Interconnector (UK) Limited

Annual Report and Consolidated Financial Statements for the year ended 31 December 2018

Registered Number: 2989838

Interconnector (UK) Limited

Consolidated financial statements for the year ended 31 December 2018

Table of contents

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 2018.

Business review

Interconnector (UK) Limited ("the company" or "IUK") 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") (or 803GWh/d) of gas per annum (approximately 30% of current annual demand in the UK) from Zeebrugge to Bacton ("reverse flow" or "BE-UK") and 20.0 bcm per annum (or 657GWh/d) in the opposite direction ("forward flow" or "UK-BE").

The forward and reverse flow capacity in the pipeline was fully contracted with major energy and utility companies under standard capacity contracts until their expiry at the end of September 2018. As from 1 October 2018, IUK markets its capacity services under the IUK Access Agreement ("IAA") which provides more customer flexibility compared to the previous 20 year shipper contracts (STA's).

Anticipating the expiry of the long term contracts, the company has developed an extra sales channel (implicit allocation mechanism or "IAM") next to the capacity auctions on the PRISMA platform. The necessary regulatory approvals have been obtained and IUK has undertaken an extensive marketing campaign to increase its customer base to 25 shippers and to present its new commercial offering. After a successful launch of IAM in mid-April 2018, c. 53% of the BE-UK capacity for Q1 2019 and over 40% of the UK-BE capacity for Q2 and Q3 2019 has been sold in addition to a previously agreed 10 year capacity contract (c.14% in the BE-UK direction).

Prior to 30 September 2018, IUK saw continued seasonal flows as seen in previous years with record imports for Q1 2018 of 34,500 GWh, beating the previous record of 27,558 GWh seen in Q1 2013. Average daily flows for January and February 2018 were 400 GWh and 480 GWh. Q2 saw both exports and imports for April, with May moving to UK exports with daily averages of 266 GWh. June saw the annual shutdown from 12 June to 28 June. Q3 saw exports of 35,993 GWh with July once again being a key export month with 16,074 GWh and a daily average of 518 GWh (83% of technical capacity). In Q4, the first quarter after the STA expiry, minimal flows were recorded, mainly due to above average temperatures, and alternative supplies with a record number of LNG cargoes seen in the UK and Belgium.

The results of the group for the year ended 31 December 2018 show a profit before taxation of £82.8 million (2017: £113.2million) and revenues of £149.4 million (2017: £186.1 million). At 31 December 2018, the group had net assets of £76.0 million (31 December 2017: £61.1 million). Net cash generated from operating activities for the year ended 31 December 2018 was £88.9 million (2017: £115.9million).

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. The group's risk appetite in relation to all principal risks is set by the Board and appropriate processes are in place to actively identify, manage and mitigate these risks. The effectiveness of the group's risk management is reviewed by the executive leadership, the Audit Committee and the Board regularly, throughout the year.

Market risk

The company is a source of flexible gas supply and competes with other infrastructure assets such as pipelines, LNG terminals and storage. There is increasing competition from LNG deliveries to continental Europe and from BBL Company (the operator of a physically one-directional competitor pipeline between the UK and the Netherlands which is planned to become physically bi-directional in 2019).

IUK aims for a fair and competitive environment in the markets in which it operates, and has adopted strategies to deliver this through the use of innovative products, services and pricing models. IUK also work with regulators and governments to ensure a fair and competitive environment.

IT Transformation Risk

The company is undertaking a significant IT transformation project during 2019 and there is a risk that this project disrupts operations or the company's services, or does not provide the benefits it should in a timely manner. IUK has engaged specialist project management support for the project and is using a standardised programme methodology to manage the associated risks and increase the certainty of outcome.

IUK continues to ensure careful testing of all new developments, particularly customer-facing solutions, prior to implementation.

Health, Safety, Security and Environment (HSSE)

Excellent HSSE performance is critical to the success of the business. The group endeavours to minimise the physical risks associated with its operations by the application of high standards in equipment design, plant operation and maintenance. A comprehensive annual HSSE 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.

Regular safety meetings are held to allow staff to discuss current safety issues. IUK seeks constructive engagement with the Health and Safety Executive and the Environmental Agency in relation to all matters impacting our operations.

Interconnector (UK) Limited

Strategic report (continued)

Principal risks and uncertainties (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. We seek to actively engage with NRAs to encourage good working relationships and help shape the impact of regulatory change on the Company. We work with governments and NRAs to ensure a fair, non-discriminatory and competitive environment. 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 that allows the NRAs to approve some flexibility in how IUK prices capacity.

The company continues to keep the implications of Brexit on its operations under review. A cross-functional team has considered Brexit scenarios and identified ways in which a "no-deal" Brexit might affect the company. IUK has taken mitigating actions to limit the impact of a "no-deal" Brexit on our operations. The company has also engaged with its Shippers, its NRAs and the UK and Belgian governments to identify concerns and issues relating to a "no-deal" Brexit and find appropriate solutions wherever possible. If a no-deal Brexit occurs, the mechanisms of cross-border trade in gas are not expected to fundamentally change. However, an indirect issue that could affect the company's future performance would arise if the Brexit process caused significant revisions to macro-economic performance of the gas markets which IUK links, affecting the commercial behaviour of IUK's customers.

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. The ongoing viability of the asset, as well as its ability to continue to deliver its services to the market will depend on its 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 continues to lobby European, UK and Belgian stakeholders for appropriate arrangements to be put in place.

Financial, commercial and economic

IUK markets its capacity services to its clients as "ship-or-pay" commitments to the company, i.e. irrespective of the actual utilization of the capacity. IUK charges a commodity charge, in addition to the capacity fee, based on the actual flow nominations made by the shipper using its capacity.

Strategic report (continued)

Principal risks and uncertainties (continued)

Gas operations

Customers rely on the flexibility and reliability of the company's service. 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 2018, the company met all customer nominations and fulfilled all contractual obligations except for a Force Majeure event on 7 September 2018 when an uninterruptable power supply (UPS) failure resulted in a service interruption. Under the STA contract in place at the time, the event was covered by Force Majeure and there were no capacity rebates. 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. However, as the debts are at a fixed rate, the exposure from interest rate risk is low. The group's financial risk mitigation strategy is developed in accordance with a Treasury Policy and the treasury activities of the group are conducted in accordance with this policy and are on an entirely non speculative 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.

Liquidity risk

The group 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 from October 2018 became more volatile following the introduction of more flexible commercial terms underpinning how the business operates requiring detailed cash flow forecasting and flexible working capital management.

Future developments

With the company in a new commercial environment, the focus for the coming year is on completing the business transition programme and on developing and capturing the commercial opportunities. There is a continuing focus on operational efficiency and on the marketing and sales of capacity services.

Interconnector (UK) Limited

Strategic report (continued)

Key performance indicators

Financial KPIs, being 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:

	2018	2017	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 2018 period, no lost capacity rebates were made. This reflects the continuing high standard of operational performance achieved.
Injurious accidents	Zero	Two	These include work related Lost Time Incidents and incidents requiring medical treatment. No lost time incidents or work related medical treatment events were reported for 2018. However, IZT did report three non-work related medical treatments.
Reportable emission events	One	Zero	Emissions of natural gas or CO_2 beyond permitted levels or significant environmental impacts are required to be disclosed to the Environment Agency. In 2018 all emissions were within permitted levels. IUK reported one unplanned natural gas vent of 43 tonnes following failure of uninterruptable power supply (UPS) equipment.

On behalf of the Board of Directors

De Ranter

Steven De Ranter
Managing director
25 March 2019

Steve Turner
Managing director
25 March 2019

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2018.

Results and dividends

The group's profit for the year was £65.8 million (2017: £90.9 million). Interim dividends of £4.0 (2017: £5.25) per ordinary share amounting to £47.1 million (2017: £61.9 million) were declared and paid during the year. A final dividend of £0.34 (2017: £0.34) per ordinary share amounting to £4.0 million (2017: £4.0 million) was proposed and, if approved, will be paid during April 2019. The aggregate dividends on the ordinary shares recognised during the year amounts to £51.2 million (2017: £86.3million), 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.

Post balance sheet events

There are no events subsequent to the balance sheet date that require disclosure or adjustment in the financial statements.

Going concern

The forward and reverse flow capacity in the pipeline was fully contracted on long term contracts expiring in September 2018. As detailed in the "Market Risk" section above, after this date, the company sells 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 is showing net current assets of £6.0 million. The company has net current liabilities of £1.8 million, which reflect the impact of a quarterly dividend and imminent maturity of debt obligations. The group and company have sufficient operational cash flow arising under the current capacity contracts to meet these obligations.

The directors, having assessed the business risks and the potential impact of Brexit 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.

Interconnector (UK) Limited

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:

Arno Büx (IUK Board Chairman & Independent director)

Shareholder-appointed non-executive directors:
Raf Van Elst
Erik Vennekens
Matteo Tanteri
Ben De Waele (appointed 3 December 2018)

Executive directors:
Steve Turner (appointed 25 May 2018)
Steven De Ranter (appointed 25 May 2018)

Directors during the year:
Sean Waring (CEO) (resigned 25 May 2018)
Patrick Côté (resigned 12 March 2018)
Graeme Steele (resigned 12 March 2018)
Huberte Bettonville (resigned 3 December 2018)

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 year ended 31 December 2018 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.

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

De Ranter

Steven De Ranter
Managing director
25 March 2019

Steve Turner
Managing director
25 March 2019

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 2018 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 International Financial Reporting Standards (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 and company statements of financial position as at 31 December 2018; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; 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

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's and company's trade, customers, suppliers and the wider economy.

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)

Reporting on other information (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 2018 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, 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
25 March 2019

Interconnector (UK) Limited

Consolidated income statement

	Note	**For the year ended 31 December 2018**	For the year ended 31 December 2017
		£'000	£'000
Revenue from contracts with customers	3	**149,413**	186,065
Operating expenses		**(66,403)**	(71,497)
Operating profit	4	**83,010**	114,568
Finance income	7	**5,429**	5,680
Finance costs	8	**(5,685)**	(7,075)
Profit before taxation		**82,754**	113,173
Tax expense	9	**(16,929)**	(22,228)
Profit for the year		**65,825**	90,945
Profit for the year attributable to:			
Owners of the parent		**65,748**	90,851
Non-controlling interests		**77**	94
Consolidated profit for the year		**65,825**	90,945

The notes on pages 22 to 74 are an integral part of these consolidated financial statements.

Interconnector (UK) Limited

Consolidated statement of comprehensive income

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
		£'000	£'000
Profit for the year		**65,825**	90,945
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		**111**	274
Cash flow hedge	27	**84**	496
Items that will not be reclassified to profit and loss:			
Changes in the fair value of equity investments at fair value through other comprehensive income		**(28)**	-
Other comprehensive income for the year, net of tax		**167**	770
Total comprehensive income for the year		**65,992**	91,715
Total comprehensive income for the year attributable to:			
Owners of the parent		**65,915**	91,621
Non-controlling interests		**77**	94
Total comprehensive income for the year		**65,992**	91,715

The notes on pages 22 to 74 are an integral part of these consolidated financial statements.

Interconnector (UK) Limited

Consolidated statement of financial position

	Note	31 December 2018	31 December 2017
Assets		**£'000**	£'000
Non-current assets			
Property, plant and equipment	11	**71,668**	97,803
Intangible assets	12	**2,857**	4,015
Deferred income tax assets	20	**1,241**	-
Financial assets at fair value through other comprehensive income	13(a)	**165**	-
Investments	13(a)	-	193
Financial assets at amortised cost	14	**89,414**	-
Loans receivable	14	-	98,190
		165,345	200,201
Current assets			
Inventory	17	**1,059**	-
Financial assets at amortised cost	14	**9,870**	-
Loans receivable	14	-	8,613
Trade and other receivables	16	**7,893**	22,938
Cash and cash equivalents		**23,762**	32,337
		42,584	63,888
Total assets		**207,929**	264,089
Liabilities			
Non-current liabilities			
Obligations under finance leases	19	**(93,883)**	(99,230)
Deferred income tax liabilities	20	-	(7,699)
Trade and other payables	24	**(1,449)**	(11,002)
		(95,332)	(117,931)
Current liabilities			
Borrowings	18	-	(34,956)
Obligations under finance leases	19	**(11,054)**	(17,860)
Current income tax liabilities		**(13,220)**	(16,791)
Trade and other payables	24	**(11,955)**	(15,341)
Derivative financial instruments	22	-	(84)
Provisions	23	**(400)**	-
		(36,629)	(85,032)
Total liabilities		**(131,961)**	(202,963)
Net assets		**75,968**	61,126

Interconnector (UK) Limited

Consolidated statement of financial position (continued)

	Note	**31 December 2018**	31 December 2017
		£'000	£'000
Equity attributable to:			
Owners of the parent			
Share capital	26	**12,755**	12,755
Other reserves	27	**522**	384
Retained earnings		**61,775**	47,148
		75,052	60,287
Non-controlling interests		**916**	839
Total equity		**75,968**	61,126

The notes on pages 22 to 74 are an integral part of these consolidated financial statements.

The financial statements on pages 12 to 74 were approved by the Board of Directors on 20 March 2019 and were signed on its behalf by:

De Ranter

Steven De Ranter
Managing director
25 March 2019

Steve Turner
Managing director
25 March 2019

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 January 2017	**12,755**	**(272)**	**42,454**	**745**	**55,682**
Profit for the period	-	-	90,851	94	90,945
Other comprehensive income for the period	-	656	114	-	770
Total comprehensive income for the period	-	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**
Profit for the year	-	-	65,748	77	65,825
Other comprehensive income for the year	-	138	29	-	167
Total comprehensive income for the year	-	138	65,777	77	65,992
Distributions to owners					
Dividends (note 10)	-	-	(51,150)	-	(51,150)
31 December 2018	**12,755**	**522**	**61,775**	**916**	**75,968**

Interconnector (UK) Limited

Consolidated statement of cash flows

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
		£'000	£'000
Cash flows from operating activities			
Cash generated from operations	28	**118,252**	148,240
Income taxes		**(29,339)**	(32,343)
Net cash generated from operating activities		**88,913**	115,897
Cash flows from investing activities			
Interest received		**5,431**	5,676
Purchase of property, plant and equipment	11	**(5,203)**	(1,838)
Purchase of intangible assets	12	**(1,275)**	-
Repayment of other financial assets at amortised cost (2017: loans receivable)	14	**8,604**	7,494
Dividend income		**24**	21
Net cash generated from investing activities		**7,581**	11,353
Cash flows from financing activities			
Equity dividends paid	10	**(51,150)**	(86,271)
Repayment of capital element of loans	18	**(34,956)**	(19,824)
Capital element of finance lease payments		**(13,337)**	(11,608)
Interest element of finance lease payments		**(5,357)**	(5,673)
Interest paid		**(251)**	(1,188)
Net cash used in financing activities		**(105,051)**	(124,564)
Net (decrease) / increase in cash and cash equivalents		**(8,557)**	2,686
Cash and cash equivalents at beginning of the year		**32,337**	29,283
Exchange (losses) / gains on cash and cash equivalents		**(18)**	368
Cash and cash equivalents at end of the year		**23,762**	32,337

Interconnector (UK) Limited

Company statement of financial position

	Note	31 December 2018	31 December 2017
		£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	11	**66,677**	92,866
Intangible assets	12	**2,857**	1,463
Deferred income tax assets	20	**186**	-
Financial assets at fair value through other comprehensive income	13(a)	**165**	-
Investments	13(a), (b)	**49**	2,498
Financial assets at amortised cost	14	**93,948**	-
Loans receivable	14	-	100,670
		163,882	197,497
Current assets			
Inventory	17	**1,059**	-
Financial assets at amortised cost	14	**10,108**	-
Loans receivable	14	-	57,514
Trade and other receivables	16	**4,681**	27,274
Cash and cash equivalents		**23,228**	31,799
		39,076	116,587
Total assets		**202,958**	314,084
Liabilities			
Non-current liabilities			
Obligations under finance leases	19	**(93,883)**	(99,230)
Deferred income tax liabilities	20	-	(79)
Trade and other payables	24	**(1,449)**	(11,002)
		(95,332)	(110,311)
Current liabilities			
Borrowings	18	-	(34,956)
Obligations under finance leases	19	**(11,054)**	(81,724)
Current income tax liabilities		**(13,201)**	(16,735)
Trade and other payables	24	**(16,266)**	(27,817)
Derivative financial instruments	22	-	(84)
Provisions	23	**(400)**	-
		(40,921)	(161,316)
Total liabilities		**(136,253)**	(271,627)
Net assets		**66,705**	42,457

Interconnector (UK) Limited

Company statement of financial position (continued)

	Note	**31 December 2018**	31 December 2017
		£'000	£'000
Equity			
Share capital	26	**12,755**	12,755
Other reserves	27	**(28)**	(84)
Retained earnings			
At beginning of the year		**29,786**	27,136
Profit for the year attributable to the owners		**75,342**	88,921
Other changes in retained earnings		**(51,150)**	(86,271)
At end of the year		**53,978**	29,786
Total Equity		**66,705**	42,457

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 74 are an integral part of these consolidated financial statements.

The financial statements on pages 12 to 74 were approved by the Board of Directors on 20 March 2019 and were signed on its behalf by:

De Ranter

Steven De Ranter
Managing director
25 March 2019

Steve Turner
Managing director
25 March 2019

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 January 2017	**12,755**	**(580)**	**27,136**	**39,311**
Profit for the period	-	-	88,921	88,921
Other comprehensive income for the period	-	496	-	496
Total comprehensive income for the period	-	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**
Profit for the year	-	-	75,342	75,342
Other comprehensive income for the year	-	56	-	56
Total comprehensive income for the year	-	56	75,342	75,398
Distributions to owners				
Dividends (note 10)	-	-	(51,150)	(51,150)
31 December 2018	**12,755**	**(28)**	**53,978**	**66,705**

Interconnector (UK) Limited

Company statement of cash flows

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
		£'000	£'000
Cash flows from operating activities			
Cash generated from operations	28	**120,437**	147,912
Income taxes		**(19,750)**	(21,299)
Net cash generated from operating activities		**100,687**	126,613
Cash flows from investing activities			
Dividends from subsidiaries & associates		**10,973**	3,124
Interest received		**6,156**	7,364
Purchase of property, plant and equipment	11	**(5,203)**	(1,838)
Purchase of intangible assets	12	**(1,275)**	-
Repayment of other financial assets at amortised cost (2017: loans receivable)	14	**55,224**	56,402
Net cash generated from investing activities		**65,875**	65,052
Cash flows from financing activities			
Intercompany loans (repaid) / issued		**(3,484)**	241
Equity dividends paid	10	**(51,150)**	(86,271)
Repayment of capital element of loans	18	**(34,956)**	(19,824)
Capital element of finance lease payments		**(76,305)**	(68,183)
Interest element of finance lease payments		**(8,944)**	(12,483)
Interest paid		**(277)**	(1,269)
Net cash used in financing activities		**(175,116)**	(187,789)
Net (decrease) / increase in cash and cash equivalents		**(8,554)**	3,876
Cash and cash equivalents at beginning of the year		**31,799**	27,590
Exchange (losses) / gains on cash and cash equivalents		**(17)**	333
Cash and cash equivalents at end of the year		**23,228**	31,799

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 and the financial statements of the Company 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, except for the measurement of certain financial assets and liabilities (including derivative instruments) which have been measured at fair value.

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.

New standards, amendments and interpretations

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

IFRS 9 Financial Instruments
IFRS 15 Revenue from Contracts with Customers

a) IFRS 9 Financial instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and reclassification of certain financial assets (as discussed below), but no retrospective adjustments to the amounts recognised in the financial statements were required. The new accounting policies are set out in note 2 "Financial assets". In accordance with the transitional provisions in paragraphs 7.2.15 and 7.2.26 of IFRS 9, comparative figures have not been restated.

On 1 January 2018, the group's management has assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate IFRS 9 categories. On this date, the financial instruments of the group were as follows:

2 Accounting policies (continued)

New standards, amendments and interpretations (continued)

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original £'000	New £'000	Difference £'000
Non-current financial assets					
Loan receivable – FLZ	Loans and receivables	Amortised cost	107,255	107,255	-
Equity shares – FLZ	Available for sale	FVOCI	193	193	-
Current financial assets					
Trade and other receivables	Loans and receivables	Amortised cost	18,629	18,629	-
Current financial liabilities					
Derivative financial instruments	FVPL	FVPL	(84)	(84)	-

b) IFRS 15 Revenue from Contracts with customers

The group has adopted IFRS 15 from 1 January 2018, which resulted in changes in accounting policies but no adjustments were required to the amounts recognised in the financial statements. The revised accounting policy is set out in note 2 "Revenue recognition".

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 2019 which the group has decided not to adopt early.

		Effective date (periods beginning on or after)
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 16, "Leases"

The group has reviewed all its leasing arrangements over the last year. At the reporting date, the group has non-cancellable operating lease commitments of £0.7 million, see note 25. For these lease commitments the group expects to recognise right-of-use asset and a lease liability of approximately £0.6 million on 1 January 2019 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Net current assets will be £0.3 million lower due to the presentation of a portion of the liability as a current liability.

Due to the adoption of new rules, there will be impact on net profit after tax, operating and financing cash flows of the group. However, due to the short-term nature of the lease, the impact is not considered to be material.

2 Accounting policies (continued)

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

The group will apply the standard from its mandatory adoption of 1 January 2019. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Going concern

The forward and reverse flow capacity in the pipeline was fully contracted on long term contracts expiring in September 2018. As detailed in the "Market Risk" section of the Strategic report, after this date, the company sells 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 is showing net current assets of £6.0 million. The company has net current liabilities of £1.8 million, which reflect the impact of a quarterly dividend and imminent maturity of debt obligations. The group and company have sufficient operational cash flow arising under the current capacity contracts to meet these obligations.

The directors, having assessed the business risks and the potential impact of Brexit 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.

Notes to the financial statements

2 Accounting policies (continued)

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.

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 and the Belgian terminals

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. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, the assets are depreciated over the shorter of the lease term and their useful lives. The economic lives are reviewed annually.

(b) Carrying values of 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 of disposal. The value in use calculation uses cash flow projections based on revenues from the capacity sales, covering the period to 2025.

(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 2018 for the potential obligation. Further disclosures are given in note 31.

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. 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.

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.

The group capitalises subsequent expenditure on property, plant and equipment if it meets the capitalisation accounting criteria per IAS16 paragraph 7:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

2 Accounting policies (continued)

Property, plant and equipment (continued)

With the exception of freehold land (which is not depreciated), 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
UK terminal and pipeline	20-50
Belgium terminal	20
Other UK infrastructure assets	3-20
Other assets	3-10

The expected useful lives of property, plant and equipment are reviewed on an annual basis.

(a) Assets under construction

Expenditure on the construction, installation or completion of infrastructure assets such as replacement of parts of the plant or major overhauls is capitalised within property, plant and equipment and intangible assets as asset under construction according to nature. When development / installation is completed, it is transferred to a relevant category of assets within Property, Plant and Equipment or Intangible assets. Assets in the course of construction are not depreciated until they are brought into use.

(b) 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.

(c) Static gas

Static gas is the minimum volume of gas that has to be kept in the pipeline for it to operate, which cannot be extracted out. Previously, gas in the pipeline belonged to the shippers. The static gas is accounted for as a fixed asset and is depreciated over 50 years.

Inventory

The volume of pipeline gas in excess of the minimum gas volume (static gas) is treated as operating inventory, and is classified as inventory within current assets - gas inventory. It is necessary to maintain gas inventory above the minimum level in order to achieve fuel efficiency. Operating gas inventory is also used to cover gas shrinkage / gains and as a compressor fuel.

2 Accounting policies (continued)

Inventory (continued)

Additions to operating inventory are accounted at purchase price and usage is accounted at weighted average price. If the gas market price falls below the weighted average price, an impairment is recorded to bring the weighted average price to match the market price. The impairment is reversed to the extent of a previously recorded impairment i.e. gas inventory will be valued at the lower of cost and market price.

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.

The IAA contract outlines credit rating requirements for all customers. If not fulfilled, customers must provide a cash deposit for two months of estimated capacity purchases. Customer deposits are held in a separate bank account and are included in the company's and group's cash flows. A corresponding liability is recognised within trade and other payables.

Investments and other financial assets – From 1 January 2018

(a) Classification

From 1 January 2018, the group classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the company's business model for managing financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition & derecognition

Regular way purchases and sales of financial asset are recognised on trade-date, that is, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

2 Accounting policies (continued)

Investments and other financial assets – From 1 January 2018 (continued)

(c) Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value though profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

2 Accounting policies (continued)

Investments and other financial assets – From 1 January 2018 (continued)

Equity instruments

The group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established. The group's only equity investment is its investment in FLZ, which it has elected to classify as an asset measured at FVOCI. Equity investments in subsidiaries in the company financial statements are accounted for in accordance with the policy "Investments in subsidiaries".

Impairment

From 1 January 2018, the group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Investments and other financial assets – Until 31 December 2017

The group has elected not to restate comparative information upon application of IFRS 9. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

(a) Accounting policies applied until 31 December 2017

Until 31 December 2017, the group classified its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- and available for sale.

The classification depended on the purpose for which the financial assets were acquired. Management determined 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 were financial assets held for trading. A financial asset was classified in this category if acquired principally for the purpose of selling in the short term. Derivatives were also categorised as held for trading unless they were designated as hedges. Assets in this category were classified as current assets if expected to be settled within 12 months, otherwise they were classified as non-current.

Notes to the financial statements

2 Accounting policies (continued)

Investments and other financial assets – Until 31 December 2017 (continued)

ii. Loans and receivables
Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were included in current assets, except for maturities greater than 12 months after the year-end, in which case they were classified as non-current assets. The group's loans and receivables comprised "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 were non-derivatives that were either designated in this category or not classified in any of the other categories. They were included in non-current assets unless the investment matured or management intended to dispose of it within 12 months of the year-end. The group's available-for-sale financial assets comprised "investments" in the statement of financial position.

(b) Recognition & measurement

Regular purchases and sales of financial assets were recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments were 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 were initially recognised at fair value, and transaction costs were expensed in the income statement. Financial assets were derecognised when the rights to receive cash flows from the investments expired or were transferred and the group transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss were subsequently carried at fair value. Loans and receivables were 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 were presented in the income statement within "Other (losses)/gains – net" in the period in which they arose. Dividend income from financial assets at fair value through profit or loss was recognised in the income statement as part of other income when the group's right to receive payments was established.

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

2 Accounting policies (continued)

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 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".

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.

2 Accounting policies (continued)

Finance and operating leases (continued)

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 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

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The group operates the Transportation System and has an obligation to give access to the Transportation Services to customers who sign contracts. All group customers must sign a contract prior to transacting with the group. The group uses two types of contracts, standard for all customers: the Standard Transportation Agreement ("STA") (used until September 2018) and the IAA. Customers get an allocated capacity in a period they booked capacity for. A share of the pipeline capacity is identified in volume and is not physically distinct.

2 Accounting policies (continued)

Revenue recognition (continued)

Revenue is measured at the fair value of the consideration received or receivable. STA revenue 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. IAA revenue represents amounts receivable in accordance with contractual terms based on the provision of pipeline capacity based on standard tariffs. The price of the capacity products sold to the IAA customers is defined at the capacity auctions, the base (minimum) prices are published on IUK's web-site.

Revenue arising from the group's capacity contracts is recognised in the accounting period in which pipeline capacity is provided to customers. Commodity and other revenue are recognised based on the provision of services. Different components of revenue are clearly identifiable and are invoiced separately to customers.

Revenue recognition for each component of the IUK revenue is summarised below.

Under the STA contract (until September 2018), revenue is recognised in respect of:

- Tariff based on construction costs: Recognised monthly based on amounts that are pre-determined in the contract, inflated annually based on the formula pre-determined in the contract.
- Tariff to recover operating costs: Recognised monthly to the extent of the actual maintenance costs incurred by IUK in each month that are allowed to be charged to shippers under the contract.
- Other revenue: Recognised monthly based on the actual costs incurred in each month that are allowed to be charged to shippers under the contract.

Under the IAA, revenue is recognised in respect of:

- IAA access fee: A fixed monthly fee which grants the shipper the right to use the interconnector in that particular month. Revenue is recognised on a monthly basis in line with the access granted.
- Sale of capacity: Recognised on a monthly basis in respect of the capacity purchased by each shipper in that particular month at an agreed price. The revenue varies depending on the amount of capacity purchased and is earned regardless of whether the shipper uses the capacity or not.
- Commodity charges: Recognised monthly based on capacity utilisation, priced at the current commodity tariff.

Based on the nature of the revenue contracts of the IUK group, the adoption of IFRS 15 did not affect the recognition and measurement of the IUK revenue as compared to IAS 18.

Financing components

The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

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.

2 Accounting policies (continued)

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.

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.

2 Accounting policies (continued)

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 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.

Interconnector (UK) Limited

Notes to the financial statements

3 Revenue from contracts with customers

Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	For the year ended 31 December 2018	For the year ended 31 December 2017
	£'000	£'000
Timing of revenue recognition		
Recognised over time	**141,894**	180,555
Recognised at a point in time	**7,519**	5,510
Total revenue from contracts with customers	**149,413**	186,065
Type of service		
Tariff based on construction costs	**109,706**	143,938
Tariff to recover operating costs	**27,297**	36,617
Sale of capacity	**4,891**	-
Commodity revenue	**170**	-
Other revenues	**7,349**	5,510
Total revenue from contracts with customers	**149,413**	186,065

There are no contractual assets or liabilities relating to contracts with customers.

Interconnector (UK) Limited

Notes to the financial statements

4 Operating profit

Operating profit is stated after charging:

	For the year ended 31 December 2018	For the year ended 31 December 2017
	£'000	£'000
Employee costs (see note 6)	**7,071**	8,131
Operating lease rentals: land and buildings	**351**	351
Depreciation of property, plant and equipment:		
– owned	**17,714**	22,792
– held under finance leases	**6,767**	7,036
Total depreciation of property, plant and equipment	**24,481**	29,828
Impairment of goodwill (see note 12)	**2,552**	-
Impairment reversal on emission allowances (see note 12)	**(79)**	-
Fees payable to company auditors and their associates for:		
– the audit of the company and consolidated financial statements	**69**	77
– the audit of the company's subsidiaries	**12**	11
– other taxation advisory services	**15**	31
– non audit services	**9**	8
Total fees payable to company auditors and associates	**105**	127

5 Key management personnel remuneration

	For the year ended 31 December 2018	For the year ended 31 December 2017
	£'000	£'000
Aggregate emoluments	**702**	565
Defined contribution pension scheme costs	**17**	12
Total remuneration	**719**	577

Key management personnel compensation for the year is in respect of two directors (2017: two). Aggregate emoluments include salary, bonus and healthcare benefits.

Notes to the financial statements

5 Key management personnel remuneration (continued)

The highest paid director's total remuneration for the year ended 31 December 2018 is £480,000 (31 December 2017: £368,000), including defined contribution pension costs of £nil (2017: £12,000). Defined contribution pension scheme costs represent amounts paid by the company in respect of one (2017: one) directors. The amounts disclosed relate only to the period an employee was key management personnel.

The group also paid £357,000 to its parent company, Fluxys, for the services of executive directors during the year (2017: nil).

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 2018	For the year ended 31 December 2017
	Average Number	Average Number
By activity:		
Physical operations	**32**	38
Commercial operations	**5**	11
Administration	**16**	19
Total average number of employees	**53**	68

Employee costs:	**For the year ended 31 December 2018**	For the year ended 31 December 2017
	£'000	£'000
Wages and salaries	**3,956**	5,389
Social security costs	**574**	758
Other pension costs	**581**	774
Termination costs	**1,241**	633
Key management personnel remuneration, including other pension costs (see note 5)	**719**	577
Total employee costs	**7,071**	8,131

Interconnector (UK) Limited

Notes to the financial statements

7 Finance income

	For the year ended 31 December 2018	For the year ended 31 December 2017
	£'000	£'000
Bond interest receivable	**5,276**	5,599
Interest receivable on bank balances	**129**	27
Income from shares in investments	**24**	21
Other income	**-**	33
Total finance income	**5,429**	5,680

8 Finance costs

	For the year ended 31 December 2018	For the year ended 31 December 2017
	£'000	£'000
Lease finance charges	**5,307**	5,658
Bank loans:		
- Secured	**234**	1,163
Exchange differences on foreign currency debt and deposits	**127**	229
Other interest payable	**17**	25
Total finance costs	**5,685**	7,075

Notes to the financial statements

9 Tax expense

	For the year ended 31 December 2018	For the year ended 31 December 2017
	£'000	£'000
Current tax:		
UK corporation tax on profits for the year	**25,812**	33,092
Foreign tax on profits for the year	**163**	247
Current tax on profits for the year	**25,975**	33,339
Adjustments in respect of prior years	**(104)**	40
Total current tax	**25,871**	33,379
Deferred tax:		
Origination and reversal of timing differences	**(8,964)**	(11,151)
Deferred tax credit relating to change in timing assumptions	**22**	-
Total deferred tax (see note 20)	**(8,942)**	(11,151)
Tax expense	**16,929**	22,228

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 (2017: higher) than the standard rate of corporation taxation in the UK for the period (19.0%) (2017: 19.25%). The differences are explained below:

Notes to the financial statements

9 Tax expense (continued)

	For the year ended 31 December 2018	For the year ended 31 December 2017
	£'000	£'000
Profit before taxation	**82,754**	113,173
Profit before taxation multiplied by standard rate in the UK 19.0% (2017: 19.25%)	**15,723**	21,786
Effects of:		
Expenses not deductible for tax purposes	**1,190**	1,339
Income not chargeable for tax purposes	**(6)**	(1,071)
Deferred tax credit relating to change in timing assumptions	**22**	-
Other timing differences	**45**	27
Impact of higher foreign tax rates	**59**	107
Adjustments in respect of prior years	**(104)**	40
Tax expense	**16,929**	22,228

10 Dividends on equity shares

	For the year ended 31 December 2018	For the year ended 31 December 2017
	£'000	£'000
Equity – Ordinary		
Prior year final paid: £0.34 (2017: £2.07) per £1 ordinary share	**4,007**	24,396
Interim paid: £4.0 (2017: £5.25) per £1 ordinary share	**47,143**	61,875
Total dividends	**51,150**	86,271

The directors have proposed a final dividend for the year ended 31 December 2018 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 26 sets out details regarding preference dividends.

Notes to the financial statements

11 Property, plant and equipment

Group	Freehold land	UK terminal & pipeline	Belgian terminal	Other UK infrastructure assets	Other assets	Asset under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 January 2017	5,787	420,365	137,252	27,087	21,968	-	612,459
Additions in the period	-	-	-	-	1,838	-	1,838
Disposals in the period	-	-	-	-	(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
Additions in the year	-	3,453	55	-	1,095	600	5,203
Disposals in the year	-	-	-	-	(6,938)	-	(6,938)
Foreign exchange adjustments	55	-	-	-	-	-	55
At 31 December 2018	**6,033**	**423,818**	**137,307**	**27,087**	**16,169**	**600**	**611,014**
Accumulated depreciation							
At 1 January 2017	-	(367,524)	(82,283)	(24,717)	(10,688)	-	(485,212)
Charge for the period	-	(21,088)	(7,036)	(1,354)	(350)	-	(29,828)
Disposals in the period	-	-	-	-	149	-	149
At 31 December 2017	-	**(388,612)**	**(89,319)**	**(26,071)**	**(10,889)**	-	**(514,891)**
Charge for the year	-	(16,420)	(6,767)	(1,016)	(278)	-	(24,481)
Disposals in the year	-	-	-	-	26	-	26
At 31 December 2018	-	**(405,032)**	**(96,086)**	**(27,087)**	**(11,141)**	-	**(539,346)**
Net book value							
At 31 December 2018	**6,033**	**18,786**	**41,221**	-	**5,028**	**600**	**71,668**
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

Interconnector (UK) Limited

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	Asset under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 January 2017	1,041	420,365	137,252	27,087	21,968	-	607,713
Additions in the period	-	-	-	-	1,838	-	1,838
Disposals in the period	-	-	-	-	(1,794)	-	(1,794)
At 31 December 2017	**1,041**	**420,365**	**137,252**	**27,087**	**22,012**	**-**	**607,757**
Additions in the year	-	3,453	55	-	1,095	600	5,203
Disposals in the year	-	-	-	-	(6,937)	-	(6,937)
At 31 December 2018	**1,041**	**423,818**	**137,307**	**27,087**	**16,170**	**600**	**606,023**
Accumulated depreciation							
At 1 January 2017	-	(367,524)	(82,283)	(24,717)	(10,688)	-	(485,212)
Charge for the period	-	(21,088)	(7,036)	(1,354)	(350)	-	(29,828)
Disposals in the period	-	-	-	-	149	-	149
At 31 December 2017	-	(388,612)	(89,319)	(26,071)	(10,889)	-	(514,891)
Charge for the year	-	(16,420)	(6,767)	(1,016)	(278)	-	(24,481)
Disposals in the year	-	-	-	-	26	-	26
At 31 December 2018	**-**	**(405,032)**	**(96,086)**	**(27,087)**	**(11,141)**	**-**	**(539,346)**
Net book value							
At 31 December 2018	**1,041**	**18,786**	**41,221**	**-**	**5,029**	**600**	**66,677**
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

Interconnector (UK) Limited

Notes to the financial statements

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. Both leases have now expired.

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 was 20 years and ended on 30 September 2018. The lease has been extended for 5 years from October 2018, on payment of a "peppercorn" rental. The UK terminal and pipeline asset cost is £423.8 million and the net book value is £18.8 million at 31 December 2018 (2017: £31.8 million).

The Belgian terminal is subject to two separate leases (see note 19) 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 Fluxys lease has been extended for the period of 5 years starting October 2018. The Belgian terminal cost is £137.3 million and the net book value is £41.2 million at 31 December 2018 (2017: £47.9 million).

As at 31 December 2018, management undertook an impairment test on the property, plant and equipment using the value-in-use model to estimate the recoverable amount of the assets. The value in use calculation used cash flow projections based on estimated revenues from the capacity sales, covering the period to 2025.

As per the models, the carrying value of the assets has sufficient head room at the base case as well as in the downside scenario models.

Note 4 summarises the depreciation charge on leased and own 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 £4.3 million (31 December 2017: £10.1 million). The expense is recognised in the income statement when spares are used. During the year, IUK wrote off £5.9m of spares that had not been used for the previous three years.

Assets under construction

Assets under construction include costs of capital projects relating to terminal assets and the pipeline.

12 Intangible assets

Group	Goodwill	Emissions allowances	Asset under construction	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2017	2,552	1,562	-	4,114
Additions in the period	-	485	-	485
Disposals in the period	-	(505)	-	(505)
At 31 December 2017	2,552	1,542	-	4,094
Additions in the year	-	937	1,251	2,188
Disposals in the year	-	(873)	-	(873)
At 31 December 2018	**2,552**	**1,606**	**1,251**	**5,409**
Accumulated impairment				
At 1 January 2017	-	(168)	-	(168)
Reversal of impairment in the year	-	89		89
At 31 December 2017	-	(79)	-	(79)
(Impairment) / reversal of impairment in the year	(2,552)	79	-	(2,473)
At 31 December 2018	**(2,552)**	**-**	**-**	**(2,552)**
Net book value				
At 31 December 2018	**-**	**1,606**	**1,251**	**2,857**
At 31 December 2017	2,552	1,463	-	4,015
At 31 December 2016	2,552	1,394	-	3,946

Interconnector (UK) Limited

Notes to the financial statements

12 Intangible assets (continued)

Goodwill

This asset is the goodwill on consolidation relating to the acquisition of ILC, a wholly-owned subsidiary, in 2002. The only activity of ILC was to lease property and equipment to IUK. The lease was fully re-paid by IUK in 2018 and the lease assets were fully depreciated. As a result, the goodwill was impaired in 2018.

Assets under construction

Assets under construction relate to ERP implementation costs and IT development costs.

Company	Emissions allowances	Asset under construction	Total
	£'000	£'000	£'000
Cost			
At 1 January 2017	1,562	-	1,562
Additions in the period	485	-	485
Disposals in the period	(505)	-	(505)
At 31 December 2017	1,542	-	1,542
Additions in the year	937	1,251	2,188
Disposals in the year	(873)	-	(873)
At 31 December 2018	**1,606**	**1,251**	**2,857**
Accumulated impairment			
At 1 January 2017	(168)	-	(168)
Reversal of impairment in the year	89	-	89
At 31 December 2017	**(79)**	-	**(79)**
Reversal of impairment in the year	79	-	79
At 31 December 2018	-	-	-
Net book value			
At 31 December 2018	**1,606**	**1,251**	**2,857**
At 31 December 2017	1,463	-	1,463
At 31 December 2016	1,394	-	1,394

Interconnector (UK) Limited

Notes to the financial statements

12 Intangible assets (continued)

Emissions allowances

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

13(a) Financial assets at fair value through other comprehensive income (2017: Investments)

Group and Company	**Investments in unlisted shares**
	£'000
Cost	
At 1 January 2017, 31 December 2017 and 31 December 2018	425
Accumulated impairment	
At 1 January 2017	(204)
Charge for the period	(28)
At 31 December 2017	(232)
Charge for the year	(28)
At 31 December 2018	**(260)**
Net book value	
At 31 December 2018	**165**
At 31 December 2017	193
At 31 December 2016	221

The investment 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(b) Investments in subsidiaries (2017: Investments)

Company	Shares in subsidiary undertakings £'000
Cost	
At 1 January 2017	6,848
Additions	-
Disposals / repayments	(100)
At 31 December 2017	6,748
Additions	-
Disposals / repayments	-
At 31 December 2018	**6,748**
Accumulated impairment	
At 1 January 2017	(4,443)
Charge for the period	-
At 31 December 2017	(4,443)
Charge for the year	(2,256)
At 31 December 2018	**(6,699)**
Net book value	
At 31 December 2018	**49**
At 31 December 2017	2,305
At 31 December 2016	2,405

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.

Impairment of investments in subsidiary undertakings relates to shares in ILC. The only activity of ILC was to lease property and equipment to IUK. The lease was fully re-paid by IUK in 2018, the extension is at a "peppercorn" rental. As a result, the value of investment has been impaired.

Interconnector (UK) Limited

Notes to the financial statements

13(b) Investments in subsidiaries (2017: 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") (struck off during the year)	10 Furnival Street, London, EC4A 1AB, UK	Ordinary £1 shares	nil (2017: 100)	nil (2017: 100)
Interconnector Zeebrugge Terminal S.C./CVBA ("IZT")	Rue Guimard 4, BE – 1040 Brussels, Belgium	Ordinary €1,239 shares	49 (2017: 49)	48 (2017: 48)
Interconnector Finance Company Unlimited ("IFC") (wound up during the year)	Ogier House The Esplanade St Helier, Jersey, JE4 9WG	Ordinary €501.9 B shares Ordinary €1,000 A shares	nil (2017: 100) nil (2017: 100)	nil (2017: nil) nil (2017: nil)
Interconnector Leasing Company Limited ("ILC")	10 Furnival Street, London, EC4A 1AB, UK	Ordinary £1 shares	100 (2017: 100)	100 (2017: 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 struck off the register of companies on 24 May 2018.
- 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 2018, 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 was 10 Furnival Street, London, EC4A 1AB, England and Wales in the 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 Financial assets at amortised cost (2017: loans receivable)

Group	**FLZ bond £'000**
At 31 December 2018	
Amounts receivable in less than one year	**9,870**
Amounts receivable after one year	**89,414**
	99,284
At 31 December 2017	
Amounts receivable in less than one year	8,613
Amounts receivable after one year	98,190
	106,803

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 2018				
Amounts receivable in less than one year	10,108	-	-	**10,108**
Amounts receivable after one year	90,312	-	3,636	**93,948**
Total	**100,420**	**-**	**3,636**	**104,056**
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

Loans include a loan to IZT. 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 was repaid in September 2018 and had a fixed rate interest of 1.994% (2017: 1.994%).

Interconnector (UK) Limited

Notes to the financial statements

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 19). 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 equity investment at fair value through other comprehensive income (2017: available-for-sale investment).

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 2018	31 December 2017
	£'000	£'000
Assets		
Other financial assets at amortised cost (2017: loans receivable) – bond	**99,284**	106,803
Equity investments at fair value though OCI (2017: investments – available for sale)	**162**	190
Interest receivable	**420**	452
Liabilities		
Obligations under finance leases	**(100,334)**	(108,072)
Interest payable	**(415)**	(447)
Net liability in relation to financing arrangements	**(883)**	(1,074)
Assets – Property, plant and equipment	**41,169**	47,120

Notes to the financial statements

16 Trade receivables and other financial assets at amortised cost (2017: Trade and other receivables)

	Group	Group	**Company**	Company
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
	£'000	£'000	**£'000**	£'000
Trade receivables	**421**	2	**421**	2
Accrued income	**1,943**	17,967	**1,943**	17,967
Other interest receivable	**428**	453	**407**	432
Prepayments	**1,167**	1,287	**1,167**	1,287
Other taxes receivable	**3,648**	3,022	**458**	27
Other receivables	**286**	207	**285**	3,009
Amounts receivable from wholly owned subsidiary undertakings	**-**	-	**-**	4,550
	7,893	22,938	**4,681**	27,274

Trade receivables are amounts due from customers for services performed in the ordinary course of business. They are generally due for settlement within 14 days and therefore are all classified as current.

The IAA contract outlines credit rating requirements for all customers. If not fulfilled, customers must provide a cash deposit for two months of estimated capacity purchases. Expected loss allowance for trade receivables is £nil.

Other financial assets at amortised cost (2017: 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).

At 31 December 2017, amounts receivable from wholly owned subsidiary undertakings included accrued interest of £0.2m in respect of the loan to ILC. Interest was accrued quarterly and paid annually together with the capital repayment. The interest and the loan were fully repaid in September 2018 (see note 14).

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

17 Inventory

Group and Company	31 December 2018	31 December 2017
	£'000	£'000
Current assets		
Gas inventory	**1,059**	-
	1,059	-

The value of inventory recognised as an expense during the year, and included in "operating expenses", amounted to £0.03 million (2017: £nil).

18 Borrowings

Bank loan

This loan is repayable in instalments as follows:

Group and Company	31 December 2018	31 December 2017
	£'000	£'000
Amounts falling due:		
Less than one year	-	34,956
Current liability	-	34,956

In September 2013, the company refinanced existing loans with a secured five year term loan facility with RBS (the "RBS loan"). At 31 December 2017 the RBS loan was stated net of direct issue costs of £0.04 million.

The loan was fully repaid in March 2018. The interest rate on the RBS loan was linked to the London Interbank Offered Rate ("LIBOR"). The group had an interest rate swap to fix the interest rate on this loan. See note 21 for further details.

The RBS loan was 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.

All charges were cancelled upon the repayment of the loan.

19 Obligations under finance leases

Group

The present value of finance lease liabilities is as follows:	**31 December 2018**	31 December 2017
	£'000	£'000
Amounts falling due:		
Less than one year	**11,054**	17,860
Current liability	**11,054**	17,860
Amounts falling due:		
Between one and two years	**11,870**	9,978
Between two and five years	**45,538**	37,687
After five years	**36,475**	51,565
Non-current liability	**93,883**	99,230
Total obligations under finance leases	**104,937**	117,090

Group Gross finance lease liabilities – minimum lease payments:	**31 December 2018** **£'000**	31 December 2017 £'000
Less than one year	**16,545**	23,241
Between one and two years	**16,866**	14,812
Between two and five years	**56,925**	49,028
After five years	**39,184**	56,756
Future finance charges on finance lease liabilities	**(24,583)**	(26,747)
Present value of finance lease liabilities	**104,937**	117,090

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.

Interconnector (UK) Limited

Notes to the financial statements

19 Obligations under finance leases (continued)

Company

The present value of finance lease liabilities is as follows:

	31 December 2018	31 December 2017
	£'000	£'000
Amounts falling due:		
Less than one year	**11,054**	81,724
Current liability	**11,054**	81,724
Between one and two years	**11,870**	9,978
Between two and five years	**45,538**	37,687
After five years	**36,475**	51,565
Non-current liability	**93,883**	99,230
Total obligations under finance leases	**104,937**	180,954

Company

Gross finance lease liabilities – minimum lease payments:	**31 December 2018** **£'000**	31 December 2017 £'000
Less than one year	**16,545**	90,693
Between one and two years	**16,866**	14,812
Between two and five years	**56,925**	49,028
After five years	**39,184**	56,756
Future finance charges on finance lease liabilities	**(24,583)**	(30,335)
Present value of finance lease liabilities	**104,937**	180,954

In addition to the Euro-denominated leases, the company had a Sterling-denominated lease with ILC. The primary period of the lease ended in September 2018, the lease was extended at a peppercorn rent for 5 years. Further details of the related leased assets are shown in note 11.

Notes to the financial statements

20 Deferred income tax (assets) / liabilities

The analysis of deferred tax (assets) / liabilities is as follows:

	Group	Group	**Company**	Company
	31 December 2018 £'000	31 December 2017 £'000	**31 December 2018 £'000**	31 December 2017 £'000
Deferred tax (assets) / liabilities				
Accelerated tax depreciation	**(1,025)**	8,004	**(186)**	79
Other timing differences	**(216)**	(305)	-	-
Deferred tax at year end	**(1,241)**	7,699	**(186)**	79

	Group	Group	**Company**	Company
	31 December 2018 £'000	31 December 2017 £'000	**31 December 2018 £'000**	31 December 2017 £'000
Deferred tax (assets) / liabilities:				
Provision at beginning of the period	**7,699**	18,850	**79**	399
Deferred tax credit in the income statement	**(8,964)**	(11,151)	**(287)**	(320)
Deferred tax relating to changes in timing assumptions	**22**	-	**22**	-
Deferred tax in other comprehensive income	**2**	-	-	-
At 31 December	**(1,241)**	7,699	**(186)**	79

	Group	Group	**Company**	Company
Deferred tax (assets) / liabilities:	**31 December 2018 £'000**	31 December 2017 £'000	**31 December 2018 £'000**	31 December 2017 £'000
Deferred tax (assets) / liabilities due within 12 months	**(890)**	8,020	**(51)**	184
Deferred tax (assets) / liabilities due after more than 12 months	**(351)**	(321)	**(135)**	(105)
At 31 December	**(1,241)**	7,699	**(186)**	79

20 Deferred income tax (assets) / liabilities (continued)

The majority of the deferred tax assets relate to the capital allowances in ILC. Deferred tax assets are recognised on the basis that they will be recovered against the future taxable profits within the group.

21 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;
- Financial assets at amortised cost (2017: Loans receivable) – FLZ bond;
- Financial assets at fair value through other comprehensive income (2017: 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).

21 Financial Instruments (continued)

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.

Financial assets and liabilities held in Euros – group	**31 December 2018**	31 December 2017
	£'000	£'000
Trade and other payables	**(1,383)**	(5,110)
Other receivables	**3,190**	2,995
Cash at bank	**2,354**	6,290
Financial assets at amortised cost (2017: Loans receivable) – FLZ bond	**99,284**	106,803
Borrowings – net obligations under finance leases	**(104,937)**	(117,090)
Total	**(1,492)**	(6,112)

Financial assets and liabilities held in Euros – company	**31 December 2018**	31 December 2017
	£'000	£'000
Trade and other payables	**(242)**	(658)
Cash at bank	**1,819**	5,752
Financial assets at amortised cost (2017: Loans receivable) – FLZ bond	**100,420**	108,176
Borrowings – net obligations under finance leases	**(104,937)**	(117,090)
Total	**(2,940)**	(3,820)

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 carried interest at a variable rate, but the group also had an effective hedge to mitigate the interest rate variation (note 22). Therefore, the group does not have a material exposure to interest rate risk.

At 31 December 2018, 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 at fixed interest rate.

21 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 22). 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 2018		**31 December 2017**	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Group				
Financial assets				
Financial assets at amortised cost (2017: loans and receivables) – bond (note 14) and accrued interest (note 16)	**99,704**	**109,944**	107,255	122,012
Financial liabilities				
Financial liabilities measured at amortised cost – net obligations under finance leases including accrued interest (note 19)	**(104,937)**	**(114,778)**	(117,090)	(131,367)
Company				
Financial assets				
Financial assets at amortised cost (2017: loans and receivables) – bond (note 14) and accrued interest (note 16)	**100,827**	**109,944**	108,608	122,012
Financial liabilities				
Financial liabilities measured at amortised cost – net obligations under finance leases including accrued interest (note 19)	**(104,937)**	**(114,778)**	(180,954)	(213,226)

Interconnector (UK) Limited

Notes to the financial statements

21 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 22).

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 2018		
Trade and other payables	(7,017)	-
Finance lease liabilities	(16,121)	(112,975)
Total	**(23,138)**	**(112,975)**
At 31 December 2017	**£'000**	£'000
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)

Notes to the financial statements

21 Financial Instruments (continued)

Liquidity risk (continued)

Company	**Payable within one year**	**Payable after one year**
At 31 December 2018	**£'000**	**£'000**
Trade and other payables	(11,328)	-
Finance lease liabilities	(16,121)	(112,975)
Total	**(27,449)**	**(112,975)**
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)

Capital risk management

The capital structure of the group consists of net debt, which includes the borrowings disclosed in notes 18 and finance leases disclosed in note 19 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 the prior year. 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 2018	31 December 2017
	£'000	£'000
Total borrowings, including obligations under finance leases	104,937	152,046
Less: Cash and cash equivalents	(23,762)	(32,337)
Net debt	81,175	119,709
EBITDA for the year ended	110,096	144,334
Ratio of net debt to EBITDA	**0.74**	0.83

Interconnector (UK) Limited

Notes to the financial statements

21 Financial Instruments (continued)

Financial instruments by class and by category – group

Financial assets at amortised cost (2017: Loans and Receivables)

	31 December 2018 £'000	31 December 2017 £'000
Non-current financial assets		
Loan receivable – bond	89,414	98,190
Current financial assets		
Loan receivable – bond	9,870	8,613
Trade and other receivables	3,078	18,629
Cash and cash equivalents	23,762	32,337
Total financial assets	**126,124**	157,769

Financial assets at fair value through OCI (2017: Available-for-sale financial assets)

	31 December 2018 £'000	31 December 2017 £'000
Non-current financial assets		
Investment – Shares	425	425
Less: Accumulated impairment	(260)	(232)
Total financial assets	**165**	193

Financial liabilities measured at amortised cost

	31 December 2018	31 December 2017
Current financial liabilities	**£'000**	£'000
Borrowings	-	(34,956)
Obligations under finance leases	(11,054)	(17,860)
Trade and other payables	(7,017)	(12,107)
Non- current financial liabilities		
Obligations under finance leases	(93,883)	(99,230)
Total financial liabilities measured at amortised cost	**(111,954)**	(164,153)

Financial instruments measured at fair value through profit and loss

	31 December 2018 £'000	31 December 2017 £'000
Non-current financial liabilities		
Derivative financial instruments (level 2)	-	-
Current financial liabilities		
Derivative financial instruments (level 2)	-	(84)
Total derivative financial instruments	-	(84)

21 Financial Instruments (continued)

Financial instruments by class and by category – company

Financial assets at amortised cost (2017: Loans and Receivables)

	31 December 2018 £'000	31 December 2017 £'000
Non-current financial assets		
Loans receivable	93,948	100,670
Current financial assets		
Loans receivable	10,108	57,514
Trade and other receivables	3,056	25,960
Cash and cash equivalents	23,228	31,799
Total financial assets	**130,340**	215,943

Financial assets at fair value through OCI (2017: Available-for-sale financial assets)

	31 December 2018 £'000	31 December 2017 £'000
Non-current financial assets		
Investment – Shares	425	425
Less: Accumulated impairment	(260)	(232)
Total financial assets	**165**	193

Financial liabilities measured at amortised cost

	31 December 2018 £'000	31 December 2017 £'000
Current financial liabilities		
Borrowings	-	(34,956)
Obligations under finance leases	(11,054)	(81,724)
Trade and other payables	(11,328)	(24,582)
Non- current financial liabilities		
Obligations under finance leases	(93,883)	(99,230)
Total financial liabilities measured at amortised cost	**(116,265)**	(240,492)

Financial instruments measured at fair value through profit and loss

	31 December 2018 £'000	31 December 2017 £'000
Non-current financial liabilities		
Derivative financial instruments (level 2)	-	-
Current financial liabilities		
Derivative financial instruments (level 2)	-	(84)
Total derivative financial instruments	-	(84)

Notes to the financial statements

22 Derivative financial instruments

Group and company	31 December 2018 £'000	31 December 2017 £'000
Interest rate swap liability– cash flow hedge	-	84

On 11 March 2014, the group purchased an interest rate swap to fix the interest rate on the RBS loan (the "RBS hedge"). The loan and the hedge were repaid in March 2018.

The hedge used to represent substantially all of the group's exposure to interest rate risk. RBS, as hedging counterparty, had subordinated security under the security arrangements for the RBS loan, described in note 18.

The group applied 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.

23 Provisions

Group	Contract termination £'000	Total £'000
As at 1 January 2018	-	-
Charged to the income statement	400	400
As at 31 December 2018	**400**	**400**

In September 2018, the company gave 12 months termination notice to its IT service provider, DXC. A project is underway to transfer all of the company's IT services and support to its parent company, Fluxys. The transfer will integrate IT systems with the parent company as well as achieve cost savings.

According to the project plan, services will be transferred to Fluxys gradually, some of them prior to the contract termination date. As such, the company has recognised a provision for the early termination payments to DXC.

24 Trade and other payables

	Group	Group	Company	Company
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
	£'000	£'000	**£'000**	£'000
Deferred revenue	**3,847**	11,366	**3,847**	11,366
Customer deposits	**2,419**	-	**2,419**	-
Accruals and other payables	**7,017**	10,787	**6,844**	10,928
Other taxes including social security	**121**	2,870	**121**	2,870
Trade payables	**-**	1,320	**-**	1,382
Amounts owed to wholly-owned subsidiary undertakings	**-**	-	**4,484**	12,273
	13,404	26,343	**17,715**	38,819
Less: Non-current portion: Deferred revenue	**(1,449)**	(11,002)	**(1,449)**	(11,002)
Current portion	**11,955**	15,341	**16,266**	27,817

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.

25 Operating lease commitments

Group and company	**31 December 2018**	31 December 2017
	£'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	**708**	1,077
	2,554	**2,923**

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; the company has a right to exercise a break clause in 2020.

Notes to the financial statements

26 Share capital

Authorised, issued and fully paid	31 December 2018 £'000	31 December 2017 £'000
11,785,680 (2017: 11,785,680) ordinary shares of £1 each	**11,786**	11,786
969,000 (2017: 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.

27 Other reserves

	Group				Company		
	Hedging reserve	Translation reserve	Fair value reserve of financial assets at FVOCI	Total	Hedging reserve	Fair value reserve of financial assets at FVOCI	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1 January 2017	(580)	308	-	(272)	(580)	-	(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	-	384	(84)	-	(84)
Exchange differences arising on translation of foreign operations	-	82	-	**82**	-	-	-
Cash flow hedge: fair value gains	84	-	-	**84**	84	-	**84**
Fair value loss on debt instruments at FVOCI	-	-	**(28)**	**(28)**	-	(28)	**(28)**
At 31 December 2018	-	**550**	**(28)**	**522**	-	**(28)**	**(28)**

Interconnector (UK) Limited

Notes to the financial statements

28 Cash generated from operations

Group	For the year ended 31 December 2018	For the year ended 31 December 2017
	£'000	£'000
Profit before income tax	**82,754**	113,173
Adjustments for:		
Depreciation and impairment	**27,061**	29,856
Finance costs - net	**256**	1,395
Increase in provisions	**400**	-
Other non-cash items in the income statement	**1,022**	1,776
Changes in working capital:		
Decrease / (increase) in debtors	**15,045**	(1,663)
(Decrease) / increase in creditors	**(7,227)**	3,703
Increase in inventory	**(1,059)**	-
Cash generated from operations	**118,252**	148,240

Company	For the year ended 31 December 2018	For the year ended 31 December 2017
	£'000	£'000
Profit before income tax	**91,267**	111,024
Adjustments for:		
Depreciation	**24,481**	29,828
Impairment of investments	**2,284**	28
Finance (income) / costs - net	**(8,504)**	2,787
Increase in provisions	**400**	-
Other non-cash items in the income statement	**1,128**	1,872
Changes in working capital:		
Decrease / (increase) in debtors	**18,043**	(1,799)
(Decrease) / increase in creditors	**(7,603)**	4,172
Increase in inventory	**(1,059)**	-
Cash generated from operations	**120,437**	147,912

Interconnector (UK) Limited

Notes to the financial statements

29 Net debt reconciliation

Group	For the year ended 31 December 2018 £'000	For the year ended 31 December 2017 £'000
Cash and cash equivalents	**23,762**	32,337
Borrowings – repayable within one year	**(11,054)**	(52,816)
Borrowings – repayable after one year	**(93,883)**	(99,230)
Net debt	**(81,175)**	(119,709)
Cash and cash equivalents	**23,762**	32,337
Gross debt – fixed interest rates	**(104,937)**	(143,475)
Gross debt – variable interest rates	**-**	(8,571)
Net debt	**(81,175)**	(119,709)

		Liabilities from financing activities				
Group	**Cash**	**Finance leases due within 1 year**	**Finance leases due after 1 year**	**Borrowings due within 1 year**	**Borrowings due after 1 year**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Net debt as at 1 January 2018	32,337	(17,860)	(99,230)	(34,956)	-	(119,709)
Cash flows	(8,557)	13,337	-	34,956	-	39,736
Foreign exchange adjustment	(18)	(127)	(1,107)	-	-	(1,252)
Other non-cash movements	-	(6,404)	6,454	-	-	50
Net debt as at 31 December 2018	**23,762**	**(11,054)**	**(93,883)**	**-**	**-**	**(81,175)**

Notes to the financial statements

29 Net debt reconciliation (continued)

Company	For the year ended 31 December 2018 £'000	For the year ended 31 December 2017 £'000
Cash and cash equivalents	**23,228**	31,799
Borrowings – repayable within one year	**(11,054)**	(116,680)
Borrowings – repayable after one year	**(93,883)**	(99,230)
Net debt	**(81,709)**	(184,111)
Cash and cash equivalents	**23,228**	31,799
Gross debt – fixed interest rates	**(104,937)**	(207,339)
Gross debt – variable interest rates	-	(8,571)
Net debt	**(81,709)**	(184,111)

		Liabilities from financing activities				
Company	**Cash**	**Finance leases due within 1 year**	**Finance leases due after 1 year**	**Borrowings due within 1 year**	**Borrowings due after 1 year**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Net debt as at 1 January 2018	31,799	(81,724)	(99,230)	(34,956)	-	(184,111)
Cash flows	(8,554)	76,305	-	34,956	-	102,707
Foreign exchange adjustment	(17)	(127)	(1,107)	-	-	(1,251)
Other non-cash movements	-	(5,508)	6,454	-	-	946
Net debt as at 31 December 2018	**23,228**	**(11,054)**	**(93,883)**	**-**	**-**	**(81,709)**

30 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 19).

Notes to the financial statements

31 Contingent liabilities

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.

32 Related party transactions

Group

The group's ultimate parent and controlling party is Fluxys SA, a company incorporated in Belgium, which owns 76.32% (2017: 50.75%) of the company's shares. The immediate parent undertaking is Fluxys UK Limited.

La Caisse de dépôt et placement du Québec (CDPQ) and its subsidiary CDP Infrastructures Inc.(CDPI) ceased to be shareholders of the company in March 2018. Until then, CDPQ and CDPI had significant influence over the group. During the year ended 31 December 2018, dividends of £nil million (2017: £28.9 million) were paid to CDPQ and CDPI.

The group's operating expenses for the year ended 31 December 2018 include £1.9 million (2017: 2.3 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 2018, lease rentals in relation to the Belgium terminal (see note 19) of £4.6 million (2017: £4.0 million) were paid to Fluxys Belgium SA, and dividends of £33.0 million (2017: £43.8 million) were paid to Fluxys Interconnector Ltd, Fluxys UK Ltd, and Fluxys Europe BV affiliates, Gasbridge 1 BV and Snam International BV.

The amounts payable to Fluxys Belgium SA at 31 December 2018 in relation to operating expenses were £0.4 million (31 December 2017: £0.5 million). The finance lease liability (see note 19) outstanding at 31 December 2018 was £4.2 million (31 December 2017: £8.5 million).

32 Related party transactions (continued)

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 2018 includes £13.4 million (2017: £13.4 million) in relation to purchases from IZT, in accordance with the Service Agreement between the company and IZT. The amounts outstanding at 31 December 2018, in relation to these purchases, were £0.3 million receivable from IZT (31 December 2017: £0.6 million payable to IZT).

In addition, during the year ended 31 December 2018, lease rentals of £16.5 million (2017: £18.3 million) were recharged by IZT to the company. The amounts outstanding at 31 December 2018, in relation to these lease rentals, were £1.4 million (31 December 2017: £3.4 million) payable to IZT.

At 31 December 2018, IZT owed £3.6 million (31 December 2017: £1.4 million) to the company under an inter-company loan agreement. Interest income, based upon a variable rate linked to EURIBOR, of £nil (2017: £nil) has been recognised during the year ended 31 December 2018 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	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Related party	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
ILC	**53**	66	**(711)**	(1,700)	**2,690**	6,004	**-**	3,000
BAS[1]	**-**	-	**-**	-	**-**	-	**-**	102
ICC	**-**	-	**10**	80	**-**	-	**10,949**	-
IFC	**-**	50	**(1)**	-	**-**	-	**-**	-
	53	116	**(702)**	(1,620)	**2,690**	6,004	**10,949**	3,102

During the year the company provided support and other services to ILC to enable it to perform its obligations under agency contracts entered into by ILC with third parties. Interest expense, based upon a variable rate linked to LIBOR, is payable on amounts owed from / to subsidiary undertakings. These amounts are unsecured and repayable on demand. See notes 11 and 19 for details regarding the finance lease between the company and ILC.

[1] Bacton Agency Services Limited ("BAS")

Notes to the financial statements

32 Related party transactions (continued)

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

	Amounts owed To / (from) subsidiary undertakings		Finance lease liabilities owed to subsidiary undertakings	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
Related party	**£'000**	£'000	**£'000**	£'000
ILC	**4,484**	(3,552)	-	62,967
BAS	-	-	-	-
ICC	-	12,273	-	-
IFC	-	(998)	-	-
	4,484	7,723	-	62,967

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 30 for details of the company's commitments in respect of related parties.

The security for the RBS loan (note 18) and the RBS hedge (note 22) included a floating charge on assets to which ILC has legal title and which have been leased to the company under a finance lease (note 19). ILC 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. All charges were cleared upon the repayment of the RBS loan in March 2018.

Key Management Personnel remuneration

See note 5 for further details.

33 Post balance sheet events

There are no events subsequent to the balance sheet date that require disclosure or adjustment in the financial statements.