

Interconnector (UK) Limited

**Annual Report and Consolidated Financial Statements
for the year ended 31 December 2019**

Registered Number: 2989838

Interconnector (UK) Limited

Consolidated financial statements for the year ended 31 December 2019

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Interconnector (UK) Limited

Company information

Registered Office 10 Furnival Street
London EC4A 1AB
United Kingdom

Country of incorporation England and Wales

Independent auditors BDO LLP
Chartered Accountants and Statutory Auditors
55 Baker Street
London W1U 7EU
UNITED KINGDOM

Interconnector (UK) Limited

Strategic report

The directors present their Strategic report for the year ended 31 December 2019.

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 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”).

IUK competes in the energy flexibility market. The company’s strategic objectives are to provide Shippers with cost-effective products that support gas trading opportunities.

Q1 2019 saw 67% of the BE-UK capacity sold. For the Summer period 56% of UK-BE capacity was sold, with high bookings during May and June in particular, up to 98% of nominal technical capacity. A baseload 10 year contract is in place since Oct 2018, corresponding to 14% of the BE-UK direction capacity.

During Q1, the flows were considerably lower than the booked capacity, mainly due to high LNG supplies to the UK and lower costs-to-flow on alternative supply routes. There was annual maintenance shutdown during 21 April – 30 April. During Q2 and Q3, the utilisation rate of the booked UK-BE capacity was much higher than Q1, in line with the seasonal pattern and complemented with high LNG supplies to the UK. Q2 Exports were higher than Q3 for the first time since 2012 with 30,276 GWh against Q3 with 17,043 GWh. Highest UK export day was 610 GWh (94% of technical capacity).

The results of the group for the year ended 31 December 2019 show a profit before taxation of £44.5 million (2018: £82.8 million) and revenues of £76.6 million (2018: £149.4 million). At 31 December 2019, the group had net assets of £82.6 million (31 December 2018: £76.0 million). Net cash generated from operating activities for the year ended 31 December 2019 was £35.6 million (2018: £88.9 million). Cash in / (outflows) from investing and financing activities were £6.4m and £(45.7)m respectively (2018: £7.6m and £(105.1)m respectively).

Internal Control and Risk Management

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.

Risk management activities take place through all levels of IUK. Each business area identifies the main risks to company strategy and objectives. Each risk is then assessed by considering the financial, operational and reputational impacts of the risk, and how likely the risk is to materialise. The business areas then identify and implement actions to manage, monitor and mitigate the risks.

Interconnector (UK) Limited

Strategic report (continued)

Principal risks and uncertainties

Market risk

IUK 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 (which has recently completed its reverse flow project, offering UK-NL capacity services).

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 works with regulators and governments to ensure a fair and competitive environment.

Operational risk

Customers rely on the flexibility and reliability of the company's service. Facilities and systems are designed with sufficient back up and are maintained to sustain equipment availability. Operations are managed to ensure a high degree of reliability.

The turbines at Interconnector Zeebrugge Terminal are powered by electricity. The phase out of nuclear power in Belgium has raised concerns that there might be an interruption of power supply which could affect IUK's commercial offering and competitiveness. This risk has been mitigated, in part, by the introduction of a conditional firm product that de-risks the offering to our customers. IUK continues to investigate other means by which this risk may be reduced and welcomes the introduction of a capacity remuneration mechanism in Belgium, which will support investment in power generation.

Depletion of the gas fields in the Southern North Sea, production from fields with poor specification gas and the redirection quality specification gas away from Bacton to other UK terminals may adversely affect the quality of gas available for transportation by IUK. To mitigate this risk IUK is supporting adjacent operators' proposed investment analysis for gas blending services.

IUK works collaboratively with the Department for Business, Energy and Industrial Strategy (BEIS), Ofgem and the Centre for Protection of National Infrastructure (CPNI) in relation to identification and mitigation of key cyber risks and development of cyber security strategy. Cyber risk is mitigated through our governance framework, which includes executive level engagement and regular reporting to the Board. We regularly test our systems to validate control effectiveness and provide ongoing training on cyber risks to all personnel.

Health, Safety, Security and Environment (HSSE)

Excellent HSSE performance is critical to the success of the business. IUK acts to minimise the HSSE risks associated with its operations by ensuring: high standards in equipment design; the application of quality processes and procedures; and working with competent and well-trained staff and contractors. A comprehensive annual HSSE programme is carried out, with emphasis on constant improvement, quality planned maintenance, regular safety audits, inspections and walkthroughs. IUK's open reporting culture ensures that risks are highlighted, and ideas and observations are encouraged to maintain standards and direct improvements.

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)

Regulatory

The company continues to keep the implications of Brexit on its operations under review. A cross-functional team has considered Brexit scenarios and identified mitigating actions to limit the impact on our business. The company has also engaged with its Shippers, its NRAs and the UK and Belgian governments to identify concerns and issues relating to Brexit and find appropriate solutions wherever possible. 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 maintaining 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.

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 cost reflective commodity charge, in addition to the capacity fee, based on the actual flow nominations made by the shipper using its capacity.

Net Zero target

In the past year, the UK introduced a legislative target to reach net zero carbon emissions by 2050. IUK subscribes to this goal and is committed to minimising our impact on the environment.

During the course of 2019 we have made significant progress in reducing our emissions and increasing the energy efficiency of the gas flow operations. We are also procuring electricity from renewable sources to supply both the Bacton and Zeebrugge terminal. Whilst we currently transport natural gas through the pipeline, the equipment is able to accept significant percentages of hydrogen and biomethane.

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 several 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 and in addition where appropriate by transacting currency swaps in line with the Fluxys Group treasury Policy.

Interconnector (UK) Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

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. Liquidity risk is mitigated by detailed cash flow forecasting and flexible working capital management.

Future developments

Operating as a merchant interconnector in a competitive environment, the focus remains on developing and capturing the commercial opportunities. As the UK leaves the European Union, a fit-for-purpose regulatory framework remains essential to continue delivering the wider societal benefits.

Statement by the directors in performance of their statutory duties in accordance with S172(1) Companies Act 2006

The board of directors of Interconnector (UK) Limited consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 December 2019.

The IUK business plan for 2020 and the subsequent multi year plan 2021 and 2022, are designed to ensure a long term beneficial impact on the company and contribute to its success. We continue to operate our business within tight budgetary controls and in line with the regulatory framework that applies to our operations and business. We endeavour to engage actively with all our stakeholders, for example:

- Our employees are fundamental to delivery of our strategy. The health, safety and well-being of our employees is one of our primary considerations in the way we do business. Members of the executive management attended regular safety meetings with staff at our operational sites. In addition, the managing directors met with terminal site safety representatives to promote communication of health and safety issues and we have policies and procedures in place that encourage all staff to report and highlight any safety concerns that they may have. During the year we undertook an engagement survey with all our employees and during the course of 2020 we will implement an improvement plan based on the findings of that survey. We aim to be a responsible employer in our approach to the pay and wellbeing initiatives our employees receive and we monitor and benchmark our remuneration package to ensure it is in line with industry standards.

Interconnector (UK) Limited

Strategic report (continued)

Statement by the directors in performance of their statutory duties in accordance with S172(1) Companies Act 2006 (continued)

- Our commercial objectives were informed by extensive engagement with our customers, which has enabled us to gain an understanding of their views and priorities. We meet regularly with our customers and market participants to discuss developments in the industry and the market and to hear their views on where our business may add value to their portfolios.
- We aim to act responsibly and fairly in how we engage with our suppliers. During the course of 2019 we reviewed and improved our payment practices to reduce the time taken to pay our suppliers. We also worked with suppliers to build awareness of our health and safety principles and ensure that suppliers adhere to high standards of health, safety, security and environmental performance. Good relationships with suppliers help ensure projects are delivered safely, on time, to good quality, at efficient costs, and can bring innovative approaches and solutions that create shared value.
- Our regulators are an integral part of our business and we work hard to engage and co-operate with them in the UK and in Belgium. We meet with regulators (eg Ofgem , CREG , BEIS, FPS Economy) regularly and often to ensure that these key stakeholders are fully informed of our business objectives and proposed methods of delivery.
- During 2019 our objectives took into account the impact of the company's operations on the local community and the environment. The desire to reduce emissions and noise as we manage the transition to a "net zero" economy has encouraged us to identify areas where we can deliver environmental improvements. Other examples of our focus include connecting with the local community and helping to build health and safety awareness .
- As the Board of Directors, our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours. As the Board of Directors, our intention is to behave responsibly toward our shareholders and treat them fairly and equally, so they too may benefit from the successful delivery of our commercial objectives.

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:

	2019	2018	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 2019 period, no lost capacity rebates were made. This reflects the continuing high standard of operational performance achieved.
Injurious accidents	Zero	Zero	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 2019.
Reportable emission events	Zero	One	Emissions of natural gas or CO ₂ beyond permitted levels or significant environmental impacts are required to be disclosed to the Environment Agency. In 2019 all emissions were within permitted levels.

On behalf of the Board of Directors



Raf Van Elst
Director
4 March 2020

Interconnector (UK) Limited

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2019.

Results and dividends

The group's profit after tax for the year was £37.0 million (2018: £65.8 million). Interim dividends of £2.21 (2018: £4.0) per ordinary share amounting to £26.0 million (2018: £47.1 million) were declared and paid during the year. Directors do not recommend the payment of the final dividend (2018: £0.34 per ordinary share). The aggregate dividends on the ordinary shares recognised during the year amounts to £30.1 million (2018: £51.2 million).

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 company sells capacity in a short term market as a "merchant" asset. Demand for capacity, and therefore revenues, are seasonal in nature and have great volatility. There may be periods of low demand outside of the summer and winter seasons.

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

The group and the company are showing net current assets of £12.6 million and £8.6 million respectively. The Board of directors approved a mid-term view of revenues for the group based on the current supply/demand and pricing situation on the market. The plan generates sufficient cashflows to be able to meet the group's obligations in the next 12 months.

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.

Business relationships

Details of how the directors have fostered business relationships with suppliers, customers and others, and the effects of this, including on the principal decisions taken by the company during the financial year are disclosed in the Strategic report on pages 5-6.

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 Bux (IUK Board Chairman & Independent director)

Shareholder-appointed non-executive directors:

Raf Van Elst

Erik Vennekens

Geert Hermans (appointed 18 November 2019)

Gianluca Zonta (appointed 28 May 2019)

Michele Calì (appointed 28 May 2019)

Giuseppe Peluso (appointed 17 January 2020)

Directors during the year:

Matteo Tanteri (resigned 28 May 2019)

Ben De Waele (resigned 18 November 2019)

Steve Turner (resigned 21 May 2019)

Steven De Ranter (resigned 21 May 2019)

Elio Ruggeri (appointed 28 May 2019, resigned 17 January 2020)

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 2019 and as at the date of the approval of these financial statements.

Interconnector (UK) Limited

Directors' report (continued)

Directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and 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 these financial statements, the directors are required to:

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

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

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



Raf Van Elst

Director

4 March 2020

Interconnector (UK) Limited

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

Opinion

We have audited the financial statements of Interconnector (UK) Limited ("the Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2019, which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- 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 or the Parent 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

Interconnector (UK) Limited

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 Parent 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 parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.



BDO LLP
Matt Crane (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London

Date: 4 MARCH 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Interconnector (UK) Limited

Consolidated income statement

	Note	For the year ended 31 December 2019	For the year ended 31 December 2018
		£'000	£'000
Revenue from contracts with customers	3	76,633	149,413
Operating expenses		(31,947)	(66,403)
Operating profit	4	44,686	83,010
Finance income	7	4,978	5,429
Finance costs	8	(5,178)	(5,685)
Profit before taxation		44,486	82,754
Tax expense	9	(7,448)	(16,929)
Profit for the year		37,038	65,825
Profit for the year attributable to:			
Owners of the parent		36,973	65,748
Non-controlling interests		65	77
Consolidated profit for the year		37,038	65,825

The notes on pages 23 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 2019	For the year ended 31 December 2018
		£'000	£'000
Profit for the year		37,038	65,825
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		(290)	111
Cash flow hedge	27	-	84
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)	(28)
Other comprehensive (loss) / income for the year		(318)	167
Total comprehensive income for the year		36,720	65,992
Total comprehensive income for the year attributable to:			
Owners of the parent		36,655	65,915
Non-controlling interests		65	77
Total comprehensive income for the year		36,720	65,992

The notes on pages 23 to 74 are an integral part of these consolidated financial statements.

Interconnector (UK) Limited

Consolidated statement of financial position

	Note	31 December 2019 £'000	31 December 2018 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	71,843	71,668
Intangible assets	12	3,783	2,857
Deferred income tax assets	20	651	1,241
Financial assets at fair value through other comprehensive income	13	137	165
Financial assets at amortised cost	15	74,219	89,414
		150,633	165,345
Current assets			
Inventory	18	392	1,059
Financial assets at amortised cost	15	10,534	9,870
Trade and other receivables	17	6,914	7,893
Derivative financial instruments	22	19	-
Cash and cash equivalents		20,178	23,762
		38,037	42,584
Total assets		188,670	207,929
Liabilities			
Non-current liabilities			
Lease liabilities	19	(80,552)	(93,883)
Trade and other payables	24	-	(1,449)
		(80,552)	(95,332)
Current liabilities			
Lease liabilities	19	(12,019)	(11,054)
Current income tax liabilities		(2,043)	(13,220)
Trade and other payables	24	(11,398)	(11,955)
Derivative financial instruments	22	(23)	-
Provisions	23	-	(400)
		(25,483)	(36,629)
Total liabilities		(106,035)	(131,961)
Net assets		82,635	75,968

Interconnector (UK) Limited

Consolidated statement of financial position (continued)

	Note	31 December 2019	31 December 2018
		£'000	£'000
Equity attributable to:			
Owners of the parent			
Share capital	26	12,755	12,755
Other reserves	27	201	522
Retained earnings		68,698	61,775
		81,654	75,052
Non-controlling interests		981	916
Total equity		82,635	75,968

The notes on pages 23 to 74 are an integral part of these consolidated financial statements.

The financial statements on pages 13 to 74 were approved by the Board of Directors on 4 March 2020 and were signed on its behalf by:



Raf Van Elst
Director
4 March 2020

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 2018	12,755	384	47,148	839	61,126
Profit for the period	-	-	65,748	77	65,825
Other comprehensive income for the period	-	138	29	-	167
Total comprehensive income for the period	-	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
Profit for the year	-	-	36,973	65	37,038
Other comprehensive income for the year	-	(321)	3	-	(318)
Total comprehensive income for the year	-	(321)	36,976	65	36,720
Distributions to owners					
Dividends (note 10)	-	-	(30,053)	-	(30,053)
31 December 2019	12,755	201	68,698	981	82,635

Interconnector (UK) Limited

Consolidated statement of cash flows

	Note	For the year ended 31 December 2019	For the year ended 31 December 2018
		£'000	£'000
Cash flows from operating activities			
Cash generated from operations	28	53,594	118,252
Income taxes		(17,999)	(29,339)
Net cash generated from operating activities		35,595	88,913
Cash flows from investing activities			
Interest received		5,016	5,431
Purchase of property, plant and equipment	11	(6,361)	(5,203)
Purchase of intangible assets	12	(1,689)	(1,275)
Repayment of other financial assets at amortised cost	15	9,366	8,604
Dividend income		24	24
Net cash generated from investing activities		6,356	7,581
Cash flows from financing activities			
Equity dividends paid	10	(30,053)	(51,150)
Repayment of capital element of loans		-	(34,956)
Capital element of finance lease payments		(10,634)	(13,337)
Interest element of finance lease payments		(4,977)	(5,357)
Interest paid		(3)	(251)
Net cash used in financing activities		(45,667)	(105,051)
Net (decrease) / increase in cash and cash equivalents		(3,716)	(8,557)
Cash and cash equivalents at beginning of the year		23,762	32,337
Exchange gains / (losses) on cash and cash equivalents		132	(18)
Cash and cash equivalents at end of the year		20,178	23,762

Interconnector (UK) Limited

Company statement of financial position

	Note	31 December 2019 £'000	31 December 2018 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	67,112	66,677
Intangible assets	12	3,783	2,857
Deferred income tax assets	20	-	186
Financial assets at fair value through other comprehensive income	13	137	165
Investments in subsidiaries	14	49	49
Financial assets at amortised cost	15	78,682	93,948
		149,763	163,882
Current assets			
Inventory	18	392	1,059
Financial assets at amortised cost	14	10,755	10,108
Trade and other receivables	17	3,722	4,681
Derivative financial instruments	22	19	-
Cash and cash equivalents		19,566	23,228
		34,454	39,076
Total assets		184,217	202,958
Liabilities			
Non-current liabilities			
Obligations under finance leases	19	(80,552)	(93,883)
Deferred income tax liabilities	20	(199)	-
Trade and other payables	24	-	(1,449)
		(80,751)	(95,332)
Current liabilities			
Obligations under finance leases	19	(12,019)	(11,054)
Current income tax liabilities		(2,084)	(13,201)
Trade and other payables	24	(11,770)	(16,266)
Derivative financial instruments	22	(23)	-
Provisions	23	-	(400)
		(25,896)	(40,921)
Total liabilities		(106,647)	(136,253)
Net assets		77,570	66,705

Interconnector (UK) Limited

Company statement of financial position (continued)

	Note	31 December 2019	31 December 2018
		£'000	£'000
Equity			
Share capital	26	12,755	12,755
Other reserves	27	(56)	(28)
<hr/>			
Retained earnings			
At beginning of the year		53,978	29,786
Profit for the year attributable to the owners		40,946	75,342
Other changes in retained earnings		(30,053)	(51,150)
<hr/>			
At end of the year		64,871	53,978
<hr/>			
Total Equity		77,570	66,705

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 23 to 74 are an integral part of these consolidated financial statements.

The financial statements on pages 13 to 74 were approved by the Board of Directors on 4 March 2020 and were signed on its behalf by:



Raf Van Elst
Director
4 March 2020

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 2018	12,755	(84)	29,786	42,457
Profit for the period	-	-	75,342	75,342
Other comprehensive income for the period	-	56	-	56
Total comprehensive income for the period	-	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
Profit for the year			40,946	40,946
Other comprehensive income for the year		(28)		(28)
Total comprehensive income for the year		(28)	40,946	40,918
Distributions to owners				
Dividends (note 10)			(30,053)	(30,053)
31 December 2019	12,755	(56)	64,871	77,570

Interconnector (UK) Limited

Company statement of cash flows

	Note	For the year ended 31 December 2019	For the year ended 31 December 2018
		£'000	£'000
Cash flows from operating activities			
Cash generated from operations	28	53,567	120,437
Income taxes		(17,996)	(19,750)
Net cash generated from operating activities		35,571	100,687
Cash flows from investing activities			
Dividends from subsidiaries & associates		4,512	10,973
Interest received		4,783	6,156
Purchase of property, plant and equipment	11	(6,361)	(5,203)
Purchase of intangible assets	12	(1,689)	(1,275)
Repayment of other financial assets at amortised cost	15	9,396	55,224
Net cash generated from investing activities		10,641	65,875
Cash flows from financing activities			
Intercompany loans repaid		(4,334)	(3,484)
Equity dividends paid	10	(30,053)	(51,150)
Repayment of capital element of loans		-	(34,956)
Capital element of finance lease payments		(10,634)	(76,305)
Interest element of finance lease payments		(4,977)	(8,944)
Interest paid		(8)	(277)
Net cash used in financing activities		(50,006)	(175,116)
Net decrease in cash and cash equivalents		(3,794)	(8,554)
Cash and cash equivalents at beginning of the year		23,228	31,799
Exchange gains / (losses) on cash and cash equivalents		132	(17)
Cash and cash equivalents at end of the year		19,566	23,228

Interconnector (UK) Limited

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 Company has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to publish the individual income statement and related notes.

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 2019:

IFRS 16 Leases

Interpretation 23 Uncertainty over Income Tax Treatments

(a) IFRS 16 Leases

IFRS 16 “Leases” replaces IAS 17 “Leases” along with three Interpretations (IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC 15 “Operating Leases-Incentives” and SIC 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”).

The adoption of this new Standard has resulted in the group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The group applied the simplified transition approach and did not restate comparative amounts for the year prior to first adoption. Right-of-use assets were measured at the amount of the lease liability on adoption.

Interconnector (UK) Limited

finalNotes to the financial statements

2 Accounting policies (continued)

New standards, amendments and interpretations (continued)

The group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 3.67%.

(b) Interpretation 23 Uncertainty over Income Tax Treatments

The adoption of IFRIC 23 did not have any impact on the financial statements of the group or the company. The group has made a disclosure on the uncertain tax position, see note 9.

New standards, amendments and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Going concern

The company sells capacity in a short term market as a “merchant” asset. Demand for capacity, and therefore revenues, are seasonal in nature and have great 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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Going concern (continued)

The group and the company are showing net current assets of £12.6 million and £8.6 million respectively. The Board of directors approved a mid-term view of revenues for the group based on the current supply/demand situation on the market. The plan generates sufficient cashflows to be able to meet the group's obligations in the next 12 months.

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.

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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Critical accounting estimates and judgements (continued)

(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 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 estimated useful life for the UK and the Belgian terminals is 20 years based on the initial contractual lease terms. Management will continue to reassess useful economic life of the assets every year.

(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.

(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 16.

(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 which is currently estimated to be over 100 years. 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 2019 for the potential obligation. Further disclosures are given in note 31.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

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.

(c) Computer software and IT development costs

Costs associated with maintaining software programmes are recognised as an expense as incurred. An intangible asset is recognised as an asset if it is probable that future economic benefits attributable to the asset will flow to the entity and if the cost of the asset can be measured reliably. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use. Intangible assets with an indefinite useful life are subject to an annual impairment test, and are impaired when their book value exceeds their recoverable amount.

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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Property, plant and equipment (continued)

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.

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. The static gas is accounted for as a fixed asset and is depreciated over 50 years.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

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.

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

(a) Classification

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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Investments and other financial assets (continued)

(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.

(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 through 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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Investments and other financial assets (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

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 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.

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 uses derivative financial instruments to hedge its exposure to exchange rate and interest rate risks.

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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Derivative financial instruments and hedging activities (continued)

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.

Leases

The group has changed its accounting policy for leases where the group is the lessee.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

Until 31 December 2018 leases in which a significant portion of the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases were charged to the income statement on a straight-line basis over the period of the lease.

Leases where the group had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were 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 was allocated between the finance lease liability and finance costs. The interest element of the finance cost was 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 was depreciated over the shorter of the useful life of the asset and the lease term.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Leases (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the group's incremental borrowing rate is used, being the rate that the group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by IUK, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Revenue recognition

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 one type of contract, standard for all customers: the IAA. Standard Transportation Agreement (“STA”) was used until September 2018. 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.

Revenue is measured at the fair value of the consideration received or receivable. 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. STA revenue represented amounts receivable in accordance with contractual terms based on the provision of pipeline capacity, representing tariff based on construction and operating costs, net of Value Added Tax.

Revenue arising from the group’s capacity contracts is recognised in the accounting period in which pipeline capacity is provided to customers. 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 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 for 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.

Under the STA contract (until September 2018), revenue was 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.

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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Finance income

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

Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs".

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

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Pension scheme

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

Employee termination benefits

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

Provisions

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

Taxation

The tax expense for the year 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 2019	For the year ended 31 December 2018
	£'000	£'000
Timing of revenue recognition		
Recognised over time	3,761	141,894
Recognised at a point in time	72,872	7,519
Total revenue from contracts with customers	76,633	149,413
Type of service		
Tariff based on construction costs	-	109,706
Tariff to recover operating costs	-	27,297
Sale of capacity	72,872	4,891
Commodity revenue	3,030	170
Other revenues	731	7,349
Total revenue from contracts with customers	76,633	149,413

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 2019	For the year ended 31 December 2018
	£'000	£'000
Employee costs (see note 6)	4,951	7,071
Operating lease rentals: land and buildings	-	351
Depreciation of property, plant and equipment:		
– owned	2,707	17,714
– leased	6,398	6,767
Total depreciation of property, plant and equipment	9,105	24,481
Depreciation of intangible assets:		
– owned	383	-
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	78	69
– the audit of the company's subsidiaries	6	12
– other taxation advisory services	-	15
– non audit services	-	9
Total fees payable to company auditors and associates	84	105

5 Key management personnel remuneration

	For the year ended 31 December 2019	For the year ended 31 December 2018
	£'000	£'000
Aggregate emoluments	89	702
Defined contribution pension scheme costs	12	17
Total remuneration	101	719

Key management personnel compensation for the year is in respect of one director (2018: two). Aggregate emoluments include salary, bonus and healthcare benefits.

Interconnector (UK) Limited

Notes to the financial statements

5 Key management personnel remuneration (continued)

The highest paid director's total remuneration for the year ended 31 December 2019 is £101,000 (31 December 2018: £480,000), including defined contribution pension costs of £12,000 (2018: £nil). Defined contribution pension scheme costs represent amounts paid by the company in respect of one (2018: one) director. The amounts disclosed relate only to the period an employee was key management personnel.

The group also paid £140,000 to its parent company, Fluxys, for the services of executive director during the period of directorship (2018: £357,000).

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 2019	For the year ended 31 December 2018
	Average Number	Average Number
By activity:		
Physical operations	29	32
Commercial operations	4	5
Administration	13	16
Total average number of employees	46	53

Employee costs:	For the year ended 31 December 2019	For the year ended 31 December 2018
	£'000	£'000
Wages and salaries	3,736	3,956
Social security costs	505	574
Other pension costs	498	581
Termination costs	111	1,241
Key management personnel remuneration, including other pension costs (see note 5)	101	719
Total employee costs	4,951	7,071

Interconnector (UK) Limited

Notes to the financial statements

7 Finance income

	For the year ended 31 December 2019	For the year ended 31 December 2018
	£'000	£'000
Bond interest receivable	4,782	5,276
Interest receivable on bank balances	172	129
Income from shares in investments	24	24
Total finance income	4,978	5,429

8 Finance costs

	For the year ended 31 December 2019	For the year ended 31 December 2018
	£'000	£'000
Interest and finance charges on lease liabilities	4,921	5,307
Bank loans:		
- Secured	-	234
Exchange differences on foreign currency debt and deposits	244	127
Other interest payable	13	17
Total finance costs	5,178	5,685

Interconnector (UK) Limited

Notes to the financial statements

9 Tax expense

	For the year ended 31 December 2019	For the year ended 31 December 2018
	£'000	£'000
Current tax:		
UK corporation tax on profits for the year	6,796	25,812
Foreign tax on profits for the year	134	163
Current tax on profits for the year	6,930	25,975
Adjustments in respect of prior years	(63)	(104)
Total current tax	6,867	25,871
Deferred tax:		
Origination and reversal of timing differences	530	(8,964)
Deferred tax credit relating to change in timing assumptions	51	22
Total deferred tax (see note 20)	581	(8,942)
Tax expense	7,448	16,929

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 lower (2018: higher) than the standard rate of corporation taxation in the UK for the period (19.0%) (2018: 19.0%). The differences are explained below:

Interconnector (UK) Limited

Notes to the financial statements

9 Tax expense (continued)

	For the year ended 31 December 2019	For the year ended 31 December 2018
	£'000	£'000
Profit before taxation	44,486	82,754
Profit before taxation multiplied by standard rate in the UK 19.0% (2018: 19.0%)	8,452	15,723
Effects of:		
Expenses not deductible for tax purposes	15	1,190
Income not chargeable for tax purposes	(1,060)	(6)
Deferred tax credit relating to change in timing assumptions	51	22
Other timing differences	5	45
Impact of higher foreign tax rates	48	59
Adjustments in respect of prior years	(63)	(104)
Tax expense	7,448	16,929

Uncertain tax position

The legislation in relation to bringing into account net foreign exchange losses on leases denominated in foreign currencies for the corporation tax purposes is not clear and is subject to interpretation. Historically, the lease related FX gains and losses have been disallowed in the tax computation. Following a due diligence and advice from the external tax consultants it was determined that FX gains and losses arising on the actual lease payments each year should be taxable / deductible in the tax computations of IUK.

IUK has made a claim for relief for overpaid tax under section 51 Schedule 18 FA 1998 in relation to the corporation tax treatment of net foreign exchange losses on leases denominated in euros. HMRC has challenged this approach.

Tax computation for the year ended 31 December 2019 treats FX gains and losses as non-deductible, a tax asset has not been recognised as a receivable at 31 December 2019 as receipt of the amount is dependent on the HMRC's response. The amount of tax receivable not recognised is £2.1m.

The group expects to get a response, and therefore certainty about the tax position, before the next reporting date.

Interconnector (UK) Limited

Notes to the financial statements

10 Dividends on equity shares

	For the year ended 31 December 2019	For the year ended 31 December 2018
	£'000	£'000
Equity – Ordinary		
Prior year final paid: £0.34 (2018: £0.34) per £1 ordinary share	4,007	4,007
Interim paid: £2.21 (2018: £4.0) per £1 ordinary share	26,046	47,143
Total dividends	30,053	51,150

The directors do not recommend paying a final dividend for the year ended 31 December 2019 in order to fund ongoing capital expenditure.

Note 26 sets out details regarding preference dividends.

Interconnector (UK) Limited

Notes to the financial statements

11 Property, plant and equipment

Group	Freehold land	UK terminal & pipeline	Belgian terminal	Other UK infrastructure assets	Other assets	Asset under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 January 2018	5,978	420,365	137,252	27,087	22,012	-	612,694
Additions	-	3,453	55	-	1,095	600	5,203
Disposals	-	-	-	-	(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
Adjustment on transition to IFRS 16	-	2,885	-	-	718	-	3,603
Additions	-	480	176	-	495	5,210	6,361
Disposals/transfers	-	-	-	-	(1,201)	(24)	(1,225)
Foreign exchange adjustments	(260)	-	-	-	-	-	(260)
At 31 December 2019	5,773	427,183	137,483	27,087	16,181	5,786	619,493
Accumulated depreciation							
At 1 January 2018	-	(388,612)	(89,319)	(26,071)	(10,889)	-	(514,891)
Depreciation charge	-	(16,420)	(6,767)	(1,016)	(278)	-	(24,481)
Disposals	-	-	-	-	26	-	26
At 31 December 2018	-	(405,032)	(96,086)	(27,087)	(11,141)	-	(539,346)
Depreciation charge	-	(2,324)	(5,972)	-	(809)	-	(9,105)
Disposals	-	-	-	-	801	-	801
At 31 December 2019	-	(407,356)	(102,058)	(27,087)	(11,149)	-	(547,650)
Net book value							
At 31 December 2019	5,773	19,827	35,425	-	5,032	5,786	71,843
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

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 2018	1,041	420,365	137,252	27,087	22,012	-	607,757
Additions	-	3,453	55	-	1,095	600	5,203
Disposals	-	-	-	-	(6,937)	-	(6,937)
At 31 December 2018	1,041	423,818	137,307	27,087	16,170	600	606,023
Adjustment on transition to IFRS 16	-	2,885	-	-	718	-	3,603
Additions	-	480	176	-	495	5,210	6,361
Disposals/transfers	-	-	-	-	(1,201)	(24)	(1,225)
At 31 December 2019	1,041	427,183	137,483	27,087	16,182	5,786	614,762
Accumulated depreciation							
At 1 January 2018	-	(388,612)	(89,319)	(26,071)	(10,889)	-	(514,891)
Depreciation charge	-	(16,420)	(6,767)	(1,016)	(278)	-	(24,481)
Disposals	-	-	-	-	26	-	26
At 31 December 2018	-	(405,032)	(96,086)	(27,087)	(11,141)	-	(539,346)
Depreciation charge	-	(2,324)	(5,972)	-	(809)	-	(9,105)
Disposals	-	-	-	-	801	-	801
At 31 December 2019	-	(407,356)	(102,058)	(27,087)	(11,149)	-	(547,650)
Net book value							
At 31 December 2019	1,041	19,827	35,425	-	5,033	5,786	67,112
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

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 £4.7 million (€5.6 million) at Zeebrugge (Belgium) terminals.

UK terminal and pipeline and Belgian terminal

UK terminal and pipeline and Belgian terminal are subject to three separate leases. See Note 19 for further details.

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. Spare parts inventory held at both Bacton and Zeebrugge terminals is included in other assets, totalling £4.4 million (31 December 2018: £4.3 million). The expense is recognised in the income statement when spares are used. During 2018, IUK wrote off £5.9 million of spares that had not been used for the previous three years.

As at 31 December 2019, 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.

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.

Assets under construction

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

Right-of-use assets

Right-of-use assets are included in Property, plant and equipment in the same categories as if they were owned. Additional information on right-of-use assets is presented in note 19.

Interconnector (UK) Limited

Notes to the financial statements

12 Intangible assets

Group	Goodwill	Emissions allowances	Computer software	Asset under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2018	2,552	1,542	-	-	4,094
Additions	-	937	-	1,251	2,188
Disposals	-	(873)	-	-	(873)
At 31 December 2018	2,552	1,606	-	1,251	5,409
Additions in the year	-	-	2,940	-	2,940
Disposals/transfers	-	(380)	-	(1,251)	(1,631)
At 31 December 2019	2,552	1,226	2,940	-	6,718
Accumulated impairment					
At 1 January 2018	-	(79)	-	-	(79)
Reversal of impairment	(2,552)	79	-	-	(2,473)
At 31 December 2018	(2,552)	-	-	-	(2,552)
Depreciation charge	-	-	(383)	-	(383)
At 31 December 2019	(2,552)	-	(383)	-	(2,935)
Net book value					
At 31 December 2019	-	1,226	2,557	-	3,783
At 31 December 2018	-	1,606	-	1,251	2,857
At 31 December 2017	2,552	1,463	-	-	4,015

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.

Interconnector (UK) Limited

Notes to the financial statements

12 Intangible assets (continued)

Assets under construction

Assets under construction related to ERP implementation costs and IT development costs which have now been capitalised.

Company	Emissions allowances	Computer software	Asset under construction	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2018	1,542	-	-	1,542
Additions in the period	937	-	1,251	2,188
Disposals in the period	(873)	-	-	(873)
At 31 December 2018	1,606	-	1,251	2,857
Additions in the year	-	2,940	-	2,940
Disposals in the year	(380)	-	(1,251)	(1,631)
At 31 December 2019	1,226	2,940	-	4,166
Accumulated impairment				
At 1 January 2018	(79)	-	-	(79)
Reversal of impairment in the year	79	-	-	79
At 31 December 2018	-	-	-	-
Depreciation charge in the year	-	(383)	-	(383)
At 31 December 2019	-	(383)	-	(383)
Net book value				
At 31 December 2019	1,226	2,557	-	3,783
At 31 December 2018	1,606	-	1,251	2,857
At 31 December 2017	1,463	-	-	1,463

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. In line with the Withdrawal Agreement between the UK and the European Union, the UK will remain in the EU Emissions Trading System (EU ETS) until 31 December 2020. After that date the company will no longer receive any allowances but will still have access to the European ETS market and can sell the existing surplus of allowances.

13 Financial assets at fair value through other comprehensive income

Group and Company	Investments in unlisted shares
	£'000
Cost	
At 1 January 2018, 31 December 2018 and 31 December 2019	425
<hr/>	
Accumulated impairment	
At 1 January 2018	(232)
Charge for the period	(28)
<hr/>	
At 31 December 2018	(260)
Charge for the year	(28)
<hr/>	
At 31 December 2019	(288)
<hr/>	
Net book value	
At 31 December 2019	137
<hr/>	
At 31 December 2018	165
<hr/>	
At 31 December 2017	193
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The investment in unlisted shares mainly relates to shares in FLZ. Further details regarding this investment are disclosed in note 16.

Interconnector (UK) Limited

Notes to the financial statements

14 Investments in subsidiaries

Company	Shares in subsidiary undertakings £'000
Cost	
At 1 January 2018, 31 December 2018 and 31 December 2019	6,748
<hr/>	
Accumulated impairment	
At 1 January 2018	(4,443)
Charge for the period	(2,256)
<hr/>	
At 31 December 2018	(6,699)
Charge for the year	-
<hr/>	
At 31 December 2019	(6,699)
<hr/>	
Net book value	
At 31 December 2019	49
<hr/>	
At 31 December 2018	49
<hr/>	
At 31 December 2017	2,305
<hr/>	

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 was impaired.

Interconnector (UK) Limited

Notes to the financial statements

14 Investments in subsidiaries (continued)

Subsidiaries

Name of undertaking	Registered address	Description of shares held	Proportion of nominal value of issued shares held by:	
			Group	Company
			%	%
Interconnector Zeebrugge Terminal S.C./CVBA ("IZT")	Rue Guimard 4, BE – 1040 Brussels, Belgium	Ordinary €1,239 shares	49 (2018: 49)	48 (2018: 48)
Interconnector Leasing Company Limited ("ILC")	10 Furnival Street, London, EC4A 1AB, UK	Ordinary £1 shares	100 (2018: 100)	100 (2018: 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:

- IZT – the operation and maintenance of gas terminal facilities at Zeebrugge, Belgium.
- ILC – commercial leasing of plant and equipment.

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 16).

Interconnector (UK) Limited

Notes to the financial statements

15 Financial assets at amortised cost

Group	FLZ bond £'000
At 31 December 2019	
Amounts receivable in less than one year	10,534
Amounts receivable after one year	74,219
	84,753
At 31 December 2018	
Amounts receivable in less than one year	9,870
Amounts receivable after one year	89,414
	99,284

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 £'000	IZT loan £'000	Total £'000
At 31 December 2019			
Amounts receivable in less than one year	10,755	-	10,755
Amounts receivable after one year	74,850	3,832	78,682
Total	85,605	3,832	89,437
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

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").

Interconnector (UK) Limited

Notes to the financial statements

16 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 15). 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 right-of-use assets, 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.

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 2019 £'000	31 December 2018 £'000
Assets		
Other financial assets at amortised cost – bond	84,753	99,284
Equity investments at fair value through OCI	137	162
Interest receivable	359	420
Liabilities		
Lease liabilities	(85,541)	(100,334)
Interest payable	(354)	(415)
Net liability in relation to financing arrangements	(646)	(883)
Assets – Property, plant and equipment	35,217	41,169

Interconnector (UK) Limited

Notes to the financial statements

17 Trade receivables and other financial assets at amortised cost

	Group	Group	Company	Company
	31 December	31 December	31 December	31 December
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Trade receivables	6	421	6	421
Accrued income	1,631	1,943	1,631	1,943
Other interest receivable	366	428	349	407
Prepayments	1,259	1,167	1,259	1,167
Other taxes receivable	3,642	3,648	467	458
Other receivables	10	286	10	285
	6,914	7,893	3,722	4,681

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 (2018: £nil).

Other financial assets at amortised cost represent amounts falling due within one year. The other interest receivable primarily relates to accrued interest income on the FLZ bond (note 15).

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

18 Inventory

Group and Company	31 December 2019	31 December 2018
	£'000	£'000
Current assets		
Gas inventory	392	1,059
	392	1,059

The value of consumed inventory recognised as an expense during the year, and included in “operating expenses”, amounted to £3.0 million (2018: £0.03 million).

Interconnector (UK) Limited

Notes to the financial statements

19 Leases

In the previous year, the group only recognised lease assets and lease liabilities in relation to leases that were classified as ‘finance leases’ under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the group’s borrowings.

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 covered by the lease is £420.4 million and the net book value is £13.1 million at 31 December 2019 (2018: £18.8 million).

The Belgian terminal is subject to two separate leases: with Fluxys Belgium SA (“Fluxys”) and FLZ. Until 31 December 2018 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. On adoption of IFRS 16 on 1 January 2019 the terminal assets were recognised as a right-of-use asset. 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 covered by the leases is £137.3 million and the net book value is £35.3 million at 31 December 2019 (2018: £41.2 million).

FLZ lease has an option to extend or purchase the asset at the end of the lease. Potential lease payments of £10.1 million have not been included in the lease liabilities as it is not reasonably certain the extension option will be exercised.

Other leases

Other leases relate to London office and the right to lay and maintain the pipeline on or under the foreshore and seabed in Bacton, Norfolk. These leases do not have a purchase option.

Right-of-use assets

Additional information on the right-of-use assets by class of assets is as follows:

Group	Carrying amount	Additions	Depreciation
	£’000	£’000	£’000
Office building	359	718	(359)
UK terminal & pipeline – land access	2,809	2,885	(76)
Belgian terminal	35,258	-	(5,963)
	38,426	3,603	(6,398)

Interconnector (UK) Limited

Notes to the financial statements

19 Leases (continued)

Company	Carrying amount	Additions	Depreciation
	£'000	£'000	£'000
Office building	359	718	(359)
UK terminal & pipeline	13,131	-	(2,219)
UK terminal & pipeline – land access	2,809	2,885	(76)
Belgian terminal	35,258	-	(5,963)
	51,557	3,603	(8,617)

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

Group and company	31 December 2019	31 December 2018
	£'000	£'000
Current	12,019	11,054
Non-current	80,552	93,883
	92,571	104,937

The lease liabilities are secured by the related underlying assets.

Interconnector (UK) Limited

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	31 December	31 December	31 December
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Deferred tax (assets) / liabilities				
Accelerated tax depreciation	(489)	(1,025)	199	(186)
Other timing differences	(162)	(216)	-	-
Deferred tax at year end	(651)	(1,241)	199	(186)

	Group	Group	Company	Company
	31 December	31 December	31 December	31 December
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Deferred tax (assets) / liabilities:				
Provision at beginning of the period	(1,241)	7,699	(186)	79
Deferred tax credit in the income statement	530	(8,964)	364	(287)
Deferred tax relating to changes in timing assumptions	51	22	21	22
Deferred tax in other comprehensive income	9	2	-	-
At 31 December	(651)	(1,241)	199	(186)

	Group	Group	Company	Company
	31 December	31 December	31 December	31 December
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Deferred tax (assets) / liabilities:				
Deferred tax (assets) / liabilities due within 12 months	110	(890)	(522)	(51)
Deferred tax (assets) / liabilities due after more than 12 months	(761)	(351)	721	(135)
At 31 December	(651)	(1,241)	199	(186)

Interconnector (UK) Limited

Notes to the financial statements

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 leases;
- Financial assets at amortised cost – FLZ bond;
- Financial assets at fair value through other comprehensive; 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. External forward foreign exchange transactions may only be entered into with financial institutions that satisfy minimum credit rating requirements.

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).

Interconnector (UK) Limited

Notes to the financial statements

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 2019	31 December 2018
	£'000	£'000
Trade and other payables	(3,006)	(1,383)
Other receivables	3,575	3,190
Cash at bank	1,991	2,354
Financial assets at amortised cost – FLZ bond	84,753	99,284
Borrowings – net obligations under finance leases	(89,358)	(104,937)
Total	(2,045)	(1,492)

Financial assets and liabilities held in Euros – company	31 December 2019	31 December 2018
	£'000	£'000
Trade and other receivables / (payables)	2,142	(242)
Cash at bank	1,380	1,819
Financial assets at amortised cost – FLZ bond	85,605	100,420
Borrowings – net obligations under finance leases	(89,358)	(104,937)
Total	(231)	(2,940)

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.

All of the group's lease obligations and the FLZ bond receivable carry a fixed rate of interest. Therefore, the group does not have a material exposure to interest rate risk.

At 31 December 2019, 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.

Interconnector (UK) Limited

Notes to the financial statements

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 foreign currency forward contract and foreign currency swap (note 22). These are valued using a Level 1 measurement procedure, using the forward rates at the balance sheet date available on the market for the same instruments.

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 2019		31 December 2018	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Group				
Financial assets				
Financial assets at amortised – bond (note 15) and accrued interest (note 17)	85,112	98,849	99,704	109,944
Financial liabilities				
Financial liabilities measured at amortised cost – net obligations under leases including accrued interest (note 19)	(89,358)	(102,816)	(104,937)	(114,778)
Company				
Financial assets				
Financial assets at amortised cost – bond (note 15) and accrued interest (note 17)	85,946	98,849	100,827	109,944
Financial liabilities				
Financial liabilities measured at amortised cost – net obligations under leases including accrued interest (note 19)	(89,358)	(102,816)	(104,937)	(114,778)

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 (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 forward currency contract and the currency swap is the risk that the counterparty fails to settle its obligations under that contract when due. This risk is minimal for the Interconnector group as the counter party to the contracts is the parent company of the group, Fluxys SA who bears credit risk with external parties.

Liquidity risk

Liquidity risk arises from the group's management of working capital and principal repayments on its debt instruments and 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 2019		
Trade and other payables	(5,737)	-
Lease liabilities	(15,994)	(94,864)
Total non-derivatives	(21,731)	(94,864)
Derivatives		
Gross settled (foreign currency forwards) inflow	6,373	-
(outflow)	(6,377)	-
Total derivatives	(4)	-
At 31 December 2018		
Trade and other payables	(7,017)	-
Finance lease liabilities	(16,121)	(112,975)
Total	(23,138)	(112,975)

Interconnector (UK) Limited

Notes to the financial statements

21 Financial Instruments (continued)

Liquidity risk (continued)

Company	Payable within one year	Payable after one year
At 31 December 2019	£'000	£'000
Trade and other payables	(6,109)	-
Lease liabilities	(15,994)	(94,864)
Total non-derivatives	(22,103)	(94,864)
Derivatives		
Gross settled (foreign currency forwards) inflow	6,373	-
(outflow)	(6,377)	-
Total derivatives	(4)	-
At 31 December 2018	£'000	£'000
Trade and other payables	(11,328)	-
Borrowings and derivative financial instruments	-	-
Finance lease liabilities	(16,121)	(112,975)
Total	(27,449)	(112,975)

Capital risk management

The capital structure of the group consists of net debt, which includes 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 2019	31 December 2018
	£'000	£'000
Lease obligations	92,571	104,937
Less: Cash and cash equivalents	(20,178)	(23,762)
Net debt	72,393	81,175
EBITDA for the year ended	54,233	110,096
Ratio of net debt to EBITDA	1.33	0.74

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

	31 December 2019 £'000	31 December 2018 £'000
Non-current financial assets		
Loans receivable – FLZ Bond	74,219	89,414
Current financial assets		
Loans receivable – FLZ Bond	10,534	9,870
Trade and other receivables	2,013	3,078
Cash and cash equivalents	20,178	23,762
Total financial assets	106,944	126,124

Financial assets at fair value through OCI

	31 December 2019 £'000	31 December 2018 £'000
Non-current financial assets		
Investment – Shares	425	425
Less: Accumulated impairment	(288)	(260)
Total financial assets	137	165

Financial liabilities measured at amortised cost

	31 December 2019 £'000	31 December 2018 £'000
Current financial liabilities		
Lease obligations	(12,019)	(11,054)
Trade and other payables	(5,737)	(7,017)
Non-current financial liabilities		
Lease obligations	(80,552)	(93,883)
Total financial liabilities measured at amortised cost	(98,308)	(111,954)

Financial instruments measured at fair value through profit and loss

	31 December 2019 £'000	31 December 2018 £'000
Current financial assets		
Derivative financial instruments (level 1)	19	-
Current financial liabilities		
Derivative financial instruments (level 1)	(23)	-
Total derivative financial instruments	(4)	-

Interconnector (UK) Limited

Notes to the financial statements

21 Financial Instruments (continued)

Financial instruments by class and by category – company

Financial assets at amortised cost

	31 December 2019 £'000	31 December 2018 £'000
Non-current financial assets		
Loans receivable	78,682	93,948
Current financial assets		
Loans receivable	10,755	10,108
Trade and other receivables	1,995	3,056
Cash and cash equivalents	19,566	23,228
Total financial assets	110,998	130,340

Financial assets at fair value through OCI

	31 December 2019 £'000	31 December 2018 £'000
Non-current financial assets		
Investment – Shares	425	425
Less: Accumulated impairment	(288)	(260)
Total financial assets	137	165

Financial liabilities measured at amortised cost

	31 December 2019 £'000	31 December 2018 £'000
Current financial liabilities		
Lease obligations	(12,019)	(11,054)
Trade and other payables	(6,109)	(11,328)
Non-current financial liabilities		
Obligations under finance leases	(80,552)	(93,883)
Total financial liabilities measured at amortised cost	(98,680)	(116,265)

Financial instruments measured at fair value through profit and loss

	31 December 2019 £'000	31 December 2018 £'000
Current financial assets		
Derivative financial instruments (level 1)	19	-
Current financial liabilities		
Derivative financial instruments (level 1)	(23)	-
Total derivative financial instruments	(4)	-

Interconnector (UK) Limited

Notes to the financial statements

22 Derivative financial instruments

Group and company	31 December 2019 £'000	31 December 2018 £'000
Currency swap	(23)	
Currency forward purchase	19	
Derivative financial instruments (level 1)	(4)	-

During 2019 IUK entered two currency purchase-sale contracts that are classified as derivatives. The first contract was to fix euro rate for the payment to supplier and subsequent receipt of VAT for €3.5 million. The second transaction includes 12 monthly purchases of euro totalling €11.0 million and covers highly probable payments to suppliers in euro. The group has elected not to apply hedge accounting to these contracts but to account for them at fair value through profit and loss using forward rates for the contracts with the same terms at the balance sheet date.

23 Provisions

Group	Contract termination £'000	Total £'000
As at 1 January 2019	400	400
Charged to the income statement	(400)	(400)
As at 31 December 2019	-	-

In September 2018, IUK gave a 12 months termination notice to its IT service provider, DXC. A project to transfer all company's IT services and support to its parent company, Fluxys, completed in 2019. The transfer integrated IT systems with the parent company as well as achieved cost savings.

According to the project plan, services were transferred to Fluxys gradually, some of them prior to the contract termination date. As such, the company recognised a provision for the early termination payments to DXC in 2018 which was released to the income statement in 2019.

Interconnector (UK) Limited

Notes to the financial statements

24 Trade and other payables

	Group	Group	Company	Company
	31 December	31 December	31 December	31 December
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Deferred revenue	3,357	3,847	3,357	3,847
Customer deposits	2,174	2,419	2,174	2,419
Accruals and other payables	3,452	7,017	3,686	6,844
Other taxes including social security	130	121	130	121
Trade payables	968	-	956	-
Amounts owed to parent company	1,317	-	1,317	-
Amounts owed to wholly-owned subsidiary undertakings	-	-	150	4,484
	11,398	13,404	11,770	17,715
Less: Non-current portion: Deferred revenue	-	(1,449)	-	(1,449)
Current portion	11,398	11,955	11,770	16,266

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.

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Notes to the financial statements

25 Operating lease commitments

Group and company	31 December 2019 £'000	31 December 2018 £'000
Total commitments under non-cancellable operating leases		
Land and buildings: less than one year	-	369
Land and buildings: between two and five years	-	1,477
Land and buildings: over five years	-	708
	-	2,554

The operating lease commitment was in respect of the office premises for Interconnector (UK) Limited at 10 Furnival Street, London, EC1A 1AB.

From 1 January 2019, the group has recognised right-of-use asset for this lease see note 19 for further information.

26 Share capital

Authorised, issued and fully paid	31 December 2019 £'000	31 December 2018 £'000
11,785,680 (2018: 11,785,680) ordinary shares of £1 each	11,786	11,786
969,000 (2018: 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.

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Notes to the financial statements

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 2018	(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)
Exchange differences arising on translation of foreign operations	-	(293)	-	(293)	-	-	-
Fair value loss on debt instruments at FVOCI	-	-	(28)	(28)	-	(28)	(28)
At 31 December 2019	-	257	(56)	201	-	(56)	(56)

Interconnector (UK) Limited

Notes to the financial statements

28 Cash generated from operations

Group	For the year ended 31 December 2019	For the year ended 31 December 2018
	£'000	£'000
Profit before income tax	44,486	82,754
Adjustments for:		
Depreciation and impairment	9,488	27,061
Finance costs - net	200	256
(Decrease) / increase in provisions	(400)	400
Other non-cash items in the income statement	(346)	1,022
Changes in working capital:		
Increase in debtors	917	15,045
Decrease in creditors	(1,418)	(7,227)
Decrease / (increase) in inventory	667	(1,059)
Cash generated from operations	53,594	118,252

Company	For the year ended 31 December 2019	For the year ended 31 December 2018
	£'000	£'000
Profit before income tax	48,238	91,267
Adjustments for:		
Depreciation	9,488	24,481
Impairment of investments		2,284
Finance income - net	(4,006)	(8,504)
(Decrease) / increase in provisions	(400)	400
Other non-cash items in the income statement	(298)	1,128
Changes in working capital:		
Decrease in debtors	1,354	18,043
Decrease in creditors	(1,476)	(7,603)
Decrease / (increase) in inventory	667	(1,059)
Cash generated from operations	53,567	120,437

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Notes to the financial statements

29 Net debt reconciliation

Group	For the year ended 31 December 2019 £'000	For the year ended 31 December 2018 £'000
Cash and cash equivalents	20,178	23,762
Lease liabilities – repayable within one year	(12,019)	(11,054)
Lease liabilities – repayable after one year	(80,552)	(93,883)
Net debt	(72,393)	(81,175)

Cash and cash equivalents	20,178	23,762
Gross debt – fixed interest rates	(92,571)	(104,937)
Net debt	(72,393)	(81,175)

Group	Liabilities from financing activities					Total £'000
	Cash £'000	Leases due within 1 year £'000	Leases due after 1 year £'000	Borrowings due within 1 year £'000	Borrowings due after 1 year £'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)
Recognised on adoption of IFRS 16	-	(891)	(2,712)	-	-	(3,603)
Cash flows	(3,716)	10,634	-	-	-	6,918
Foreign exchange adjustment	132	927	4,352	-	-	5,411
Other non-cash movements	-	(11,635)	11,691	-	-	56
Net debt as at 31 December 2019	20,178	(12,019)	(80,552)	-	-	(72,393)

Interconnector (UK) Limited

Notes to the financial statements

29 Net debt reconciliation (continued)

Company	For the year ended 31 December 2019 £'000	For the year ended 31 December 2018 £'000
Cash and cash equivalents	19,566	23,228
Lease liabilities – repayable within one year	(12,019)	(11,054)
Lease liabilities – repayable after one year	(80,552)	(93,883)
Net debt	(73,005)	(81,709)

Cash and cash equivalents	19,566	23,228
Gross debt – fixed interest rates	(92,571)	(104,937)
Net debt	(73,005)	(81,709)

Company	Liabilities from financing activities					Total £'000
	Cash £'000	Finance leases due within 1 year £'000	Finance leases due after 1 year £'000	Borrowings due within 1 year £'000	Borrowings due after 1 year £'000	
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)
Recognised on adoption of IFRS 16	-	(891)	(2,712)	-	-	(3,603)
Cash flows	(3,794)	10,634	-	-	-	6,840
Foreign exchange adjustment	132	927	4,352	-	-	5,411
Other non-cash movements	-	(11,635)	11,691	-	-	56
Net debt as at 31 December 2019	19,566	(12,019)	(80,552)	-	-	(73,005)

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Notes to the financial statements

30 Commitments

The company has granted guarantees to Fluxys and to FLZ, guaranteeing the performance by IZT of all its obligations relating to leases (note 19).

31 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 £2.1 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.

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 2019 for the potential obligation.

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% (2018: 76.32%) of the company's shares. The immediate parent undertaking is Fluxys UK Limited.

The group's operating expenses for the year ended 31 December 2019 include £3.4 million (2018: 1.9 million), in relation to maintenance and operation of the Zeebrugge terminal, IT support services, commercial dispatching and management services paid to Fluxys SA, Fluxys Belgium SA and Fluxys Europe SPRL, which are subsidiaries of Fluxys SA, the group's ultimate parent company. The group also paid £2.2 million (2018: £nil) for the development of IT infrastructure and related services.

In addition, during the year ended 31 December 2019, lease rentals in relation to the Belgium terminal (see note 19) of £0.6 million (2018: £4.6 million) were paid to Fluxys Belgium SA, and dividends of £22.9 million (2018: £33.0 million) were paid to Fluxys UK Ltd, a subsidiary of Fluxys SA.

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Notes to the financial statements

32 Related party transactions (continued)

The amounts payable to Fluxys Europe SPRL at 31 December 2019 in relation to IT services were £1.3 million (31 December 2018: amounts in relation to operating expenses £0.4 million). The finance lease liability payable to Fluxys Belgium SA (see note 19) outstanding at 31 December 2019 was £3.4 million (31 December 2018: £4.2 million).

Snam International B.V., a subsidiary of Snam S.p.A. owns the remaining 23.68% of the company. During the year ended 31 December 2019, dividends of £7.1 million were paid to Snam International B.V. In addition, during the year ended 31 December 2019, the group paid £2.4 million to Snam for the major overhaul of its equipment and related services, amounts relating to these services outstanding at 31 December 2019 were £0.1 million.

Company

As mentioned in note 14, 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 2019 includes £7.3 million (2018: £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 2019, in relation to these purchases, were £0.3 million payable to IZT (31 December 2018: £0.3 million receivable from IZT).

In addition, during the year ended 31 December 2019, lease rentals of £15.3 million (2018: £16.5 million) were recharged by IZT to the company. The amounts outstanding at 31 December 2019, in relation to these lease rentals, were £1.4 million (31 December 2018: £1.4 million) payable to IZT.

At 31 December 2019, IZT owed £3.8 million (31 December 2018: £3.6 million) to the company under an inter-company loan agreement. Interest income, based upon a variable rate linked to EURIBOR, of £nil (2018: £nil) has been recognised during the year ended 31 December 2019 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:

Related party	Sales		Interest (income) / expense		Finance lease interest expense		Dividend income	
	2019	2018	2019	2018	2019	2018	2019	2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ILC	-	53	5	(711)	-	2,690	4,489	-
ICC ¹	-	-	-	10	-	-	-	10,949
IFC ²	-	-	-	(1)	-	-	-	-
	-	53	5	(702)	-	2,690	4,489	10,949

¹ Interconnector Construction Company Limited, struck off in 2018

² Interconnector Finance Company Unlimited, wound up in 2018

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Notes to the financial statements

32 Related party transactions (continued)

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 note 19 for details regarding the lease between the company and ILC.

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

	Amounts owed To / (from) subsidiary undertakings	
	31 December 2019	31 December 2018
Related party	£'000	£'000
ILC	150	4,484
	150	4,484

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.

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.