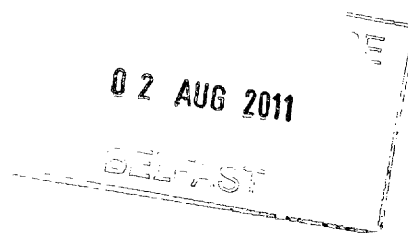


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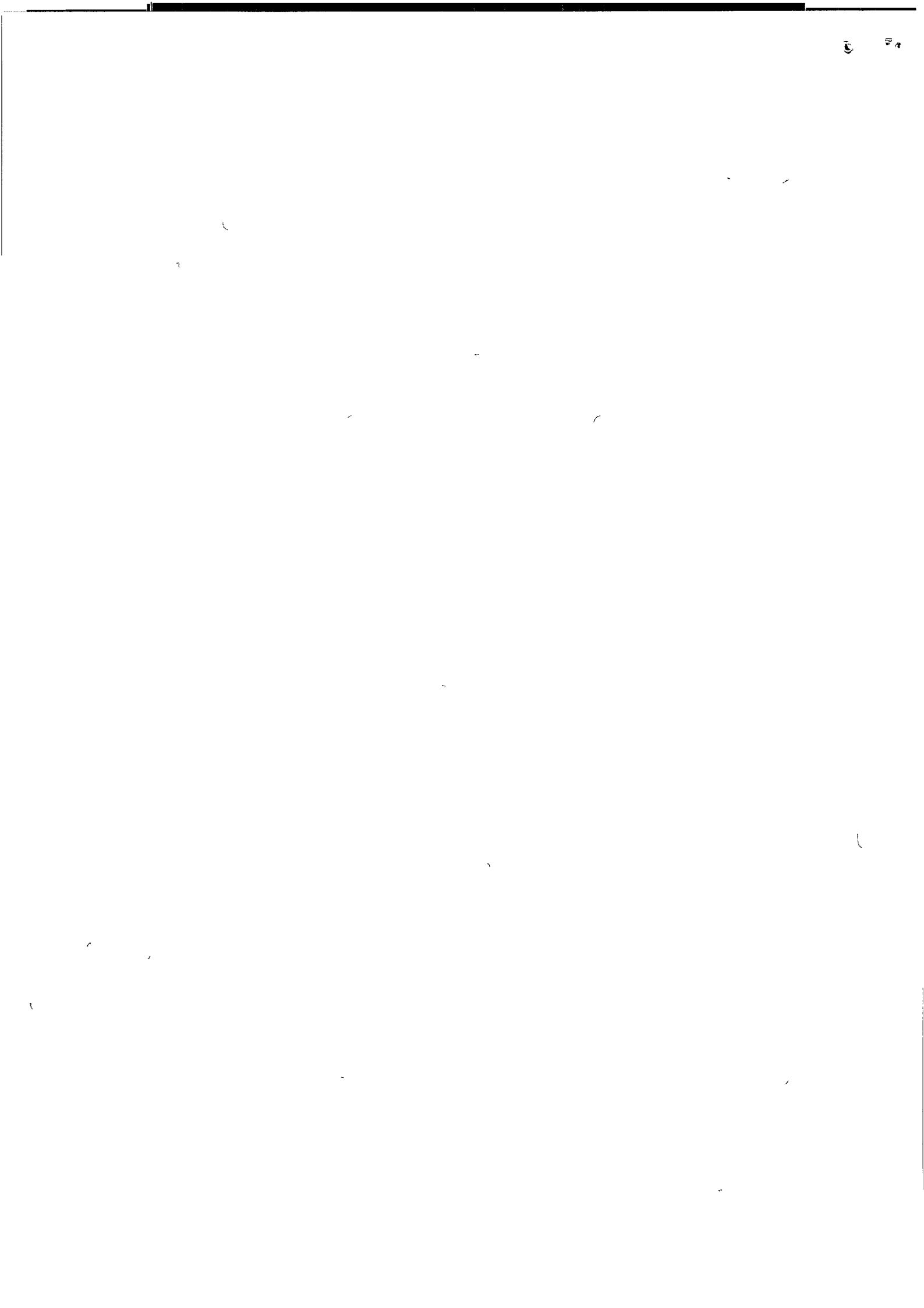
Premier Transmission Limited
Annual report
for the year ended 31 March 2011



Premier Transmission Limited

Annual report for the year ended 31 March 2011

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Premier Transmission Limited

1

Directors and advisers

Directors

Peter Warry	
Patrick Larkin	Executive Director
Gerry Walsh	Senior Independent Director
Regina Finn	
Gerard McIlroy	Executive Director
Stephen Kirkpatrick	
Clarke Black	

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
Capital House
3 Upper Queen Street
Belfast
BT1 6PU

Bankers

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

Independent auditors

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

Directors' report for the year ended 31 March 2011

The directors present their report and the audited financial statements for the year ended 31 March 2011

Principal activity and review of the business

The company's principal activity during the year was the operation of the gas pipeline which links the gas transmission systems of Northern Ireland and Scotland. It is the intention of the directors to continue to maintain the efficient and effective operation of the pipeline. The directors are pleased with the company's results for the year and financial position as at 31 March 2011 and expect the company to maintain its present level of activity in the next few years.

The company's ultimate parent undertaking, Mutual Energy Limited, prepares consolidated financial statements that include these financial statements. The Directors' report in the Mutual Energy Limited consolidated financial statements provides a review of the business, future developments and key performance indicators for the group.

Results and dividends

The company's profit for the year is £2,561,000 (2010: £2,749,000). The directors paid a dividend during the year of £6,279,000 (2010: £nil).

Key performance indicators ("KPIs")

The directors manage the company's operations on a group basis. For this reason, the company's directors believe that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business of the company.

Directors

The directors who served the company during the year were

Peter Warry	
Felicity Huston	(resigned 21 September 2010)
Patrick Larkin	
Gerry Walsh	
Regina Finn	
Gerard McIlroy	
Stephen Kirkpatrick	(appointed 1 April 2010)
Clarke Black	(appointed 1 January 2011)

Financial risk management

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

Political and charitable donations

No political or charitable donations were made during the year (2010: £nil).

Payment of suppliers

The company's procurement policy is to source equipment, goods and services from a wide range of suppliers in accordance with commercial practices based on fairness and transparency.

The company recognises the important role that suppliers play in its business and works to ensure that payments are made to them in accordance with agreed contract terms.

The company had trade payable days of 18 days at 31 March 2011 (2010: 26 days). The company intends to continue to meet the payment terms contained in its agreements with suppliers.

Directors' report for the year ended 31 March 2011 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the company's profit or loss for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 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 company's auditors are aware of that information.

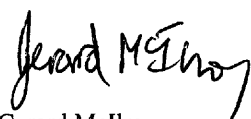
Medium companies' exemption

This report has been prepared in accordance with the special provisions of the medium companies' regime within Part 15 of the Companies Act 2006.

Independent auditors

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

By order of the Board



Gerard Mellroy
Company secretary
20 June 2011

Independent auditors' report to the members of Premier Transmission Limited

We have audited the financial statements of Premier Transmission Limited for the year ended 31 March 2011 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the 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 European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of the company's profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Premier Transmission Limited (continued)

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



Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
27 June 2011

Statement of comprehensive income for the year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Revenue – continuing operations		17,031	14,459
Operating costs	2	(12,181)	(9,832)
Earnings before depreciation		6,897	6,703
Depreciation (net of amortisation of government grants)		(2,047)	(2,076)
Operating profit		4,850	4,627
Finance income	4	550	600
Finance costs	4	(3,621)	(1,487)
Finance costs – net	4	(3,071)	(887)
Profit before income tax		1,779	3,740
Income tax credit/(charge)	5	782	(991)
Profit for the year	11	2,561	2,749

The notes on pages 10 to 25 are an integral part of these financial statements

Premier Transmission Limited

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Balance sheet as at 31 March 2011

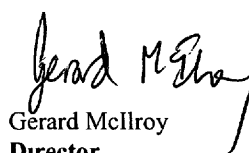
	Notes	2011 £'000	2010 £'000
Assets			
Non-current assets			
Property, plant and equipment	6	89,780	92,849
		89,780	92,849
Current assets			
Trade and other receivables	7	5,030	9,293
Financial assets	8	-	1,942
Cash and cash equivalents	9	24,070	19,418
		29,100	30,653
Total assets		118,880	123,502
Equity and Liabilities			
Equity			
Ordinary shares	10	861	861
Share premium		14,012	14,012
Retained earnings	11	7,474	11,192
Total equity		22,347	26,065
Liabilities			
Non-current liabilities			
Borrowings	13	46,557	44,433
Financial liabilities	14	1,336	1,509
Deferred income tax liabilities	15	13,627	15,213
Government grant	16	30,104	31,200
		91,624	92,355
Current liabilities			
Trade and other payables	17	3,640	2,710
Income tax liabilities		-	1,089
Financial liabilities	14	173	187
Government grant	16	1,096	1,096
		4,909	5,082
Total liabilities		96,533	97,437
Total equity and liabilities		118,880	123,502

The notes on pages 10 to 25 are an integral part of these financial statements

The financial statements on pages 6 to 25 were authorised for issue by the Board of Directors on 20 June 2011 and were signed on its behalf by



Patrick Larkin
Director



Gerard McIlroy
Director

Statement of changes in shareholders' equity

	Notes	Share capital £'000	Share Premium £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2009		861	14,012	8,443	23,316
Comprehensive income					
Profit for the year		-	-	2,749	2,749
Total comprehensive income		-	-	2,749	2,749
Balance at 31 March 2010		861	14,012	11,192	26,065
Comprehensive income					
Profit for the year		-	-	2,561	2,561
Total comprehensive income		-	-	2,561	2,561
Transactions with parent					
Dividend paid	12	-	-	(6,279)	(6,279)
Total transactions with parent		-	-	(6,279)	(6,279)
Balance at 31 March 2011		861	14,012	7,474	22,347

The notes on pages 10 to 25 are an integral part of these financial statements

Cash flow statement for the year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Cash flows from operating activities			
Profit before income tax and finance costs		4,850	4,627
Adjustments for			
Depreciation of property, plant and equipment		3,143	3,172
Amortisation of government grants		(1,096)	(1,096)
Movement in trade and other receivables		(198)	869
Movement in trade and other payables		(892)	176
Income tax received		(216)	(758)
Net cash generated from operating activities		5,591	6,990
Cash flows from investing activities			
Purchase of financial asset		-	(2,000)
Interest received		401	458
Proceeds from disposal of financial asset		1,880	-
Purchases of property, plant and equipment		-	-
Net cash generated from/(used in) investing activities		2,281	(1,542)
Cash flows from financing activities			
Interest paid		(1,423)	(1,487)
Amounts received from related parties		4,482	-
Repayment of borrowings		-	(6,278)
Dividends paid		(6,279)	-
Net cash used in from financing activities		(3,220)	(7,765)
Movement in cash and cash equivalents		4,652	(2,317)
Cash and cash equivalents at the beginning of the year	9	19,418	21,735
Cash and cash equivalents at the end of the year	9	24,070	19,418

The notes on pages on pages 10 to 25 are an integral part of these financial statements

Notes to the financial statements for the year ended 31 March 2011

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

General information

The company's principal activity during the year was the operation of the Scotland Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland. The company is incorporated and domiciled in Northern Ireland.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. All of the company's assets and liabilities are denominated in Sterling. These financial statements were authorised for issue by the Board of Directors on 20 June 2011 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements of Premier Transmission 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 on a going concern basis, 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 company'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 page 17.

Statement of compliance with IFRSs

The financial statements of Premier Transmission Limited have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

Standards, amendments and interpretations effective in the year ended 31 March 2011 and that are not relevant to the company

The following standards, amendments and interpretations to published standards are effective for the year ended 31 March 2011 but they are not relevant to the company's operations.

International Accounting Standards (IAS/IFRSs)

IAS 27 (revised), 'Consolidated and separate financial statements' (effective 1 July 2009)

IAS 39 (amendment), 'Financial instruments: Recognition and measurement', on Eligible hedged items (effective July 2009)

IAS 32 (amendment), 'Financial Instruments: Presentation' and IAS 1 Presentation on classification of rights issue' (effective 1 February 2010)

IFRS 1 (amendment), 'On first time adoption of IFRS additional exemptions' (effective 1 January 2010)

IFRS 1 (revised), 'First time adoption' (effective 1 July 2009)

IFRS 2, 'Share-based payment - Group cash-settled share-based payment transactions' (effective 1 January 2010)

IFRS 3 (revised), 'Business combinations' (effective 1 July 2009)

International Financial Reporting Interpretation Committee (IFRICs)

IFRIC 17, 'Distributions of non-cash assets to owners' (effective 1 July 2009)

IFRIC 18, 'Transfer of assets from customers' (effective 1 July 2010)

Notes to the financial statements for the year ended 31 March 2011**1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)****Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted**

During the year, the IASB and IFRIC have issued the following accounting standards and interpretations with an effective date after the date of these financial statements (i.e. applicable to accounting periods beginning on or after the effective date). The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the company's financial statements in the period of initial application.

International Accounting Standards (IAS/IFRSs)

IAS 24 (revised), 'Related party disclosures' (effective 1 January 2011)
IAS 12 (amendment), 'Income taxes on deferred taxes' (effective 1 January 2012)
IFRS 1 (amendment), 'First time adoption of IFRS' (effective 1 July 2011)
IFRS 1 (amendment), 'First time adoption on hyperinflation and fixed dates' (effective 1 July 2011)
IFRS 7 (amendment), 'Financial instruments: Disclosures on derecognition' (effective 1 July 2011)
IFRS 9, 'Financial instruments' (effective 1 Jan 2013)

International Financial Reporting Interpretation Committee (IFRIC's)

IFRIC 14 (amendment), 'IAS 19 - Prepayments of a minimum funding requirement' (effective 1 January 2011)
IFRIC 15 'Extinguishing financial liabilities with equity instruments' (effective 1 July 2010)

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of capacity on the Scotland, Northern Ireland pipeline for the transmission of gas between Scotland and Northern Ireland. All revenue is generated within the United Kingdom. Revenue is shown net of value-added tax, returns, rebates and discounts. 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. The company recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and accumulated impairment losses. The initial cost of an asset comprises 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 company 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 lives of each major class of depreciable asset are as follows:

Pipeline	43 years
Computer equipment	3 years

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

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

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

Notes to the financial statements for the year ended 31 March 2011**1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)****Impairment of non-financial assets**

The company 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 company 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 instruments

The company classifies its financial assets in the following categories: available for sale and, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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. The company's available-for-sale financial assets comprise debt 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. These are classified as non-current assets. The company's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

Available-for-sale financial assets (financial instruments)

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.

Loans and receivables (financial instruments)***(a) Trade and other receivables***

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'operating costs'. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'operating costs' in the statement of comprehensive income.

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

Notes to the financial statements for the year ended 31 March 2011**1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)****Loans and receivables (financial instruments) (continued)*****(b) Cash and cash equivalents***

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

Impairment of financial assets***(a) Assets held at amortised cost***

The company 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 company 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 company, 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 company first assesses whether objective evidence of impairment exists. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

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

(b) Available-for-sale financial assets

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the company uses the criteria referred to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

Notes to the financial statements for the year ended 31 March 2011

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

Ordinary shares

Ordinary shares are classified as equity

Other financial liabilities at amortised costs (financial instruments)

(a) Borrowings

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

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

(b) Financial liabilities

Financial liabilities represent financial guarantees issued by the company to a 3rd party in respect of liabilities of the company's parent undertaking. Financial liabilities are recognised initially at fair value and subsequently stated at amortised cost with the amortisation being recognised in finance income in the statement of comprehensive income.

(c) Trade and other payables

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

Income tax and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income.

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

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

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

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 company and it is probable that the temporary difference will not reverse in the foreseeable future.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, income tax is recognised in the statement of comprehensive income.

Notes to the financial statements for the year ended 31 March 2011

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

Government grants

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

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate

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

Operating lease commitments

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

Pensions and other post-retirement benefits

The company contributes to individuals' personal pension schemes. Contributions are recognised in the statement of comprehensive income in the period in which they become payable

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 year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income

Financial risk management

Financial risk factors

The company operates the gas pipeline which links the gas transmission systems of Northern Ireland and Scotland under a licence agreement with the Northern Ireland Authority for Utility Regulation. Under the licence agreement the company, together with its parent undertaking, receives revenue that compensates the companies for their operating expenses, financing costs and repayment of borrowings. Accordingly the company has limited financial risk

(a) Market risk- interest rate risk

The company's interest rate risk arises from amounts borrowed from its parent undertaking. These borrowings are index linked to the Retail Price Index and expose the company to interest rate cash flow risk. A change in the Retail Price Index by 1% would have increased/decreased finance costs during the year by £456,000. The company does not need to actively manage its exposure to cash flow interest rate risk as a result of its licence agreement mentioned in the preceding paragraph

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

The long term borrowings are amounts due to the company's parent undertaking and were used to settle group balances existing at acquisition date. The company monitors its cash flow regularly to ensure it can meet the repayments due under the terms of its borrowings

Notes to the financial statements for the year ended 31 March 2011

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

Financial risk management (continued)

(b) Credit risk

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

(c) Liquidity risk

Under the company's licence agreement it receives revenue that compensates the company, and its parent undertaking, for their operating expenses, financing costs and repayment of borrowings. Accordingly the company has limited liquidity risk. The company 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 company's borrowings are shown in note 20.

Capital risk management

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

Fair value estimation

Effective 1 January 2009, the company adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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 traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The company has no financial instruments fair valued after recognition purposes under level 1.

The company's financial instruments fair valued (for disclosure purposes only) under level 2 are the company's current and non-current loans and the company'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 UK yield curve data for a term that is similar to the financial instrument.

Notes to the financial statements for the year ended 31 March 2011

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

Critical accounting estimates and assumptions

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

Estimate of useful economic life of assets

The company assesses the useful economic life of assets on an annual basis. The remaining useful economic life of the Pipeline was determined as approximately 29.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 30.5 years, depreciation would have decreased by £103,000 and if the remaining useful economic life had been assessed at 28.5 years, depreciation would have increased by £110,000.

2 Expenses by nature

	2011 £'000	2010 £'000
Employee benefit expense (note 3)	143	415
Depreciation (net of amortisation of deferred government grants)	2,047	2,076
Operating lease payments	71	40
Fees payable to the company's auditor in respect of the audit of the company's financial statements	17	17
Other expenses	9,903	7,284
Total operating costs	12,181	9,832

3 Employee benefit expense

	2011 £'000	2010 £'000
Wages and salaries	122	229
Social security costs	14	30
Pension costs	7	156
	143	415

The average monthly number of employees during the year (including only directors holding contracts of service with the Company) was 2 (2010: 4).

Notes to the financial statements for the year ended 31 March 2011

3 Employee benefit expense (continued)

	2011 £'000	2010 £'000
Directors' emoluments		
Aggregate emoluments	-	38
Contributions paid to defined contribution pension scheme	-	141
	-	179
	Number	Number
Members of defined contribution pension scheme	-	1

Directors' emoluments represent the remuneration of the company's former executive director, William Cargo. The company's directors received emoluments of £562,000 (2010: £613,000) for their services to the Mutual Energy group of companies. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of other group companies.

4 Finance income and costs

	2011 £'000	2010 £'000
Interest expense		
Borrowings from parent undertaking	3,580	1,387
Short-term bank deposits	41	100
Finance costs	3,621	1,487
Interest income		
Short-term bank deposits	(364)	(400)
Financial liabilities	(186)	(200)
Finance income	(550)	(600)
Finance costs – net	3,071	887

5 Income tax (credit)/charge

	2011 £'000	2010 £'000
Current income tax		
Current income tax charge at 28%	-	1,303
Group relief claimed	850	-
Adjustment in respect of previous periods	(46)	(14)
Total current income tax	804	1,289
Deferred income tax		
Origination and reversal of temporary differences	(1,601)	(311)
Adjustments in respect of previous periods	15	13
Total deferred income tax (note 15)	(1,586)	(298)
Income tax (credit)/charge	(782)	991

Notes to the financial statements for the year ended 31 March 2011

5 Income tax (credit)/charge (continued)

The income tax (credit)/charge in the statement of comprehensive income for the year is different from the standard rate of corporation tax in the UK of 28% (2010 28%) The differences are reconciled below

	2011 £'000	2010 £'000
Profit before income tax	1,779	3,740
Tax calculated at the UK standard rate of corporation tax of 28% (2010 28%)	498	1,047
Effect of.		
Income not taxable	(52)	(55)
Expenses not deductible for tax	23	-
Transfer pricing adjustments	(192)	-
Reduction in tax rates in respect of deferred tax liabilities	(1,028)	-
Adjustments in respect of previous periods	(31)	(1)
Income tax (credit)/charge	(782)	991

Future tax changes

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement The Finance (No 2) Act 2010 includes legislation to reduce the main rate of corporation tax from 28% to 26% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 The effect of the reduction in the main rate of corporation tax from 28% to 26% has been reflected in the calculation of deferred income tax assets and liabilities as it was substantively enacted as at 31 March 2011

The proposed reduction in the main rate of corporation tax from 26% to 24% was not enacted as at 31 March 2011 and has therefore not been reflected in the calculation of deferred income tax assets and liabilities The effect of this proposed reduction in the main rate of corporation tax will reduce deferred income tax liabilities by £1,048,000

Notes to the financial statements for the year ended 31 March 2011

6 Property, plant and equipment

	Pipeline £'000	Computer equipment £'000	Total £'000
Cost			
At 1 April 2009 and at 31 March 2010	133,338	237	133,575
Additions	74	-	74
At 31 March 2011	133,412	237	133,649
Accumulated depreciation			
At 1 April 2009	37,346	208	37,554
Provided during the year	3,143	29	3,172
31 March 2010	40,489	237	40,726
Provided during the year	3,143	-	3,143
At 31 March 2011	43,632	237	43,869
Net book amount			
At 31 March 2011	89,780	-	89,780
At 31 March 2010	92,849	-	92,849
At 31 March 2009	95,992	29	96,021

Depreciation expense of £3,143,000 (2010 £3,172,000) has been fully charged to operating costs

The borrowings of the company's parent undertaking are secured on all of the property, plant and equipment of the company

7 Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	326	298
Prepayments and accrued income	2,492	1,901
Other receivables	2,000	2,000
Amounts owed by related parties	212	5,094
	5,030	9,293

None of the company's trade and other receivables are impaired or past due. The company has 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 company's trade and other receivables is not materially different to their carrying values.

Notes to the financial statements for the year ended 31 March 2011

8 Financial assets

	Available-for-sale £'000
At 1 April 2009	-
Additions	1,942
At 1 April 2010	1,942
Disposals	(1,942)
At 31 March 2011	-

The available-for-sale financial assets represented an investment in UK Government sterling gilts. These gilts carried an interest rate of 4.25% and were redeemed on 7 March 2011.

9 Cash and cash equivalents

	2011 £'000	2010 £'000
Cash at bank and on hand	18,134	1,965
Short-term bank deposits	5,936	17,453
	24,070	19,418

Cash and cash equivalents earn interest at a range of Bank of England base rate less 0.15% to Bank of England base rate plus 1.75%.

10 Called up share capital

	2011 £'000	2010 £'000
Allotted and fully paid		
860,928 ordinary shares of £1 each	861	861

11 Retained earnings

	£'000
At 1 April 2009	8,443
Total comprehensive income for the year	2,749
At 31 March 2010	11,192
Total comprehensive income for the year	2,561
Dividends paid during the year	(6,279)
At 31 March 2011	7,474

Notes to the financial statements for the year ended 31 March 2011

12 Dividends

	2011	2010
	£'000	£'000
Final paid of £7.29 per share (2010: £nil)	6,279	-

13 Borrowings

	2011	2010
	£'000	£'000
Non-current		
Amounts owed to group undertakings	46,553	44,429
Other borrowings	4	4
	46,557	44,433

The amounts owed to group undertakings relate to a 2.953% index linked (linked to the Retail Price Index) loan from the company's parent undertaking. The borrowings are repayable in full on 31 March 2030. The fair values of the company's borrowings are £37,525,000 (2010: £34,902,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 4.49% (2010: 4.66%). The undiscounted contractual maturity profile of the company's borrowings are shown in note 20.

14 Financial liabilities

	2011	2010
	£'000	£'000
Financial guarantee	1,509	1,696
Less current portion	(173)	(187)
Non-current portion	1,336	1,509

The financial guarantee represents the amortised cost of issuing a financial guarantee to a 3rd party in respect of borrowings by the company's parent undertaking.

15 Deferred income tax

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

	£'000
At 1 April 2009	15,511
Income statement credit for the year	(298)
At 31 March 2010	15,213
Income statement credit for the year	(1,586)
At 31 March 2011	13,627

Deferred income tax relates to accelerated capital allowances. The portion of the company's deferred tax liabilities arising from accelerated capital allowances that are expected to fall due after more than 12 months is £13,114,000 (2010: £15,213,000).

Notes to the financial statements for the year ended 31 March 2011

16 Government grant

	£'000
At 1 April 2009	33,392
Amortised during the year	(1,096)
At 31 March 2010	32,296
Amortised during the year	(1,096)
At 31 March 2011	31,200

The government grant was provided to the company for the purpose of its expenditure on its property, plant and equipment. The current portion of deferred income is £1,096,000 (2010 £1,096,000) and the non current portion is £30,104,000 (2010 £31,200,000).

17 Trade and other payables

	2011 £'000	2010 £'000
Trade payables	444	448
Accruals and deferred income	1,608	1,512
Amounts owed to related parties	1,143	127
Other tax and social security	445	420
Other payables	-	203
	3,640	2,710

18 Commitments

Operating lease commitments - company as lessee

The company has entered into a commercial lease on land and this lease has a remaining lease term of 24 years. There are no restrictions placed upon the lessee by entering into these leases. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 2.

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

	2011 £'000	2010 £'000
Not later than one year	71	71
After one year but not more than five years	284	284
After more than five years	1,349	1,420
	1,704	1,775

Notes to the financial statements for the year ended 31 March 2011

19 Related party transactions and ultimate controlling party

The ultimate controlling parties of the company are the members of Mutual Energy Limited

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	
	2011	2010
	£'000	£'000
Parent undertakings	(46,761)	(44,429)
Parent undertakings	212	5,094
Fellow subsidiary undertaking	(935)	(127)

		Amount of transaction	
		2011	2010
		£'000	£'000
	Nature of transaction		
Parent undertakings	Group relief (claimed)/surrendered	(850)	219
Fellow subsidiary undertaking	Group relief surrendered/(claimed)	52	(140)
Parent undertakings	Management charge payable	(474)	(289)
Fellow subsidiary undertaking	Survey and security costs payable	(287)	(9)
Parent undertakings	Interest payable	(3,580)	(1,387)

Compensation of key management (including directors)

	2011	2010
	£'000	£'000
Short term employee benefits	-	38
Post-employment benefits	-	141

Notes to the financial statements for the year ended 31 March 2011

20 Financial instruments

The company's financial instruments are classified as follows

Assets and liabilities	Category of financial instrument
Financial assets	Available-for-sale
Trade and other receivables	Loans and other receivables
Cash and cash equivalents	Loans and other receivables
Financial liabilities	Other financial liabilities at amortised cost
Borrowings	Other financial liabilities at amortised cost
Trade and other payables	Other financial liabilities at amortised cost

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

	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
At 31 March 2011							
Trade and other payables	3,195	-	-	-	-	-	3,195
Amounts owed to parent undertaking	1,375	1,375	1,375	1,375	1,375	65,799	72,674
	4,570	1,375	1,375	1,375	1,375	65,799	75,869

	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
At 31 March 2010							
Trade and other payables	2,290	-	-	-	-	-	2,290
Amounts owed to parent undertaking	1,312	1,312	1,312	1,312	1,312	64,109	70,669
	3,602	1,312	1,312	1,312	1,312	64,109	72,959

21 Ultimate parent undertaking

The immediate parent undertaking is Premier Transmission Financing plc, a company incorporated in Northern Ireland. Group financial statements for this company are prepared and are available to the public from First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.

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

