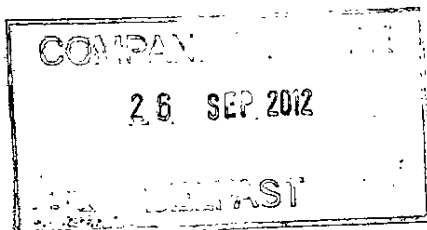


Premier Transmission Limited
Annual report
for the year ended 31 March 2012



Premier Transmission Limited

Annual report for the year ended 31 March 2012

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Directors and advisers

Directors

Peter Warry	Chairman
Patrick Larkin	Executive Director
Gerry Walsh	Senior Independent Director
Regina Finn	Non- executive Director
Gerard McIlroy	Executive Director
Stephen Kirkpatrick	Non- executive Director
Clarke Black	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
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 2012

The directors present their report and the audited financial statements for the year ended 31 March 2012.

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 2012 and expect the company to maintain its present level of activity in the next few years.

The company's parent undertaking, Premier Transmission Financing plc, prepares consolidated financial statements that include these financial statements. The Directors' report in the Premier Transmission Financing plc 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 £2,369,000 (2011: £2,561,000). The directors did not pay a dividend during the year (2011: £6,279,000).

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, and up to the date of signing the financial statements, were:

Peter Warry
Patrick Larkin
Gerry Walsh
Regina Finn
Gerard McIlroy
Stephen Kirkpatrick
Clarke Black

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 (2011: £nil).

Policy and practice on 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 11 days at 31 March 2012 (2011: 18 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 2012 (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 McIlroy
Company secretary
15 June 2012

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 2012 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 Statement of directors' responsibilities 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 2012 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.



Martin Pitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
23 July 2012

Statement of comprehensive income for the year ended 31 March 2012

	Note	2012 £'000	2011 £'000
Revenue – continuing operations		15,627	17,031
Operating costs	2	(10,671)	(12,181)
Earnings before depreciation		7,008	6,897
Depreciation (net of amortisation of government grants)		(2,052)	(2,047)
Operating profit		4,956	4,850
Finance income	4	525	550
Finance costs	4	(3,910)	(3,621)
Finance costs – net	4	(3,385)	(3,071)
Profit before income tax		1,571	1,779
Income tax credit	5	798	782
Profit for the year attributable to the owners of the parent	10	2,369	2,561

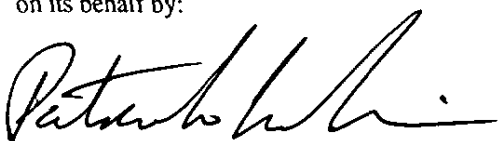
The notes on pages 10 to 24 are an integral part of these financial statements.

Balance sheet as at 31 March 2012

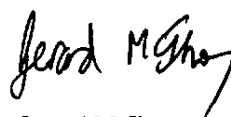
	Note	2012 £'000	2011 £'000
Assets			
Non-current assets			
Property, plant and equipment	6	86,641	89,780
		86,641	89,780
Current assets			
Trade and other receivables	7	8,268	5,030
Cash and cash equivalents	8	25,628	24,070
		33,896	29,100
Total assets		120,537	118,880
Equity and Liabilities			
Equity			
Ordinary shares	9	861	861
Share premium		14,012	14,012
Retained earnings	10	9,843	7,474
Total equity		24,716	22,347
Liabilities			
Non-current liabilities			
Borrowings	12	48,867	46,557
Financial liabilities	13	1,176	1,336
Deferred income tax liabilities	14	12,069	13,627
Government grant	15	29,008	30,104
		91,120	91,624
Current liabilities			
Trade and other payables	16	3,445	3,640
Financial liabilities	13	160	173
Government grant	15	1,096	1,096
		4,701	4,909
Total liabilities		95,821	96,533
Total equity and liabilities		120,537	118,880

The notes on pages 10 to 24 are an integral part of these financial statements.

The financial statements on pages 6 to 24 were authorised for issue by the Board of Directors on 15 June 2012 and were signed on its behalf by:



Patrick Larkin
Director



Gerard McIlroy
Director

Statement of changes in equity

	Note	Share capital £'000	Share Premium £'000	Retained earnings £'000	Total £'000
Balance at 1 April 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		-	-	(6,279)	(6,279)
Total transactions with parent		-	-	(6,279)	(6,279)
Balance at 31 March 2011		861	14,012	7,474	22,347
Comprehensive income					
Profit for the year		-	-	2,369	2,369
Total comprehensive income		-	-	2,369	2,369
Balance at 31 March 2012		861	14,012	9,843	24,716

The notes on pages 10 to 24 are an integral part of these financial statements.

Cash flow statement for the year ended 31 March 2012

	Note	2012 £'000	2011 £'000
Cash flows from operating activities			
Profit before income tax and finance costs		4,956	4,850
Adjustments for:			
Depreciation of property, plant and equipment		3,148	3,143
Amortisation of government grants		(1,096)	(1,096)
Movement in trade and other receivables		848	(198)
Movement in trade and other payables		208	(892)
Income tax received		(1,166)	(216)
Net cash generated from operating activities		6,898	5,591
Cash flows from investing activities			
Interest received		83	401
Proceeds from disposal of financial asset		-	1,880
Purchases of property, plant and equipment		(6)	-
Net cash generated from investing activities		77	2,281
Cash flows from financing activities			
Interest paid		-	(1,423)
Amounts received from related parties		(5,417)	4,482
Dividends paid		-	(6,279)
Net cash used in from financing activities		(5,417)	(3,220)
Movement in cash and cash equivalents		1,558	4,652
Cash and cash equivalents at the beginning of the year	8	24,070	19,418
Cash and cash equivalents at the end of the year	8	25,628	24,070

The notes on pages 10 to 24 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 March 2012

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 15 June 2012 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these 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 2012 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 2012 but they are not relevant to the company's operations:

International Accounting Standards (IAS/IFRSs)

IAS 24 (revised), 'Related party disclosures' (effective 1 January 2011)

IFRS 1 (amendment) 'First time adoption on financial instrument disclosures' (effective 1 July 2010)

International Financial Reporting Interpretation Committee (IFRICs)

IFRIC 14 (amendment), 'Pre-payments of a Minimum Funding Requirement' (effective 1 January 2011)

IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective 1 July 2010)

Notes to the financial statements for the year ended 31 March 2012

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

Standards, amendments and interpretations to existing standards that are not yet effective and adopted by the European Union, 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 company is yet to assess the full impact of these amendments:

International Accounting Standards (IAS/IFRSs)

IAS 1 (amendment), 'Presentation of financial statements' on OCI * (effective 1 July 2012)
 IAS 12 (amendment), 'Income taxes' on deferred tax (effective 1 January 2012)
 IAS 19 (revised) 'Employee benefits' * (effective 1 January 2013)
 IAS 27 (revised) 'Separate financial statements' * (effective 1 January 2013)
 IAS 28 (revised) 'Associates and joint ventures' * (effective 1 January 2013)
 IFRS 1 (amendment) on hyperinflation and fixed dates * (effective 1 July 2011)
 IFRS 7 (amendment), 'Financial instruments: Disclosures on fair value hierarchy' * (effective 1 July 2011)
 IFRS 9, 'Financial instruments' * (effective 1 January 2015)
 IFRS 10, 'Consolidated financial statements' * (effective 1 January 2013)
 IFRS 11, 'Joint arrangements' (effective 1 January 2013)
 IFRS 12, 'Disclosures of interests in other entities' * (effective 1 January 2013)
 IFRS 13, 'Fair value measurement' * (effective 1 January 2013)

(*) not yet adopted by the European Union.

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 historical cost less accumulated 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 useful economic lives of each major class of depreciable asset are as follows:

Pipeline	43 years
Plant and machinery	15 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 2012**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.

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.

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.

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.

Notes to the financial statements for the year ended 31 March 2012**1 Accounting policies, financial risk management & critical accounting estimates/judgements (continued)****Loans and receivables (financial instruments) (continued)**

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.

(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 refer 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 2012

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.

Current 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 2012**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, profit and equity during the year by £480,000. 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 2012

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 is shown in note 19.

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 2012

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 28.5 years at the beginning of the year. If the remaining useful economic life had been assessed at 29.5 years, depreciation would have decreased by £106,000 and if the remaining useful economic life had been assessed at 27.5 years, depreciation would have increased by £114,000.

2 Expenses by nature – operating costs

	2012 £'000	2011 £'000
Employee benefit expense (note 3)	139	143
Depreciation	3,148	3,143
Amortisation of deferred government grants	(1,096)	(1,096)
Operating lease payments	75	71
Fees payable to the company's auditor in respect of the audit of the company's financial statements	15	17
Other expenses	8,390	9,903
Total operating costs	10,671	12,181

Other expenses include costs payable to BGE for access to the SWOS pipeline, grid control costs, engineering works, IT system costs, rates, insurance and licence fees, together with administrative costs.

3 Employee benefit expense

	2012 £'000	2011 £'000
Wages and salaries	118	122
Social security costs	14	14
Pension costs	7	7
	139	143

The average monthly number of employees during the year (including only directors holding contracts of service with the company) was 2 (2011:2).

The company's directors were not remunerated for their services to the company but instead received emoluments for their services to the Mutual Energy group of companies. The 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.

Notes to the financial statements for the year ended 31 March 2012

4 Finance income and costs

	2012 £'000	2011 £'000
Interest expense:		
Borrowings from parent undertaking	3,838	3,580
Short-term bank deposits	72	41
Finance costs	3,910	3,621
Interest income:		
Short-term bank deposits	(352)	(364)
Financial liabilities	(173)	(186)
Finance income	(525)	(550)
Finance costs – net	3,385	3,071

5 Income tax credit

	2012 £'000	2011 £'000
Current income tax:		
Group relief claimed	723	850
Adjustment in respect of previous periods	37	(46)
Total current income tax	760	804
Deferred income tax:		
Origination and reversal of temporary differences	(1,539)	(1,601)
Adjustments in respect of previous periods	(19)	15
Total deferred income tax (note 14)	(1,558)	(1,586)
Income tax credit	(798)	(782)

The income tax credit in the statement of comprehensive income for the year is different from the standard rate of corporation tax in the UK of 26% (2011: 28%). The differences are reconciled below:

	2012 £'000	2011 £'000
Profit before income tax	1,571	1,779
Tax calculated at the UK standard rate of corporation tax of 26% (2011: 28%)	408	498
Effect of:		
Income not taxable	(45)	(52)
Expenses not deductible for tax	16	23
Transfer pricing adjustments	(189)	(192)
Reduction in tax rates in respect of deferred tax liabilities	(1,006)	(1,028)
Adjustments in respect of previous periods	18	(31)
Income tax credit	(798)	(782)

Notes to the financial statements for the year ended 31 March 2012

5 Income tax credit (continued)

Future tax changes

During the year, as a result of the changes in the UK main corporation tax rate to 24% that was substantively enacted on 26 March 2012 and that will be effective from 1 April 2012, the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rate were announced in the March 2012 Budget. The proposed reductions in the corporation tax rate, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 22% by 1 April 2014. These changes in the corporation tax rate from 24% to 22% had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

The impact of this proposed reduction in the main rate of corporation tax rates will reduce the deferred income tax liabilities by £1,006,000.

6 Property, plant and equipment

	Pipeline £'000	Property, plant and machinery £'000	Computer equipment £'000	Total £'000
Cost				
At 1 April 2010	133,338	-	237	133,575
Additions	74	-	-	74
At 31 March 2011	133,412	-	237	133,649
Additions	-	8	1	9
At 31 March 2012	133,412	8	238	133,658
Accumulated depreciation				
At 1 April 2010	40,489	-	237	40,726
Provided during the year	3,143	-	-	3,143
31 March 2011	43,632	-	237	43,869
Provided during the year	3,147	-	1	3,148
At 31 March 2012	46,779	-	238	47,017
Net book amount				
At 31 March 2012	86,633	8	-	86,641
At 31 March 2011	89,780	-	-	89,780
At 31 March 2010	92,849	-	-	92,849

Depreciation expense of £3,148,000 (2011: £3,143,000) 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.

Notes to the financial statements for the year ended 31 March 2012

7 Trade and other receivables

	2012	2011
	£'000	£'000
Trade receivables	327	326
Prepayments and accrued income	1,948	2,492
Other receivables	2,018	2,000
Amounts owed by related parties	3,975	212
	8,268	5,030

All of the company's trade and other receivables are denominated in sterling.

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.

8 Cash and cash equivalents

	2012	2011
	£'000	£'000
Cash at bank and on hand	13,326	18,134
Short-term bank deposits	12,302	5,936
	25,628	24,070

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 1.5%.

9 Ordinary shares

	2012	2011
	£'000	£'000
Allotted and fully paid		
860,928 ordinary shares of £1 each	861	861

10 Retained earnings

	£'000
At 1 April 2010	11,192
Total comprehensive income for the year	2,561
Dividends paid during the year	(6,279)
At 31 March 2011	7,474
Total comprehensive income for the year	2,369
At 31 March 2012	9,843

11 Dividends

	2012	2011
	£'000	£'000
Final paid of £nil per share (2011: £7.29)	-	6,279

Notes to the financial statements for the year ended 31 March 2012

12 Borrowings

	2012	2011
	£'000	£'000
Non-current		
Amounts owed to group undertakings	48,863	46,553
Other borrowings	4	4
	48,867	46,557

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 £45,208,000 (2011: £37,525,000). This fair value has been calculated by discounting the future cash flows using a discount rate of 3.32% (2011: 4.49%). The undiscounted contractual maturity profile of the company's borrowings is shown in note 19.

13 Financial liabilities

	2012	2011
	£'000	£'000
Financial guarantee	1,336	1,509
Less current portion	(160)	(173)
Non current portion	1,176	1,336

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.

14 Deferred income tax liabilities

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

	£'000
At 1 April 2010	15,213
Income statement credit for the year	(1,586)
At 31 March 2011	13,627
Income statement credit for the year	(1,558)
At 31 March 2012	12,069

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 £11,577,000 (2011: £13,114,000).

Notes to the financial statements for the year ended 31 March 2012

15 Government grant

	£'000
At 1 April 2010	32,296
Amortised during the year	(1,096)
At 31 March 2011	31,200
Amortised during the year	(1,096)
At 31 March 2012	30,104

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 (2011: £1,096,000) and the non-current portion is £29,008,000 (2011: £30,104,000).

16 Trade and other payables

	2012 £'000	2011 £'000
Trade payables	339	444
Accruals and deferred income	1,889	1,608
Amounts owed to related parties	786	1,143
Other tax and social security	431	445
	3,445	3,640

The fair values of trade and other payables are not materially different from their carrying values.

17 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 23 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:

	2012 £'000	2011 £'000
Not later than one year	78	71
After one year but not more than five years	313	284
After more than five years	1,409	1,349
	1,800	1,704

Notes to the financial statements for the year ended 31 March 2012

18 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	
		2012	2011
		£'000	£'000
Parent undertakings		(48,863)	(46,761)
Parent undertakings		3,962	212
Fellow subsidiary undertaking		(786)	(935)
Fellow subsidiary undertaking		13	-

		Amount of transaction	
		2012	2011
		£'000	£'000
	Nature of transaction		
Parent undertakings	Group relief (claimed)	(37)	(850)
Fellow subsidiary undertaking	Group relief (claimed)/ surrendered	(723)	52
Parent undertakings	Management charge payable	(457)	(474)
Fellow subsidiary undertaking	Maintenance, survey and security costs payable	(729)	(287)
Parent undertakings	Interest payable	(3,838)	(3,580)

Notes to the financial statements for the year ended 31 March 2012

19 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 2012							
Trade and other payables	3,014	-	-	-	-	-	3,014
Amounts owed to parent Undertaking	1,443	1,443	1,443	1,443	1,443	67,622	74,837
	4,457	1,443	1,443	1,443	1,443	67,622	77,851
	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

20 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.