apportioning cash received in a ratio consistent with the insurance claim.

Notes to the financial statements for the year ended 31 March 2017

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

Intangible assets

(a) Goodwill

Goodwill represents the excess of fair value of consideration paid over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Licences

Acquired licences are shown at historical cost. Licences have a finite useful economic 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 economic lives. The estimated remaining useful economic life of the licences is 17 years for the Scotland Northern Ireland pipeline, 20 years for the Moyle Interconnector and 35 years for the Belfast Gas Transmission pipeline. The useful economic life of the licences is linked to the allowances to cover repayment of debts and is independent of the full terms of the licences or the useful lives of the assets.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises purchase cost plus any costs directly attributable to bringing the asset into operation and an estimate of any decommissioning costs. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

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

Gas Pipelines	43 years
Electricity interconnector assets	30 years
Control equipment	20 years
Plant and machinery	15 years
Office and computer equipment	3 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.

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

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

Notes to the financial statements for the year ended 31 March 2017

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

Investments

Investments that take the form of preference shares, and which are classified as debt by the issuer, are accounted for as investments in subsidiary undertakings. Investments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Investments in unquoted funds and other unquoted companies are recorded at fair value with the exception of those who do not have a quoted price on an active market and whose fair value cannot be reliably measured, in which case they are recorded at cost. The group assesses at each reporting date whether there is objective evidence that these investments are impaired. Any increases in fair value are recognised in the statement of other comprehensive income.

Impairment of non-financial assets

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

Classification of financial assets

The group classifies its financial assets in the following categories: at fair value through profit or loss, available-for-sale, and loans and receivables. The classification depends on who controls the asset and the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables (financial instruments)

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

(a) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade and other receivables with a maturity of more than twelve months from the reporting date are shown as non-current trade and other receivables.

(b) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call or with short maturity periods with banks, other short-term highly liquid investments with original maturities of three months or less.

Financial assets and liabilities at fair value through profit and loss (financial instruments)

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. The group's financial assets and liabilities comprise interest rate SWAPs, which are classified as derivatives, and are not designated as hedges.

The group enters into derivative financial instruments ("derivatives") to manage its exposure to variations in index-linked revenues. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. If the derivative does not qualify as an accounting hedge then changes in the fair value of the derivative are reported in finance costs in the statement of comprehensive income. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'finance costs' in the period in which they arise. Derivative financial liabilities are classified as non-current liabilities unless the remaining maturity is less than 12 months after the reporting date.

Notes to the financial statements for the year ended 31 March 2017

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

Available-for-sale financial assets (financial instruments)

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Available for sale financial assets are recognised initially at fair value. Changes in the fair value of debt instruments classified as available-for-sale are analysed between changes in amortised cost of the security and other changes in the carrying amount of the debt instrument. Changes in the fair value of debt instruments classified as available-for-sale are recognised in other comprehensive income. Interest on available-for-sale debt instruments calculated using the effective interest method is recognised in the statement of comprehensive income as part of finance income.

Impairment of financial assets

Assets held at amortised cost

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including i) adverse changes in the payment status of borrowers in the portfolio; and ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The group first assesses whether objective evidence of impairment exists. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in an allowance account and in the statement of comprehensive income in operating costs. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. If a financial asset is considered uncollectible, it is written off against the allowance account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income as a credit to operating costs.

Other financial liabilities at amortised cost (financial instruments)

(a) Borrowings

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

Notes to the financial statements for the year ended 31 March 2017

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

(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.

Decommissioning provision

Decommissioning costs are provided at the present value of the expenditures expected to settle the obligation, using estimated cash flows based on current prices. The unwinding of the decommissioning provision is included within finance costs in the statement of comprehensive income. The estimated future costs of the decommissioning obligations are regularly reviewed and adjusted as appropriate, through property, plant and equipment, for new circumstances or changes in law or technology. The decommissioning costs have been capitalised within property, plant and equipment and depreciated in line with group policy.

Current income tax and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss when it relates to items recognised in profit or loss and in other comprehensive income or equity when it relates to items recognised in other comprehensive income or equity.

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither an accounting nor a taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Government grants

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

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs they are intended to compensate.

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

Operating lease commitments

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

Pensions and other post-retirement benefits

The group contributes to individuals' personal pension schemes. Contributions are recognised in profit or loss in the period in which they become payable.

Notes to the financial statements for the year ended 31 March 2017

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

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in profit or loss.

Financial risk management

Financial risk factors

The group has 3 principal sub-groups: Premier Transmission Financing plc, Moyle Interconnector (Financing) plc and Belfast Gas Transmission Financing plc, and is in the process of developing West Transmission Limited in a similar manner.

Premier Transmission Financing plc and Belfast Gas Transmission Financing plc

These groups operate the gas pipelines which link the gas transmission systems of Northern Ireland and Scotland and the Belfast Gas Transmission pipeline under licence agreements with the Northern Ireland Authority for Utility Regulation. Under the licence agreements the group receives revenue that allows full recovery of its operating expenses, financing costs and repayment of borrowings. Accordingly these sub-groups have limited financial risk.

West Transmission Limited

The company operates the gas transmission offtake at Maydown, and is licenced to transport gas to a designated area in the West of Northern Ireland. The current licence arrangement allows full recovery of its operating expenses and a return set to compensate it for financing costs. By way of an agreement with SGN commercial services, other than the scenario of regulatory malfeasance, the financial risk that the regulatory income allowance is insufficient, and any benefit if the regulatory income allowance is greater than the financing costs, has been passed on to them.

Moyle Interconnector (Financing) plc

The group operates the interconnector which links the electricity transmission systems of Northern Ireland and Scotland under a licence agreement with the Northern Ireland Authority for Utility Regulation. The group earns its revenue from the sale of capacity on this interconnector through periodic auctions. In the event that the group does not earn sufficient revenues to cover its operating expenses, interest on borrowings and repayment of borrowings, the group's licence allows the company to make a call on its customers for any shortfall. Accordingly, this sub-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 either fixed rates or are linked to the Retail Price Index. In order to match certain revenues which are linked to the Retail Price Index the group has entered into a swap transaction which converts its only fixed rate borrowing to a borrowing 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 £2,368,000.

Under the terms of its licence agreements the group either i) receives sufficient revenue to settle its operating costs and its repayments of borrowings; or ii) has the ability to make a call on customers. 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 and electricity suppliers, who provide designated levels of security by way of parent company guarantees or letters of credit. Given the nature of the industry in which the group operates, its customers are regulated by the Northern Ireland Authority for Utility Regulation. The group's trade and other receivables are not impaired or past due and management does not expect any losses from non-performance by its customers.

Notes to the financial statements for the year ended 31 March 2017

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

Moyle Interconnector (Financing) plc (continued)

(c) Liquidity risk

Under the terms of its licence agreements the group either i) receives sufficient revenue to settle its operating costs and its repayments of borrowings; or ii) has the ability to make a call on customers. Accordingly the group has limited liquidity risk. The group also retains significant cash reserves and a liquidity facility with an 'A' rated bank to manage any short term liquidity risk. The undiscounted contractual maturity profile of the group's borrowings is shown in note 24.

Capital risk management

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

Fair value estimation

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

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Where there are a number of inputs that are unobservable it is included in level 3. The group's only financial instruments fair valued (for recognition purposes) under level 2 are the group's derivative financial instruments. The fair value of the group's derivative financial instruments is calculated based on the group's exposure to the counterparties, with adjustments to reflect the credit risk of both the entity and the counterparty. The group's only financial instrument fair valued under level 3 is the group's other investments. The fair value is based on our share of the projected cash flows for each individual project which combine to constitute the financial instrument. The cash flows are derived from the IRRs estimated by the fund manager. The project cash flows are then combined to form a consolidated cash flow for the instrument which is itself discounted using a rate of return applicable to similar instruments. The calculation assumes a GBP/EUR rate of 1.169, IRRs of 9-13% and discount rate of 8%.

The group's financial instruments fair valued (for disclosure purposes only) under level 2 are the group's loans and receivables and the group's borrowings. The fair value of these financial instruments is determined by discounting future cash flows using a suitable discount rate. These discount rates are based on Bank of England gilt yield curve data for a term that is similar to the financial instrument.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below:

Notes to the financial statements for the year ended 31 March 2017

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

Critical accounting estimates and judgements (continued)

(a) Estimate of useful economic life of assets

The group assesses the useful life of assets on an annual basis.

The remaining useful economic life of the Scotland Northern Ireland pipeline was determined as approximately 23.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 24.5 years, depreciation would have decreased by £128,000 and if the remaining useful economic life had been assessed at 22.5 years, depreciation would have increased by £139,000.

The remaining useful economic life of the Moyle Interconnector was determined as approximately 16 years at the beginning of the year. If the remaining useful economic life had been assessed at 17 years' depreciation would have decreased by £451,000 and if the remaining useful economic life had been assessed at 15 years' depreciation would have increased by £511,000.

The remaining useful economic life of the Belfast Gas Transmission pipeline was determined as approximately 23 years at the beginning of the year. If the remaining useful economic life had been assessed at 24 years depreciation would have decreased by £52,000 and if the remaining useful economic life had been assessed at 22 years depreciation would have increased by £56,000.

(b) Estimate of assumptions used in the calculation of the decommissioning provision

The decommissioning provision has been estimated at current prices and has therefore been increased to decommissioning date by an inflation factor of 4.07% based on expected time of expenditure of 15 years. The decommissioning provision has been discounted using a rate of 1.48%. The effect of changing the discount rate and inflation factor on the decommissioning provision is disclosed in the table below.

	Increase/(decrease) in provision £'000
Increase in inflation factor by 1%	**510**
Decrease in inflation factor by 1%	**(447)**
Increase in discount rate by 1%	**(453)**
Decrease in discount rate by 1%	**530**

(c) Insurance claim

Discussions have commenced with the insurers in respect of the February 2017 cable fault insurance claims. The group has not recognised a contingent asset in respect of this as the insurance companies have not yet admitted liability.

(d) Fair value of other investments

The fair value of other investments is based on our share of the projected cash flows for each individual project which combine to constitute the financial instrument. In calculating the fair value, certain assumptions are required to be made in respect of highly uncertain matters. Changing the assumptions selected by management could significantly affect the group's impairment evaluation and hence results. The group's review includes the key assumptions related to sensitivity in the cash flow projections. The calculation assumes a GBP/EUR rate of 1.169, IRRs of 9-13% and discount rate of 8%. Further details of the key assumptions and sensitivity in respect of the group's Other Investments are provided in note 11.

(e) Calculation of West Transmission asset values

West Transmission's assets consist of its Maydown site which is currently in operation and the main pipeline which is under construction and which will be purchased from the contractor, SGN, at a price to be determined by the Utility Regulator. The valuation of these assets is based on preliminary figures provided by the contractor for the period up to the reporting date, with estimates being made for the amount of these costs which will be allowed by the Regulator in their price determination.

Notes to the financial statements for the year ended 31 March 2017

2 Segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The group's operating businesses are organised and managed separately according to the nature of the services provided. Moyle Interconnector Limited sells capacity on an Interconnector for the transmission of electricity between Scotland and Northern Ireland, Premier Transmission Limited sells capacity on the Scotland Northern Ireland Pipeline for the transmission of gas between Scotland and Northern Ireland and Belfast Gas Transmission Limited sells capacity for the transmission of gas to Greater Belfast and Larne. All of the group's operating businesses are located in the United Kingdom and the services provided are in the United Kingdom.

The Board of Directors assesses the performance of the operating segments based on earnings before interest, tax, depreciation, impairment, derecognition of assets, amortisation and cable fault related costs (adjusted "EBITDA") adjusted to remove the release of government grants in respect of property, plant and equipment.

The segment information provided to the strategic steering committee for the reportable segments is as follows:

Year ended 31 March 2017	Moyle Interconnector Group £'000	Premier Transmission Group £'000	Belfast Gas Transmission Group £'000	Other £'000	Total £'000
Segment revenue from external customers	29,297	23,431	7,998	69	60,795
Segment expenses	(1,273)	(13,542)	(2,469)	288	(16,997)
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	-	(5,550)
Depreciation (net of government grants)	(5,533)	(3,618)	(975)	(103)	(10,229)
Fair value adjustment on investment	-	-	-	(2,506)	(2,506)
Finance income	1,187	2,492	18	(1,047)	2,651
Finance costs	(5,521)	(4,492)	(6,429)	-	(16,442)
Fair value adjustment on derivative financial instruments	-	(1,719)	-	-	(1,719)
Profit/(loss) before income tax	16,496	1,150	(4,344)	(3,299)	10,003
Income tax (charge)/credit	(2,615)	(294)	1,839	134	(936)
Profit/(loss) for the year	13,881	856	(2,505)	(3,165)	9,067
Assets					
Segment assets	201,331	145,310	125,593	22,719	494,953
Capital expenditure	8,622	-	387	11,630	20,639
Segment liabilities	148,534	155,300	153,603	13,624	471,061

Notes to the financial statements for the year ended 31 March 2017

2 Segment information (continued)

Year ended 31 March 2016 (as restated)* (note 25)	Moyle Interconnector £'000	Premier Transmission £'000	Belfast Gas Transmission £'000	Other £'000	Total £'000
Segment revenue from external customers	34,622	26,390	7,085	-	68,097
Segment expenses	(5,853)	(16,308)	(2,716)	739	(24,138)
Amortisation of intangible assets	(1,661)	(1,402)	(2,487)	-	(5,550)
Depreciation (net of government grants)	(3,391)	(2,684)	(958)	(67)	(7,100)
Derecognition of assets	(4,815)	-	-	-	(4,815)
Fair value adjustment on investment	-	-	-	(2,179)	(2,179)
Finance income	1,325	206	53	(987)	597
Finance costs	(5,014)	(4,449)	(4,794)	(1)	(14,258)
Fair value adjustment on derivative financial instruments	-	1,498	-	-	1,498
Profit/(loss) before income tax	15,213	3,251	(3,817)	(2,495)	12,152
Income tax credit/(charge)	3,014	(1,029)	1,263	-	3,248
Profit/(loss) for the year	18,227	2,222	(2,554)	(2,495)	15,400
Assets					
Segment assets	198,118	151,966	127,810	13,504	491,398
Capital expenditure	42,579	1,350	-	248	44,177
Segment liabilities	158,530	162,120	153,580	2,343	476,573

West Transmission is not considered to be a reportable segment, however, the capital expenditure in the Other column relates largely to this company. Segment assets and liabilities exclude intercompany assets and liabilities.

There are no inter-segment revenues and all revenues are generated from the group's country of domicile, the United Kingdom.

Revenues from the group's gas transmission businesses of £31,498,000 (2016: £33,475,000) are obtained under the postalised system (which is a system by which the group earns sufficient revenues to cover its operating costs and debt repayments) and cannot be attributed to individual customers.

Revenues from the group's electricity business by customer (for those exceeding 10% of total revenues) are as follows:

	2017 £'000	2016 £'000
Customer A	**3,235**	2,345

* Included in segmental revenue is CAIRt revenue of £17.2m (2016: £23.4m).

Notes to the financial statements for the year ended 31 March 2017

3 Expenses by nature – operating costs

Group	2017 £'000	2016 (as restated)* £'000
Employee benefit expense (note 4)	**2,009**	2,154
Depreciation and amortisation	**19,188**	16,060
Derecognition of assets	**-**	4,815
Impairment losses	**2,506**	2,179
Amortisation of deferred government grants	**(3,409)**	(3,410)
Operating lease payments	**311**	243
Fees payable to the company's auditor in respect of the audit of the consolidated and subsidiary financial statements	**48**	53
Fees payable to the company's auditor in respect of taxation services	**-**	52
Fees payable to the company's auditor in respect of other services	**8**	-
Other expenses	**14,621**	21,636
Total operating costs	**35,282**	43,782

Other expenses includes costs payable for capacity on the South West of Scotland pipeline owned by Gas Networks Ireland (UK), engineering works, insurance, maintenance and emergency response costs and licence fees, together with general administrative costs.

* See note 25.

Notes to the financial statements for the year ended 31 March 2017

4 Employee benefit expense

Group	2017 £'000	2016 £'000
Wages and salaries	**1,629**	1,750
Social security costs	**233**	212
Pension costs	**147**	192
	2,009	2,154

The average monthly number of employees during the year (including directors holding contracts of service with the group) was 28 (2016: 28). All staff perform asset management activities.

Pension Scheme	2017 Number	2016 Number
Members of defined contribution pension scheme	**22**	23

Directors' emoluments	2017	2016
Aggregate emoluments	657	599
Contributions paid to defined contribution pension scheme	47	104
	704	703

Directors' emoluments represent the remuneration of the group's executive and non-executive directors. The directors do not believe that it is practicable to apportion this amount between their services as directors of the group and their services as directors of other group companies. The emoluments of the highest paid director were £243,000 (2016: £221,000) and the contributions paid to his defined contribution pension scheme were £26,000 (2016: £45,000).

Directors' emoluments include the effects of salary sacrifice arrangements and any employers NIC savings credited to the directors' pension as a result of salary sacrifices made.

Notes to the financial statements for the year ended 31 March 2017

5 Finance income and costs

Group	2017 £'000	2016 £'000
Interest expense:		
Borrowings (including borrowing fees)	**16,342**	14,148
Movement of discount on decommissioning provision	**100**	110
Fair value adjustment in respect of derivative financial instruments (note 24)*	**1,719**	-
Finance costs	**18,161**	14,258
Interest income:		
Short-term bank deposits	**(396)**	(597)
Fair value adjustment in respect of derivative financial instruments (note 24)*	**-**	(1,498)
Other finance income	**(2,255)**	-
Finance income	**(2,651)**	(2,095)
Finance costs – net	**15,510**	12,163

*Fair value adjustment in respect of derivative financial instruments

The statement of comprehensive income has been presented in a 6 column format in order to allow users to appreciate the impact of derivatives on the results for the year. The group has swaps that are designed to hedge the inflation risk in revenue, however under IAS 39 this economic hedging strategy does not qualify for hedge accounting and the directors believe that by separating gains and losses arising from applying the valuation requirements of IAS 39, the user of this financial information will better understand the underlying performance of the group.

6 Income tax charge/(credit)

Group	2017 £'000	2016 (as restated)* £'000
Current income tax:		
Current tax on profit for the year	**3,071**	3,334
Adjustments in respect of previous periods	**260**	(2,539)
Total current income tax	**3,331**	795
Deferred income tax:		
Origination and reversal of temporary differences	**(514)**	(1,359)
Reduction in corporation tax rate on deferred tax assets/liabilities	**(1,927)**	(2,985)
Adjustments in respect of previous periods	**46**	301
Total deferred income tax (note 19)	**(2,395)**	(4,043)
Income tax charge/(credit)	**936**	(3,248)

* See note 25.

Notes to the financial statements for the year ended 31 March 2017

6 Income tax charge/(credit) (continued)

The income tax charge/(credit) in the statement of comprehensive income for the year differs from the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are reconciled below:

Group	2017 £'000	2016 (as restated)* £'000
Profit before income tax	**10,003**	12,152
Tax calculated at the UK standard rate of corporation tax of 20% (2016: 20%)	**2,001**	2,430
Effects of:		
Expenses not deductible	**805**	384
Income not taxable	**(329)**	-
Reduction in corporation tax rate on deferred tax assets/liabilities	**(1,927)**	(2,985)
Other timing differences	**80**	(839)
Adjustments in respect of previous periods	**306**	(2,238)
Income tax charge/(credit)	**936**	(3,248)

* See note 25.

Future tax changes

The tax rate for the current year remained at the prior year rate of 20%, accordingly the company's taxable profits are taxed at a rate of 20% during the year. Reductions to the UK Corporation Tax rate were introduced as part of the Finance Act 2016 (substantively enacted on 5 September 2016). These reduce the main rate of tax to 19% from 1 April 2017 and to 17% from 1 April 2020. The deferred tax has been calculated at 17%.

7 Loss attributable to members of the parent company

As permitted by Section 408 of the Companies Act 2006, the parent company's statement of comprehensive income has not been included in these financial statements. The loss dealt with in the financial statements of the parent company is £5,540,000 (2016: £404,000).

Notes to the financial statements for the year ended 31 March 2017

8 Property, plant and equipment

Group	Gas pipelines £'000	Electricity inter-connector £'000	Control equipment £'000	Plant and machinery £'000	Office and computer equipment £'000	Gas Assets under construction £'000	Total £'000
Cost							
At 1 April 2015	147,064	132,916	3,938	157	1,934	306	286,315
Additions	-	42,579	-	-	1,462	136	44,177
Derecognition	-	(7,559)	-	-	-	-	(7,559)
At 31 March 2016	147,064	167,936	3,938	157	3,396	442	322,933
Additions	2,578	8,622	-	1,024	40	8,375	20,639
At 31 March 2017	**149,642**	**176,558**	**3,938**	**1,181**	**3,436**	**8,817**	**343,572**
Accumulated depreciation							
At 1 April 2015	40,085	42,869	2,459	15	221	-	85,649
Provided during the year	4,389	4,435	162	10	694	-	9,690
Derecognition	-	(2,744)	-	-	-	-	(2,744)
Impairment	-	67,301	718	-	-	-	68,019
At 31 March 2016 (as previously reported)	44,474	111,861	3,339	25	915	-	160,614
Restatement – impairment reversal (*)	-	(67,301)	(718)	-	-	-	(68,019)
Restatement – additional depreciation (*)	-	791	29	-	-	-	820
At 31 March 2016 (as restated)	44,474	45,351	2,650	25	915	-	93,415
Provided during the year	4,402	7,369	189	36	1,642	-	13,638
At 31 March 2017	**48,876**	**52,720**	**2,839**	**61**	**2,557**	**-**	**107,053**
Net book amount							
At 31 March 2017	**100,766**	**123,838**	**1,099**	**1,120**	**879**	**8,817**	**236,519**
At 31 March 2016 (as restated)	102,590	122,585	1,288	132	2,481	442	229,518
At 31 March 2015	106,979	90,047	1,479	142	1,713	306	200,666

(*) The restatement reflects reversal of the impairment of the Moyle Interconnector, as well as the associated depreciation adjustments. This has been discussed in more detail in note 25.

Assets derecognised relate to the portion of the existing cable which is no longer in use.

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

Notes to the financial statements for the year ended 31 March 2017

8 Property, plant and equipment (continued)

Depreciation expense of £13,638,000 (2016: £10,510,000 as restated) has been fully charged to operating costs.

Borrowings are secured on all of the property, plant and equipment of the group. At 31 March 2017, commitments for the purchase of property, plant and equipment totalled £Nil (2016: £6,682,000).

Company	Office and computer equipment £'000
Cost	
At 1 April 2015	151
Additions	36
At 31 March 2016	187
Additions	40
At 31 March 2017	**227**
Accumulated depreciation	
At 1 April 2015	121
Provided during the year	26
At 31 March 2016	147
Provided during the year	31
At 31 March 2017	**178**
Net book amount	
At 31 March 2017	**49**
At 31 March 2016	40
At 31 March 2015	30

Depreciation expense of £31,000 (2016: £26,000) has been fully charged to operating costs.

Borrowings are secured on all of the property, plant and equipment of the group.

Notes to the financial statements for the year ended 31 March 2017

9 Intangible assets

Group	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 April 2015, 31 March 2016 and **at 31 March 2017**	**2,435**	**206,535**	**208,970**
Accumulated amortisation			
At 1 April 2015	-	51,360	51,360
Provided during the year	-	5,550	5,550
Impairment	-	19,029	19,029
At 31 March 2016 (as previously reported)	-	75,939	75,939
Restatement (*)	-	(19,029)	(19,029)
At 31 March 2016 (as restated)	-	56,910	56,910
Provided during the year	-	5,550	5,550
At 31 March 2017	**-**	**62,460**	**62,460**
Net book amount			
At 31 March 2017	**2,435**	**144,075**	**146,510**
At 31 March 2016 (as restated)	2,435	149,625	152,060
At 31 March 2015	2,435	155,175	157,610

(*) The restatement reflects reversal of the impairment of Moyle Interconnector's licence. This has been discussed in more detail in note 25.

Licences include intangible assets acquired through business combinations. Licences have been granted for a minimum of 29 years (Scotland to Northern Ireland pipeline), 44 years (Belfast Gas Transmission pipeline) and 35 years (electricity transmission). The group has concluded that these assets have a remaining useful economic life of 17 years, 35 years and 20 years respectively.

Goodwill recognised includes certain intangible assets within acquisitions that cannot be individually separated and reliably measured due to their nature.

Amortisation expense of £5,500,000 (2016: £5,550,000) has been fully charged to operating costs.

Impairment testing for goodwill

Goodwill arising on acquisitions is reviewed for impairment annually. For the purpose of impairment testing it relates to one cash generating unit – the Scotland to Northern Ireland pipeline (acquisition of Premier Transmission Limited). The recoverable amount of the goodwill is based on discounted cash flow forecasts. The cash flow projections are over a period of 13 years, which matches the remaining duration of the group's bond and therefore reflects the period over which the group earns revenue under its licence agreement. The key assumptions and judgements, which have been determined on the basis of management experience, relate to all costs being pass-through costs and that under the terms of the licence the group can collect sufficient cash to service interest and loan repayments. The discount rate of 2.56% (2016: 3.18%) used is based on Bank of England UK yield curve data for a debt with a remaining maturity of 13 years. The inflation rate assumption used by the group in these calculations of 4.01% (2016: 4.04%) has been obtained from Bank of England UK yield curves over a 13 year period.

Sensitivity to changes in assumptions

With regard to the assessment of fair values less costs to sell of the cash generating unit, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed its recoverable amount.

Notes to the financial statements for the year ended 31 March 2017

10 Investments in subsidiaries

Company	Subsidiary undertakings £'000
Cost	
At 1 April 2015 and at 31 March 2016	10,250
Provided in year	(4,819)
At 31 March 2017	**5,431**

The company's investments in its subsidiary undertakings are recorded at cost, which is the fair value of the consideration paid and reflect 10,250,000 £1 preference shares.

The company's subsidiary undertakings, all of which are incorporated in Northern Ireland, are:

Name of company	Holding	Proportion held	Nature of business
Moyle Holdings Limited	Limited by guarantee		Holding company
Moyle Interconnector (Financing) plc *	Ordinary shares	100%	Financing
Moyle Interconnector Limited *	Ordinary shares	100%	Operation of Moyle Interconnector
Premier Transmission Holdings Limited *	Ordinary shares	100%	Holding company
Premier Transmission Financing plc*	Ordinary shares	100%	Financing
Premier Transmission Limited*	Ordinary shares	100%	Operation of Scotland Northern Ireland Pipeline
Moyle Energy Investments Limited	Ordinary shares	100%	Investing
	Preference shares	100%	
Interconnector Services (NI) Limited	Ordinary shares	100%	Provision of seabed survey and other services
Northern Ireland Gas Transmission Holdings Limited	Ordinary shares	100%	Holding company
Belfast Gas Transmission Holdings Limited*	Ordinary shares	100%	Holding company
Belfast Gas Transmission Financing plc*	Ordinary shares	100%	Financing
Belfast Gas Transmission Limited*	Ordinary shares	100%	Operation of the Belfast Gas Transmission pipeline
WTL Holdings Limited	Ordinary shares	100%	Holding company
West Transmission Financing plc	Ordinary shares	100%	Financing
West Transmission Limited	Ordinary shares	100%	Operation of West Transmission pipeline

* held by a subsidiary undertaking

Notes to the financial statements for the year ended 31 March 2017

11 Other investments

Group	£'000
Cost	
At 1 April 2015	11,076
Fair value adjustment	(2,179)
At 31 March 2016	8,897
Repayment of capital	(1,209)
Fair value adjustment	(2,506)
At 31 March 2017	**5,182**

Other investments represent the fair value of investments made by Moyle Energy Investments Limited to the Platina renewable energy fund, PEN III. Mutual Energy Limited is an initial limited partner in this limited partnership. Other investments also include a 10% (2016: 35%) interest in Islandmagee Storage which is carried at cost of £10 (2016: £35) and a 0.9% interest in PRISMA European Capacity Platform GmbH which is carried at a cost of £1,988.

Low wholesale electricity prices have led to a reduction in the fair value of this fund. The present value of estimated future cash flows was calculated and discounted at a rate of 8%, based on information provided by the administrator and the real returns of similar portfolios of assets. The present value was determined to be £5,182,000 (2016: £8,897,000), resulting in an impairment of £2,506,000 (2016: £2,179,000) which was recognised in operating expenses in the statement of comprehensive income.

12 Trade and other receivables

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Trade receivables	**1,414**	920	**-**	-
Prepayments	**2,774**	7,471	**86**	30
Accrued income	**2,446**	1,932	**-**	-
Other receivables	**3,910**	4,827	**38**	427
Amounts owed by subsidiary undertakings	**-**	-	**2,329**	2,880
	10,544	15,150	**2,453**	3,337

All of the group's and company's trade and other receivables are denominated in sterling. None of the group's or company's trade and other receivables are impaired or past due. The group and company have no history of default in respect of its trade and other receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The fair value of the group and company's trade and other receivables is not materially different from their carrying values.

Amounts owed by subsidiary undertakings are unsecured, interest free and are repayable on demand.

Notes to the financial statements for the year ended 31 March 2017

13 Financial assets

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Cash deposits	**13,667**	13,511	**-**	-

14 Cash and cash equivalents

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Cash at bank and in hand	**75,548**	64,749	**2,522**	1,167

Cash and cash equivalents earn interest at a range from Bank of England base rate less 0.20% to Bank of England base rate plus 0.90%.

15 Ordinary shares

The company is limited by guarantee and does not have a share capital. In accordance with the company's articles of association the members have undertaken to contribute in the event of winding up, a sum not exceeding £1.

Notes to the financial statements for the year ended 31 March 2017

16 Retained earnings

Group	£'000
At 1 April 2015	(575)
Total comprehensive loss for the year	(28,557)
At 31 March 2016 (as previously reported)	(29,132)
Restatement (*)	43,957
At 31 March 2016 (as restated)	14,825
Total comprehensive profit for the year	9,067
At 31 March 2017	**23,892**

Company	£'000
At 1 April 2015	(3,174)
Total comprehensive loss for the year	(404)
At 31 March 2016	(3,578)
Total comprehensive loss for the year	(5,540)
At 31 March 2017	**(9,118)**

Included in the retained earnings for the group is an amount of £1,874,000 (2016: £1,874,000) which we have agreed with the regulator will be applied to costs of future EU compliance projects.

(*) The restatement reflects the reversal of the impairment of the Moyle Interconnector and its licence, and the associated release of the government grant, as well as the adjustments to the depreciation charge for the period and subsequent tax impact. This has been discussed in more detail in note 25.

Notes to the financial statements for the year ended 31 March 2017

17 Borrowings

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Non-current				
5.2022% Guaranteed secured bond	**66,530**	70,370	**-**	-
2.9376% Index linked guaranteed secured bond	**87,877**	94,976	**-**	-
2.207% Index linked guaranteed secured bond	**127,458**	125,735	**-**	-
Amounts owed to group undertakings	**-**	-	**18,770**	17,721
Other borrowings	**-**	-	**-**	-
	281,865	291,081	**18,770**	17,721
Current				
5.2022% Guaranteed secured bond	**3,840**	3,623	**-**	-
2.9376% Index linked guaranteed secured bond	**8,881**	8,724	**-**	-
2.207% Index linked guaranteed secured bond	**1,528**	1,376	**-**	-
	14,249	13,723	**-**	-
Total borrowings	**296,114**	304,804	**18,770**	17,721

The 5.2022% Guaranteed secured bond 2030 was issued to finance the acquisition of Premier Transmission Limited and to repay indebtedness owed to members of British Gas and Keyspan. The bond is secured by fixed and floating charges over all the assets of the Premier Transmission group, and also by way of an unconditional and irrevocable financial guarantee given by Financial Guaranty Insurance Company as to scheduled payments of principal and interest, including default interest.

The 2.9376% Guaranteed secured bond 2033 was issued to finance the acquisition of Moyle Interconnector Limited and to repay indebtedness owed to members of Viridian Group plc and is linked to the Retail Price Index. The bond is secured by fixed and floating charges over all the assets of the Moyle Interconnector 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, excluding default interest. In return for this guarantee, every six months the group pays an index linked fee of 0.125% of the outstanding balance of the bond.

The 2.207% Guaranteed secured bond 2048 was issued to finance the acquisition of Belfast Gas Transmission Limited and is linked to the Retail Price Index. The bond is secured by fixed and floating charges on all the assets of the Belfast Gas Transmission group, and also by way of an unconditional and irrecoverable financial guarantee given by Assured Guaranty (Europe) Limited as to scheduled payments of principal and interest excluding 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 2.9376% index linked bond has a fair value of £117,597,000 (2016: £120,413,000), the 5.2022% bond has a fair value of £100,683,000 (2016: £102,073,000) and the 2.207% index linked bond has a fair value of £181,065,000 (2016: £158,531,000). These fair values have been calculated by discounting the expected future cash flows using a discount rate of 0.03% (2016: 0.84%) for the 2.9376% index linked bond, a discount rate of -0.04% (2016: 0.82%) for the 5.2022% bond and a discount rate of 0.13% (2016: 0.87%) for the 2.207% index linked bond. The discount rates used reflect the maturity profile of the group's borrowings. The current effective interest rate for the 2.9376% index linked bond is 3.03%, the 5.2022% bond is 5.55%, and the 2.207% index linked bond is 2.18%.

Notes to the financial statements for the year ended 31 March 2017

18 Provisions

Group	Decommissioning provision £'000
At 1 April 2015	3,091
Unwinding of discount during the year	110
At 31 March 2016	3,201
Cost adjustments through property, plant and equipment	10
Unwinding of discount during the year	100
At 31 March 2017	**3,311**

Provision has been made for expenditure to be incurred in meeting the expected costs arising from the future decommissioning of the interconnector in 15 years, at the end of its useful economic life. This provision is expected to be utilised within 15 years. The provision represents the present value of the current estimated costs of dismantling the connections to the main electricity grids in Scotland and Northern Ireland. The provision has been discounted at a rate of 1.48% (2016: 1.95%) that reflects the maturity profile of the group's provisions.

19 Deferred income tax

Deferred income 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	
	2017 £'000	2016 (as restated) £'000	**2017 £'000**	2016 £'000
Deferred income tax assets	**6,983**	7,513	**55**	56
Deferred income tax liabilities	**(39,271)**	(42,196)	**-**	-
Deferred income tax (liabilities)/assets – net	**(32,288)**	(34,683)	**55**	56

The company's deferred tax asset relates to accelerated capital allowances.

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

	Group £'000	Company £'000
At 1 April 2015	(38,726)	69
Credit/(charge) for the year	11,780	(13)
At 31 March 2016 (as previously reported)	(26,946)	56
Restatement (*)	(7,737)	-
At 31 March 2016 (as restated)	(34,683)	56
Credit/(charge) for the year	2,395	(1)
At 31 March 2017	**(32,288)**	**55**

Notes to the financial statements for the year ended 31 March 2017

19 Deferred income tax (continued)

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

Group	Accelerated capital allowances £'000	Valuation of intangible assets £'000	Derivative financial instruments £'000	Total £'000
At 1 April 2015	(16,279)	(31,035)	8,588	(38,726)
Credit/(charge) for the year	5,327	7,528	(1,075)	11,780
At 31 March 2016 (as previously reported)	(10,952)	(23,507)	7,513	(26,946)
Restatement (*)	(4,312)	(3,425)	-	(7,737)
At 31 March 2016 (as restated)	(15,264)	(26,932)	7,513	(34,683)
Credit/(charge) for the year	485	2,440	(530)	2,395
At 31 March 2017	**(14,779)**	**(24,492)**	**6,983**	**(32,288)**

It is not possible to determine the amount of the deferred tax asset arising from the group's derivative financial instruments which will fall due within 12 months as it will depend on the movement of interest rates. 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 £23,548,000 (2016: £22,508,000). 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.

(*) See note 25.

Notes to the financial statements for the year ended 31 March 2017

20 Government grants

Group	£'000
At 1 April 2015	68,159
Amortised during the year	(2,046)
Released as a result of impairment (*)	(33,771)
At 31 March 2016 (as previously reported)	32,342
Restatement – reversal of impairment (*)	33,771
Restatement – additional amortisation (*)	(1,364)
At 31 March 2016 (as restated)	64,749
Amortised during the year	(3,409)
At 31 March 2017	**61,340**

The grants were provided to the group for the purpose of its expenditure on its property, plant and equipment. The current portion of the government grants is £3,409,000 (2016: £3,409,000 as restated), and the non-current portion is £57,931,000 (2016: £61,340,000 as restated).

(*) Moyle Interconnector's government grant was provided to the group for the purpose of its expenditure on its property, plant and equipment and has been treated as deferred income. Following an impairment review in the prior period, Moyle's property, plant and equipment was impaired by £68,019,000, which was in excess of its remaining deferred government grant. The deferred government grant income was therefore released to the statement of comprehensive income, in line with IAS20, in order to ensure the same impact on the statement of comprehensive income as would have been achieved if the grant has been netted with the property, plant and equipment at the outset. In the current year the financial statements were restated to reverse the impairment of the Moyle Interconnector and therefore the associated release of the government grant has also been reversed, with an associated adjustment to the amortisation of the grant in the prior year. The restatement has been discussed in more detail in note 25.

21 Trade and other payables

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Trade payables	**628**	2,411	**35**	26
Accruals	**7,029**	12,283	**761**	493
Deferred income	**530**	251	**-**	-
Other tax and social security	**2,287**	1,312	**62**	188
Other payables	**13,188**	913	**-**	-
	23,662	17,170	**858**	707
Less amounts falling due after one year: Other payables	**(11,643)**	-	**-**	-
	12,019	17,170	**858**	707

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

Other payables falling due after one year are secured on the assets and company of West Transmission Limited.

Notes to the financial statements for the year ended 31 March 2017

22 Commitments

Operating lease commitments

The group has entered into commercial leases on land and buildings and these leases have remaining lease terms of 9 months from year end, 4, 18, 34 and 83 years. There are no restrictions placed upon the lessee by entering into these leases.

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

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Not later than one year	**270**	82	**50**	37
After one year but not more than five years	**1,019**	805	**141**	21
After more than five years	**11,179**	9,634	**-**	-
	12,468	10,621	**191**	58

The lease expense charged to operating costs during the year is disclosed in note 3.

23 Related party transactions

The ultimate controlling party of the group are its members.

During the year the company 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	
Company	**2017 £'000**	2016 £'000
Subsidiary undertakings – current assets	**2,329**	2,880
Subsidiary undertakings – non-current liabilities	**(18,770)**	(17,721)

In addition to the amounts owed to related parties as disclosed above, the company owns £10.25m of preference shares in one of its subsidiary undertakings (see note 10) and financed the acquisition of these shares through borrowings from another subsidiary undertaking which are included within non-current liabilities shown above.

		Value of transaction	
Company	**Nature of transaction**	**2017 £'000**	2016 £'000
Subsidiary undertakings	Interest payable	**1,049**	993
Subsidiary undertakings	Group relief surrendered	**160**	(33)
Subsidiary undertakings	Charges receivable	**3,343**	3,129

Notes to the financial statements for the year ended 31 March 2017

23 Related party transactions (continued)

Compensation of key management consisting of executive directors and non-executive directors:

Group	2017 £'000	2016 £'000
Short term employee benefits	**562**	516
Long term employee benefits	**95**	83
Post-employment benefits	**47**	104

24 Financial instruments

The group's and company's financial instruments are classified as follows:

Assets and liabilities	Category of financial instrument
Trade and other receivables	Loans and receivables
Other investments	Available for sale financial assets
Financial assets	Loans and receivables
Cash and cash equivalents	Loans and receivables
Borrowings	Financial liabilities at amortised cost
Derivative financial instruments	Fair value through profit or loss
Trade and other payables	Financial liabilities at amortised cost

Derivative financial instruments

During the period ended 31 March 2006 the group entered into two index-linked based swaps, maturing in 2030, to hedge against index-linked revenues receivable under its agreement with the regulator. In accordance with IFRS these index-linked swaps do not qualify as an accounting hedge and are therefore accounted for as non-hedging derivative financial instruments. The fair value of these index linked swaps are recognised as a financial liability under non-current liabilities on the balance sheet with fair value movements being reported in the statement of comprehensive income under net finance costs.

The movement on the group's derivative financial instruments is as follows:

Group	£'000
Liability at 1 April 2015	42,939
Fair value adjustment	(1,498)
Liability at 31 March 2016	41,441
Fair value adjustment	1,719
Liability at 31 March 2017	**43,160**

It is not possible to determine the portion of the group's and company's derivative financial instruments that will fall due within 12 months as it will depend on the movement of interest rates.

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

24 Financial instruments (continued)

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

At 31 March 2017 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**
2.9376% Index linked bond	**11,840**	**11,394**	**11,316**	**10,249**	**9,808**	**63,229**	**117,836**
5.2022% Bond and associated derivatives	**8,239**	**8,403**	**8,569**	**8,740**	**8,914**	**77,971**	**120,836**
2.207% Index linked bond	**4,367**	**4,456**	**4,544**	**4,635**	**4,727**	**162,362**	**185,091**
Trade and other payables	**21,375**	**-**	**-**	**-**	**-**	**-**	**21,375**
	45,821	**24,253**	**24,429**	**23,624**	**23,449**	**303,562**	**445,138**

At 31 March 2016 Group	Within 1 year £'000	1-2 years £'000	2-3 Years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
2.9376% Index linked bond	11,905	11,624	11,187	11,110	10,062	71,708	127,596
5.2022% Bond and associated derivatives	7,932	8,089	8,250	8,412	8,581	85,302	126,566
2.207% Index linked bond	4,174	4,257	4,343	4,429	4,518	163,238	184,959
Trade and other payables	15,858	-	-	-	-	-	15,858
	39,869	23,970	23,780	23,951	23,161	320,248	454,979

The group's and the company's contractual undiscounted cash flows of its bonds are based on the agreed payments under the index-linked swaps, inflated to the RPI applicable to the bonds at the reporting date.

Notes to the financial statements for the year ended 31 March 2017

25 Prior year restatement

During 2016, it was considered that the forecast of future accounting losses by Moyle Interconnector was grounds for an impairment review and ultimately an impairment write down. The Moyle Interconnector and Moyle's licence were impaired in the year, and the government grant received by the company in respect of the interconnector was written off. After further consideration with experts in the field, management have concluded that the fact that Moyle Interconnector Limited will not make losses over its lifetime is considered a deciding factor in determining that there are no indicators of impairment. Consequently, the impairment has been reversed along with the associated grant release and the deprecation charge for the period has been adjusted to reflect the additional depreciation that would have been charged in the period, had the impairment not been recognised. Adjustments have also been made for the subsequent tax impact. Each of the affected financial statement line items for the prior period have been restated as set out in the following table:

Group statement of comprehensive income at 31 March 2016

	Note	2016 (as previously reported) £'000	Adjustments £'000	2016 (as restated) £'000
Revenue - continuing operations		68,097	-	68,097
Operating costs	3	(97,603)	53,821	(43,782)
Operating (loss)/profit		(29,506)	53,821	24,315
Finance income	5	2,095	-	2,095
Finance costs	5	(14,258)	-	(14,258)
Finance costs – net	5	(12,163)	-	(12,163)
(Loss)/profit before income tax		(41,669)	53,821	12,152
Income tax credit/(charge)	6	13,112	(9,864)	3,248
(Loss)/profit for the year attributable to the owners of the parent	**16**	**(28,557)**	**43,957**	**15,400**

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

25 Prior year restatement (continued)

Group balance sheet at 31 March 2016

	Note	2016 (as previously reported) £'000	Adjustments £'000	2016 (as restated) £'000
Assets				
Non-current assets				
Property, plant and equipment	8	162,319	67,199	229,518
Intangible assets	9	133,031	19,029	152,060
Investments	10	-	-	-
Other investments	11	8,897	-	8,897
Deferred income tax assets	19	7,513	-	7,513
		311,760	86,228	397,988
Current assets		93,410	-	93,410
Total assets		405,170	86,228	491,398
Equity and liabilities				
Equity attributable to the owners of the parent				
Ordinary shares	15	-	-	-
Retained earnings	16	(29,132)	43,957	14,825
Total equity		(29,132)	43,957	14,825
Liabilities				
Non-current liabilities				
Borrowings	17	291,081	-	291,081
Provisions	18	3,201	-	3,201
Deferred income tax liabilities	19	34,459	7,737	42,196
Government grant	20	30,958	30,382	61,340
Derivative financial instruments	24	41,441	-	41,441
		401,140	38,119	439,259
Current liabilities				
Trade and other payables	21	17,170	-	17,170
Corporation tax payable		885	2,127	3,012
Borrowings	17	13,723	-	13,723
Government grant	20	1,384	2,025	3,409
		33,162	4,152	37,314
Total liabilities		434,302	42,271	476,573
Total equity and liabilities		405,170	86,228	491,398

These adjustments had no impact on the balance sheet or reserves at 1 April 2015.

Mutual Energy Limited
First Floor, The Arena Building
85 Ormeau Road, Belfast, BT7 1SH
Tel: +44 28 9043 7580
Fax: +44 28 9024 9673
Web: www.mutual-energy.com