

Interconnector (UK) Limited

**Annual Report and Consolidated Financial Statements
for the year ended 31 December 2020**

Registered Number: 2989838

Interconnector (UK) Limited

Consolidated financial statements for the year ended 31 December 2020

Table of contents

Company information _____	1
Strategic report _____	2
Directors' report _____	11
Independent auditor's report to the members of Interconnector (UK) Limited _____	16
Consolidated income statement _____	19
Consolidated statement of comprehensive income _____	20
Consolidated statement of financial position _____	21
Consolidated statement of changes in equity _____	23
Consolidated statement of cash flows _____	24
Company statement of financial position _____	25
Company statement of changes in equity _____	27
Company statement of cash flows _____	28
Notes to the financial statements _____	29

Interconnector (UK) Limited

Company information

Registered Office 15-16 Buckingham Street
London WC2N 6DU
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 2020.

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 651GWh/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.

Q1-20 saw 26% of the BE-UK capacity sold. Utilisation of this capacity was low, due to mild weather conditions (particularly from late Dec-19 to Feb-20) and strong LNG send-out. Sporadic oversupply in the UK market saw instances of short-term UK-BE flow during early January and February 2020.

A COVID-19 impacted Summer saw IUK flow permanently in the UK-BE direction from late March until September. Low demand in Asia during the summer resulted in high availability of LNG for the UK market. This, along with some demand destruction due to COVID-19, generated the need for strong UK-BE flows during the summer months. In spite of BBL's UK-NL route becoming available for the whole of summer, IUK's flows during April and May were similar to 2019 levels, when the BBL route was not available. IUK's UK-BE sales averaged over 30% of technical capacity during the summer period, with a peak of 65% (>420GWh/d) during May. Utilisation of contracted capacity was very high throughout the summer.

The results of the group for the year ended 31 December 2020 show a profit before taxation of £16.2 million (2019: £44.5 million) and revenues of £45.1 million (2019: £76.6 million). At 31 December 2020, the group had net assets of £87.0 million (31 December 2019: £82.6 million). Net cash generated from operating activities for the year ended 31 December 2020 was £15.6 million (2019: £35.6 million). Cash in / (outflows) from investing and financing activities were £11.7 million and £(24.8) million respectively (2019: £6.4 million and £(45.7) million respectively).

Interconnector (UK) Limited

Strategic report (continued)

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.

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 saw its first summer of physical gas export flows from the UK to the Netherlands during 2019.

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

In the long term the market could be impacted by the energy transition and we continue to monitor this risk as it evolves.

Operational risk

Our 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 and we continue to manage obsolescence of our systems and equipment through regular campaign maintenance, repair and replacement.

The turbines at Interconnector Zeebrugge Terminal are powered by electricity. IUK monitors the evolutions in the Belgian and North West European generation mix and the policy decisions around the nuclear and coal/lignite phase out and the introduction of a capacity remuneration mechanism. These evolutions may affect IUK's commercial offering and competitiveness in the medium to long term.

Interconnector (UK) Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

Operational risk (continued)

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. As offshore infrastructure ages it will also require more maintenance interventions, risking flow disruptions to downstream operators such as IUK. To mitigate these risks IUK is working with upstream and midstream operators located at Bacton regarding the management of gas quality in the local system and lobbying regulators to support investment in the local infrastructure. We support National Grid in its initiative to redevelop the Bacton terminal during the next regulatory period (RIIO-2). We also continue our engagement with Ofgem and BEIS on the need for investment in this strategic asset (providing approx. 30% of GB's gas supply).

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. We undertake a comprehensive annual HSSE programme, emphasising constant improvement, quality planned maintenance, regular safety audits, inspections and walkthroughs. Regular safety meetings are held to allow staff to discuss current safety issues.

IUK's open reporting culture ensures that risks are highlighted, and ideas and observations are encouraged to maintain standards and direct improvements. 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 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 of the North Sea. The ongoing viability of the asset, as well as its ability to continue to deliver its services to the market depends on maintaining a fit-for-purpose trading and regulatory regime. We continue our efforts to influence future energy policy and secure satisfactory regulatory arrangements.

During 2020 there were significant changes to National Grid's charging regime which affected the cost of transporting gas in the UK. Pricing uncertainty and volatility may create a barrier to cross border flows and we will continue to work with shippers, transporters and regulators to minimise their impact on our business.

During the course of 2020 we worked with shareholders to articulate and explore ways in which we can minimise our impact on the environment and support the transition to a net zero economy. We will continue to seek ways in which we may reduce our emissions and increase the energy efficiency of our operations. We procure electricity from renewable sources to supply both the Bacton and Zeebrugge terminals and we are studying our ability to transport greener forms of energy (such as biomethane and hydrogen) through our system.

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.

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. During 2020 IUK took steps to safeguard its emissions allowances and we will continue to monitor legislative developments in this area to protect value.

Interconnector (UK) Limited

Strategic report (continued)

Financial risk management (continued)

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.

Credit risk

The group’s exposure to credit losses arising from non-payment of invoices 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. Following the UK’s departure from the European Union, a fit-for-purpose regulatory framework remains essential to continue delivering the wider societal benefits.

Interconnector (UK) Limited

Strategic report (continued)

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 2020.

During the course of 2020 we considered we considered the views of our shareholders when discussing our multi-year plan, financial performance and proposed dividends. We reviewed our Commercial Strategy which and confirmed our continuing commitment to service innovation and differentiation for customers whilst delivering safe, reliable and efficient operations. We believe that pursuing these elements will have a long-term beneficial impact on the company and contribute to its success.

Aware of the energy transition and the opportunities this presents, we considered the views of regulators, NGOs and local communities when we discussed how we might promote greater sustainability within our operations. We continue to frame an environmental strategy and environmental objectives that will help shape how we adapt and evolve, thereby promoting the long term success of the business.

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 and foster strong relationships 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. The managing directors met with terminal site safety representatives to promote communication of health and safety issues.
 - Following on from the employee engagement survey undertaken in 2019 we implemented a number of improvement actions, including increasing the opportunities for career development conversations, improving personal development plans and supporting career coaching.

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)

- We have supported our people throughout the COVID-19 pandemic, regularly risk assessing the impact the virus might have on our personnel and processes. Where feasible to do so, staff have been encouraged to work from home and we have provided support to ensure that all our people have the tools they need to be able to work effectively. Mindful of the softer issues associated with remote working, we have worked hard to promote the wellbeing of our teams, arranging regular virtual town-hall meetings, team meetings and social events. Additional training tailored to COVID-19 related issues has been provided to our employees, ranging from health and safety issues to building personal resilience.
- Our commercial objectives are informed by extensive engagement with our customers.
 - Throughout the year we have continued to 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 2020 we reviewed and improved our procurement processes to ensure more active management of key suppliers over the life cycle of our relationship.
 - We continue to work 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.
- 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 met regularly and often with our regulators, including Ofgem, CREG, BEIS, FPS Economy and the HSE, to ensure that these key stakeholders were fully informed of our business objectives and proposed methods of delivery.

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)

- During 2020 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 local environmental improvements.
 - We are participating in industry initiatives promoting green energy and the energy transition.
- 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 this type of business.
 - During 2020 the board evaluated its performance. The findings of this review have been discussed by the board and an improvement plan will be implemented during 2021.

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:

	2020	2019	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 2020 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 2020.
Reportable emission events	Zero	Zero	Emissions of natural gas or CO ₂ beyond permitted levels or significant environmental impacts are required to be disclosed to the Environment Agency. In 2020 all emissions were within permitted levels.

On behalf of the Board of Directors



Raf van Elst
Director
19 March 2021

Interconnector (UK) Limited

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2020.

Results and dividends

The group's profit after tax for the year was £12.1 million (2019: £37.0 million). Interim dividends of £0.68 (2019: £2.21) per ordinary share amounting to £8.0 million (2019: £26.0 million) were declared and paid during the year. Directors recommend the payment of the final dividend of £0.255 per ordinary share amounting to £3.0 million (2019: nil). The aggregate dividends on the ordinary shares recognised during the year amounts to £8.0 million (2019: £30.1 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 £19.0 million and £18.6 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 COVID-19 and giving due consideration to the profitability of the business and the cash flow required to meet its on-going obligations, consider it appropriate to prepare the financial statements on a going concern basis.

Interconnector (UK) Limited

Directors' report (continued)

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 7-9.

Streamlined Energy and Carbon Reporting

In the period covered by the report the Company has reviewed opportunities for efficiency improvements:

- Improvements to the operating practices at our Zeebrugge and Bacton terminals have led to reductions in electricity and fuel consumption for BE-UK gas transport.
- A number of projects have been completed, in particular the compressor efficiency improvement to the BE to UK flow operation and the improved compressor start-up process.
- Energy savings have enabled IUK to lower the commodity charge for BE-UK gas transport. Projects are underway to address obsolescence on the pressure let down and heater trains in Zeebrugge, and the fuel gas heater at Bacton. These projects will also further reduce the fuel gas consumption and CO₂ emissions.
- The company has up-graded a Bacton Compressor Control (MK5) System – it will reduce system trips and subsequent precautionary methane venting activities and has enabled the ventilation fans to be switched off when the turbine and compressor are not in use reducing power consumption

The company has also changed its electricity supply contracts to enable a 100% green power supply for both operating terminals at Bacton and Zeebrugge.

The company has recently implemented an 'Environment Observation scheme' where all personnel can report on working practices and operational methods and suggest changes that have a positive effect to environmental performance.

Methodology used to calculate emissions

Our scope 1 and 2 footprint reflects our operational control at the Bacton terminal and the London office. Market-based emissions for grid electricity have been used to calculate total emissions. The scope 3 footprint includes emissions that IUK doesn't control but can influence. Such emissions include business travel in rental cars or employee-owned vehicles where the company is responsible for purchasing the fuel.

Interconnector (UK) Limited

Directors' report (continued)

Streamlined Energy and Carbon Reporting (continued)

The company is part of EU-ETS scheme where the number of emissions is metered and is externally verified. The company is regulated by the Environmental Agency and operates through an Environmental Permit at the Bacton facility. We use data from external sources to report on total GHG emissions wherever possible. Where such data is not available a reasonable estimate are used. Total energy consumed for the year ended 31 December 2020 was 237,054 MWh. Comparative information is not presented as 2020 is the first year of reporting.

Emissions 2020 (Consolidated IUK figures for IBT and IZT)

Environmental Emission Type	GHG emissions and energy use data for period 1 January to 31 December 2020			
	UK and offshore		Global (excluding UK and offshore)	
	Actual consumption	Tonnes CO2 Equivalent	Actual consumption	Tonnes CO2 Equivalent
Scope 1 Carbon Dioxide (CO ₂) Annual Cumulative (tCO ₂)	46,499	46,499	271	271
Scope 1 Methane (CH ₄) Annual Cumulative (tCH ₄)	221	6,188 (Note 1)	143	4,004
Scope 2 Electricity Annual Cumulative (MWh)	4,722	0 (Note 2)	3,664	0
Scope 3 Vehicles (tCO ₂)	8*	8 (Note 3)	0	0
Total Emissions		52,695		4,275

Note 1 – CO₂ eq for methane is taken from the 5th IPCC Assessment Report 1te methane equates to 28te CO₂ eq

Note 2 - At Bacton we have a Renewable Energy Guarantees of Origin (REGO) backed contract with our electricity provider. This specifies that their electricity demand is matched with electricity generated from renewable wind sources. In Zeebrugge, we procure (and cancel) green certificates separately from the supply contract.

Note 3 – Scope 3 vehicle use is not material and has been estimated. For the UK 2 site vehicles, 1 forklift and 10 members of staff travelling approximately 4,000 km per year. Total approximately 50,000 km per year. We have used the 2020 government greenhouse gas conversion factors for company reporting and taken vehicle emissions to be 167g/km CO₂.

Intensity Ratio

Direct emissions and consumption of energy depend on utilisation of equipment which varies depending on market demand and use of the company's services. For comparison purposes the group uses intensity ratio as Energy Transported GWh over CO₂e (carbon footprint). The ratio is 1.47 for the year ended 31 December 2020. Comparative information is not presented as 2020 is the first year of reporting.

Interconnector (UK) Limited

Directors' report (continued)

Streamlined Energy and Carbon Reporting (continued)

Plan 2021

- In cooperation with the group's adjacent operator in Belgium and affiliated company, study the ability of IUK's subsea pipeline to transport Hydrogen (H2).
- Study recommendations from the Energy Savings Opportunity Scheme (ESOS) report
- Investigate options to reduce fugitive emissions through surveys and inspections
- Continue to profile flows for efficiency and optimise compressor fuel/power use.

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:

Rafael Van Elst

Erik Vennekens

Geert Hermans

Gianluca Zonta

Michele Maria Cali

Giuseppe Peluso (appointed 17 January 2020)

Directors during the year:

Elio Rugeri (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 2020 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 accounting standards in conformity with the requirements of the Companies Act, 2006. 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 accounting standards in conformity with the requirements of the Companies Act 2006 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 Wan Elst
Director
19 March 2021

Interconnector (UK) Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTERCONNECTOR (UK) LIMITED

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Interconnector (UK) Limited ("the Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2020 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 United Kingdom Accounting Standards, international accounting standards in conformity 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 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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group or Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Interconnector (UK) Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTERCONNECTOR (UK) LIMITED (CONTINUED)

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

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

In the light of the knowledge and understanding of the 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, 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 Statement of Directors' Responsibilities, 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 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 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Interconnector (UK) Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INTERCONNECTOR (UK) LIMITED (CONTINUED)

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud. We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including but not limited to, the Companies Act 2006, tax legislation and industry regulation from Ofgem and CREG.

We addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a material misstatement due to fraud.

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur. Our tests included agreeing the financial statement disclosures to underlying supporting documentation, review of board minutes and enquiries with management.
- We considered the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Matt Crane (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London
19th March 2021

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 2020	For the year ended 31 December 2019
		£'000	£'000
Revenue from contracts with customers	3	45,065	76,633
Operating expenses		(29,046)	(31,947)
Operating profit	4	16,019	44,686
Finance income	7	4,710	4,978
Finance costs	8	(4,497)	(5,178)
Profit before taxation		16,232	44,486
Tax expense	9	(4,097)	(7,448)
Profit for the year		12,135	37,038
Profit for the year attributable to:			
Owners of the parent		12,089	36,973
Non-controlling interests		46	65
Consolidated profit for the year		12,135	37,038

The notes on pages 29 to 83 are an integral part of these consolidated financial statements.

Interconnector (UK) Limited

Consolidated statement of comprehensive income

Note	For the year ended 31 December 2020	For the year ended 31 December 2019
	£'000	£'000
Profit for the year	12,135	37,038
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	286	(290)
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	258	(318)
Total comprehensive income for the year	12,393	36,720
Total comprehensive income for the year attributable to:		
Owners of the parent	12,347	36,655
Non-controlling interests	46	65
Total comprehensive income for the year	12,393	36,720

The notes on pages 29 to 83 are an integral part of these consolidated financial statements.

Interconnector (UK) Limited

Consolidated statement of financial position

	Note	31 December 2020 £'000	31 December 2019 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	67,296	71,843
Intangible assets	12	6,845	3,783
Deferred income tax assets	20	82	651
Financial assets at fair value through other comprehensive income	13	109	137
Financial assets at amortised cost	15	65,922	74,219
		140,254	150,633
Current assets			
Inventory	18	388	392
Financial assets at amortised cost	15	12,504	10,534
Current tax asset		868	-
Trade and other receivables	17	7,203	6,914
Derivative financial instruments	22	40	19
Cash and cash equivalents		22,845	20,178
		43,848	38,037
Total assets		184,102	188,670
Liabilities			
Non-current liabilities			
Lease liabilities	19	(72,270)	(80,552)
		(72,270)	(80,552)
Current liabilities			
Lease liabilities	19	(13,731)	(12,019)
Current income tax liabilities		-	(2,043)
Trade and other payables	23	(11,085)	(11,398)
Derivative financial instruments	22	(2)	(23)
		(24,818)	(25,483)
Total liabilities		(97,088)	(106,035)
Net assets		87,014	82,635

Interconnector (UK) Limited

Consolidated statement of financial position (continued)

Note 31 December 2020 31 December 2019

		£'000	£'000
Equity attributable to:			
Owners of the parent			
Share capital	25	12,755	12,755
Other reserves	26	457	201
Retained earnings		72,775	68,698
		85,987	81,654
Non-controlling interests		1,027	981
Total equity		87,014	82,635

The notes on pages 29 to 83 are an integral part of these consolidated financial statements.

The financial statements on pages 19 to 83 were approved by the Board of Directors on 17 March 2021 and were signed on its behalf by:



Raf Van Elst
Director
19 March 2021

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 2019	12,755	522	61,775	916	75,968
Profit for the period	-	-	36,973	65	37,038
Other comprehensive income for the period	-	(321)	3	-	(318)
Total comprehensive income for the period	-	(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
Profit for the year			12,089	46	12,135
Other comprehensive income for the year		256	2		258
Total comprehensive income for the year		256	12,091	46	12,393
Distributions to owners					
Dividends (note 10)			(8,014)		(8,014)
31 December 2020	12,755	457	72,775	1,027	87,014

Interconnector (UK) Limited

Consolidated statement of cash flows

	Note	For the year ended 31 December 2020	For the year ended 31 December 2019
		£'000	£'000
Cash flows from operating activities			
Cash generated from operations	27	21,208	53,594
Income taxes		(5,638)	(17,999)
Net cash generated from operating		15,570	35,595
Cash flows from investing activities			
Interest received		4,465	5,016
Purchase of property, plant and	11	(3,779)	(6,361)
Purchase of intangible assets	12	(60)	(1,689)
Repayment of other financial assets at amortised cost	15	11,074	9,366
Dividend income		28	24
Net cash generated from investing		11,728	6,356
Cash flows from financing activities			
Equity dividends paid	10	(8,014)	(30,053)
Capital element of finance lease		(12,241)	(10,634)
Interest element of finance lease		(4,522)	(4,977)
Interest paid		(13)	(3)
Net cash used in financing activities		(24,790)	(45,667)
Net increase / (decrease) in cash and cash equivalents		2,508	(3,716)
Cash and cash equivalents at beginning of the year		20,178	23,762
Exchange gains / (losses) on cash and cash equivalents		159	132
Cash and cash equivalents at end of the year		22,845	20,178

Interconnector (UK) Limited

Company statement of financial position

	Note	31 December 2020	31 December 2019
		£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	11	62,296	67,112
Intangible assets	12	6,845	3,783
Financial assets at fair value through other comprehensive income	13	109	137
Investments in subsidiaries	14	49	49
Financial assets at amortised cost	15	66,391	78,682
		135,690	149,763
Current assets			
Inventory	18	388	392
Financial assets at amortised cost	15	16,011	10,755
Current tax asset		851	
Trade and other receivables	17	3,816	3,722
Derivative financial instruments	22	40	19
Cash and cash equivalents		22,494	19,566
		43,600	34,454
Total assets		179,290	184,217
Liabilities			
Non-current liabilities			
Obligations under finance leases	19	(72,270)	(80,552)
Deferred income tax liabilities	20	(609)	(199)
		(72,879)	(80,751)
Current liabilities			
Obligations under finance leases	19	(13,731)	(12,019)
Current income tax liabilities		-	(2,084)
Trade and other payables	23	(11,246)	(11,770)
Derivative financial instruments	22	(2)	(23)
		(24,979)	(25,896)
Total liabilities		(97,858)	(106,647)
Net assets		81,432	77,570

Interconnector (UK) Limited

Company statement of financial position (continued)

	Note	31 December 2020	31 December 2019
		£'000	£'000
Equity			
Share capital	25	12,755	12,755
Other reserves	26	(84)	(56)
<hr/>			
Retained earnings			
At beginning of the year		64,871	53,978
Profit for the year attributable to the owners		11,904	40,946
Other changes in retained earnings		(8,014)	(30,053)
<hr/>			
At end of the year		68,761	64,871
<hr/>			
Total Equity		81,432	77,570
<hr/>			

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 29 to 83 are an integral part of these consolidated financial statements.

The financial statements on pages 19 to 83 were approved by the Board of Directors on 17 March 2021 and were signed on its behalf by:



Raf Van Elst
Director
19 March 2021

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 2019	12,755	(28)	53,978	66,705
Profit for the period	-	-	40,946	40,946
Other comprehensive income for the period	-	(28)	-	(28)
Total comprehensive income for the period	-	(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
Profit for the year	-	-	11,904	11,904
Other comprehensive income for the year	-	(28)	-	(28)
Total comprehensive income for the year	-	(28)	11,904	11,876
Distributions to owners				
Dividends (note 10)	-	-	(8,014)	(8,014)
31 December 2020	12,755	(84)	68,761	81,432

Interconnector (UK) Limited

Company statement of cash flows

	Note	For the year ended 31 December 2020	For the year ended 31 December 2019
		£'000	£'000
Cash flows from operating activities			
Cash generated from operations	27	20,669	53,567
Income taxes		(5,502)	(17,996)
Net cash generated from operating		15,167	35,571
Cash flows from investing activities			
Dividends from subsidiaries & associates		179	4,512
Interest received		4,247	4,783
Purchase of property, plant and	11	(3,779)	(6,361)
Purchase of intangible assets	12	(60)	(1,689)
Repayment of other financial assets at amortised cost	15	11,830	9,396
Net cash generated from investing		12,417	10,641
Cash flows from financing activities			
Intercompany loans repaid		(25)	(4,334)
Equity dividends paid	10	(8,014)	(30,053)
Capital element of finance lease		(12,241)	(10,634)
Interest element of finance lease		(4,522)	(4,977)
Interest paid		(13)	(8)
Net cash used in financing activities		(24,815)	(50,006)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		19,566	23,228
Exchange gains / (losses) on cash and cash equivalents		159	132
Cash and cash equivalents at end of the year		22,494	19,566

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 15-16 Buckingham Street, London, WC2N 6DU, 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, in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 2020:

- Definition of Material – amendments to IAS 1 and IAS 8
- Definition of a Business – amendments to IFRS 3
- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7
- Lease term – amendments to IFRS 16

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

New standards, amendments and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 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.

The group and the company are showing net current assets of £19.0 million and £18.6 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 COVID-19 restrictions 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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Critical accounting estimates and judgements

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

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

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

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 to 2025 based on the initial contractual lease terms as there have been no decision made on the option to extend the lease. Management will continue to reassess useful economic life of the assets every year.

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.



Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Critical accounting estimates and judgements (continued)

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.

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 2020 for the potential obligation. Further disclosures are given in note 30.

Rate used to measure lease liabilities

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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Intangible assets

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.

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.

In line with the Withdrawal Agreement between the UK and the European Union, the UK remains in the EU Emissions Trading System (EU ETS) until 31 December 2020. After that date the company will no longer receive any allowances under the EU scheme. The company will still have a liability to fulfil obligations under the EU scheme for the year ending 31 December 2020 until 30 April 2021. A similar scheme will be implemented in the UK from 1 January 2021 full details of which are yet to be released.

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. Computer software and IT development costs are amortised on a straight line basis over their useful lives.



Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Property, plant and equipment

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

The group capitalises subsequent expenditure on property, plant and equipment if it meets the capitalisation accounting criteria per IAS 16 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.

The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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
Computer software and IT development costs	3

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

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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

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.

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.

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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Investments and other financial assets

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.

Recognition & derecognition

Regular way purchases and sales of financial assets 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.

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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Investments and other financial assets (continued)

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.

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".

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Investments and other financial assets (continued)

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.

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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Leases

The group leases plant, equipment and an office.

Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

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.

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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Leases (continued)

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.

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. 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.

The group believes that presenting a disaggregation of revenue based on the timing of transfer of goods or services (i.e. at a point in time or over time) provides users of the financial statements with useful information as to the nature and timing of revenue from contracts with customers.

Revenue arising from the group's capacity contracts is recognised in the accounting period in which pipeline capacity is provided to customers (recognised over time). Commodity and other revenue are recognised based on the provision of services (recognised at point in time). 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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Revenue recognition (continued)

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.

Financing components

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

Finance income

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

Foreign currencies

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.

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".



Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Foreign currencies (continued)

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.

Group companies

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

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

Repairs and maintenance

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

Pension scheme

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

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.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

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 2020	For the year ended 31 December 2019
	£'000	£'000
Timing of revenue recognition		
Recognised over time	40,072	72,872
Recognised at a point in time	4,993	3,761
Total revenue from contracts with customers	45,065	76,633
Type of service		
Sale of capacity	40,072	72,872
Commodity revenue	1,438	3,030
Other revenues	3,555	731
Total revenue from contracts with customers	45,065	76,633

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 2020	For the year ended 31 December 2019
	£'000	£'000
Employee costs (see note 6)	5,104	4,951
Depreciation of property, plant and equipment:		
– owned	2,806	2,707
– leased	6,481	6,398
<hr/>		
Total depreciation and amortisation	9,287	9,105
Depreciation of intangible assets:		
– owned	981	383
Fees payable to company auditors and their associates for:		
– the audit of the company and consolidated financial statements	86	78
– the audit of the company's subsidiaries	7	6
– other taxation advisory services	-	-
– non audit services	4	-
<hr/>		
Total fees payable to company auditors and associates	97	84
<hr/>		

5 Key management personnel remuneration

	For the year ended 31 December 2020	For the year ended 31 December 2019
	£'000	£'000
Aggregate emoluments	-	89
Defined contribution pension scheme costs	-	12
<hr/>		
Total remuneration	-	101
<hr/> <hr/>		



Interconnector (UK) Limited

Notes to the financial statements

5 Key management personnel remuneration (continued)

None of the Company directors were its employees during the year ended 31 December 2020 (2019: one). Aggregate emoluments for the year ended 31 December 2019 included salary, bonus and healthcare benefits.

The highest paid director's total remuneration for the year ended 31 December 2019 was £101,000, including defined contribution pension costs of £12,000 paid by the company in respect of 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 for the year ended 31 December 2019.

6 Employee information

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

	For the year ended 31 December 2020	For the year ended 31 December 2019
	Average Number	Average Number
By activity:		
Physical operations	31	29
Commercial operations	5	4
Administration	15	13
Total average number of employees	51	46

Interconnector (UK) Limited

Notes to the financial statements

6 Employee information (continued)

Employee costs:	For the year ended 31 December 2020	For the year ended 31 December 2019
	£'000	£'000
Wages and salaries	3,905	3,736
Social security costs	491	505
Other pension costs	602	498
Termination costs	106	111
Key management personnel remuneration, including other pension costs (see note 5)	-	101
Total employee costs	5,104	4,951

7 Finance income

	For the year ended 31 December 2020	For the year ended 31 December 2019
	£'000	£'000
Bond interest receivable	4,368	4,782
Interest receivable on bank balances	62	172
Income from shares in investments	28	24
Net exchange differences on foreign currency debt and deposits	252	-
Total finance income	4,710	4,978

Interconnector (UK) Limited

Notes to the financial statements

8 Finance costs

	For the year ended 31 December 2020	For the year ended 31 December 2019
	£'000	£'000
Interest and finance charges on lease liabilities	4,493	4,921
Exchange differences on foreign currency debt and deposits	-	244
Other interest payable	4	13
Total finance costs	4,497	5,178

9 Tax expense

	For the year ended 31 December 2020	For the year ended 31 December 2019
	£'000	£'000
Current tax:		
UK corporation tax on profits for the year	3,483	6,796
Foreign tax on profits for the year	78	134
Current tax on profits for the year	3,561	6,930
Adjustments in respect of prior years	(38)	(63)
Total current tax	3,523	6,867
Deferred tax:		
Origination and reversal of timing differences	625	530
Deferred tax credit relating to change in timing assumptions	(51)	51
Total deferred tax (see note 20)	574	581
Tax expense	4,097	7,448

Interconnector (UK) Limited

Notes to the financial statements

9 Tax expense (continued)

Changes in the UK tax rates were substantively enacted as part of Finance Bill 2016 (on 7 September 2016). These included reductions to the main rate to reduce the rate from 19% to 17% from 1 April 2020. A change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19 percent, rather than the previously enacted reduction to 17 percent. Deferred tax balances at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The tax assessed for the year is higher (2019: lower) than the standard rate of corporation taxation in the UK for the period (19.0%) (2019: 19.0%). The differences are explained below:

	For the year ended 31 December 2020	For the year ended 31 December 2019
	£'000	£'000
Profit before taxation	16,232	44,486
Profit before taxation multiplied by standard rate in the UK 19.0% (2018: 19.0%)	3,084	8,452
Effects of:		
Expenses not deductible for tax purposes	991	15
Income not chargeable for tax purposes	(5)	(1,060)
Deferred tax credit relating to change in timing assumptions	(51)	51
Other timing differences	97	5
Impact of higher foreign tax rates	19	48
Adjustments in respect of prior years	(38)	(63)
Tax expense	4,097	7,448

Interconnector (UK) Limited

Notes to the financial statements

9 Tax expense (continued)

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 2020 treats FX gains and losses as non-deductible, a tax asset has not been recognised as a receivable at 31 December 2020 as receipt of the amount is dependent on the HMRC's response. The amount of tax receivable not recognised is £2.9m.

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 2020	For the year ended 31 December 2019
	£'000	£'000
Equity – Ordinary		
Prior year final paid: nil (2019: £0.34) per £1 ordinary share	-	4,007
Interim paid: £0.68 (2019: £2.21) per £1 ordinary share	8,014	26,046
Total dividends	8,014	30,053

The directors have proposed a final dividend for the year ended 31 December 2020 of £0.255 per ordinary share (totalling £3.0 million). This has not been recognised in these financial statements as it had not been approved by the shareholders at the balance sheet date.

Note 25 sets out details regarding preference dividends.

Interconnector (UK) Limited

Notes to the financial statements

11 Property, plant and equipment

Group	Freehold land	UK terminal & pipeline	Belgian terminal	Other UK infrastructure assets	Other assets	Asset under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 January 2019	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
Additions	-	3,470	1,282	-	1,877	2,490	9,119
Disposals/transfers	-	(3,950)	(335)	-	(2,700)	(3,703)	(10,688)
Foreign exchange adjustments	268	-	-	-	-	-	268
At 31 December 2020	6,041	426,703	138,430	27,087	15,358	4,573	618,192
Accumulated depreciation							
At 1 January 2019	-	(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)
Depreciation charge	-	(2,516)	(6,002)	-	(769)	-	(9,287)
Disposals	-	3,941	298	-	1,802	-	6,041
At 31 December 2020	-	(405,931)	(107,762)	(27,087)	(10,116)	-	(550,896)
Net book value							
At 31 December 2020	6,041	20,772	30,668	-	5,242	4,573	67,296
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

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 2019	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	-	-	-	-	(1,201)	(24)	(1,225)
At 31 December 2019	1,041	427,183	137,483	27,087	16,182	5,786	614,762
Additions	-	3,470	1,282	-	1,877	2,490	9,119
Disposals/transfers	-	(3,950)	(335)	-	(2,701)	(3,703)	(10,689)
At 31 December 2020	1,041	426,703	138,430	27,087	15,358	4,573	613,192
Accumulated depreciation							
At 1 January 2019	-	(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)
Depreciation charge	-	(2,516)	(6,002)	-	(769)	-	(9,287)
Disposals	-	3,941	298	-	1,802	-	6,041
At 31 December 2020	-	(405,931)	(107,762)	(27,087)	(10,116)	-	(550,896)
Net book value							
At 31 December 2020	1,041	20,772	30,668	-	5,242	4,573	62,296
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

Interconnector (UK) Limited

Notes to the financial statements

11 Property, plant and equipment (continued)

Freehold land

The freehold land relates to land at a cost of £1.0 million at Bacton (UK) and £5.0 million (€5.6 million) at Zeebrugge (Belgium) terminals.

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. Strategic spare parts inventory held at both Bacton and Zeebrugge terminals is included in other assets, totalling £4.6 million (31 December 2019: £4.4 million). The expense is recognised in the income statement when spares are used.

As at 31 December 2020, 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 2019	2,552	1,606	-	1,251	5,409
Additions	-	-	2,940	-	2,940
Disposals	-	(380)	-	(1,251)	(1,631)
At 31 December 2019	2,552	1,226	2,940	-	6,718
Additions in the year	-	4,256	51	9	4,316
Disposals/transfers	-	(273)	-	-	(273)
At 31 December 2020	2,552	5,209	2,991	9	10,761
Accumulated impairment					
At 1 January 2019	(2,552)	-	-	-	(2,552)
Depreciation charge	-	-	(383)	-	(383)
At 31 December 2019	(2,552)	-	(383)	-	(2,935)
Depreciation charge	-	-	(981)	-	(981)
At 31 December 2020	(2,552)	-	(1,364)	-	(3,916)
Net book value					
At 31 December 2020	-	5,209	1,627	9	6,845
At 31 December 2019	-	1,226	2,557	-	3,783
At 31 December 2018	-	1,606	-	1,251	2,857

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 were subsequently capitalised.

Company	Emissions allowances	Computer software	Asset under construction	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2019	1,606	-	1,251	2,857
Additions in the period	-	2,940	-	2,940
Disposals in the period	(380)	-	(1,251)	(1,631)
At 31 December 2019	1,226	2,940	-	4,166
Additions in the year	4,256	51	9	4,316
Disposals in the year	(273)	-	-	(273)
At 31 December 2020	5,209	2,991	9	8,209
Accumulated impairment				
At 1 January 2019	-	-	-	-
Depreciation charge in the year	-	(383)	-	(383)
At 31 December 2019	-	(383)	-	(383)
Depreciation charge in the year	-	(981)	-	(981)
At 31 December 2020	-	(1,364)	-	(1,364)
Net book value				
At 31 December 2020	5,209	1,627	9	6,845
At 31 December 2019	1,226	2,557	-	3,783
At 31 December 2018	1,606	-	1,251	2,857

Interconnector (UK) Limited

Notes to the financial statements

12 Intangible assets (continued)

Emissions allowances

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

13 Financial assets at fair value through other comprehensive income

Group and Company	Investments in unlisted shares
	£'000
Cost	
At 1 January 2019, 31 December 2019 and 31 December 2020	425
<hr/>	
Accumulated impairment	
At 1 January 2019	(260)
Charge for the period	(28)
<hr/>	
At 31 December 2019	(288)
Charge for the year	(28)
<hr/>	
At 31 December 2020	(316)
<hr/>	
Net book value	
At 31 December 2020	109
<hr/>	
At 31 December 2019	137
<hr/>	
At 31 December 2018	165
<hr/>	

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 2019, 31 December 2019 and 31 December 2020	6,748
Accumulated impairment	
At 1 January 2019, 31 December 2019 and 31 December 2020	(6,699)
Net book value	
At 1 January 2019, 31 December 2019 and 31 December 2020	49

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.

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 (2019: 49)	48 (2019: 48)
Interconnector Leasing Company Limited ("ILC")	15-16 Buckingham Street, London WC2N 6DU, UK	Ordinary £1 shares	100 (2019: 100)	100 (2019: 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.

Interconnector (UK) Limited

Notes to the financial statements

14 Investments in subsidiaries (continued)

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).

15 Financial assets at amortised cost

Group	FLZ bond £'000
At 31 December 2020	
Amounts receivable in less than one year	12,504
Amounts receivable after one year	65,922
	<hr/> 78,426 <hr/>
At 31 December 2019	
Amounts receivable in less than one year	10,534
Amounts receivable after one year	74,219
	<hr/> 84,753 <hr/>

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

Interconnector (UK) Limited

Notes to the financial statements

15 Financial assets at amortised cost (continued)

Company	FLZ bond £'000	IZT loan £'000	Total £'000
At 31 December 2020			
Amounts receivable in less than one year	12,703	3,308	16,011
Amounts receivable after one year	66,391	-	66,391
Total	79,094	3,308	82,402
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

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"). Due to negative EURIBOR rates, the rate on the loan has been capped at zero.

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.

Interconnector (UK) Limited

Notes to the financial statements

16 Unconsolidated structured entities (continued)

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 2020 £'000	31 December 2019 £'000
Assets		
Financial assets at amortised cost – FLZ bond	78,426	84,753
Equity investments at fair value through OCI	109	137
Interest receivable	331	359
Liabilities		
Lease liabilities	(79,043)	(85,541)
Interest payable	(326)	(354)
Net liability in relation to financing arrangements	(503)	(646)
Assets – Property, plant and equipment	30,449	35,217

Interconnector (UK) Limited

Notes to the financial statements

17 Trade receivables and other financial assets at amortised cost

	Group	Group	Company	Company
	31	31	31	31
	December	December	December	December
	£'000	£'000	£'000	£'000
Trade receivables	1	6	1	6
Accrued income	2,114	1,631	2,114	1,631
Other interest receivable	331	366	314	349
Prepayments	1,309	1,259	1,309	1,259
Other taxes receivable	3,383	3,642	13	467
Other receivables	65	10	65	10
	7,203	6,914	3,816	3,722

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 (2019: £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 2020	31 December 2019
	£'000	£'000
Current assets		
Gas inventory	388	392
	388	392

The value of consumed inventory recognised as an expense during the year, and included in "operating expenses", amounted to £0.7 million (2019: £3.0 million).

Interconnector (UK) Limited

Notes to the financial statements

19 Leases

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 £10.9 million at 31 December 2020 (2019: £13.1 million).

The Belgian terminal is subject to two separate leases: with Fluxys Belgium SA (“Fluxys”) and FLZ. 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 £29.3 million at 31 December 2020 (2019: £35.3 million).

FLZ lease has an option to extend or purchase the asset at the end of the lease. Potential lease payments of £11.4 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 charge
	£'000	£'000	£'000
Office building	700	745	(403)
UK terminal & pipeline – land access	2,733	-	(76)
Belgian terminal	30,668	-	(6,002)
	34,101	745	(6,481)

Interconnector (UK) Limited

Notes to the financial statements

19 Leases (continued)

Company	Carrying amount	Additions	Depreciation
	£'000	£'000	£'000
Office building	700	745	(403)
UK terminal & pipeline	14,679	-	(2,371)
UK terminal & pipeline – land access	2,733	-	(76)
Belgian terminal	30,668	-	(6,002)
	48,780	745	(8,852)

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 2020	31 December 2019
	£'000	£'000
Current	13,731	12,019
Non-current	72,270	80,552
	86,001	92,571

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	31	31	31
	December	December	December	December
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Deferred tax (assets) / liabilities				
Accelerated tax depreciation	45	(489)	609	199
Other timing differences	(127)	(162)	-	-
Deferred tax at year end	(82)	(651)	609	199

	Group	Group	Company	Company
	31	31	31	31
	December	December	December	December
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Deferred tax (assets) / liabilities:				
Provision at beginning of the period	(651)	(1,241)	199	(186)
Deferred tax credit in the income statement	625	530	410	364
Deferred tax relating to changes in timing assumptions	(51)	51	-	21
Deferred tax in other comprehensive income	(5)	9	-	-
At 31 December	(82)	(651)	609	199

	Group	Group	Company	Company
	31	31	31	31
	December	December	December	December
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Deferred tax (assets) / liabilities:				
Deferred tax (assets) / liabilities due within 12 months	(585)	110	(503)	(522)
Deferred tax (assets) / liabilities due after more than 12 months	503	(761)	1,112	721
At 31 December	(82)	(651)	609	199

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 effect of 20% strengthening of the EUR rate against GBP at the reporting date would, all other variables held constant, have resulted in an increase in profit after tax for the year and an increase in net assets for the group of £0.1 million (2019: a decrease of £0.4 million).

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 2020	31 December 2019
	£'000	£'000
Trade and other payables	(1,709)	(3,006)
Other receivables	3,731	3,575
Cash at bank	2,454	1,991
Financial assets at amortised cost – FLZ bond	78,426	84,753
Borrowings – net obligations under finance leases	(82,484)	(89,358)
Total	418	(2,045)

Financial assets and liabilities held in Euros – company	31 December 2020	31 December 2019
	£'000	£'000
Trade and other receivables / (payables)	3,310	2,142
Cash at bank	2,103	1,380
Financial assets at amortised cost – FLZ bond	79,094	85,605
Borrowings – net obligations under finance leases	(82,484)	(89,358)
Total	2,023	(231)

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 2020, 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.

Group	31 December 2020		31 December 2019	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Financial assets				
Financial assets at amortised – bond (note 15) and accrued interest (note 17)	78,757	89,751	85,112	98,849
Financial liabilities				
Financial liabilities measured at amortised cost – net obligations under leases including accrued interest (note 19)	(82,484)	(93,374)	(89,358)	(102,816)

Interconnector (UK) Limited

Notes to the financial statements

21 Financial Instruments (continued)

Company	31 December 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at amortised cost – bond (note 15) and accrued interest (note 17)	79,408	89,751	85,946	98,849
Financial liabilities				
Financial liabilities measured at amortised cost – net obligations under leases including accrued interest (note 19)	(82,484)	(93,374)	(89,358)	(102,816)

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:

Interconnector (UK) Limited

Notes to the financial statements

21 Financial Instruments (continued)

	Payable within one year	Payable after one year
Group	£'000	£'000
At 31 December 2020		
Trade and other payables	(6,373)	-
Lease liabilities	(17,425)	(83,255)
Total non-derivatives	(23,798)	(83,255)
Derivatives		
Gross settled (foreign currency forwards) inflow (outflow)	2,883 (2,845)	- -
Total derivatives	38	-
At 31 December 2019		
Trade and other payables	(5,737)	-
Finance lease liabilities	(15,994)	(94,864)
Total non-derivatives	(21,731)	(94,864)
Derivatives		
Gross settled (foreign currency forwards) inflow (outflow)	6,373 (6,377)	- -
Total derivatives	(4)	-
Company	Payable within one year	Payable after one year
At 31 December 2020		
Trade and other payables	(6,534)	-
Lease liabilities	(17,425)	(83,255)
Total non-derivatives	(23,959)	(83,255)
Derivatives		
Gross settled (foreign currency forwards) inflow (outflow)	2,883 (2,845)	- -
Total derivatives	38	-
At 31 December 2019		
Trade and other payables	(6,109)	-
Borrowings and derivative financial instruments	-	-
Finance lease liabilities	(15,994)	(94,864)
Total non-derivatives	(22,103)	(94,864)
Derivatives		
Gross settled (foreign currency forwards) inflow (outflow)	6,373 (6,377)	- -
Total derivatives	(4)	-

Interconnector (UK) Limited

Notes to the financial statements

21 Financial Instruments (continued)

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 2020	31 December 2019
	£'000	£'000
Lease obligations	86,001	92,571
Less: Cash and cash equivalents	(22,845)	(20,178)
Net debt	63,156	72,393
EBITDA for the year ended	26,340	54,233
Ratio of net debt to EBITDA	2.40	1.33

Financial instruments by class and by category – group

Financial assets at amortised cost

	31 December 2020	31 December 2019
	£'000	£'000
Non-current financial assets		
Loans receivable – FLZ Bond	65,922	74,219
Current financial assets		
Loans receivable – FLZ Bond	12,504	10,534
Trade and other receivables	2,511	2,013
Cash and cash equivalents	22,845	20,178
Total financial assets	103,782	106,944

Interconnector (UK) Limited

Notes to the financial statements

21 Financial Instruments (continued)

Financial assets at fair value through OCI

	31 December 2020 £'000	31 December 2019 £'000
Non-current financial assets		
Investment – Shares	425	425
Less: Accumulated impairment	(316)	(288)
Total financial assets	109	137

Financial liabilities measured at amortised cost

	31 December 2020 £'000	31 December 2019 £'000
Current financial liabilities		
Lease obligations	(13,731)	(12,019)
Trade and other payables	(6,373)	(5,737)
Non-current financial liabilities		
Lease obligations	(72,270)	(80,552)
Total financial liabilities measured at amortised cost	(92,374)	(98,308)

Financial instruments measured at fair value through profit and loss

	31 December 2020 £'000	31 December 2019 £'000
Current financial assets		
Derivative financial instruments (level 1)	40	19
Current financial liabilities		
Derivative financial instruments (level 1)	(2)	(23)
Total derivative financial instruments	38	(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 2020 £'000	31 December 2019 £'000
Non-current financial assets		
Loans receivable	66,391	78,682
Current financial assets		
Loans receivable	16,011	10,755
Trade and other receivables	2,494	1,995
Cash and cash equivalents	22,494	19,566
Total financial assets	107,390	110,998

Financial assets at fair value through OCI

	31 December 2020 £'000	31 December 2019 £'000
Non-current financial assets		
Investment – Shares	425	425
Less: Accumulated impairment	(316)	(288)
Total financial assets	109	137

Financial liabilities measured at amortised cost

	31 December 2020 £'000	31 December 2019 £'000
Current financial liabilities		
Lease obligations	(13,731)	(12,019)
Trade and other payables	(6,534)	(6,109)
Non-current financial liabilities		
Obligations under finance leases	(72,270)	(80,552)
Total financial liabilities measured at amortised cost	(92,535)	(98,680)

Financial instruments measured at fair value through profit and loss

	31 December 2020 £'000	31 December 2019 £'000
Current financial assets		
Derivative financial instruments (level 1)	40	19
Current financial liabilities		
Derivative financial instruments (level 1)	(2)	(23)
Total derivative financial instruments	38	(4)

Interconnector (UK) Limited

Notes to the financial statements

22 Derivative financial instruments

Group and company	31 December 2020 £'000	31 December 2019 £'000
Currency swap	(2)	(23)
Currency forward purchase	40	19
Derivative financial instruments (level 1)	38	(4)

Currency swap relates to contracts to fix euro rate for the payment to a supplier and subsequent receipt of VAT for €3.7 million (2019: €3.5 million).

Currency forward purchase covers highly probable payments to suppliers in euro for €6.9 million (2019: €11.0 million). 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.

Interconnector (UK) Limited

Notes to the financial statements

23 Trade and other payables

	Group	Group	Company	Company
	31	31	31	31
	December	December	December	December
	£'000	£'000	£'000	£'000
Deferred revenue	4,321	3,357	4,321	3,357
Customer deposits	200	2,174	200	2,174
Accruals and other payables	4,674	3,452	4,763	3,686
Other taxes including social security	191	130	191	130
Trade payables	966	968	914	956
Amounts owed to parent company	733	1,317	732	1,317
Amounts owed to wholly-owned subsidiary undertakings	-	-	125	150
Trade and other payables - current	11,085	11,398	11,246	11,770

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.

Interconnector (UK) Limited

Notes to the financial statements

24 Operating lease commitments

All operating commitments over 1 year are recognised as right-of-use assets, see note 19 for further information.

25 Share capital

	31 December 2020	31 December 2019
Authorised, issued and fully paid	£'000	£'000
11,785,680 (2019 11,785,680) ordinary shares of £1 each	11,786	11,786
969,000 (2019: 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.

Interconnector (UK) Limited

Notes to the financial statements

26 Other reserves

	Translation reserve	Group Fair value reserve of financial assets at FVOCI	Total	Company Fair value reserve of financial assets at FVOCI	Total
	£'000	£'000	£'000	£'000	£'000
1 January 2019	550	(28)	522	(28)	(28)
Exchange differences arising on translation of foreign operations	(293)		(293)	-	-
Cash flow hedge: fair value gains	-	-	-	-	-
Fair value loss on debt instruments at FVOCI	-	(28)	(28)	(28)	(28)
At 31 December 2019	257	(56)	201	(56)	(56)
Exchange differences arising on translation of foreign operations	284	-	284	(28)	(28)
Fair value loss on debt instruments at FVOCI		(28)	(28)	-	-
At 31 December 2020	541	(84)	457	(84)	(84)

Nature and purpose of other reserves

Financial assets at FVOCI

The group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in note 13. These changes are accumulated within the FVOCI reserve within equity. The group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

Translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Interconnector (UK) Limited

Notes to the financial statements

27 Cash generated from operations

Group	For the year ended 31 December 2020	For the year ended 31 December 2019
	£'000	£'000
Profit before income tax	16,232	44,486
Adjustments for:		
Depreciation and impairment	10,268	9,488
Finance costs - net	(213)	200
(Decrease) in provisions	-	(400)
Other non-cash items in the income statement	(77)	(346)
Changes in working capital:		
(Increase) / decrease in debtors	(324)	917
Decrease in creditors	(4,682)	(1,418)
Decrease in inventory	4	667
Cash generated from operations	21,208	53,594

Company	For the year ended 31 December 2020	For the year ended 31 December 2019
	£'000	£'000
Profit before income tax	15,889	48,238
Adjustments for:		
Depreciation	10,268	9,488
Finance income - net	(185)	(4,006)
Decrease in provisions	-	(400)
Other non-cash items in the income statement	(310)	(298)
Changes in working capital:		
(Increase) / decrease in debtors	(580)	1,354
Decrease in creditors	(4,417)	(1,476)
Decrease in inventory	4	667
Cash generated from operations	20,669	53,567

Interconnector (UK) Limited

Notes to the financial statements

28 Net debt reconciliation

Group	For the year ended 31 December 2020 £'000	For the year ended 31 December 2019 £'000
Cash and cash equivalents	22,845	20,178
Lease liabilities – repayable within one year	(13,731)	(12,019)
Lease liabilities – repayable after one year	(72,270)	(80,552)
Net debt	(63,156)	(72,393)
Cash and cash equivalents	22,845	20,178
Gross debt – fixed interest rates	(86,001)	(92,571)
Net debt	(63,156)	(72,393)

Group	Cash £'000	Leases due within 1 year £'000	Leases due after 1 year £'000	Total £'000
Net debt as at 1 January 2019	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)
Cash flows	2,508	12,241	-	14,749
New leases	-	(165)	(580)	(745)
Foreign exchange adjustment	159	(552)	(4,405)	(4,798)
Other non-cash movements	-	(13,236)	13,267	31
Net debt as at 31 December 2020	22,845	(13,731)	(72,270)	(63,156)

Interconnector (UK) Limited

Notes to the financial statements

28 Net debt reconciliation (continued)

Company	For the year ended 31 December 2020 £'000	For the year ended 31 December 2019 £'000
Cash and cash equivalents	22,494	19,566
Lease liabilities – repayable within one year	(13,731)	(12,019)
Lease liabilities – repayable after one year	(72,270)	(80,552)
Net debt	(63,507)	(73,005)
Cash and cash equivalents	22,494	19,566
Gross debt – fixed interest rates	(86,001)	(92,571)
Net debt	(63,507)	(73,005)

Company	Cash £'000	Leases due within 1 year £'000	Leases due after 1 year £'000	Total £'000
Net debt as at 1 January 2019	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)
Cash flows	2,769	12,241	-	15,010
New leases	-	(165)	(580)	(745)
Foreign exchange adjustment	159	(552)	(4,405)	(4,798)
Other non-cash movements	-	(13,236)	13,267	31
Net debt as at 31 December 2020	22,494	(13,731)	(72,270)	(63,507)

29 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).

Interconnector (UK) Limited

Notes to the financial statements

30 Contingent liabilities

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

The scope of the offshore decommissioning will depend on the legislative requirements and the seabed conditions at the point of decommissioning. These circumstances cannot be reliably predicted so far in advance. The current costs of removing the pipeline in such areas would be approximately £1.0 million per kilometre removed. The estimated present value of removing a section of 10 kilometres is £3.1 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 £8.6 million. The estimated present value of this obligation is £2.7 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 2020 for the potential obligation.

31 Regulatory reporting

As part of IUK's certification, CREG's established a tariff methodology defining the principles for determining tariffs and the procedure for submission and approval of tariff reports containing a statement of actual costs and revenues in respect of the previous tariff period. The methodology establishes profit caps and requires a maintenance of a regulatory account which is adjusted for the amounts over/under the regulatory profit thresholds.

CREG assessed the net result of Interconnector group for the year ending 31 December 2019 and concluded that £1.019 million of profits relating to the period 1 January 2019 – 31 December 2019 were above the regulatory profit threshold. The regulatory account should be adjusted for that amount representing a debt to the market, and as such would typically be treated as a liability on the Balance sheet.

The net result for the financial year 2020 is below the first regulatory threshold, subject to CREG's approval in Q1 2021. The group estimates that the regulatory account will be in credit, representing an asset. The asset is not recognised as it cannot be recovered.

Interconnector (UK) Limited

Notes to the financial statements

32 Related party transactions

Group

The ultimate parent undertaking and the largest group to consolidate these financial statements is Publigas SA, whose registered office is Galerie Ravenstein 4, 1000 Brussels, Belgium. Consolidated financial statements for Publigas SA are available at its registered address. The group's controlling party is Fluxys SA, a company incorporated in Belgium, which owns 76.32% (2019: 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 2020 include £5.5 million (2019: £3.4 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 SA, which are subsidiaries of Fluxys SA, the group's ultimate parent company. The group also incurred £0.3 million of costs for capital projects including the development of IT software (2019: £2.2 million).

In addition, during the year ended 31 December 2020, lease rentals in relation to the Belgium terminal (see note 19) of £0.6 million (2019: £0.6 million) were paid to Fluxys Belgium SA, and dividends of £6.1 million (2019: £22.9 million) were paid to Fluxys UK Ltd, a subsidiary of Fluxys SA.

The amounts payable to Fluxys SA, Fluxys Belgium SA and Fluxys Europe SA at 31 December 2020 were £1.1 million (31 December 2019: £1.3 million). The finance lease liability payable to Fluxys Belgium SA (see note 19) outstanding at 31 December 2020 was £3.1 million (31 December 2019: £3.4 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 2020, dividends of £1.9 million were paid to Snam International B.V (2019: £7.1 million). In addition, during the year ended 31 December 2020, the group paid £0.3 million to Snam for the major overhaul of its equipment and related services (2019: £2.4 million). There were no amounts outstanding relating to these services at 31 December 2020 (31 December 2019: £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 2020 includes £4.5 million (2019: £7.3 million) in relation to purchases from IZT, in accordance with the Service Agreement between the company and IZT. The company also capitalised £0.8 million of costs recharged from IZT (31 December 2019: £2.2 million). The amounts outstanding at 31 December 2020, in relation to these purchases, were £0.2 million (31 December 2019: £0.3 million).

Interconnector (UK) Limited

Notes to the financial statements

32 Related party transactions (continued)

In addition, during the year ended 31 December 2020, lease rentals of £16.0 million (2019: £15.3 million) were recharged by IZT to the company. The amounts outstanding at 31 December 2020, in relation to these lease rentals, were £1.6 million (31 December 2019: £1.4 million) payable to IZT.

At 31 December 2020, IZT owed £3.3 million (31 December 2019: £3.8 million) to the company under an inter-company loan agreement. Interest income is based upon a variable rate linked to EURIBOR. There has been no interest recognised during the year ended 31 December 2020 by the company (2019: £nil) as the rate has been capped at 0%. The company's transactions with wholly-owned subsidiaries are summarised below:

	Interest (income) / expense		Lease expense		Dividend income	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Related party						
ILC	-	5	2	-	152	4,489
	-	5	2	-	152	4,489

Lease expense relate to the annual lease extension charge (see Note 19).

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

	Amounts owed To / (from) subsidiary undertakings	
	31 December 2020 £'000	31 December 2019 £'000
Related party		
ILC	125	150
	125	150

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

Commitments and guarantees

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

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.