Interconnector (UK) Limited

Annual Report and Consolidated Financial Statements for the year ended 31 December 2017

Registered Number: 2989838

Interconnector (UK) Limited

Consolidated financial statements for the year ended 31 December 2017

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Interconnector (UK) Limited

Company information

Registered Office	10 Furnival Street London EC4A 1AB United Kingdom
Country of incorporation	England and Wales
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH United Kingdom

Interconnector (UK) Limited

Strategic report

The directors present their Strategic report for the year ended 31 December 2017.

Business review

Interconnector (UK) Limited ("the company") and its subsidiaries (together, "the group") operate a subsea gas pipeline and terminal facilities to provide the only bi-directional gas transportation service between the United Kingdom ("UK") and continental European energy markets. The system comprises compression terminals at Bacton in the UK and Zeebrugge in Belgium, connected by a 235 kilometre, 40-inch diameter pipeline. It is currently capable of transporting 25.5 billion cubic metres ("bcm") of gas per annum (approximately 30% of current annual demand in the UK) from Zeebrugge to Bacton ("reverse flow") and 20.0 bcm per annum in the opposite direction ("forward flow").

The forward and reverse flow capacity in the pipeline has been fully contracted with major energy and utility companies under standard capacity contracts which will expire at the end of September 2018. To that date, the group's revenues are independent of physical gas flows through the pipeline. After that date, capacity will be offered regularly to the market through a regulated auction process. Future revenues will depend on demand and be more closely correlated to actual gas flows.

During 2017, the pipeline demonstrated its key role in providing flexible bi-directional gas transportation, both to satisfy the seasonal swing in demand in the UK and providing liquidity to the traded markets in the UK and Belgium. Despite relatively mild winter temperatures, there were significant reverse flows in January and February averaging around 6,500 GWh per month compared to sporadic flows in the previous winter. The difference may have been the result of injection restrictions at the Rough storage field due to operational problems. The Rough facility competed with the pipeline in providing capacity for seasonal swing in summer and winter demand. This asset was permanently closed in June 2017.

The absence of demand for Rough injection and the landing of LNG cargos during the spring and summer seasons meant the UK was "long" in gas and the Interconnector saw a significant step up in forward flow volumes, with average utilisation of capacity increasing to approximately 80% for the 4 months from April 2017. In July, the pipeline flowed its highest ever volume for a calendar month (18,851 GWh) equating to a utilisation of 97% across the month.

Further evidence that Interconnector capacity may have partially substituted Rough in the provision of the seasonal demand swing was evident in high December 2017 import flows. Reverse flows in December were 15,115 GWh or 61% of capacity.

This set of financial statements has been prepared for the 12 month period ended 31 December 2017. In 2016, the company and its subsidiary companies changed their year end from 30 September to 31 December to align to the reporting timetable of IUK's controlling shareholder. Therefore, the comparative information is presented on a 15-month basis where applicable.

The results of the group for the year ended 31 December 2017 show a profit before taxation of £113.2 million (15 month period ended 31 December 2016: £141.1 million) and revenues of £186.1 million (15 month period ended 31 December 2016: £226.8 million). At 31 December 2017, the group had net assets of £61.1 million (31 December 2016: £55.7 million). Net cash inflow from operating activities for the year ended 31 December 2017 was £115.9 million (15 month period ended 31 December 2016: £129.5 million).

Interconnector (UK) Limited

Strategic report (continued)

Principal risks and uncertainties

The group's operations, to transport high pressure natural gas, involve the control and management of inherent health, safety, security and environmental risks. The group's commercial activities are exposed to certain market, financial, credit and regulatory risks, some of which will face a significant step increase with the expiry of the long-term capacity contracts in September 2018. Appropriate processes are in place to actively identify, manage and mitigate these risks. Risks are formally reviewed by management and the Audit Committee throughout the year and reported to the Board.

Market risk

The long-term ship-or-pay capacity contracts that currently cover all the pipeline's forward and reverse capacity expire at the end of September 2018. A proportion of the reverse flow capacity, beyond September 2018 has been sold on a multi-year contract.

After September 2018, the Interconnector system will compete as a source of flexible gas supply in a competitive market against other infrastructure assets such as pipelines, LNG terminals and storage. The company will offer capacity on a regulated public auction platform. The results of these auctions to date have demonstrated that customers prefer to make only short term booking commitments to any infrastructure that is perceived to have sufficient capacity to meet demand. The company expects that, from the second half of 2018, future revenues will arise more on short term booking commitments with an average duration not expected to exceed a month. Demand for capacity, and therefore revenues, will be seasonal in nature and have greater volatility. There may be periods of low demand outside of the summer and winter seasons.

Health, Safety, Environment and Security (HSES)

Excellent HSES performance is critical to the success of the business. The group transports natural gas at up to 147 times atmospheric pressure using compressors driven by gas turbines and high voltage electric motors. The group endeavours to minimise the physical risks associated with this type of operation by the application of high standards in equipment design, plant operation and maintenance. A comprehensive annual HSES programme is carried out, with emphasis on planned maintenance, regular safety audits, inspections and walkthroughs. Reporting of safety observations is encouraged to enable site management to identify trends and initiate measures to avoid incidents.

During 2017, there was one (2016: one) lost time incident when a contractor suffered a shoulder injury while climbing a ladder. There was one medical treatment incident (2016: two) after a cut to a hand with a grinder. There were no (2016: one) reportable emissions events. A broad operational audit programme was carried out and emergency exercises were performed by the group itself and in conjunction with neighbouring operators and the emergency services. Regular safety meetings were held at both terminal sites to allow staff to discuss current safety issues. There was a significant level of engagement with the UK safety regulator, the Health and Safety Executive ("HSE"), on a range of matters centred on "Human Factors" issues such as management of change and incident investigations.

Interconnector (UK) Limited

Strategic report (continued)

Legal and regulatory

The company is regulated by both the Office of Gas and Electricity Markets in the UK and La Commission de Régulation de l'Electricité et du Gaz in Belgium, both acting as National Regulatory Authorities ("NRAs"). Although the pipeline operates as a "merchant asset," that is without an allowed revenue or guaranteed captive demand typical of a monopoly infrastructure operator, the commercial terms offered by the company are subject to strict regulation by the NRAs.

European Commission legislation, advanced under the Third Energy Package and enacted into British and Belgian law, has sought to liberalise and integrate European energy markets. This initiative has included the development and implementation of binding European Network Codes, enforced by the NRAs, governing how infrastructure capacity is offered and priced. Some elements of the Codes have insufficient consideration of the commercial needs of merchant interconnecting pipelines. The company has undertaken a lobbying campaign to propose amending the Network Codes to allow merchant interconnectors additional commercial flexibility, including the ability to introduce products which are tailored to meet shippers' requirements. Limited flexibility has been allowed in the Tariff code which will allow the NRAs to approve some flexibility in future pricing of capacity.

The UK gave notice to leave the European Union at the end of March 2017 ("Brexit"), which started a two-year period before formal withdrawal was due to take effect. To allow for further negotiation, this notice period is now expected to be followed by a transition period of up to two years, during which the regulatory environment is expected to remain unchanged. At the conclusion of the transition period, it is not yet clear what changes will be made to arrangements governing cross border energy trade or what regulations may be put in place to replace the European legislation currently enacted into British and Belgian law. Revised energy market regulation may affect the business of the group, however no significant changes in the legal and regulatory environment applying to the company are expected in the coming year.

The Interconnector pipeline has made a significant contribution to integrating the UK gas market with its European neighbours, with significant benefits for consumers on both sides. Once its initial long term contracts end, the ongoing viability of the asset, as well as its ability to continue to deliver its services to the market depend on the NRAs agreeing a fit-for-purpose trading and regulatory regime, that takes account of the specific nature of merchant interconnectors as well as the market conditions prevalent in North West Europe. The company is lobbying European, UK and Belgian stakeholders for appropriate arrangements to be put in place.

Financial, commercial and economic

The customers who ship gas, utilising capacity under the current long term contracts, have made long term "ship-or-pay" commitments to the company. The company is exposed to the credit quality of these customers. After September 2018, the company will continue to be exposed to this risk but for the shorter durations of newly contracted capacity. Under the existing and revised capacity contracts, customers are required to have a minimum credit quality or provide financial guarantees that meet these requirements. As the customers are committed to pay for a fixed amount of the pipeline capacity, the company is not currently exposed to volume or commodity price risks. After September 2018, the company will be exposed to volume risk but not the commodity price risk.

Strategic report (continued)

Gas operations

Customers rely on the flexibility and reliability of the company's service. Under the current long term capacity contracts, the company is exposed to penalties arising from a failure to meet customer nominations. Facilities and systems are designed with a significant degree of redundancy and are maintained to sustain equipment availability. Operations are managed to ensure a high degree of reliability. During 2017, the company met all customer nominations and fulfilled all contractual obligations. After September 2018, the company's liability for failing to meet customer's nominations is limited to the cost of the capacity.

Financial risk management

The main financial risks arising from the group's operations are foreign currency risk, credit risk, liquidity risk and interest rate risk. The group's financial risk mitigation strategy is developed in accordance with a Treasury Policy which is reviewed annually by the Audit Committee. The treasury activities of the group are conducted in accordance with this policy and are on an entirely nonspeculative basis.

Foreign currency risk

The group has a number of Euro ("€") denominated assets and liabilities and is therefore exposed to foreign currency translation risk. The group aims to minimise the risk of gains or losses by maintaining a natural hedge by matching the value of the Euro assets and liabilities held.

Credit risk

The group's exposure to credit losses arising from a default by customers is managed through the credit criteria required by the transportation agreements. Exposure to treasury counterparties is managed by individual limits and minimum ratings specified in a Treasury Policy. The credit ratings of customers, key suppliers and treasury counterparties are monitored regularly.

Funding and liquidity risk

The group has committed debt facilities which will be repaid with funds on hand in March 2018. The group also has long term lease obligations that have no obligation to refinance in the near term. There are no significant capital investments identified that require funding. The group's revenues up to September 2018 are highly predictable, after which they will become more volatile requiring detailed cash flow forecasting and flexible working capital management.

Interest rate risk

The interest rate risk arising under the £115 million floating rate loan facility with The Royal Bank of Scotland plc ("RBS") has been hedged with an interest rate swap with the same institution (see note 21). This represents substantially all of the group's exposure to interest rate risk.

Future developments

The company's current capacity contracts expire at the end of September 2018. A programme of work is under way to secure contracts for post-2018 capacity (see Market risk). The company anticipates an ongoing programme of marketing and sales activity to maximise revenue opportunities.

Interconnector (UK) Limited

Strategic report (continued)

Key performance indicators

Financial KPIs, being the revenue and the profit before tax, are discussed in the "Business Review" section above.

The company continued to provide reliable operations in the UK and Belgium. Its performance against key operational targets is summarised below:

	12 months to 31 December 2017	15 months to 31 December 2016	Description
Lost capacity rebates	Zero	Zero	In accordance with defined service delivery targets in the transportation agreements, lost capacity rebates are made to customers when the company is unable to satisfy its gas transportation obligations. During the current year and the last period, no lost capacity rebates were made. This reflects the continuing high standard of operational performance achieved.
Injurious accidents	Two	Three	These include Lost Time Incidents and incidents requiring medical treatment. There was one (2016: one) lost time incident when a contractor suffered a shoulder injury while climbing a ladder. There was one medical treatment incident (2016: two) after a cut to a hand with a grinder.
Reportable emission events	Zero	One	Emissions of natural gas or CO_2 beyond permitted levels or significant environmental impacts are required to be disclosed to the Environment Agency.

On behalf of the Board of Directors

S. Waring

Sean Waring
Chief Executive Officer
13 March 2018

Interconnector (UK) Limited

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2017.

Results and dividends

The group's profit for the year was £90.9 million (15 month period ended 31 December 2016: £113.4 million). Interim dividends of £5.25 (15 month period ended 31 December 2016: £8.90) per ordinary share amounting to £61.9 million (15 month period ended 31 December 2016: £104.9 million) were declared and paid during the year. A final dividend of £0.34 (15 month period ended 31 December 2016: £2.07) per ordinary share amounting to £4.0 million (15 month period ended 31 December 2016: £24.4 million) was proposed and, if approved, will be paid during April 2018. The aggregate dividends on the ordinary shares recognised during the year amounts to £86.3 million (15 month period ended 31 December 2016: £104.9 million), excluding proposed dividends that were not approved by the year-end.

Future developments and financial risk management

Likely future developments in the group's business and financial risk management policies have been included in the Strategic report.

Going concern

The forward and reverse flow capacity in the pipeline is fully contracted on long term contracts expiring in September 2018. As detailed in the "Market Risk" section above, after this date, the company will sell capacity in a short term market as a "merchant" asset. Demand for capacity, and therefore revenues, will be seasonal in nature and have greater volatility. There may be periods of low demand outside of the summer and winter seasons.

The directors are confident that due to the strategic importance of the asset, and the unique function that it performs for the market, there will be sufficient demand for capacity to generate sufficient revenues to maintain the group as a going concern. Therefore, the directors believe that the group is well placed to manage its business risks successfully.

The group and company are showing net current liabilities of £21.1 million and £44.7 million respectively, which reflect the impact of a quarterly dividend and imminent maturity of debt obligations. The group has sufficient operational cash flow arising under the current capacity contracts to meet these obligations.

The directors, having assessed the business risks and giving due consideration to the profitability of the business and the cash flow required to meet its on-going obligations, consider it appropriate to prepare the financial statements on a going concern basis.

Directors' report (continued)

Directors

The directors who held office during the year and up to the date of signing the financial statements are as follows:

Huberte Bettonville (Chairwoman of the Board of Directors) (appointed 1 January 2018)
Sean Waring (CEO)

Shareholder-appointed non-executive directors:
Raf Van Elst
Erik Vennekens
Arno Büx
Graeme Steele
Patrick Côté
Matteo Tanteri (appointed 9 March 2017)

Directors during the year:
Federico Ermoli (resigned 9 March 2017)
Paul Trimmer (Chairman of the Board of Directors) (resigned 31 December 2017)

Sean Waring is the CEO of Interconnector (UK) Limited and a director of all subsidiaries. Directors' remuneration is shown in note 5.

Directors' indemnities

Fluxys SA, IUK's parent company, maintains liability insurance for its directors and officers and for the directors and officers of all its subsidiaries. IUK provides an indemnity for its directors, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. The qualifying third party indemnity was in place during the 12 month period ended 31 December 2017 and as at the date of the approval of these financial statements.

Interconnector (UK) Limited

Directors' report (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company 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 group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, the directors who held office at the date of approval of the Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board of Directors

S. Waring

Sean Waring
Chief Executive Officer
13 March 2018

Independent auditors' report to the members of Interconnector (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Interconnector (UK) Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2017 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the consolidated income statement; the consolidated statement of comprehensive income, the consolidated and company statements of financial position; the consolidated and company statements of changes in equity and the consolidated and company statements of cash flows; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Independent auditors' report to the members of Interconnector (UK) Limited (continued)

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Kevin McGhee

Kevin McGhee (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
13 March 2018

Interconnector (UK) Limited

Consolidated income statement

	Note	**For the year ended 31 December 2017**	For the period from 1 October 2015 to 31 December 2016
		£'000	£'000
Revenue	3	**186,065**	226,793
Operating expenses		**(71,497)**	(82,984)
Operating profit	4	**114,568**	143,809
Finance income	7	**5,680**	6,941
Finance costs	8	**(7,075)**	(9,617)
Profit before taxation		**113,173**	141,133
Tax expense	9	**(22,228)**	(27,756)
Profit for the year / period		**90,945**	113,377
Profit for the year / period attributable to:			
Owners of the Parent		**90,851**	113,275
Non-controlling interests		**94**	102
Consolidated profit for the year / period		**90,945**	113,377

The notes on pages 22 to 70 are an integral part of these consolidated financial statements.

Interconnector (UK) Limited

Consolidated statement of comprehensive income

	Note	**For the year ended 31 December 2017**	For the period from 1 October 2015 to 31 December 2016
		£'000	£'000
Profit for the year / period		**90,945**	113,377
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		**274**	863
Cash flow hedge	26	**496**	311
Other comprehensive income for the year / period, net of tax		**770**	1,174
Total comprehensive income for the year / period		**91,715**	114,551
Total comprehensive income for the year / period attributable to:			
Owners of the Parent		**91,621**	114,449
Non-controlling interests		**94**	102
Total comprehensive income for the year / period		**91,715**	114,551

The notes on pages 22 to 70 are an integral part of these consolidated financial statements.

Interconnector (UK) Limited

Consolidated statement of financial position

	Note	**31 December 2017**	31 December 2016
		£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	11	**97,803**	127,247
Intangible assets	12	**4,015**	3,946
Investments	13	**193**	221
Loans receivable	14	**98,190**	102,701
		200,201	234,115
Current assets			
Loans receivable	14	**8,613**	7,262
Trade and other receivables	16	**22,938**	21,291
Cash and cash equivalents		**32,337**	29,283
		63,888	57,836
Total assets		**264,089**	291,951
Liabilities			
Non-current liabilities			
Borrowings	17	**-**	(34,956)
Obligations under finance leases	18	**(99,230)**	(112,136)
Deferred income tax liabilities	19	**(7,699)**	(18,850)
Trade and other payables	23	**(11,002)**	(10,998)
Derivative financial instruments	21	**-**	(580)
		(117,931)	(177,520)
Current liabilities			
Borrowings	17	**(34,956)**	(19,824)
Obligations under finance leases	18	**(17,860)**	(11,596)
Current income tax liabilities		**(16,791)**	(15,714)
Trade and other payables	23	**(15,341)**	(11,615)
Derivative financial instruments	21	**(84)**	-
		(85,032)	(58,749)
Total liabilities		**(202,963)**	(236,269)
Net assets		**61,126**	55,682

Interconnector (UK) Limited

Consolidated statement of financial position (continued)

	Note	31 December 2017	31 December 2016
		£'000	£'000
Equity attributable to:			
Owners of the parent			
Share capital	25	**12,755**	12,755
Other reserves	26	**384**	(272)
Retained earnings		**47,148**	42,454
		60,287	54,937
Non-controlling interests		**839**	745
Total equity		**61,126**	55,682

The notes on pages 22 to 70 are an integral part of these consolidated financial statements.

The financial statements on pages 12 to 70 were approved by the Board of Directors on 13 March 2018 and were signed on its behalf by:

S. Waring

Sean Waring
Chief Executive Officer

Interconnector (UK) Limited

Consolidated statement of changes in equity

	Share capital	Other reserves	Retained earnings	Non-controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000
1 October 2015	**12,755**	**(1,070)**	**33,695**	**643**	**46,023**
Profit for the period	-	-	113,275	102	113,377
Other comprehensive income for the period	-	798	376	-	1,174
Total comprehensive income for the period	-	798	113,651	102	114,551
Distributions to owners					
Dividends (note 10)	-	-	(104,892)	-	(104,892)
31 December 2016	**12,755**	**(272)**	**42,454**	**745**	**55,682**
Profit for the year	-	-	90,851	94	90,945
Other comprehensive income for the year	-	656	114	-	770
Total comprehensive income for the year	-	656	90,965	94	91,715
Distributions to owners					
Dividends (note 10)	-	-	(86,271)	-	(86,271)
31 December 2017	**12,755**	**384**	**47,148**	**839**	**61,126**

Interconnector (UK) Limited

Consolidated statement of cash flows

	Note	**For the year ended 31 December 2017**	For the period from 1 October 2015 to 31 December 2016
		£'000	£'000
Cash flows from operating activities			
Cash generated from operations	27	**148,240**	173,330
Income taxes		**(32,343)**	(43,817)
Net cash generated from operating activities		**115,897**	129,513
Cash flows from investing activities			
Interest received		**5,676**	10,810
Purchase of property, plant and equipment	11	**(1,838)**	(3,206)
Repayment of loans receivable	14	**7,494**	10,800
Purchase of investments	13	**-**	(3)
Dividends from associates		**21**	26
Net cash generated from investing activities		**11,353**	18,427
Cash flows from financing activities			
Equity dividends paid	10	**(86,271)**	(104,892)
Repayment of capital element of loans	17	**(19,824)**	(19,780)
Capital element of finance lease payments		**(11,608)**	(14,506)
Interest element of finance lease payments		**(5,673)**	(10,721)
Interest paid		**(1,188)**	(2,164)
Net cash used in financing activities		**(124,564)**	(152,063)
Net increase / (decrease) in cash and cash		**2,686**	(4,123)
Cash and cash equivalents at beginning of the year / period		**29,283**	31,153
Exchange gains on cash and cash equivalents		**368**	2,253
Cash and cash equivalents at end of the year / period		**32,337**	29,283

Interconnector (UK) Limited

Company statement of financial position

	Note	**31 December 2017**	31 December 2016
		£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	11	**92,866**	122,501
Intangible assets	12	**1,463**	1,394
Investments	13	**2,498**	2,626
Loans receivable	14	**100,670**	155,234
		197,497	281,755
Current assets			
Loans receivable	14	**57,514**	56,164
Trade and other receivables	16	**27,274**	22,732
Cash and cash equivalents		**31,799**	27,590
		116,587	106,486
Total assets		**314,084**	388,241
Liabilities			
Non-current liabilities			
Borrowings	17	**-**	(34,956)
Obligations under finance leases	18	**(99,230)**	(175,104)
Deferred income tax liabilities	19	**(79)**	(399)
Trade and other payables	23	**(11,002)**	(10,998)
Derivative financial instruments	21	**-**	(580)
		(110,311)	(222,037)
Current liabilities			
Borrowings	17	**(34,956)**	(19,824)
Obligations under finance leases	18	**(81,724)**	(69,874)
Current income tax liabilities		**(16,735)**	(15,612)
Trade and other payables	23	**(27,817)**	(21,583)
Derivative financial instruments	21	**(84)**	-
		(161,316)	(126,893)
Total liabilities		**(271,627)**	(348,930)
Net assets		**42,457**	39,311

Interconnector (UK) Limited

Company statement of financial position (continued)

	Note	31 December 2017	31 December 2016
		£'000	£'000
Equity			
Share capital	25	**12,755**	12,755
Other reserves	26	**(84)**	(580)
Retained earnings			
At beginning of the period		**27,136**	27,764
Profit for the year / period attributable to the owners		**88,921**	104,264
Other changes in retained earnings		**(86,271)**	(104,892)
		29,786	27,136
Total Equity		**42,457**	39,311

As permitted by Section 408 of the Companies Act 2006, the company's income statement has not been presented separately in these financial statements.

The notes on pages 22 to 70 are an integral part of these consolidated financial statements.

The financial statements on pages 12 to 70 were approved by the Board of Directors on 13 March 2018 and were signed on its behalf by:

Sean Waring
Chief Executive Officer

Company Registration Number: **2989838**

Interconnector (UK) Limited

Company statement of changes in equity

	Share capital	Other reserves	Retained earnings	Total equity
	£'000	**£'000**	**£'000**	**£'000**
1 October 2015	**12,755**	**(891)**	**27,764**	**39,628**
Profit for the period	-	-	104,264	104,264
Other comprehensive income for the period	-	311	-	311
Total comprehensive income for the period	-	311	104,264	104,575
Distributions to owners				
Dividends (note 10)	-	-	(104,892)	(104,892)
31 December 2016	**12,755**	**(580)**	**27,136**	**39,311**
Profit for the year	-	-	88,921	88,921
Other comprehensive income for the year	-	496	-	496
Total comprehensive income for the year	-	496	88,921	89,417
Distributions to owners				
Dividends (note 10)	-	-	(86,271)	(86,271)
31 December 2017	**12,755**	**(84)**	**29,786**	**42,457**

Interconnector (UK) Limited

Company statement of cash flows

	Note	**For the year ended 31 December 2017**	For the period from 1 October 2015 to 31 December 2016
		£'000	£'000
Cash flows from operating activities			
Cash generated from operations	27	**147,912**	176,673
Income taxes		**(21,299)**	(39,312)
Net cash generated from operating activities		**126,613**	137,361
Cash flows from investing activities			
New loan issued to a subsidiary undertaking	14	**-**	(97,304)
Dividends from subsidiaries & associates		**3,124**	16,280
Interest received		**7,364**	10,329
Purchase of property, plant and equipment	11	**(1,838)**	(3,206)
Repayment of loans receivable		**56,402**	11,258
Repayment of investments	13	**-**	330,595
Purchase of investments	13	**-**	(3)
Net cash generated from investing activities		**65,052**	267,949
Cash flows from financing activities			
Intercompany loans issued / (repaid)		**241**	(196,454)
Equity dividends paid	10	**(86,271)**	(104,892)
Repayment of capital element of loans	17	**(19,824)**	(19,780)
Capital element of finance lease payments		**(68,183)**	(65,151)
Interest element of finance lease payments		**(12,483)**	(20,443)
Interest paid		**(1,269)**	(4,145)
Net cash used in financing activities		**(187,789)**	(410,865)
Net increase / (decrease) in cash and cash		**3,876**	(5,555)
Cash and cash equivalents at beginning of the year / period		**27,590**	30,945
Exchange gains on cash and cash equivalents		**333**	2,200
Cash and cash equivalents at end of the year / period		**31,799**	27,590

Notes to the financial statements

1 General information

Interconnector (UK) Limited ("the company") and its subsidiaries (together, "the group") operate a subsea gas pipeline and terminal facilities to provide bi-directional gas transportation and ancillary services between the UK and continental European energy markets.

The company is a private company limited by shares, registered and domiciled in England & Wales. The address of its registered office is 10 Furnival Street, London, EC4A 1AB, United Kingdom.

2 Accounting policies

Basis of preparation

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee interpretations, as adopted by the EU, and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below.

Change in year end

In 2016, the company and its subsidiaries changed their year ends from 30 September to 31 December, to align to the reporting timetable of the company's controlling shareholder, Fluxys SA (see note 31). Therefore, the comparative information in this set of financial statements has been prepared for the 15 month period ended 31 December 2016 and is therefore not directly comparable.

Notes to the financial statements

2 Accounting policies (continued)

Going concern

The forward and reverse flow capacity in the pipeline is fully contracted on long term contracts expiring in September 2018, after this date, the company will sell capacity in a short term market as a "merchant" asset. Demand for capacity, and therefore revenues, will be seasonal in nature and have greater volatility. There may be periods of low demand outside of the summer and winter seasons.

The directors are confident that due to the strategic importance of the asset, and the unique function that it performs for the market there will be sufficient demand for capacity to generate sufficient revenues to maintain the group as a going concern. Therefore, the directors believe that the group is well placed to manage its business risks successfully. The group and company are showing net current liabilities of £21.1 million and £44.7 million respectively, which reflect the impact of a quarterly dividend policy of 100% of distributable profits on the working capital cycle. The group has sufficient operational cash flow arising under the current capacity contracts to meet these obligations.

The directors, having assessed the business risks and giving due consideration to the profitability of the business and the cash flow required to meet its on-going obligations, consider it appropriate to prepare the financial statements on a going concern basis.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and all its subsidiary undertakings. Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. The consolidation stops from the date that control ceases. The consolidation is based on uniform accounting policies across all group companies in all material respects, and the elimination of intra-group transactions.

Non-controlling interests

The group applies the acquisition method to account for business combinations. Non-controlling interests are recognised on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Critical accounting estimates and judgements

The group prepares its consolidated financial statements in accordance with IFRS, the application of which often requires judgements to be made by management when formulating the group's financial position and results. Under IFRS, the directors are required to adopt those accounting policies most appropriate to the group's circumstances for the purpose of presenting fairly the group's financial position, financial performance and cash flows.

Notes to the financial statements

2 Accounting policies (continued)

Critical accounting estimates and judgements (continued)

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy, accounting estimate or assumption to be followed could materially affect the reported results or net asset position of the group; it may later be determined that a different choice would have been more appropriate.

A discussion of the critical accounting estimates is provided below and should be read in conjunction with the disclosure of the group's significant IFRS accounting policies provided in the notes to the consolidated financial statements.

(a) Estimation of the useful life of the UK terminal, the Belgian terminal and the pipeline

The useful life used to depreciate property, plant and equipment relates to management's estimate of the period over which economic benefit will be derived from the asset. The estimated useful life is based on the term of the lease or the expiration of the current capacity contract. Using the lease term or the duration of the capacity contract to determine the depreciation rate reflects the period over which the group expects to receive economic benefit. The economic lives are reviewed annually.

(b) Carrying values of goodwill and property, plant and equipment

Management consider that the group's assets comprise a single, integrated, cash generating unit as the cash inflows generated by the group's assets are interdependent. The recoverable amount of the integrated unit is assessed by reference to the higher of value in use (being the net present value of expected future cash flows of the integrated unit) and fair value less cost to sell. The value in use calculation uses cash flow projections based on revenues generated from the capacity contracts, covering the period to 30 September 2018, when the current capacity contracts expire.

(c) Consolidation of structured entities

The group holds a 25% interest in FL Zeebrugge NV ("FLZ"), a structured entity which leases certain assets at the Belgian terminal to the group company Interconnector Zeebrugge Terminal S.C. / CVBA ("IZT"). The group holds bonds issued by FLZ ("FLZ bond") to finance construction of the leased assets. The balance of the financing was provided to FLZ by a loan from an affiliate of BNP Paribas Fortis, the holder of the remaining 75% interest in FLZ. The group has a purchase option over the leased assets exercisable in 2025. Management have concluded that FLZ is a structured entity which the group does not have control over and does not have sufficient exposure to variable returns, via its interest in FLZ, to be able to consolidate this entity. Further disclosures are given in note 15.

2 Accounting policies (continued)

Critical accounting estimates and judgements (continued)

(d) Decommissioning obligation

The company has potential obligations under UK and Belgian legislation to decommission the pipeline and terminal assets at the end of their service life. Estimating the future cost of decommissioning requires significant management judgement. Given the length of time before these costs are anticipated to be incurred, there is considerable uncertainty over the nature of the regulations that will prevail and the cost of the resources required. Accordingly, a contingent liability has been disclosed as at 31 December 2017 for the potential obligation. Further disclosures are given in note 30.

Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill arising on acquisition of subsidiaries is capitalised as an intangible asset.

Following initial recognition, goodwill is measured at cost less any impairment losses. For the purpose of impairment testing, management consider that the group's assets comprise a single, integrated, cash generating unit as the cash inflows generated by the group's assets are interdependent. The group assesses at each year-end whether there is any indication that the integrated unit as a whole may be impaired. If such indication exists, the group estimates the recoverable amount of the integrated unit.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment would be recognised immediately as an expense and is not subsequently reversed.

(b) Emissions allowances

Emissions allowances are recognised as intangible assets. Purchased emissions allowances are initially recognised at cost. Emissions allowances granted are initially recognised at the market price of the allowances on the date of receipt, with a corresponding recognition of deferred income. All emissions allowances are periodically tested for impairment. Deferred income is amortised on the basis of the volume of actual emissions. A liability, corresponding with the obligation to surrender allowances, is recognised based on actual measured emissions valued at the carrying amount of the emissions allowances held, or the current market price for any shortfall. The liability is discharged on the annual surrender of emissions allowances.

2 Accounting policies (continued)

Property, plant and equipment

The subsea pipeline and the compression terminal assets in Bacton in the UK and in Zeebrugge in Belgium are stated at historical cost, net of accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended useful life.

With the exception of freehold land, depreciation for assets in use is calculated so as to write off their cost, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned.

The expected lives for this purpose are:

	Years
Pipeline assets, terminals and other UK infrastructure assets	20
Office furniture and fixtures	10
Computer equipment	3

The expected useful lives of property, plant and equipment are reviewed on an annual basis. Assets in the course of construction are not depreciated until they are brought into use.

Spare parts inventory

Spare parts inventory is held at the Bacton and Zeebrugge terminals. As the group's spare parts inventory have a long shelf life and are expected to be used during more than one year, they are recognised within property, plant and equipment as part of other assets. They are valued at cost which is expensed when the parts are installed.

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly-liquid investments with original maturities of three months or less.

Financial assets

(a) Classification

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

i. Financial assets at fair value through profit or loss
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. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

2 Accounting policies (continued)

Financial assets (continued)

ii. Loans and receivables

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 year-end, in which case they are classified as non-current assets. The group's loans and receivables comprise "trade and other receivables", "cash and cash equivalents" and "loans receivable" in the statement of financial position.

iii. Available-for-sale financial assets

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 year-end. The group's available-for-sale financial assets comprise "investments" in the statement of financial position.

(b) Recognition & measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "Other (losses)/gains – net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "Gains and losses from investment securities". Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the group's right to receive payments is established.

Investments in subsidiaries

In the company statement of financial position, investments in subsidiaries are stated individually at cost less a provision for any permanent diminution in value.

Notes to the financial statements

2 Accounting policies (continued)

Trade and other receivables

Trade receivables are amounts due from customers in the ordinary course of business. Trade and other receivables are recognised at the original invoice amount, less provision for impairment. Provision is made when there is objective evidence that the group will be unable to recover balances in full. Bad debts are written off when identified.

Trade and other payables

Trade payables are obligations to pay for goods and services that have been acquired from suppliers in the ordinary course of business. Trade and other payables are recognised at payment or settlement amounts, which are not materially different from their fair value.

Derivative financial instruments and hedging activities

The group only hedges particular risks associated with a recognised asset or liability with the express authorisation of the Board of Directors.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of derivative instruments used for hedging purposes are disclosed in note 21. Movements on the hedging reserve in other comprehensive income are shown in note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity is less than 12 months.

The group does not trade in derivatives.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within “finance income/cost”.

2 Accounting policies (continued)

Finance and operating leases

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 are charged to the income statement on a straight-line basis over the period of the lease.

Leases where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the finance lease liability and finance costs. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Borrowings

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

Finance costs

Finance costs are recognised in profit or loss in the period in which they are incurred.

Impairment of financial assets

The group assesses at each year-end whether there is objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

Impairment of non-financial assets

An impairment loss is recognised when the carrying amount of a non-financial asset exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value in use.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable in accordance with contractual terms based on the provision of pipeline capacity, representing tariff based on construction and operating costs, net of Value Added Tax. Revenue arising from the group's capacity contracts is recognised in the accounting period in which pipeline capacity is provided to customers. Other revenue is recognised based on the provision of services.

2 Accounting policies (continued)

Finance income

Interest income is recognised when it is probable that the economic benefits will flow to the group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Pounds Sterling ("£" or "Sterling"), which is the group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the year-end;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.

2 Accounting policies (continued)

Repairs and maintenance

Repairs and maintenance costs are charged to profit or loss when incurred.

Pension scheme

The company has a defined contribution scheme with pensions provided by a third party provider. Contributions payable by the company are charged to profit or loss as they accrue.

Employee termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle that obligation and a reliable estimate can be made of the amount of that obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at year-end, taking into account the risks and uncertainties surrounding the obligation.

Taxation

The tax expense for the year / period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; 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 accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively 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.

2 Accounting policies (continued)

New standards, amendments and interpretations

No new standards or amendments to published standards have had a material impact on the financial statements for the financial year beginning 1 January 2017.

New standards, amendments and interpretations not yet adopted – potential impact

The following new standards have been published that are relevant to the group's activities and are mandatory for the group's accounting period beginning 1 January 2018 or later periods and which the group has decided not to adopt early.

		Effective date (periods beginning on or after)
IFRS 9	Financial instruments	1 Jan 2018
IFRS 15	Revenue from contracts with customers	1 Jan 2018
IFRS 16	Leases	1 Jan 2019

An overview of the requirements of the new standards and the nature of impact on the group is summarised below.

IFRS 9, "Financial instruments"

The new standard addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new "expected credit losses" model that replaces the "incurred loss impairment" model used in IAS 39.

The classification of Trade receivables and Loans remains the same under IFRS 9. Investment in shares in FLZ, which is currently classified as "Available for sale", will need to be reclassified in accordance with the new standard to "Fair value through other comprehensive income".

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

Based on the nature of the company's current and expected contract counterparties, the incidence of credit losses is expected to be very low in normal market conditions. The group does not expect any change in the loss allowance for trade debtors or in relation to investments held at amortised cost.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

New standards, amendments and interpretations not yet adopted (continued)

IFRS 9 also relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different from that currently prepared under IAS 39.

The group has confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9.

The existing classification of the group's financial liabilities is consistent with the requirements of the new standard.

IFRS 15, "Revenue from contracts with customers"

The new standard deals with revenue recognition and establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. The new standard is not expected to have any impact on the current method of income recognition. The company will continue to recognise revenue on capacity contracts when the customer can obtain the benefit, that is, to nominate gas flow within the capacity sold. Therefore, revenue will accrue pro-rata over the term of the capacity contracts.

All of the revenue generated by the group is covered by standard written contracts with customers. The components of the revenue are separately identifiable, with prices either pre-determined in the contracts or equal to the cost of services to the company. The company's revenue is recognised over time for the access to the pipeline and at a point in time for the incremental costs of shipping. The group's existing revenue recognition policy is consistent with the requirements of the new standard.

IFRS 16, "Leases"

The new standard addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most "Operating Leases" will be accounted for on the balance sheet for lessees. The standard replaces IAS 17 "Leases", and related interpretations.

The group has several "Operating Leases" in place, which require review under the guidelines of IFRS 16. The implementation of IFRS 16 may result in the recognition of additional "right of use" assets and related finance liabilities, which are currently not recognised in these financial statements. Full quantification of this impact is still underway. The group does not intend to adopt the standard before its effective date.

Notes to the financial statements

3 Revenue

	For the year ended 31 December 2017	For the period from 1 October 2015 to 31 December 2016
	£'000	£'000
Tariff based on construction costs	**143,938**	180,740
Tariff to recover operating costs	**36,617**	44,170
Other revenues	**5,510**	1,883
Total revenue	**186,065**	226,793

4 Operating profit

Operating profit is stated after charging:

	For the year ended 31 December 2017	For the period from 1 October 2015 to 31 December 2016
	£'000	£'000
Employee costs (see note 6)	**8,131**	9,570
Operating lease rentals: land and buildings	**351**	588
Depreciation of property, plant and equipment:		
– owned	**22,792**	28,519
– held under finance leases	**7,036**	8,795
Total depreciation of property, plant and equipment	**29,828**	37,314
Fees payable to company auditors and associates for:		
– the audit of the company and consolidated financial statements	**77**	59
– the audit of the company's subsidiaries	**11**	21
– audit-related assurance services	**-**	23
– taxation compliance services	**-**	27
– other taxation advisory services	**31**	45
– non audit services	**8**	-
Total fees payable to company auditors and associates	**127**	175

Notes to the financial statements

5 Key management personnel remuneration

	For the year ended 31 December 2017	For the period from 1 October 2015 to 31 December 2016
	£'000	£'000
Aggregate emoluments	**565**	689
Defined contribution pension scheme costs	**12**	38
Total remuneration	**577**	727

Key management personnel compensation for the year is in respect of two directors (15 month period ended 31 December 2016: two). Aggregate emoluments include salary, bonus and healthcare benefits.

The highest paid director's total remuneration for the year ended 31 December 2017 is £368,000 (15 month period ended 31 December 2016: £464,000), including defined contribution pension costs of £12,000 (15 month period ended 31 December 2016: £38,000). Defined contribution pension scheme costs represent amounts paid by the company in respect of one (15 month period ended 31 December 2016: one) director.

6 Employee information

The average monthly number of persons (including executive directors) employed by the company and group during the year is set out below. The subsidiary companies had no employees during the year.

	For the year ended 31 December 2017	For the period from 1 October 2015 to 31 December 2016
	Average Number	Average Number
By activity:		
Physical operations	**38**	40
Commercial operations	**11**	10
Administration	**19**	23
Total average number of employees	**68**	73

Interconnector (UK) Limited

Notes to the financial statements

6 Employee information (continued)

Employee costs:	For the year ended 31 December 2017	For the period from 1 October 2015 to 31 December 2016
	£'000	£'000
Wages and salaries	**5,890**	6,878
Social security costs	**758**	940
Other pension costs	**906**	1,025
Key management personnel remuneration, including other pension costs (see note 5)	**577**	727
Total employee costs	**8,131**	9,570

7 Finance income

	For the year ended 31 December 2017	For the period from 1 October 2015 to 31 December 2016
	£'000	£'000
Bond interest receivable	**5,599**	6,808
Interest receivable on bank balances	**27**	89
Income from shares in investments	**21**	26
Other income	**33**	18
Total finance income	**5,680**	6,941

Interconnector (UK) Limited

Notes to the financial statements

8 Finance costs

	For the year ended 31 December 2017	For the period from 1 October 2015 to 31 December 2016
	£'000	£'000
Lease finance charges	**5,658**	6,879
Bank loans:		
- Secured	**1,163**	2,066
Exchange differences on foreign currency debt and deposits	**229**	283
Other interest payable	**25**	389
Total finance costs	**7,075**	9,617

9 Tax expense

	For the year ended 31 December 2017	For the period from 1 October 2015 to 31 December 2016
	£'000	£'000
Current tax:		
UK corporation tax on profits for the year / period	**33,092**	41,101
Foreign tax on profits for the year / period	**247**	255
Current tax on profits for the year / period	**33,339**	41,356
Settlement of the Discounted Convertible Loan Note (note 22)	**-**	4,101
Adjustments in respect of prior years	**40**	(435)
Total current tax	**33,379**	45,022
Deferred tax:		
Origination and reversal of timing differences	**(11,151)**	(12,303)
Settlement of the Discounted Convertible Loan Note (note 22)	**-**	(4,101)
Deferred tax credit relating to change in tax rate	**-**	(862)
Total deferred tax (see note 19)	**(11,151)**	(17,266)
Tax expense	**22,228**	27,756

Interconnector (UK) Limited

Notes to the financial statements

9 Tax expense (continued)

There was a change in the UK main corporation tax rate from 20% to 19%, effective from 1 April 2017.

Further changes in the UK tax rates were substantively enacted as part of Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% to 17% from 1 April 2020. Deferred tax balances at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The tax assessed for the year is higher (15 month period ended 31 December 2016: lower) than the average rate of corporation taxation in the UK for the period (19.25%) (15 month period ended 31 December 2016: 20%). The differences are explained below:

	For the year ended 31 December 2017	For the period from 1 October 2015 to 31 December 2016
	£'000	£'000
Profit before taxation	**113,173**	141,133
Profit before taxation multiplied by average rate in the UK 19.25% (15 month period ended 31 December 2016: 20%)	**21,786**	28,227
Effects of:		
Expenses not deductible for tax purposes	**1,339**	3,973
Income not chargeable for tax purposes	**(1,071)**	(3,761)
Re-measurement of deferred tax – change in UK tax rate	**-**	(862)
Other timing differences	**27**	509
Impact of higher foreign tax rates	**107**	105
Adjustments to tax charge in respect of prior years	**40**	(435)
Tax expense	**22,228**	27,756

Interconnector (UK) Limited

Notes to the financial statements

10 Dividends on equity shares

	For the year ended 31 December 2017	For the period from 1 October 2015 to 31 December 2016
	£'000	£'000
Equity – Ordinary		
Final paid: £2.07 (2016 – nil) per £1 ordinary share	**24,396**	-
Interim paid: £5.25 (2016 – £8.90) per £1 ordinary share	**61,875**	104,892
Total dividends	**86,271**	104,892

The directors have proposed a final dividend for the year ended 31 December 2017 of £0.34 per ordinary share (totalling £4.0 million). This has not been recognised in these financial statements as it had not been approved by the shareholders at the balance sheet date.

Note 25 sets out details regarding preference dividends.

Interconnector (UK) Limited

Notes to the financial statements

11 Property, plant and equipment

Group	Freehold land	UK terminal & pipeline	Belgian terminal	Other UK infrastructure assets	Other assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 October 2015	5,138	420,365	137,252	27,087	21,625	611,467
Additions in the period	-	-	-	-	3,206	3,206
Disposals in the period	-	-	-	-	(2,863)	(2,863)
Foreign exchange adjustments	649	-	-	-	-	649
At 31 December 2016	**5,787**	**420,365**	**137,252**	**27,087**	**21,968**	**612,459**
Additions in the year	-	-	-	-	1,838	1,838
Disposals in the year	-	-	-	-	(1,794)	(1,794)
Foreign exchange adjustments	191	-	-	-	-	191
At 31 December 2017	**5,978**	**420,365**	**137,252**	**27,087**	**22,012**	**612,694**
Accumulated depreciation						
At 1 October 2015	-	(341,166)	(73,488)	(23,023)	(11,391)	(449,068)
Charge for the period	-	(26,358)	(8,795)	(1,694)	(467)	(37,314)
Disposals in the period	-	-	-	-	1,170	1,170
At 31 December 2016	-	**(367,524)**	**(82,283)**	**(24,717)**	**(10,688)**	**(485,212)**
Charge for the year	-	(21,088)	(7,036)	(1,354)	(350)	(29,828)
Disposals in the year	-	-	-	-	149	149
At 31 December 2017	**-**	**(388,612)**	**(89,319)**	**(26,071)**	**(10,889)**	**(514,891)**
Net book value						
At 31 December 2017	**5,978**	**31,753**	**47,933**	**1,016**	**11,123**	**97,803**
At 31 December 2016	5,787	52,841	54,969	2,370	11,280	127,247
At 1 October 2015	5,138	79,199	63,764	4,064	10,234	162,399

Notes to the financial statements

11 Property, plant and equipment (continued)

Company	Freehold land	UK terminal & pipeline	Belgian terminal	Other UK infrastructure assets	Other assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 October 2015	1,041	420,365	137,252	27,087	21,625	607,370
Additions in the period	-	-	-	-	3,206	3,206
Disposals in the period	-	-	-	-	(2,863)	(2,863)
At 31 December 2016	**1,041**	**420,365**	**137,252**	**27,087**	**21,968**	**607,713**
Additions in the year	-	-	-	-	1,838	1,838
Disposals in the year	-	-	-	-	(1,794)	(1,794)
At 31 December 2017	**1,041**	**420,365**	**137,252**	**27,087**	**22,012**	**607,757**
Accumulated depreciation						
At 1 October 2015	-	(341,166)	(73,488)	(23,023)	(11,391)	(449,068)
Charge for the period	-	(26,358)	(8,795)	(1,694)	(467)	(37,314)
Disposals in the period	-	-	-	-	1,170	1,170
At 31 December 2016	**-**	**(367,524)**	**(82,283)**	**(24,717)**	**(10,688)**	**(485,212)**
Charge for the year	-	(21,088)	(7,036)	(1,354)	(350)	(29,828)
Disposals in the year	-	-	-	-	149	149
At 31 December 2017	**-**	**(388,612)**	**(89,319)**	**(26,071)**	**(10,889)**	**(514,891)**
Net book value						
At 31 December 2017	**1,041**	**31,753**	**47,933**	**1,016**	**11,123**	**92,866**
At 31 December 2016	1,041	52,841	54,969	2,370	11,280	122,501
At 1 October 2015	1,041	79,199	63,764	4,064	10,234	158,302

11 Property, plant and equipment (continued)

Freehold land

The freehold land relates to land at a cost of £1.0 million at Bacton (UK) and £5.0 million (€5.6 million) at Zeebrugge (Belgium) terminals. A head-lease over the freehold land at Bacton was granted by the company, for a period not exceeding twenty years from 1 October 1998, to Interconnector Leasing Company Limited ("ILC"), a wholly-owned subsidiary. ILC in turn granted a sub-lease of the land for the same period back to the company.

UK terminal and pipeline and Belgian terminal

The company entered into contractual arrangements whereby the ownership of the UK terminal and the pipeline (including the pipeline in Belgium) was transferred to ILC and leased-back by the company. The primary lease period for these assets is 20 years and commenced on 1 October 1998. Beyond September 2018, the lease period may be extended from year to year, on payment of a "peppercorn" rental. The UK terminal and pipeline asset cost is £420.4 million and the net book value is £31.8 million at 31 December 2017.

The Belgian terminal is subject to two separate leases (see note 18) with Fluxys Belgium SA ("Fluxys") and FLZ. The Belgian terminal has been reflected as an asset of the company as substantially all of the rights and obligations relating to the terminal rest with the company. The primary lease period for these assets is 20 years and commenced on 1 October 1998 for the Fluxys lease and 1 December 2005 for the FLZ lease. The Belgian terminal cost is £137.3 million and the net book value is £47.9 million at 31 December 2017.

Note 4 summarises the depreciation charge on leased assets.

Other UK infrastructure assets

These are capital contributions of £27.1 million made in 1997 and 1998 for assets within the UK, which enable the company to operate a grid-to-grid gas transportation facility between the UK and Belgium.

Other assets

Other assets include furniture, fixtures and fittings, computer equipment, project set-up costs and systems developed to manage customer gas-flow nominations. Spare parts inventory held at both Bacton and Zeebrugge terminals is included in other assets, totalling £10.1 million (31 December 2016: £9.9 million). The expense is recognised in the income statement when spares are used.

Cash generating units

As disclosed in note 2, the group carries out an annual impairment review on its cash generating unit. The group considers all of its assets to be one cash generating unit, as the cash inflows generated by the group's assets are interdependent.

Interconnector (UK) Limited

Notes to the financial statements

12 Intangible assets

Group	Goodwill	Emissions allowances	Total
	£'000	**£'000**	**£'000**
Cost			
At 1 October 2015	2,552	1,100	3,652
Additions in the period	-	1,040	1,040
Disposals in the period	-	(578)	(578)
At 31 December 2016	2,552	1,562	4,114
Additions in the year	-	485	485
Disposals in the year	-	(505)	(505)
At 31 December 2017	**2,552**	**1,542**	**4,094**
Accumulated impairment			
At 1 October 2015	-	(71)	(71)
Impairment charge	-	(97)	(97)
At 31 December 2016	-	(168)	(168)
Reversal of impairment in the year	-	89	89
At 31 December 2017	**-**	**(79)**	**(79)**
Net book value			
At 31 December 2017	**2,552**	**1,463**	**4,015**
At 31 December 2016	2,552	1,394	3,946
At 1 October 2015	2,552	1,029	3,581

Goodwill

This asset is the goodwill on consolidation relating to the acquisition of ILC, a wholly-owned subsidiary, in 2002.

Notes to the financial statements

12 Intangible assets (continued)

Company	Emissions allowances
	£'000
Cost	
At 1 October 2015	1,100
Additions in the period	1,040
Disposals in the period	(578)
At 31 December 2016	1,562
Additions in the year	485
Disposals in the year	(505)
At 31 December 2017	**1,542**
Accumulated impairment	
At 1 October 2015	(71)
Impairment charge in the period	(97)
At 31 December 2016	**(168)**
Reversal of impairment in the year	89
At 31 December 2017	**(79)**
Net book value	
At 31 December 2017	**1,463**
At 31 December 2016	1,394
At 1 October 2015	1,029

Emissions allowances

This asset is the emissions allowances received from the UK government under the EU emissions trading scheme.

Interconnector (UK) Limited

Notes to the financial statements

13 Investments

Group	Investments in unlisted shares
	£'000
Cost	
At 1 October 2015	422
Additions	3
At 31 December 2016	425
At 31 December 2017	**425**
Accumulated impairment	
At 1 October 2015	(169)
Charge for the period	(35)
At 31 December 2016	(204)
Charge for the year	(28)
At 31 December 2017	**(232)**
Net book value	
At 31 December 2017	**193**
At 31 December 2016	221
At 1 October 2015	253

The investments in unlisted shares mainly relates to shares in FLZ. Further details regarding this investment are disclosed in note 15.

Notes to the financial statements

13 Investments (continued)

Company	Investments in unlisted shares £'000	Shares in subsidiary undertakings £'000	Total £'000
Cost			
At 1 October 2015	422	337,443	337,865
Additions	3	-	3
Disposals / repayments	-	(330,595)	(330,595)
At 31 December 2016	425	6,848	7,273
Disposals / repayments	-	(100)	(100)
At 31 December 2017	**425**	**6,748**	**7,173**
Accumulated impairment			
At 1 October 2015	(169)	(4,443)	(4,612)
Charge for the period	(35)	-	(35)
At 31 December 2016	(204)	(4,443)	(4,647)
Charge for the year	(28)	-	(28)
At 31 December 2017	**(232)**	**(4,443)**	**(4,675)**
Net book value			
At 31 December 2017	**193**	**2,305**	**2,498**
At 31 December 2016	221	2,405	2,626
At 1 October 2015	253	333,000	333,253

The directors believe that the carrying values of the investments in the company and the group are supported by the underlying net assets and / or the present value of the estimated future cash flows.

13 Investments (continued)

Subsidiaries

Name of undertaking	Registered address	Description of shares held	Proportion of nominal value of issued shares held by:	
			Group	Company
			%	%
Interconnector Construction Company Limited ("ICC")	10 Furnival Street, London, EC4A 1AB, UK	Ordinary £1 shares	100	100
Interconnector Zeebrugge Terminal S.C./CVBA ("IZT")	Rue Guimard 4, BE – 1040 Brussels, Belgium	Ordinary €1,239 shares	49	48
Interconnector Finance Company Unlimited ("IFC")	Ogier House The Esplanade St Helier, Jersey, JE4 9WG	Ordinary €501.9 B shares	100	-
		Ordinary €1,000 A shares	100	-
Interconnector Leasing Company Limited ("ILC")	10 Furnival Street, London, EC4A 1AB, UK	Ordinary £1 shares	100	100

All subsidiary undertakings have been included in the consolidation. With the exception of IZT, the voting rights in the subsidiary undertakings are in proportion to the amount of shares held. IZT is consolidated as a subsidiary as the group exercises control over IZT. Although the group owns 49% of the shares of IZT, it is entitled to majority votes at shareholders' meetings and receives 80% of reserves distributed.

The principal activities of the company's subsidiaries are as follows:

- ICC – investment holding company. On 15 February 2018, ICC ceased to trade as a result of an intra-group restructuring and was made dormant in preparation for striking off the register of companies.
- IZT – the operation and maintenance of gas terminal facilities at Zeebrugge, Belgium.
- IFC – group financing company. On 15 February 2018, IFC ceased to trade as a result of an intra-group restructuring and was made dormant. On 1 March, it was wound up under the "Summary Winding up" provision mandated in the Jersey company law.
- ILC – commercial leasing of plant and equipment.

The principal place of business of IFC is 10 Furnival Street, London, EC4A 1AB, United Kingdom.

The group leases assets at the Belgian terminal from FLZ, a Belgian-registered subsidiary of BNP Paribas Fortis, through a funded lease structure. The group holds 25% of the shares in FLZ (see note 15).

Interconnector (UK) Limited

Notes to the financial statements

14 Loans receivable

Group	FLZ bond £'000
At 31 December 2017	
Amounts receivable in less than one year	**8,613**
Amounts receivable after one year	**98,190**
	106,803
At 31 December 2016	
Amounts receivable in less than one year	7,262
Amounts receivable after one year	102,701
	109,963

The FLZ bond is Euro-denominated. It is unsecured, repayable in instalments to November 2025 and bears interest at a fixed rate.

Company	FLZ bond	ILC loan	IZT loan	Total
	£'000	£'000	£'000	£'000
At 31 December 2017				
Amounts receivable in less than one year	8,862	48,652	-	57,514
Amounts receivable after one year	99,314	-	1,356	100,670
Total	**108,176**	**48,652**	**1,356**	**158,184**
At 31 December 2016				
Amounts receivable in less than one year	7,512	48,652	-	56,164
Amounts receivable after one year	104,021	48,652	2,561	155,234
Total	111,533	97,304	2,561	211,398

Loans include loans to IZT and ILC. The loan to IZT is an unsecured, Euro-denominated loan. It is repayable on demand and bears interest at a variable rate linked to the Euro Interbank Offered Rate ("EURIBOR").

The loan to ILC is repayable in equal instalments by September 2018 and has a fixed rate interest of 1.994%. The amount payable within one year is £48.7million.

15 Unconsolidated structured entities

FLZ is a structured entity, in which the group has a 25% equity stake. It was set up for the purpose of financing certain assets at the Belgium terminal and leasing these assets to the group (see note 18). The construction of the assets by FLZ was funded by an issue of bonds, which are now held by the company (see note 14). The balance of the construction costs was funded by a loan from an affiliate of BNP Paribas Fortis, who own the remaining 75% equity stake. Under the leasing arrangements with FLZ, the company has an option to extend the lease and an option to purchase the assets, exercisable in 2025.

As detailed in note 2, the group does not have control over FLZ and does not have sufficient exposure to variable returns, via its interest in FLZ, to be able to consolidate this entity. Further, the group does not have significant influence over FLZ and therefore equity accounting is not applied.

Although FLZ is not consolidated by the group, the leased assets are recognised on the group's statement of financial position as assets under a finance lease, with an associated lease liability. The group has not offset the bond assets with the related lease liabilities, as it does not have a legally enforceable right to offset payments in the normal course of business.

The investment in FLZ is held by the group as an available-for-sale financial asset, as it does not meet the classification criteria of the other categories of financial assets.

The group does not have any current intentions to provide financial or other support to FLZ. The maximum exposure to loss from the group's interest in FLZ is the net liability arising from the unwind of the related financing arrangements, as shown in the table below.

The carrying amounts of the assets and liabilities recognised in the group's financial statements relating to its interests in FLZ are as follows:

	31 December 2017	31 December 2016
	£'000	£'000
Assets		
Loans receivable – bond	**106,803**	109,963
Investments – available for sale	**190**	218
Interest receivable	**452**	465
Liabilities		
Obligations under finance leases	**(108,072)**	(111,411)
Interest payable	**(447)**	(461)
Net liability in relation to financing arrangements	**(1,074)**	(1,226)
Assets – Property, plant and equipment	**47,120**	53,072

Interconnector (UK) Limited

Notes to the financial statements

16 Trade and other receivables

	Group	Group	**Company**	Company
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
	£'000	£'000	**£'000**	£'000
Accrued income	**17,967**	16,290	**17,967**	16,290
Other interest receivable	**453**	470	**432**	449
Trade receivables	**2**	152	**2**	146
Prepayments	**1,287**	1,431	**1,287**	1,431
Other taxes receivable	**3,022**	2,923	**27**	14
Other receivables	**207**	25	**3,009**	2,611
Amounts receivable from wholly owned subsidiary undertakings	**-**	-	**4,550**	1,791
	22,938	21,291	**27,274**	22,732

The trade and other receivables represent amounts falling due within one year. The other interest receivable primarily relates to accrued interest income on the FLZ bond (note 14).

Amounts receivable from wholly owned subsidiary undertakings include accrued interest of £0.2m in respect of the loan to ILC. Interest is accrued quarterly and paid annually together with the capital repayment.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

17 Borrowings

Bank loan

This loan is repayable in instalments as follows:

Group and Company	**31 December 2017**	31 December 2016
	£'000	£'000
Amounts falling due:		
Less than one year	**34,956**	19,824
Current liability	**34,956**	19,824
Amounts falling due:		
Between one and two years	**-**	34,956
Non-current liability	**-**	34,956
Total bank loans	**34,956**	54,780

17 Borrowings (continued)

In September 2013, the company refinanced existing loans with a secured five year term loan facility with RBS (the "RBS loan"). The RBS loan is stated net of direct issue costs of £0.04 million.

The RBS loan is secured by the following:

- a fixed charge on UK assets including freehold land, tangible moveable property, bank accounts, investments, goodwill and intellectual property; and
- a floating charge on capacity contracts and assets at the UK terminal.

It is repayable in six-monthly instalments starting March 2014. The interest rate on the RBS loan is linked to the London Interbank Offered Rate ("LIBOR"). The group has purchased an interest rate swap to fix the interest rate on this loan. See note 21 for further details.

18 Obligations under finance leases

Group

The present value of finance lease liabilities is as follows:	**31 December 2017**	31 December 2016
	£'000	£'000
Amounts falling due:		
Less than one year	**17,860**	11,596
Current liability	**17,860**	11,596
Amounts falling due:		
Between one and two years	**9,978**	16,718
Between two and five years	**37,687**	32,415
After five years	**51,565**	63,003
Non-current liability	**99,230**	112,136
Total obligations under finance leases	**117,090**	123,732

Interconnector (UK) Limited

Notes to the financial statements

18 Obligations under finance leases (continued)

Group

Gross finance lease liabilities – minimum lease payments:	**31 December 2017**	31 December 2016
	£'000	£'000
Less than one year	**23,241**	17,155
Between one and two years	**14,812**	21,893
Between two and five years	**49,028**	44,900
After five years	**56,756**	71,063
Future finance charges on finance lease liabilities	**(26,747)**	(31,279)
Present value of finance lease liabilities	**117,090**	123,732

The obligations under finance leases include two Euro-denominated lease liabilities. These leases are between IZT, a subsidiary company, and Fluxys and FLZ. See note 11 for further details.

Company

The present value of finance lease liabilities is as follows:

	31 December 2017	31 December 2016
	£'000	£'000
Amounts falling due:		
Less than one year	**81,724**	69,874
Current liability	**81,724**	69,874
Between one and two years	**9,978**	79,685
Between two and five years	**37,687**	32,415
After five years	**51,565**	63,004
Non-current liability	**99,230**	175,104
Total obligations under finance leases	**180,954**	244,978

Notes to the financial statements

18 Obligations under finance leases (continued)

Company

Gross finance lease liabilities – minimum lease payments:	**31 December 2017 £'000**	31 December 2016 £'000
Less than one year	**90,693**	82,243
Between one and two years	**14,812**	88,447
Between two and five years	**49,028**	44,900
After five years	**56,756**	71,065
Future finance charges on finance lease liabilities	**(30,335)**	(41,677)
Present value of finance lease liabilities	**180,954**	244,978

The Sterling-denominated lease liability is in relation to a lease between the company and ILC. Further details of the related leased assets are shown in note 11.

19 Deferred income tax liabilities

The analysis of deferred tax liabilities is as follows:

	Group	Group	**Company**	Company
	31 December 2017 £'000	31 December 2016 £'000	**31 December 2017 £'000**	31 December 2016 £'000
Deferred tax liabilities				
Accelerated tax depreciation	**8,004**	19,235	**79**	399
Other timing differences	**(305)**	(385)	**-**	-
Deferred tax at year / period end	**7,699**	18,850	**79**	399

19 Deferred income tax liabilities (continued)

	Group	Group	**Company**	Company
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
	£'000	£'000	**£'000**	£'000
Deferred tax liabilities:				
Provision at beginning of the period	**18,850**	36,117	**399**	764
Deferred tax credit in the income statement	**(11,151)**	(17,266)	**(320)**	(365)
Deferred tax credit in other comprehensive income	**-**	(1)	**-**	-
At 31 December	**7,699**	18,850	**79**	399

	Group	Group	**Company**	Company
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
Deferred tax liabilities:	**£'000**	£'000	**£'000**	£'000
Deferred tax liabilities due within 12 months	**8,020**	11,053	**184**	278
Deferred tax (assets) / liabilities due after more than 12 months	**(321)**	7,797	**(105)**	121
At 31 December	**7,699**	18,850	**79**	399

20 Financial Instruments

Principal financial instruments

The principal financial instruments used by the group for the purposes of financing investments, risk management and carrying out its trade, from which financial risks arise, are as follows:

- Trade and other receivables;
- Cash and cash equivalents;
- Trade and other payables;
- Borrowings and obligations under finance leases;
- Loans receivable – FLZ bond;
- Investment – Shares in FLZ; and
- Derivative financial instruments.

The main risks associated with the financial instruments are:

- Market risks:
  - Foreign exchange risk;
  - Fair value and cash flow interest rate risk;
- Credit risk; and
- Liquidity risk.

This note describes the group's objectives, policies and processes for managing these risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

General objectives, policies and processes

The Board of Directors has overall responsibility for the determination of the group's risk management objectives and policies. The group's management of financial instruments is governed by a Treasury Policy. The objective of the policy is to identify, mitigate and hedge treasury related financial risks to a level deemed acceptable by the Board. The policy precludes speculative use of financial instruments and requires specific Board approval for the use of derivative financial instruments.

Market risk

Market risk arises from the group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates (foreign exchange risk) or interest rates (interest rate risk).

Foreign exchange risk

The group has foreign currency denominated assets and liabilities. Exposures to exchange rate fluctuations therefore arise. The group aims to minimise the risk of gains or losses by maintaining a natural hedge by matching the value of the Euro assets and liabilities held. The carrying amount of the group's and company's foreign currency denominated monetary assets and liabilities are shown below in the group's functional currency.

20 Financial Instruments (continued)

Foreign exchange risk (continued)

Financial assets and liabilities held in Euros – group	31 December 2017	31 December 2016
	£'000	£'000
Trade and other payables	(5,110)	(3,270)
Other receivables	2,995	2,909
Cash at bank	6,290	13,531
Loans receivable – FLZ bond	106,803	109,963
Borrowings – net obligations under finance leases	(117,090)	(123,732)
Total	(6,112)	(599)

Financial assets and liabilities held in Euros – company	31 December 2017	31 December 2016
	£'000	£'000
Trade and other (payables) / receivables	(658)	175
Cash at bank	5,752	11,846
Loans receivable – FLZ bond	108,176	111,533
Borrowings – net obligations under finance leases	(117,090)	(123,732)
Total	(3,820)	(178)

Cash flow and fair value interest rate risk

The group's cash flow interest rate risk arises on borrowings at variable interest rates. Borrowings or investments at fixed rates expose the group to interest rate risk.

The majority of the group's lease obligations and the FLZ bond receivable carry a fixed rate of interest. The borrowings with RBS carry interest at a variable rate, but the group also has an effective hedge to mitigate the interest rate variation (note 21). Therefore, the group does not have a material exposure to interest rate risk.

At 31 December 2017, if interest rates on Sterling-denominated borrowings had been 100 basis points higher / lower with all other variables held constant, profit after tax for the year would not have been affected as all the borrowings are either at fixed interest rate or, in the case of floating interest rate borrowing, hedged by an interest rate swap.

Notes to the financial statements

20 Financial Instruments (continued)

Valuation techniques and assumptions applied for the purposes of measuring fair value

Financial instruments that are measured at fair value are classified by the following fair value measurement hierarchy:

- Level 1: valued using trading prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: valued using inputs that are observable for the asset or liability, either directly (that is as prices), or indirectly (that are derived from prices); and
- Level 3: valued using inputs that are not observable for the asset or liability.

Financial instruments measured at fair value in these financial statements comprise the interest rate swap (note 21). This is valued using a Level 2 measurement procedure, using the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The fair values of other financial instruments, which are not measured at fair value in these financial statements, are shown for comparison purposes in the following table. The fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions for similar instruments.

Except as disclosed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values:

	31 December 2017		**31 December 2016**	
	Carrying amount **£'000**	Fair value £'000	Carrying amount £'000	Fair value £'000
Group				
Financial assets				
Loans and receivables – bond (note 14) and accrued interest (note 16)	**107,255**	122,012	110,428	125,423
Financial liabilities				
Financial liabilities measured at amortised cost – net obligations under finance leases including accrued interest (note 18)	**(117,090)**	(131,367)	(123,732)	(138,181)
Company				
Financial assets				
Loans and receivables – bond (note 14) and accrued interest (note 16)	**108,608**	122,012	111,977	125,423
Financial liabilities				
Financial liabilities measured at amortised cost – net obligations under finance leases including accrued interest (note 18)	**(180,954)**	(213,226)	(244,978)	(266,091)

20 Financial Instruments (continued)

Credit risk

Credit risk arises from cash and cash equivalents, trade and other receivables, and derivative financial instruments (interest rate swap, note 21).

Credit risk on cash and cash equivalents is the risk that treasury counterparties fail to repay their obligation on demand or at maturity. This risk is managed through counterparty limits and minimum counterparty credit rating criteria set out in a Treasury Policy. There has been no history of default.

Credit risk on trade and other receivables relates mainly to receivables due from customers, and is the risk that a customer fails to repay its obligation in respect of the amounts owed under the capacity contracts. This risk is managed through the minimum credit standard required in the standard capacity contracts. If the credit rating falls below the minimum requirement, IUK has a right to ask for a cash deposit or a guarantee. There has been no history of customers failing to pay the amounts due.

Credit risk on the interest rate swap is the risk that the swap counterparty fails to settle its obligations under that contract when due. This risk is offset by a net-off arrangement with the associated loan held with the same counterparty, RBS.

Liquidity risk

Liquidity risk arises from the group's management of working capital and principal repayments on its debt instruments and finance lease liabilities. Further disclosure of liquidity risk is made in the Strategic report. The maturity of financial liabilities is as follows:

	Payable within one year	**Payable after one year**
Group	**£'000**	**£'000**
At 31 December 2017		
Trade and other payables	(12,108)	-
Borrowings and derivative financial instruments	(35,193)	-
Finance lease liabilities	(22,767)	(120,596)
Total	**(70,068)**	**(120,596)**
At 31 December 2016	**£'000**	£'000
Trade and other payables	(7,885)	-
Borrowings and derivative financial instruments	(21,100)	(35,385)
Finance lease liabilities	(16,667)	(137,857)
Total	(45,652)	(173,242)

20 Financial Instruments (continued)

Liquidity risk (continued)

Company	**Payable within one year**	**Payable after one year**
At 31 December 2017	**£'000**	**£'000**
Trade and other payables	(24,582)	-
Borrowings and derivative financial instruments	(35,193)	-
Finance lease liabilities	(89,322)	(120,596)
Total	**(149,097)**	**(120,596)**
At 31 December 2016	£'000	£'000
Trade and other payables	(17,853)	-
Borrowings and derivative financial instruments	(21,100)	(35,385)
Finance lease liabilities	(80,052)	(204,411)
Total	(119,005)	(239,796)

Capital risk management

The capital structure of the group consists of net debt, which includes the borrowings disclosed in notes 17 and finance leases disclosed in note 18 after deducting cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The group's objectives when managing its capital are to safeguard the ability of the entities in the group to continue as going concerns, while maximising the return to shareholders, as earned from the capacity contracts, through the optimisation of the debt and equity balance. The group's overall strategy remains unchanged from 2016. The most appropriate measure of the borrowing capacity of the group is the ratio of net debt to earnings before interest, tax, depreciation and amortisation ("EBITDA").

The ratio of the group's net debt to EBITDA is as follows:

	31 December 2017	31 December 2016
	£'000	£'000
Total borrowings, including obligations under finance leases	152,046	178,512
Less: Cash and cash equivalents	(32,337)	(29,283)
Net debt	119,709	149,229
EBITDA for the year / period ended	144,334	181,255
Ratio of net debt to EBITDA	**0.83**	0.82

Interconnector (UK) Limited

Notes to the financial statements

20 Financial Instruments (continued)

Financial instruments by class and by category – group

Loans and Receivables

	31 December 2017	31 December 2016
	£'000	£'000
Non-current financial assets		
Loan receivable – bond	98,190	102,701
Current financial assets		
Loan receivable – bond	8,613	7,262
Trade and other receivables	18,629	16,937
Cash and cash equivalents	32,337	29,283
Total financial assets	**157,769**	156,183

Available-for-sale financial assets

	31 December 2017	31 December 2016
	£'000	£'000
Non-current financial assets		
Investment – Shares	425	425
Less: Accumulated impairment	(232)	(204)
Total financial assets	**193**	221

Financial liabilities measured at amortised cost

	31 December 2017	31 December 2016
Current financial liabilities	**£'000**	£'000
Borrowings	(34,956)	(19,824)
Obligations under finance leases	(17,860)	(11,596)
Trade and other payables	(12,107)	(7,885)
Non- current financial liabilities		
Borrowings	-	(34,956)
Obligations under finance leases	(99,230)	(112,136)
Total financial liabilities measured at amortised cost	**(164,153)**	(186,397)

Financial instruments measured at fair value through profit and loss

	31 December 2017	31 December 2016
	£'000	£'000
Non-current financial liabilities		
Derivative financial instruments (level 2)	**-**	(580)
Current financial liabilities		
Derivative financial instruments (level 2)	**(84)**	-
Total derivative financial instruments	**(84)**	(580)

Interconnector (UK) Limited

Notes to the financial statements

20 Financial Instruments (continued)

Financial instruments by class and by category – company

Loans and Receivables

	31 December 2017 £'000	31 December 2016 £'000
Non-current financial assets		
Loans receivable	100,670	155,234
Current financial assets		
Loans receivable	57,514	56,164
Trade and other receivables	25,960	21,287
Cash and cash equivalents	31,799	27,590
Total financial assets	**215,943**	260,275

Available-for-sale financial assets

	31 December 2017 £'000	31 December 2016 £'000
Non-current financial assets		
Investment – Shares	425	425
Less: Accumulated impairment	(232)	(204)
Total financial assets	**193**	221

Financial liabilities measured at amortised cost

	31 December 2017 £'000	31 December 2016 £'000
Current financial liabilities		
Borrowings	(34,956)	(19,824)
Obligations under finance leases	(81,724)	(69,874)
Trade and other payables	(24,582)	(17,853)
Non- current financial liabilities		
Borrowings	-	(34,956)
Obligations under finance leases	(99,230)	(175,104)
Total financial liabilities measured at amortised cost	**(240,492)**	(317,611)

Financial instruments measured at fair value through profit and loss

	31 December 2017 £'000	31 December 2016 £'000
Non-current financial liabilities		
Derivative financial instruments (level 2)	**-**	(580)
Current financial liabilities		
Derivative financial instruments (level 2)	**(84)**	-
Total derivative financial instruments	**(84)**	(580)

Interconnector (UK) Limited

Notes to the financial statements

21 Derivative financial instruments

Group and company	31 December 2017 £'000	31 December 2016 £'000
Interest rate swap liability– cash flow hedge	**84**	580

On 11 March 2014, the group purchased an interest rate swap to fix the interest rate on the RBS loan (the "RBS hedge"). This represents substantially all of the group's exposure to interest rate risk. RBS, as hedging counterparty, has subordinated security under the security arrangements for the RBS loan, described in note 17.

The group applies hedge accounting, as permitted by IAS 39, Financial Instruments: Recognition and Measurement, to this interest rate swap. There was no ineffectiveness to be recognised in the income statement from the cash flow hedge during the year.

The notional principal amount of the outstanding interest rate swap at 31 December 2017 was £35 million (31 December 2016: £55 million). The interest rate swap has fixed the cost of debt at 1.50%, replacing LIBOR. Gains and losses recognised in the hedging reserve in equity (note 26) on the interest rate swap are gradually released to the income statement within finance cost until the repayment of the bank borrowings (note 17). The swap matures in March 2018.

22 Provisions

Group	Tax £'000	Interest £'000	Total £'000
At 1 October 2015	2,441	2,223	4,664
Charged to the income statement	-	345	345
Settlement of DCLN	(2,441)	(2,568)	(5,009)
As at 31 December 2016	-	-	-
As at 31 December 2017	**-**	**-**	**-**

Interconnector (UK) Limited

Notes to the financial statements

23 Trade and other payables

	Group	Group	**Company**	Company
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
	£'000	£'000	**£'000**	£'000
Deferred revenue	**11,366**	11,625	**11,366**	11,625
Accruals and other payables	**10,787**	6,520	**10,928**	6,660
Other taxes including social security	**2,870**	3,103	**2,870**	3,103
Trade payables	**1,320**	1,365	**1,382**	959
Amounts owed to wholly-owned subsidiary undertakings	**-**	-	**12,273**	10,234
	26,343	22,613	**38,819**	32,581
Less: Non-current portion: Deferred revenue	**(11,002)**	(10,998)	**(11,002)**	(10,998)
Current portion	**15,341**	11,615	**27,817**	21,583

The amounts owed to subsidiary undertakings are unsecured, repayable on demand and bear interest at a variable rate linked to LIBOR.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

24 Operating lease commitments

Group and company	**31 December 2017**	31 December 2016
	£'000	£'000
Total commitments under non-cancellable operating leases		
Land and buildings: less than one year	**369**	369
Land and buildings: between two and five years	**1,477**	1,477
Land and buildings: over five years	**1,077**	1,447
	2,923	**3,293**

The operating lease commitment is in respect of the office premises for Interconnector (UK) Limited at 10 Furnival Street, London, EC1A 1AB. The office lease is a 10 year operating lease expiring in December 2025.

25 Share capital

Authorised, issued and fully paid	**31 December 2017 £'000**	31 December 2016 £'000
11,785,680 (2016: 11,785,680) ordinary shares of £1 each	**11,786**	11,786
969,000 (2016: 969,000) non-redeemable preference shares of £1 each	**969**	969
	12,755	12,755

A summary of rights and restrictions attached to the preference shares is as follows:

- For each dividend paid on a particular class of share in IZT, the holders of the preference shares in the company shall have the right to receive (in priority to any payment of dividend to the holders of ordinary shares in the company) a cumulative preferential dividend based on the dividend paid on the said class of IZT share;
- The preference shares shall not entitle the holders of such shares to receive notice of, attend, or vote at any general meeting of the company; and
- In the event of a return of capital on a winding up or other return of capital, each preference share shall confer on the holder thereof the right to receive a payment equal to any arrears, or accruals, of any cumulative preferential dividend and a repayment in full of the capital paid up on such preference shares.

No dividends have been declared on the IZT shares in the year and consequently, no dividend attaches to the preference shares.

26 Other reserves

	Group		**Company**		**Total**	
	Hedging reserve £'000	**Translation reserve £'000**	**Hedging reserve £'000**	**Translation reserve £'000**	**Group £'000**	**Company £'000**
At 1 October 2015	(891)	(179)	(891)	-	(1,070)	(891)
Exchange differences arising on translation of foreign operations	-	487	-	-	487	-
Cash flow hedge: fair value gains	311	-	311	-	311	311
At 31 December 2016	(580)	308	(580)	-	(272)	(580)
Exchange differences arising on translation of foreign operations	-	160	-	-	160	-
Cash flow hedge: fair value gains	496	-	496	-	496	496
At 31 December 2017	**(84)**	**468**	**(84)**	**-**	**384**	**(84)**

Interconnector (UK) Limited

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27 Cash generated from operations

Group	For the year ended 31 December 2017 £'000	For the period from 1 October 2015 to 31 December 2016 £'000
Profit before income tax	**113,173**	141,133
Adjustments for:		
Depreciation and impairment	**29,856**	37,349
Finance costs - net	**1,395**	2,676
Decrease in provisions	**-**	(5,009)
Other non-cash items in the income statement	**1,776**	1,843
Changes in working capital:		
Increase in debtors	**(1,663)**	(7,084)
Increase in creditors	**3,703**	2,422
Cash generated from operations	**148,240**	173,330

Company	For the year ended 31 December 2017 £'000	For the period from 1 October 2015 to 31 December 2016 £'000
Profit before income tax	**111,024**	144,481
Adjustments for:		
Depreciation	**29,828**	37,314
Impairment of investments	**28**	35
Finance costs / (income) - net	**2,787**	(1,380)
Other non-cash items in the income statement	**1,872**	1,656
Changes in working capital:		
Increase in debtors	**(1,799)**	(7,447)
Increase in creditors	**4,172**	2,014
Cash generated from operations	**147,912**	176,673

28 Net debt reconciliation

Group	For the year ended 31 December 2017 £'000	For the period from 1 October 2015 to 31 December 2016 £'000
Cash and cash equivalents	**32,337**	29,283
Borrowings – repayable within one year	**(52,816)**	(31,420)
Borrowings – repayable after one year	**(99,230)**	(147,092)
Net debt	**(119,709)**	(149,229)
Cash and cash equivalents	**32,337**	29,283
Gross debt – fixed interest rates	**(143,475)**	(166,652)
Gross debt – variable interest rates	**(8,571)**	(11,860)
Net debt	**(119,709)**	(149,229)

		Liabilities from financing activities				
Group	**Cash £'000**	**Finance leases due within 1 year £'000**	**Finance leases due after 1 year £'000**	**Borrowings due within 1 year £'000**	**Borrowings due after 1 year £'000**	**Total £'000**
Net debt as at 31 December 2016	29,283	(11,596)	(112,136)	(19,824)	(34,956)	(149,229)
Cash flows	2,686	11,608	-	19,824	-	34,118
Foreign exchange adjustment	368	(574)	(4,406)	-	-	(4,612)
Other non-cash movements	-	(17,298)	17,312	(34,956)	34,956	14
Net debt as at 31 December 2017	**32,337**	**(17,860)**	**(99,230)**	**(34,956)**	**-**	**(119,709)**

Notes to the financial statements

28 Net debt reconciliation (continued)

Company	**For the year ended 31 December 2017 £'000**	For the period from 1 October 2015 to 31 December 2016 £'000
Cash and cash equivalents	**31,799**	27,590
Borrowings – repayable within one year	**(116,680)**	(89,698)
Borrowings – repayable after one year	**(99,230)**	(210,060)
Net debt	**(184,111)**	(272,168)
Cash and cash equivalents	**31,799**	27,590
Gross debt – fixed interest rates	**(207,339)**	(287,898)
Gross debt – variable interest rates	**(8,571)**	(11,860)
Net debt	**(184,111)**	(272,168)

		Liabilities from financing activities				
Company	**Cash £'000**	**Finance leases due within 1 year £'000**	**Finance leases due after 1 year £'000**	**Borrowings due within 1 year £'000**	**Borrowings due after 1 year £'000**	**Total £'000**
Net debt as at 31 December 2016	27,590	(69,874)	(175,104)	(19,824)	(34,956)	(272,168)
Cash flows	3,876	68,183	-	19,824	-	91,883
Foreign exchange adjustment	333	(574)	(4,406)	-	-	(4,647)
Other non-cash movements	-	(79,459)	80,280	(34,956)	34,956	821
Net debt as at 31 December 2017	**31,799**	**(81,724)**	**(99,230)**	**(34,956)**	**-**	**(184,111)**

29 Commitments

The company has granted guarantees to Fluxys and to FLZ, guaranteeing the performance by IZT of all its obligations relating to the finance leases (note 18).

Notes to the financial statements

30 Contingent liabilities

The company has potential obligations under UK and Belgian legislation to decommission the pipeline and terminal assets at the end of their service life. The service life of the Interconnector system is limited by the service life of the pipeline which, in its current condition, extends for at least 80 years. When it was laid, the Interconnector pipeline was trenched to a depth of one metre along its length. However tidal conditions can expose the pipeline in some areas. Current regulatory guidelines require the removal of the pipe in areas prone to exposure. The company periodically surveys the offshore pipeline and past results have shown an area extending over 10km of the route where short sections of the pipeline have been exposed.

The scope of the offshore decommissioning will depend on the legislative requirements and the seabed conditions at the point of decommissioning. These circumstances cannot be reliably predicted so far in advance. The current costs of removing the pipeline in such areas would be approximately £1.5 million per kilometre removed. The estimated present value of removing a section of 10 kilometres is £1.9 million, if discounted to the end of the service life of the pipeline.

The service life of the terminals, if constantly maintained, can be extended to the end of the service life of the pipeline. The terminals have a current decommissioning cost of approximately £8.5 million. The estimated present value of this obligation is less than £1 million, if discounted to the end of the expected service life of the pipeline.

31 Related party transactions

Group

The group's ultimate parent and controlling party is Fluxys SA, a company incorporated in Belgium, which owns 50.75% of the company's shares.

During the year ended 31 December 2017, dividends of £28.9 million (15 month period ended 31 December 2016: £35.1 million) were paid to La Caisse de dépôt et placement du Québec and its subsidiary CDP Investissements Inc., who together have significant influence over the group.

The group's operating expenses for the year ended 31 December 2017 include £2.3 million (15 month period ended 31 December 2016: £2.4 million), primarily in relation to maintenance and operation of the Zeebrugge terminal, paid to Fluxys Belgium SA, which is a subsidiary of Fluxys SA, the group's ultimate parent company.

In addition, during the year ended 31 December 2017, lease rentals in relation to the Belgium terminal (see note 18) of £4.0 million (15 month period ended 31 December 2016: £3.3 million) were paid to Fluxys Belgium SA, and dividends of £43.8 million (15 month period ended 31 December 2016: £53.2 million) were paid to Fluxys Interconnector Ltd, Fluxys UK Ltd, and Fluxys Europe BV affiliates, Gasbridge 1 BV and Gasbridge 2 BV.

31 Related party transactions (continued)

The amounts payable to Fluxys Belgium SA at 31 December 2017 in relation to operating expenses were £0.5 million (31 December 2016: £0.03 million). The finance lease liability (see note 18) outstanding at 31 December 2017 was £8.5 million (31 December 2016: £11.8 million).

Company

As mentioned in note 13, IZT is a partly-owned subsidiary of the company. Details of transactions and balances with IZT, which fully eliminate on consolidation in the group financial statements, are set out below.

The company's cost of sales for the year ended 31 December 2017 includes £13.4 million (15 month period ended 31 December 2016: £12.4 million) in relation to purchases from IZT, in accordance with the Service Agreement between the company and IZT. The amounts outstanding at 31 December 2017, in relation to these purchases, were £0.6 million (31 December 2016: £0.3 million payable to the company).

In addition, during the year ended 31 December 2017, lease rentals of £18.3 million (15 month period ended 31 December 2016: £18.1 million) were recharged by IZT to the company. The amounts outstanding at 31 December 2017, in relation to these lease rentals, were £3.4 million (31 December 2016: £2.0 million) payable to IZT.

At 31 December 2017, IZT owed £1.4 million (31 December 2016: £2.6 million) to the company under an inter-company loan agreement. Interest income, based upon a variable rate linked to EURIBOR, of £nil (15 month period ended 31 December 2016: £2,600) has been recognised during the year ended 31 December 2017 by the company. IZT's interest expense is recharged to the company in accordance with the Service Agreement between the company and IZT. The company's transactions with wholly-owned subsidiaries are summarised below:

	Sales		Interest (income) / expense		Finance lease interest expense		Dividend income	
	2017[1]	2016[2]	**2017[1]**	2016[2]	**2017[1]**	2016[2]	**2017[1]**	2016[2]
Related party	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
ILC	**66**	50	**(1,700)**	1,320	**6,004**	11,424	**3,000**	-
BAS	**-**	133	**-**	91	**-**	-	**102**	16,254
ICC	**-**	-	**80**	83	**-**	-	**-**	-
IFC	**50**	6	**-**	-	**-**	-	**-**	-
	116	189	**(1,620)**	1,494	**6,004**	11,424	**3,102**	16,254

[1] **For the period from 1 January 2017 to 31 December 2017**
[2] **For the period from 1 October 2015 to 31 December 2016**

Notes to the financial statements

31 Related party transactions (continued)

During the year the company provided support and other services to IFC and ILC to enable them to perform their obligations under agency contracts entered into by IFC and ILC with third parties. Interest expense, based upon a variable rate linked to LIBOR, is payable on amounts owed to subsidiary undertakings. These amounts are unsecured and repayable on demand. See notes 11 and 18 for details regarding the finance lease between the company and ILC.

The company had the following balances outstanding at 31 December 2017 with wholly-owned subsidiaries:

	Amounts owed To / (from) subsidiary undertakings		Finance lease liabilities owed to subsidiary undertakings	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
Related party	**£'000**	£'000	**£'000**	£'000
ILC	**(3,552)**	(1,785)	**62,967**	119,543
BAS	**-**	94	**-**	-
ICC	**12,273**	10,140	**-**	-
IFC	**(998)**	(6)	**-**	-
	7,723	8,443	**62,967**	119,543

The group participates in a corporation tax group settlement arrangement, whereby the company settles corporation tax liabilities on behalf of wholly-owned subsidiaries. The corporation tax liability is included in the amounts owed to subsidiary undertakings at year-end, as disclosed in the table above.

Commitments and guarantees

See note 29 for details of the company's commitments in respect of related parties.

The security for the RBS loan (note 17) and the RBS hedge (note 21) includes a floating charge on assets to which ILC has legal title and which have been leased to the company under a finance lease (note 18). ILC has granted a guarantee and indemnity to RBS, guaranteeing the performance by the company of all its obligations relating to the RBS loan and the RBS hedge.

Key Management Personnel remuneration

See note 5 for further details.

32 Subsequent events

Note 18 shows lease obligations and the related repayment periods. For both the group and the company, the amount shown as due within one year, includes £4.1million in relation to a lease termination payment. Subsequent to the balance sheet date, the company has decided to exercise an option in the lease to extend the lease into a secondary period and therefore the £4.1 million is not payable within one year of the balance sheet date as shown in note 18. Instead, an amount of £0.8 million will be payable "Between one and two years" and £3.3 million "Between two and five years". Based on the timing of the lease option decision, the amounts in note 18 have not been adjusted.