Interconnector (UK) Limited

Annual Report and Consolidated Financial Statements for the period from 1 October 2015 to 31 December 2016

Registered Number: 2989838

Interconnector (UK) Limited

Consolidated financial statements

Interconnector (UK) Limited

Company information

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

Interconnector (UK) Limited

Strategic report

The directors present their Strategic report for the 15 month period ended 31 December 2016.

Business review

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

The forward and reverse flow capacity in the pipeline is fully contracted with major energy and utility companies under standard capacity contracts expiring at the end of September 2018. The group's revenues are independent of physical gas flows through the pipeline. Flows are the result of customer nominations, subject to contracted capacity.

During the period, the pipeline continued to demonstrate its role as a key piece of European energy infrastructure that provides a flexible and reliable bi-directional gas transportation service. Total flows for gas year 2015/16 (October 2015 to September 2016) were 7.6 bcm, a quarter higher than the previous year, predominantly due to higher UK export flows. A mild winter 2015/16 combined with higher Liquefied Natural Gas ("LNG") deliveries to the UK market resulted in low UK import volumes. During the summer period, UK export volumes totalled 7.5 bcm, significantly higher than the previous summer (5.9 bcm). This was the result of operational issues at the largest storage facility in the UK which was unable to fill during a large proportion of the summer. UK imports volumes for the last calendar quarter of 2016 totalled 1.2 bcm, compared to zero for the same period of 2015. LNG deliveries were scarce in this period and volumes available in UK storage were low.

Capacity for the period beyond September 2018 was offered but no capacity was sold in an auction of annual capacity held in March 2016. The company has developed and consulted the industry on the development of new capacity products

The group has changed their year ends from 30 September to 31 December to align to the reporting timetable of the company's controlling shareholder, Fluxys SA (see note 30). Therefore, this set of financial statements has been prepared for the 15-month period ended 31 December 2016. The comparative information is presented on a 12-month basis where applicable.

The results of the group for the 15 month period ended 31 December 2016 show a profit before taxation of £141.1 million (year ended 30 September 2015: £112.4 million) and revenues of £226.8 million (year ended 30 September 2015: £180.7 million). At 31 December 2016, the group had net assets of £55.7 million (30 September 2015: £46.0 million). Net cash inflow from operating activities for the period ended 31 December 2016 was £129.5 million (2015: £111.5 million).

Interconnector (UK) Limited

Strategic report (continued)

Principal risks and uncertainties

The group's operations, to transport high pressure natural gas, involve the control and management of inherent health, safety, security and environmental risks. The group's commercial activities are exposed to certain market, financial, credit and regulatory risks. Appropriate processes are in place to actively identify, manage and mitigate these risks. Risks are formally reviewed by management and the Audit Committee throughout the year and reported to the Board.

Health, Safety, Environment and Security (HSES)

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

During the period, there was one (2015: nil) lost time incident when a contractor injured a finger with a grinder on site and there were two medical treatment incidents (one not work related) (2015: two). There was one (2015: nil) reportable emissions event when a failure in an uninterruptible power supply at the Bacton terminal resulted in a full plant vent to a failsafe condition. A total of 65 tonnes of gas was vented. A broad operational audit programme was carried out and emergency exercises were performed by the group itself and in conjunction with neighbouring operators and the emergency services. Regular safety meetings were held at both terminal sites to allow staff to discuss current safety issues.

A particular focus was applied to process safety during the period. An externally facilitated training course on leadership in process safety was provided for the Board, senior managers, local terminal management team and engineers. Internal process safety training was carried out for operational and maintenance staff.

Legal and regulatory

The company is regulated by both the Office of Gas and Electricity Markets in the UK and La Commission de Régulation de l'Electricité et du Gaz in Belgium, both acting as National Regulatory Authorities ("NRAs"). The commercial terms offered by the company are subject to regulation by the NRAs even though the company does not have an allowed revenue stream or guaranteed captive demand. The pipeline operates as a "merchant asset", currently earning its revenues from long term contracts and, from 2018, through selling its capacity under a mix of long term and shorter term contracts.

European Commission legislation, advanced under the Third Energy Package, has sought to liberalise and integrate European energy markets. This initiative has included the development and implementation of binding European Network Codes, enforced by the NRAs, governing how infrastructure capacity is offered and priced. Some elements of the Codes have insufficient consideration of the commercial needs of merchant interconnecting pipelines. The company has undertaken a lobbying campaign to propose amending the Network Codes so as to allow merchant interconnectors additional commercial flexibility, including the ability to introduce products which are tailored to meet shippers' requirements. In 2016 the Tariff code was agreed at EU level which, following active lobbying by the company, included wording to allow interconnectors to apply for a derogation from certain requirements relating to tariffs.

Interconnector (UK) Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

In June 2016, the UK electorate voted in a referendum to leave the EU ("Brexit"). The process and negotiations to leave are expected to begin in 2017. It is currently not clear what arrangements will be put in place to govern UK-Continental European gas trade following Brexit. The period of uncertainty created by Brexit coincides with the company's efforts to market its capacity following the end of its initial long term contracts. The company is lobbying European, UK and Belgian stakeholders for arrangements to be put in place which facilitate trade and gas flows in the period leading up to and following Brexit.

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

Market risk

The long term ship-or-pay capacity contracts that currently cover all of the pipeline's forward and reverse capacity expire at the end of September 2018. Before the current period, a proportion of the reverse flow capacity beyond September 2018 had been sold. During the current period, the company has offered capacity, including annual capacity beyond September 2018, to the market via a public auction platform. No bids were received. This reflects a shift in demand for transmission capacity where customers seek to secure capacity on a short terms basis only, without requiring the security of long term contracted access. This shift has been facilitated by the changes in market regulation discussed above. This development in the market will result in the company having a shorter term order book and more volatile revenues. The company is seeking to mitigate this risk by developing flexible commercial products as discussed above.

Financial, commercial and economic

The customers who ship gas, utilising the contracted pipeline capacity, have made long term "ship-or-pay" commitments to the group. The group is exposed to the credit quality of these customers. Under the capacity contracts, customers are required to have a minimum credit quality or provide financial and performance guarantees that meet these requirements. As the customers have committed to pay for a fixed amount of the pipeline capacity, the company is not exposed to volume or commodity risks.

Gas operations

Customers rely on the flexibility and reliability of the group's service. Under the current capacity contracts, the group is exposed to penalties arising from a failure to meet customer nominations. Facilities and systems are designed with a significant degree of redundancy and are maintained to sustain equipment availability. Operations are managed to ensure a high degree of reliability. During the period, the group met all customer nominations and fulfilled all contractual obligations.

Interconnector (UK) Limited

Strategic report (continued)

Financial risk management

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

Foreign currency risk

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

Credit risk

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

Funding and liquidity risk

The group has long term committed debt facilities with no obligation to refinance in the near term. There are no significant capital investments identified that require funding. The group's revenue under the current capacity contracts is highly predictable, thereby facilitating detailed cash flow forecasting and efficient working capital management in the medium term.

Interest rate risk

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

Future developments

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

Interconnector (UK) Limited

Strategic report (continued)

Key performance indicators

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

	15 months to Dec 2016	12 months to Sept 2015	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 current period and last year, no lost capacity rebates were made. This reflects the continuing high standard of operational performance achieved.
Injurious accidents	Three	Two	These include Lost Time Incidents and incidents requiring medical treatment. There was one lost time incident, resulting from damage to a finger when using a grinder. One medical treatment was administered for a twisted ankle. Another medical treatment occurred on site but was not work related.
Reportable emission events	One	Zero	Emissions of natural gas or CO_2 beyond permitted levels or significant environmental impacts are required to be disclosed to the Environment Agency. In October 2016 a failure in an uninterruptible power supply at the Bacton terminal resulted in a full plant vent to a failsafe condition. A total of 65 tonnes of gas was vented.

On behalf of the Board of Directors

Sean Waring
Managing Director
15 March 2017

Interconnector (UK) Limited

Directors' report

The directors present their report and the audited consolidated financial statements for the 15 month period ended 31 December 2016. Having taken all the matters considered by the Board and brought to the attention of the Board during the period into account, the directors are satisfied that the Strategic report, the Directors' report and the financial statements, taken as a whole, are fair, balanced and understandable.

Results and dividends

The group's profit for the 15 month period was £113.4 million (year ended 30 September 2015: £89.1 million). Interim dividends of £8.90 (year ended 30 September 2015: £5.77) per ordinary share amounting to £104.9 million (year ended 30 September 2015: £68.0 million) were declared and paid during the 15 month period. A final dividend of £2.07 (year ended 30 September 2015: £ nil) per ordinary share amounting to £24.4 million (year ended 30 September 2015: £ nil) was proposed and, if approved, will be paid during March 2017. The aggregate dividends on the ordinary shares recognised during the 15 month period amounts to £104.9 million (year ended 30 September 2015: £89.1 million), excluding proposed dividends that were not approved by the period-end.

Future developments and financial risk management

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

Going concern

The forward and reverse flow capacity in the pipeline is fully contracted with major energy and utility companies on long term contracts expiring in 2018. The group has sufficient financial resources, with committed debt facilities that are scheduled to be repaid within the term of the existing capacity contracts; and therefore, no obligation to refinance in the next 12 months. The group and company are showing net current liabilities of £0.9 million and £20.4 million respectively, which reflect the impact of a quarterly dividend policy of 100% of distributable profits on the working capital cycle. Notwithstanding this, the directors believe that the group is well placed to manage its business risks successfully.

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

Interconnector (UK) Limited

Directors' report (continued)

Directors

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

Paul Trimmer (Chairman of the Board of Directors)
Sean Waring (Managing Director)

Shareholder-appointed non-executive directors:
Raf Van Elst
Erik Vennekens
Arno Büx (appointed 17 December 2015)
Graeme Steele (appointed 7 September 2016)
Patrick Côté (appointed 16 December 2016)

Directors during the period
Henri Cattoor (resigned 24 June 2016)
Eric Lachance (resigned 16 December 2016)
Federico Ermoli (resigned 9 March 2017)

Matteo Tanteri was appointed as a non-executive director of the company on 9 March 2017.

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

Directors' indemnities

The company maintains liability insurance for its directors and officers. The company 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 period ended 31 December 2016 and as at the date of the approval of these financial statements.

Interconnector (UK) Limited

Directors' report (continued)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the "EU". 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 the company and of the profit or loss of the group 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 IFRS as adopted by the EU 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.

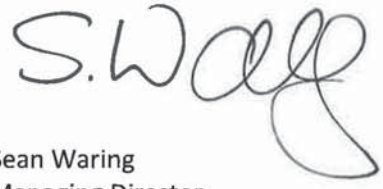
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply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

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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



Sean Waring
Managing Director
15 March 2017

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

Report on the financial statements

Our opinion

In our opinion:

- Interconnector (UK) Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2016 and of the group's profit and the group's and the company's cash flows for the 15 month period (the "period") then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), comprise:

- the consolidated and company statement of financial position as at 31 December 2016;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated and company statement of cash flows for the period then ended;
- the consolidated and company statement of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

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

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Kevin McGhee

Kevin McGhee (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2017

Interconnector (UK) Limited

Consolidated income statement

	Note	**For the period from 1 October 2015 to 31 December 2016**	For the year from 1 October 2014 to 30 September 2015
		£'000	£'000
Revenue	3	**226,793**	180,718
Operating expenses		**(82,984)**	(65,133)
Operating profit	4	**143,809**	115,585
Finance income	7	**6,941**	5,432
Finance costs	8	**(9,617)**	(8,577)
Profit before taxation		**141,133**	112,440
Tax expense	9	**(27,756)**	(23,301)
Profit for the period / year		**113,377**	89,139
Profit for the period / year attributable to:			
Owners of the Parent		**113,275**	89,079
Non-controlling interests		**102**	60
Consolidated profit for the period / year		**113,377**	89,139

The notes on pages 22 to 68 are an integral part of these consolidated financial statements.

Interconnector (UK) Limited

Consolidated statement of comprehensive income

	Note	**For the period from 1 October 2015 to 31 December 2016 £'000**	For the year from 1 October 2014 to 30 September 2015 £'000
Profit for the period / year		**113,377**	89,139
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		**863**	(171)
Cash flow hedge	26	**311**	(712)
Other comprehensive income for the period / year, net of tax		**1,174**	(883)
Total comprehensive income for the period / year		**114,551**	88,256
Total comprehensive income for the period / year attributable to:			
Owners of the Parent		**114,449**	88,196
Non-controlling interests		**102**	60
Total comprehensive income for the period / year		**114,551**	88,256

The notes on pages 22 to 68 are an integral part of these consolidated financial statements.

Interconnector (UK) Limited

Consolidated statement of financial position

	Note	**31 December 2016 £'000**	30 September 2015 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	**127,247**	162,399
Intangible assets	12	**3,946**	3,581
Investments	13	**221**	253
Loans receivable	14	**102,701**	100,376
		234,115	266,609
Current assets			
Loans receivable	14	**7,262**	4,710
Trade and other receivables	16	**21,291**	18,099
Cash and cash equivalents		**29,283**	31,153
		57,836	53,962
Total assets		**291,951**	320,571
Liabilities			
Non-current liabilities			
Borrowings	17	**(34,956)**	(54,736)
Obligations under finance leases	18	**(112,136)**	(112,057)
Deferred income tax liabilities	19	**(18,850)**	(36,117)
Trade and other payables	23	**(10,998)**	(9,731)
Derivative financial instruments	21	**(580)**	(891)
		(177,520)	(213,532)
Current liabilities			
Borrowings	17	**(19,824)**	(19,824)
Obligations under finance leases	18	**(11,596)**	(11,975)
Current income tax liabilities		**(15,714)**	(14,387)
Trade and other payables	23	**(11,615)**	(10,166)
Provisions for other liabilities and charges	22	**-**	(4,664)
		(58,749)	(61,016)
Total liabilities		**(236,269)**	(274,548)
Net assets		**55,682**	46,023

Interconnector (UK) Limited

Consolidated statement of financial position (continued)

	Note	**31 December 2016**	30 September 2015
		£'000	£'000
Equity attributable to:			
Owners of the parent			
Share capital	25	**12,755**	12,755
Other reserves	26	**(272)**	(1,070)
Retained earnings		**42,454**	33,695
		54,937	45,380
Non-controlling interests		**745**	643
Total equity		**55,682**	46,023

The notes on pages 22 to 68 are an integral part of these consolidated financial statements.

The financial statements on pages 12 to 68 were approved by the Board of Directors on 15 March 2017 and were signed on its behalf by:

Sean Waring
Managing Director

Paul Trimmer
Chairman of the Board

Interconnector (UK) Limited

Consolidated statement of changes in equity

	Share capital	Other reserves	Retained earnings	Non-controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000
1 October 2014	12,755	(211)	33,739	583	46,866
Profit for the year	-	-	89,079	60	89,139
Other comprehensive income for the year	-	(859)	(24)	-	(883)
Total comprehensive income for the year	-	(859)	89,055	60	88,256
Distributions to owners					
Dividends (note 10)	-	-	(89,099)	-	(89,099)
30 September 2015	**12,755**	**(1,070)**	**33,695**	**643**	**46,023**
Profit for the period	-	-	113,275	102	113,377
Other comprehensive income for the period	-	798	376	-	1,174
Total comprehensive income for the period	-	798	113,651	102	114,551
Distributions to owners					
Dividends (note 10)	-	-	(104,892)	-	(104,892)
31 December 2016	**12,755**	**(272)**	**42,454**	**745**	**55,682**

Interconnector (UK) Limited

Consolidated statement of cash flows

	Note	**For the period from 1 October 2015 to 31 December 2016 £'000**	For the year from 1 October 2014 to 30 September 2015 £'000
Cash flows from operating activities			
Cash generated from operations	27	**173,330**	146,673
Income taxes		**(43,817)**	(35,164)
Net cash generated from operating activities		**129,513**	111,509
Cash flows from investing activities			
Interest received		**10,810**	5,837
Purchase of property, plant and equipment	11	**(3,206)**	(2,401)
Repayment of loans	14	**10,800**	4,328
Purchase of investments	13	**(3)**	-
Dividends from associates		**26**	23
Net cash generated from investing activities		**18,427**	7,787
Cash flows from financing activities			
Equity dividends paid	10	**(104,892)**	(89,099)
Repayment of capital element of loans	17	**(19,780)**	(19,824)
Capital element of finance lease payments		**(14,506)**	(6,840)
Interest element of finance lease payments		**(10,721)**	(5,803)
Interest paid		**(2,164)**	(2,210)
Net cash used in financing activities		**(152,063)**	(123,776)
Net decrease in cash and cash equivalents		**(4,123)**	(4,480)
Cash and cash equivalents at beginning of the period / year		**31,153**	36,732
Exchange gains / (losses) on cash and cash equivalents		**2,253**	(1,099)
Cash and cash equivalents at end of the period / year		**29,283**	31,153

Interconnector (UK) Limited

Company statement of financial position

	Note	**31 December 2016**	30 September 2015
		£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	11	**122,501**	158,302
Intangible assets	12	**1,394**	1,029
Investments	13	**2,626**	333,253
Loans receivable	14	**155,234**	104,175
		281,755	596,759
Current assets			
Loans receivable	14	**56,164**	4,934
Trade and other receivables	16	**22,732**	17,221
Cash and cash equivalents		**27,590**	30,945
		106,486	53,100
Total assets		**388,241**	649,859
Liabilities			
Non-current liabilities			
Borrowings	17	**(34,956)**	(54,736)
Obligations under finance leases	18	**(175,104)**	(231,599)
Deferred income tax liabilities	19	**(399)**	(764)
Trade and other payables	23	**(10,998)**	(9,731)
Derivative financial instruments	21	**(580)**	(891)
		(222,037)	(297,721)
Current liabilities			
Borrowings	17	**(19,824)**	(19,824)
Obligations under finance leases	18	**(69,874)**	(62,620)
Current income tax liabilities		**(15,612)**	(14,372)
Trade and other payables	23	**(21,583)**	(215,694)
		(126,893)	(312,510)
Total liabilities		**(348,930)**	(610,231)
Net assets		**39,311**	39,628

Interconnector (UK) Limited

Company statement of financial position (continued)

	Note	**31 December 2016**	30 September 2015
		£'000	£'000
Equity			
Share capital	25	**12,755**	12,755
Other reserves	26	**(580)**	(891)
Retained earnings			
At 1 October		**27,764**	33,195
Profit for the period / year attributable to the owners		**104,264**	83,668
Other changes in retained earnings		**(104,892)**	(89,099)
		27,136	27,764
Total Equity		**39,311**	39,628

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

The notes on pages 22 to 68 are an integral part of these consolidated financial statements.

The financial statements on pages 12 to 68 were approved by the Board of Directors on 15 March 2017 and were signed on its behalf by:

Sean Waring
Managing Director

Paul Trimmer
Chairman of the Board

Company Registration Number: **2989838**

Interconnector (UK) Limited

Company statement of changes in equity

	Share capital	Other reserves	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
1 October 2014	**12,755**	**(179)**	**33,195**	**45,771**
Profit for the year	-	-	83,668	83,668
Other comprehensive income for the year	-	(712)	-	(712)
Total comprehensive income for the year	-	(712)	83,668	82,956
Distributions to owners				
Dividends (note 10)	-	-	(89,099)	(89,099)
30 September 2015	**12,755**	**(891)**	**27,764**	**39,628**
Profit for the period	-	-	104,264	104,264
Other comprehensive income for the period	-	311	-	311
Total comprehensive income for the period	-	311	104,264	104,575
Distributions to owners				
Dividends (note 10)	-	-	(104,892)	(104,892)
31 December 2016	**12,755**	**(580)**	**27,136**	**39,311**

Interconnector (UK) Limited

Company statement of cash flows

	Note	**For the period from 1 October 2015 to 31 December 2016 £'000**	For the year from 1 October 2014 to 30 September 2015 £'000
Cash flows from operating activities			
Cash generated from operations	27	**176,673**	150,985
Income taxes		**(39,312)**	(21,429)
Net cash generated from operating activities		**137,361**	129,556
Cash flows from investing activities			
Loans received from subsidiary undertakings		**-**	33,321
New loan issued to a subsidiary undertaking	14	**(97,304)**	-
Dividends from subsidiaries & associates		**16,280**	8,223
Interest received		**10,329**	5,798
Purchase of property, plant and equipment	11	**(3,206)**	(2,401)
Repayment of loans		**11,258**	4,566
Repayment of investments	13	**330,595**	-
Purchase of investments	13	**(3)**	-
Net cash generated from investing activities		**267,949**	49,507
Cash flows from financing activities			
Repayment of intercompany loans		**(196,454)**	-
Equity dividends paid	10	**(104,892)**	(89,099)
Repayment of capital element of loans	17	**(19,780)**	(19,824)
Capital element of finance lease payments		**(65,151)**	(52,061)
Interest element of finance lease payments		**(20,443)**	(18,074)
Interest paid		**(4,145)**	(3,919)
Net cash used in financing activities		**(410,865)**	(182,977)
Net decrease in cash and cash equivalents		**(5,555)**	(3,914)
Cash and cash equivalents at beginning of the period / year		**30,945**	35,958
Exchange gains / (losses) on cash and cash equivalents		**2,200**	(1,099)
Cash and cash equivalents at end of the period / year		**27,590**	30,945

Interconnector (UK) Limited

Notes to the financial statements

1 General information

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

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

2 Accounting policies

Basis of preparation

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

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

Presentation

In the current period, loans receivable have been presented differently from the last year on the statement of financial position and in the notes. For consistency and comparability, the 30 September 2015 comparative numbers have also been reclassified in line with the current period. The reclassification changes are not considered to be material, and have had no impact on the 2015 reported profit or comprehensive income. The reclassification impact for the 30 September 2015 comparative numbers is as follows:

- the group: loans receivable amount of £105.1 million has been reclassified from "Investments" to "Loans receivable", the amount has been split and presented as £100.4 million under the "Non-current assets" category and £4.7 million under the "Current assets" category.

- the company: loans receivable amount of £109.1 million has been reclassified from "Investments" to "Loans receivable", the amount has been split and presented as £104.2 million under the "Non-current assets" category and £4.9 million under the "Current assets" category.

Change in year end

The company and its subsidiaries have changed their year ends from 30 September to 31 December to align to the reporting timetable of the company's controlling shareholder, Fluxys SA (see note 30). Therefore, this set of financial statements has been prepared for the 15-month period ended 31 December 2016. The comparative information is presented on a 12-month basis where applicable.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review, which forms part of the Strategic report. The Strategic report also describes the financial position of the group; its cash flows, liquidity position and borrowing facilities; the group's financial risk management objectives; and exposure to credit risk and liquidity risk.

As highlighted in the Strategic report, the forward and reverse flow capacity in the pipeline is fully contracted with major energy and utility companies on long term contracts expiring in 2018. The group has sufficient financial resources, with committed debt facilities that are scheduled to be repaid within the term of the existing capacity contracts; and therefore, no obligation to refinance in the next 12 months. The group and company are showing net current liabilities of £0.9 million and £20.4 million respectively, which reflect the impact of a quarterly dividend policy of 100% of distributable profits on the working capital cycle. Notwithstanding this, the directors believe that the group is well placed to manage its business risks successfully.

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

Basis of consolidation

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

Non-controlling interests

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

Critical accounting estimates and judgements

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

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Critical accounting estimates and judgements (continued)

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

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

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

The useful life used to depreciate property, plant and equipment relates to management's estimate of the period over which economic benefit will be derived from the asset. The estimated useful life is based either on the term of the lease or the expiration of the current capacity contract. Using the lease term or the duration of the capacity contract to determine the depreciation rate reflects the period over which the group expects to receive economic benefit. The economic lives are reviewed annually. The UK terminal, pipeline and the original Belgian terminal are currently being depreciated on a straight line basis until 2018, being the expiration of the current capacity contract. The enhancements to the Belgian terminal are currently being depreciated on a straight line basis until 2025, being the date of the expiry of the lease. In 2025, the group has the option to purchase the assets or extend the lease. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the consolidated income statement.

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

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

(c) Consolidation of structured entities

The group holds a 25% interest in F L 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. This consideration will be kept under review. Further disclosures are given in note 15.

2 Accounting policies (continued)

Critical accounting estimates and judgements (continued)

(d) Decommissioning obligation

The company has potential obligations under UK and Belgian legislation to decommission the pipeline and terminal assets at the end of their service life. Estimating the future cost of decommissioning requires significant management judgement. Given the length of time before these costs are anticipated to be incurred, there is considerable uncertainty over the nature of the regulations that will prevail and the cost of the resources required. Accordingly, a contingent liability has been recognised as at 31 December 2016 for the potential obligation. Further disclosures are given in note 29.

Intangible assets

(a) Goodwill

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

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

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

(b) Emissions allowances

Emissions allowances are recognised as intangible assets. Purchased emissions allowances are initially recognised at historic 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.

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.

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

The expected lives for this purpose are:

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

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

Spare parts inventory

Spare parts inventory is held at the Bacton and Zeebrugge terminals. They are recognised as an asset when purchased and as expenditure when consumed. They are valued at lower of cost and net realisable value. Cost is determined using first-in, first-out ("FIFO") method.

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.

Cash and cash equivalents

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

Financial assets

(a) Classification

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

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

2 Accounting policies (continued)

Financial assets (continued)

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the year-end, in which case they are classified as non-current assets. The group's loans and receivables comprise "trade and other receivables", "cash and cash equivalents" and "loans receivable" in the statement of financial position.

iii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the year-end.

(b) Recognition & measurement

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

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

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

Investments in subsidiaries

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

2 Accounting policies (continued)

Trade and other receivables

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

Trade and other payables

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

Derivative financial instruments and hedging activities

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

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

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

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

The group does not trade in derivatives.

Cash flow hedge

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

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

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

Finance and operating leases

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

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

Borrowings

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

Finance costs

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

Impairment of financial assets

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

Impairment of non-financial assets

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

Revenue recognition

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

2 Accounting policies (continued)

Finance income

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

Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

2 Accounting policies (continued)

Repairs and maintenance

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

Pension scheme

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

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 period / 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.

New standards, amendments and interpretations

No new standards or amendments to published standards have had a material impact on the financial statements for the financial period beginning 1 October 2015.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

New standards, amendments and interpretations not yet adopted

The following new standards have been published that are relevant to the group's activities and are mandatory for the group's accounting period beginning 1 January 2017 or later periods and which the group has decided not to adopt early.

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

* Not yet endorsed by the EU.

As the new standards do not affect these financial statements, a full assessment of the financial impact on the group has not yet been completed. An overview of the requirements of the new standards and the nature of potential impact on the group is summarised below.

IFRS 9, "Financial instruments"

The new standard addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new "expected credit losses" model that replaces the "incurred loss impairment" model used in IAS 39. For financial liabilities there are no relevant changes to classification and measurement.

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

Nature of impact on the group

Given a relatively simple nature of the group's financial assets and liabilities, no material impact is expected for the group.

IFRS 15, "Revenue from contracts with customers"

The new standard deals with revenue recognition and establishes principles for reporting useful information to the users of the financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations.

Interconnector (UK) Limited

Notes to the financial statements

2 Accounting policies (continued)

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

Nature of impact on the group

All of the revenue generated by the group is covered by standard written contracts with customers. A thorough review of these contractual arrangements is required to determine whether there will be any changes in the pattern of revenue recognition for the group. Assessment of the impact of IFRS 15 is on-going.

IFRS 16, "Leases"

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

Nature of impact on the group

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

Interconnector (UK) Limited

Notes to the financial statements

3 Revenue

	For the period from 1 October 2015 to 31 December 2016	For the year from 1 October 2014 to 30 September 2015
	£'000	£'000
Tariff based on construction costs	**180,740**	146,317
Tariff to recover operating costs	**44,170**	34,207
Other revenues	**1,883**	194
Total revenue	**226,793**	180,718

4 Operating profit

Operating profit is stated after charging / (crediting):

	For the period from 1 October 2015 to 31 December 2016	For the year from 1 October 2014 to 30 September 2015
	£'000	£'000
Employee costs (see note 6)	**9,570**	7,961
Operating lease rentals: land and buildings	**588**	584
Depreciation of property, plant and equipment:		
– owned	**28,519**	22,877
– held under finance leases	**8,795**	7,036
Total depreciation of property, plant and equipment	**37,314**	29,913
Impairment loss recognised on available-for-sale investments	**35**	29
Impairment charge / (reversal) on intangible assets –	**97**	(110)
Fees payable to company auditors and associates for:		
– the audit of the company and consolidated financial statements	**59**	54
– the audit of the company's subsidiaries	**21**	24
– audit-related assurance services	**23**	8
– taxation compliance services	**27**	22
– other taxation advisory services	**45**	3
Total fees payable to company auditors and associates	**175**	111

Interconnector (UK) Limited

Notes to the financial statements

5 Key management personnel remuneration

	For the period from 1 October 2015 to 31 December 2016	For the year from 1 October 2014 to 30 September 2015
	£'000	£'000
Aggregate emoluments	**689**	511
Defined contribution pension scheme costs	**38**	31
Total remuneration	**727**	542

Key management personnel compensation for the period is in respect of two directors (year ended 30 September 2015: two). Aggregate emoluments include salary, bonus and healthcare benefits.

The highest paid director's total remuneration for the 15 month period ended 31 December 2016 is £464,000 (year ended 30 September 2015: £342,000), including defined contribution pension costs of £38,000 (year ended 30 September 2015: £31,000). Defined contribution pension scheme costs represent amounts paid by the company in respect of one (year ended 30 September 2015: one) director.

6 Employee information

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

	For the period from 1 October 2015 to 31 December 2016	For the year from 1 October 2014 to 30 September 2015
	Average Number	Average Number
By activity:		
Physical operations	**40**	41
Commercial operations	**10**	12
Administration	**23**	23
Total average number of employees	**73**	76

Interconnector (UK) Limited

Notes to the financial statements

6 Employee information (continued)

Employee costs:	**For the period from 1 October 2015 to 31 December 2016 £'000**	For the year from 1 October 2014 to 30 September 2015 £'000
Wages and salaries	**6,878**	5,674
Social security costs	**940**	745
Other pension costs	**1,025**	1,000
Key management personnel remuneration, including other pension costs (see note 5)	**727**	542
Total employee costs	**9,570**	7,961

7 Finance income

	For the period from 1 October 2015 to 31 December 2016 £'000	For the year from 1 October 2014 to 30 September 2015 £'000
Bond interest receivable	**6,808**	5,305
Interest receivable on bank balances	**89**	100
Income from shares in investments	**26**	23
Other income	**18**	4
Total finance income	**6,941**	5,432

Interconnector (UK) Limited

Notes to the financial statements

8 Finance costs

	For the period from 1 October 2015 to 31 December 2016	For the year from 1 October 2014 to 30 September 2015
	£'000	£'000
Lease finance charges	**6,879**	5,373
Bank loans:		
- Secured	**2,066**	2,156
Exchange differences on foreign currency debt and deposits	**283**	323
Other interest payable	**389**	725
Total finance costs	**9,617**	8,577

9 Tax expense

	For the period from 1 October 2015 to 31 December 2016	For the year from 1 October 2014 to 30 September 2015
	£'000	£'000
Current tax:		
UK corporation tax on profits for the period at 20% (year ended 30 September 2015: 20.5%)	**41,101**	32,625
Foreign tax on profits for the period / year	**255**	128
Current tax on profits for the period / year	**41,356**	32,753
Settlement of the Discounted Convertible Loan Note (note 22)	**4,101**	-
Adjustments in respect of prior years	**(435)**	271
Total current tax	**45,022**	33,024
Deferred tax:		
Origination and reversal of timing differences	**(12,303)**	(9,704)
Settlement of the Discounted Convertible Loan Note (note 22)	**(4,101)**	-
Deferred tax credit relating to change in tax rate	**(862)**	(19)
Total deferred tax (see note 19)	**(17,266)**	(9,723)
Tax expense	**27,756**	23,301

Interconnector (UK) Limited

Notes to the financial statements

9 Tax expense (continued)

There was a change in the UK main corporation tax rate from 21% to 20%, effective from 1 April 2015.

Further changes in the UK tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred tax balances at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The tax assessed for the period is lower (year ended 30 September 2015: higher) than the average rate of corporation taxation in the UK for the period (20%) (year ended 30 September 2015: 20.5%). The differences are explained below:

	For the period from 1 October 2015 to 31 December 2016 £'000	For the year from 1 October 2014 to 30 September 2015 £'000
Profit before taxation	**141,133**	112,440
Profit on ordinary activities multiplied by average rate in the UK 20% (year ended 30 September 2015: 20.5%)	**28,227**	23,049
Effects of:		
Expenses not deductible for tax purposes	**3,973**	1,502
Income not chargeable for tax purposes	**(3,761)**	(973)
Re-measurement of deferred tax – change in UK tax rate	**(862)**	(19)
Other timing differences	**509**	(580)
Impact of higher foreign tax rates	**105**	51
Adjustments to tax charge in respect of prior years	**(435)**	271
Tax expense	**27,756**	23,301

Interconnector (UK) Limited

Notes to the financial statements

10 Dividends on equity shares

	For the period from 1 October 2015 to 31 December 2016	For the year from 1 October 2014 to 30 September 2015
	£'000	£'000
Equity – Ordinary		
Final paid: £ nil (2015 – £1.79) per £1 ordinary share	**-**	21,096
Interim paid: £ 8.90 (2015 – £5.77) per £1 ordinary share	**104,892**	68,003
Total dividends	**104,892**	89,099

The directors have proposed a final dividend for the 15 month period ended 31 December 2016 of £2.07 per ordinary share (totalling £24.4 million). This has not been recognised in these financial statements as it had not been approved by the shareholders at the balance sheet date.

Note 25 sets out details regarding preference dividends.

Interconnector (UK) Limited

Notes to the financial statements

11 Property, plant and equipment

Group	Freehold land	UK terminal & pipeline	Belgian terminal	Other UK infrastructure assets	Other assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 October 2014	5,373	420,365	137,252	27,087	20,496	610,573
Additions in the year	-	-	-	-	2,401	2,401
Disposals in the year	-	-	-	-	(1,272)	(1,272)
Foreign exchange adjustments	(235)	-	-	-	-	(235)
At 30 September 2015	5,138	420,365	137,252	27,087	21,625	611,467
Additions in the period	-	-	-	-	3,206	3,206
Disposals in the period	-	-	-	-	(2,863)	(2,863)
Foreign exchange adjustments	649	-	-	-	-	649
At 31 December 2016	**5,787**	**420,365**	**137,252**	**27,087**	**21,968**	**612,459**
Accumulated depreciation						
At 1 October 2014	-	(320,078)	(66,452)	(21,669)	(11,391)	(419,590)
Charge for the year	-	(21,088)	(7,036)	(1,354)	(435)	(29,913)
Disposals in the year	-	-	-	-	435	435
At 30 September 2015	-	(341,166)	(73,488)	(23,023)	(11,391)	(449,068)
Charge for the period	-	(26,358)	(8,795)	(1,694)	(467)	(37,314)
Disposals in the period	-	-	-	-	1,170	1,170
At 31 December 2016	**-**	**(367,524)**	**(82,283)**	**(24,717)**	**(10,688)**	**(485,212)**
Net book value						
At 31 December 2016	**5,787**	**52,841**	**54,969**	**2,370**	**11,280**	**127,247**
At 30 September 2015	5,138	79,199	63,764	4,064	10,234	162,399
At 1 October 2014	5,373	100,287	70,800	5,418	9,105	190,983

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	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 October 2014	1,041	420,365	137,252	27,087	20,496	606,241
Additions in the year	-	-	-	-	2,401	2,401
Disposals in the year	-	-	-	-	(1,272)	(1,272)
At 30 September 2015	1,041	420,365	137,252	27,087	21,625	607,370
Additions in the period	-	-	-	-	3,206	3,206
Disposals in the period	-	-	-	-	(2,863)	(2,863)
At 31 December 2016	**1,041**	**420,365**	**137,252**	**27,087**	**21,968**	**607,713**
Accumulated depreciation						
At 1 October 2014	-	(320,078)	(66,452)	(21,669)	(11,391)	(419,590)
Charge for the year	-	(21,088)	(7,036)	(1,354)	(435)	(29,913)
Disposals in the year	-	-	-	-	435	435
At 30 September 2015	-	(341,166)	(73,488)	(23,023)	(11,391)	(449,068)
Charge for the period	-	(26,358)	(8,795)	(1,694)	(467)	(37,314)
Disposals in the period	-	-	-	-	1,170	1,170
At 31 December 2016	**-**	**(367,524)**	**(82,283)**	**(24,717)**	**(10,688)**	**(485,212)**
Net book value						
At 31 December 2016	**1,041**	**52,841**	**54,969**	**2,370**	**11,280**	**122,501**
At 30 September 2015	1,041	79,199	63,764	4,064	10,234	158,302
At 1 October 2014	1,041	100,287	70,800	5,418	9,105	186,651

Interconnector (UK) Limited

Notes to the financial statements

11 Property, plant and equipment (continued)

Freehold land

The freehold land relates to land at a cost of £1.0 million at Bacton (UK) and £4.8 million (€5.6 million) at Zeebrugge (Belgium) terminals. A head-lease over the freehold land at Bacton was granted by the company, for a period not exceeding twenty years from 1 October 1998, to Interconnector Leasing Company Limited ("ILC"), a wholly-owned subsidiary. ILC in turn granted a sub-lease of the land for the same period back to the company.

UK terminal and pipeline and Belgian terminal

The company entered into contractual arrangements whereby the ownership of the UK terminal and the pipeline (including the pipeline in Belgium) was transferred to ILC and leased-back by the company. The primary lease period for these assets is 20 years and commenced on 1 October 1998. Beyond September 2018, the lease period may be extended from year to year, on payment of a "peppercorn" rental. The UK terminal and pipeline asset cost is £420.4 million and the net book value is £52.8 million at 31 December 2016.

The Belgian terminal is subject to two separate leases (see note 18) with Fluxys Belgium SA ("Fluxys") and FLZ. The Belgian terminal has been reflected as an asset of the company as substantially all of the rights and obligations relating to the terminal rest with the company. The primary lease period for these assets is 20 years and commenced on 1 October 1998 for the Fluxys lease and 1 December 2005 for the FLZ lease. The Belgian terminal cost is £137.3 million and the net book value is £55.0 million at 31 December 2016.

Note 4 summarises the depreciation charge on leased assets.

Other UK infrastructure assets

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

Other assets

Other assets include furniture, fixtures and fittings, computer equipment, project set-up costs and systems developed to manage customer gas-flow nominations. Spare parts inventory held at both Bacton and Zeebrugge terminals is included in other assets, totalling £9.9 million (year ended 30 September 2015: £9.2 million). The expense is recognised in the income statement when spares are used.

Cash generating units

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

Interconnector (UK) Limited

Notes to the financial statements

12 Intangible assets

Group	Goodwill	Emissions allowances	Total
	£'000	£'000	£'000
Cost			
At 1 October 2014	2,552	1,146	3,698
Additions in the year	-	321	321
Disposals in the year	-	(367)	(367)
At 30 September 2015	2,552	1,100	3,652
Additions in the period	-	1,040	1,040
Disposals in the period	-	(578)	(578)
At 31 December 2016	**2,552**	**1,562**	**4,114**
Accumulated amortisation / impairment			
At 1 October 2014	-	(181)	(181)
Impairment reversal	-	110	110
At 30 September 2015	-	(71)	(71)
Impairment in the period	-	(97)	(97)
At 31 December 2016	**-**	**(168)**	**(168)**
Net book value			
At 31 December 2016	**2,552**	**1,394**	**3,946**
At 30 September 2015	2,552	1,029	3,581
At 1 October 2014	2,552	965	3,517

Goodwill

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

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.

Company	Emissions allowances
	£'000
Cost	
At 1 October 2014	1,146
Additions in the year	321
Disposals in the year	(367)
At 30 September 2015	1,100
Additions in the period	1,040
Disposals in the period	(578)
At 31 December 2016	**1,562**
Accumulated amortisation / impairment	
At 1 October 2014	(181)
Impairment reversal	110
At 30 September 2015	(71)
Impairment in the period	(97)
At 31 December 2016	**(168)**
Net book value	
At 31 December 2016	**1,394**
At 30 September 2015	1,029
At 1 October 2014	965

Interconnector (UK) Limited

Notes to the financial statements

13 Investments

Group	Investments in unlisted shares
	£'000
Cost	
At 1 October 2014	422
At 30 September 2015	422
Additions	3
At 31 December 2016	**425**
Accumulated impairment	
At 1 October 2014	(140)
Charge for the year	(29)
At 30 September 2015	(169)
Charge for the period	(35)
At 31 December 2016	**(204)**
Net book value	
At 31 December 2016	**221**
At 30 September 2015	253
At 1 October 2014	282

Additions in the period relate to the purchase of 4,608 (1.76%) shares in PRISMA European Capacity Platform GmbH (PRISMA). The remaining balance of investments in unlisted shares relates to shares in FLZ. Further details regarding this investment are disclosed in note 15.

Interconnector (UK) Limited

Notes to the financial statements

13 Investments (continued)

Company	Investments in unlisted shares £'000	Shares in subsidiary undertakings £'000	Total £'000
Cost			
At 1 October 2014	422	337,443	337,865
At 30 September 2015	422	337,443	337,865
Additions	3	-	3
Disposals / repayments	-	(330,595)	(330,595)
At 31 December 2016	**425**	**6,848**	**7,273**
Accumulated impairment			
At October 2014	(140)	(500)	(640)
Charge for the year	(29)	(3,943)	(3,972)
At 30 September 2015	(169)	(4,443)	(4,612)
Charge for the period	(35)	-	(35)
At December 2016	**(204)**	**(4,443)**	**(4,647)**
Net book value			
At 31 December 2016	221	2,405	2,626
At 30 September 2015	253	333,000	333,253
At 1 October 2014	282	336,973	337,255

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.

Interconnector (UK) Limited

Notes to the financial statements

13 Investments (continued)

Subsidiaries

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

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

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

- ICC – investment holding company;
- IZT – the operation and maintenance of gas terminal facilities at Zeebrugge, Belgium;
- BAS – until 29 September 2016, BAS operated as a finance company, on 30 September 2016 BAS ceased to have any operations as a result of an inter-group refinancing exercise;
- IFC – to operate as a finance company;
- ILC – commercial leasing of plant and equipment; and
- IHC – dormant company.

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

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

Interconnector (UK) Limited

Notes to the financial statements

14 Loans receivable

Group	FLZ bond £'000
At 31 December 2016	
Amounts receivable in less than one year	**7,262**
Amounts receivable after one year	**102,701**
	109,963
At 30 September 2015	
Amounts receivable in less than one year	4,710
Amounts receivable after one year	100,376
	105,086

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

Company	FLZ bond £'000	ILC loan £'000	IZT loan £'000	Total £'000
At 31 December 2016				
Amounts receivable in less than one year	7,512	48,652	-	56,164
Amounts receivable after one year	104,021	48,652	2,561	155,234
Total	**111,533**	**97,304**	**2,561**	**211,398**
At 30 September 2015				
Amounts receivable in less than one year	4,934	-	-	4,934
Amounts receivable after one year	101,964	-	2,211	104,175
Total	106,898	-	2,211	109,109

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

The company issued a new loan to ILC for £97.3 million during the period as part of a group refinancing. The loan is repayable in equal instalments by September 2018 and has a fixed rate interest of 1.994%. The amount payable within one year is £48.7million.

Interconnector (UK) Limited

Notes to the financial statements

15 Unconsolidated structured entities

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

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

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

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

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

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

	31 December 2016 £'000	30 September 2015 £'000
Assets		
Loans receivable – bond	**109,963**	105,086
Investments – available for sale	**218**	253
Interest receivable	**465**	4,362
Liabilities		
Obligations under finance leases	**(111,411)**	(106,757)
Interest payable	**(461)**	(4,331)
Net liability in relation to financing arrangements	**(1,226)**	(1,387)
Assets – Property, plant and equipment	**53,072**	60,512

Interconnector (UK) Limited

Notes to the financial statements

16 Trade and other receivables

	Group	Group	**Company**	Company
	31 December 2016	30 September 2015	**31 December 2016**	30 September 2015
	£'000	£'000	**£'000**	£'000
Accrued income	**16,290**	12,163	**16,290**	12,163
Other interest receivable	**470**	4,362	**449**	4,176
Trade receivables	**152**	58	**146**	-
Prepayments	**1,431**	843	**1,431**	843
Other taxes receivable	**2,923**	659	**14**	25
Other receivables	**25**	14	**2,611**	14
Amounts receivable from wholly owned subsidiary undertakings	**-**	-	**1,791**	-
	21,291	18,099	**22,732**	17,221

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

The company issued a new loan to ILC (see note 14) during the period. The loan has a fixed interest rate of 1.994%. Amounts receivable from wholly owned subsidiary undertakings include accrued interest of £0.5m in respect of this loan. Interest is accrued quarterly and paid annually together with the capital repayment.

17 Borrowings

Bank loan

This loan is repayable in instalments as follows:

Group and company	**31 December 2016**	30 September 2015
	£'000	£'000
Amounts falling due:		
Less than one year	**19,824**	19,824
Current liability	**19,824**	19,824
Amounts falling due:		
Between one and two years	**34,956**	19,824
Between two and five years	**-**	34,912
Non-current liability	**34,956**	54,736
Total bank loans	**54,780**	74,560

Interconnector (UK) Limited

Notes to the financial statements

17 Borrowings (continued)

In September 2013, the company refinanced existing loans with a secured five year term loan facility with RBS (the "RBS loan"). The RBS loan is stated net of direct issue costs of £0.2 million.

The RBS loan is secured by the following:

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

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

18 Obligations under finance leases

Group

The present value of finance lease liabilities is as follows:	**31 December 2016**	30 September 2015
	£'000	£'000
Amounts falling due:		
Less than one year	**11,596**	11,975
Current liability	**11,596**	11,975
Amounts falling due:		
Between one and two years	**16,718**	8,782
Between two and five years	**32,415**	29,183
After five years	**63,003**	74,092
Non-current liability	**112,136**	112,057
Total obligations under finance leases	**123,732**	124,032

Interconnector (UK) Limited

Notes to the financial statements

18 Obligations under finance leases (continued)

Group

Gross finance lease liabilities – minimum lease payments:	**31 December 2016**	30 September 2015
	£'000	£'000
Less than one year	**17,155**	17,310
Between one and two years	**21,893**	13,874
Between two and five years	**44,900**	42,372
After five years	**71,063**	87,816
Future finance charges on finance lease liabilities	**(31,279)**	(37,340)
Present value of finance lease liabilities	**123,732**	124,032

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

Company

The present value of finance lease liabilities is as follows:

	31 December 2016	30 September 2015
	£'000	£'000
Amounts falling due:		
Less than one year	**69,874**	62,620
Current liability	**69,874**	62,620
Between one and two years	**79,685**	65,358
Between two and five years	**32,415**	92,150
After five years	**63,004**	74,091
Non-current liability	**175,104**	231,599
Total obligations under finance leases	**244,978**	294,219

Interconnector (UK) Limited

Notes to the financial statements

18 Obligations under finance leases (continued)

Company

Gross finance lease liabilities – minimum lease payments:	**31 December 2016 £'000**	30 September 2015 £'000
Less than one year	**82,243**	77,677
Between one and two years	**88,447**	77,260
Between two and five years	**44,900**	108,927
After five years	**71,065**	87,816
Future finance charges on finance lease liabilities	**(41,677)**	(57,461)
Present value of finance lease liabilities	**244,978**	294,219

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

19 Deferred tax

The analysis of deferred tax liabilities is as follows:

	Group	Group	**Company**	Company
	31 December 2016 £'000	30 September 2015 £'000	**31 December 2016 £'000**	30 September 2015 £'000
Deferred tax liabilities				
Accelerated tax depreciation	**19,235**	33,020	**399**	764
Other timing differences	**(385)**	3,097	**-**	-
Deferred tax at period / year end	**18,850**	36,117	**399**	764

Interconnector (UK) Limited

Notes to the financial statements

19 Deferred tax (continued)

	Group	Group	**Company**	Company
	31 December 2016	30 September 2015	**31 December 2016**	30 September 2015
	£'000	£'000	**£'000**	£'000
Deferred tax liabilities:				
Provision at 1 October	**36,117**	45,794	**764**	1,062
Deferred tax credit in the income statement	**(17,266)**	(9,723)	**(365)**	(298)
Deferred tax charge in other comprehensive income	**(1)**	23	**-**	-
Transfer to provision	**-**	23	**-**	-
At 31 December / 30 September	**18,850**	36,117	**399**	764

	Group	Group	**Company**	Company
	31 December 2016	30 September 2015	**31 December 2016**	30 September 2015
Deferred tax liabilities:	**£'000**	£'000	**£'000**	£'000
Deferred tax liabilities due within 12 months	**11,053**	13,751	**278**	300
Deferred tax liabilities due after more than 12 months	**7,797**	22,366	**121**	464
At 31 December / 30 September	**18,850**	36,117	**399**	764

Interconnector (UK) Limited

Notes to the financial statements

20 Financial Instruments

Principal financial instruments

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

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

The main risks associated with the financial instruments are:

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

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

General objectives, policies and processes

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

Market risk

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

Foreign exchange risk

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

Interconnector (UK) Limited

Notes to the financial statements

20 Financial Instruments (continued)

Foreign exchange risk (continued)

Financial assets and liabilities held in Euros – group	**31 December 2016**	30 September 2015
	£'000	£'000
Trade and other payables	**(3,270)**	(1,560)
Other receivables	**2,909**	-
Cash at bank	**13,531**	12,060
Loans receivable – FLZ bond	**109,963**	105,086
Borrowings – net obligations under finance leases	**(123,732)**	(124,032)
Total	**(599)**	(8,446)

Financial assets and liabilities held in Euros – company	**31 December 2016**	30 September 2015
	£'000	£'000
Trade and other receivables / (payables)	**175**	(20)
Cash at bank	**11,846**	11,881
Loans receivable – FLZ bond	**111,533**	106,899
Borrowings – net obligations under finance leases	**(123,732)**	(124,032)
Total	**(178)**	(5,272)

Cash flow and fair value interest rate risk

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

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

At 31 December 2016, 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 period would not have been affected as all the borrowings are either at fixed interest rate or, in the case of floating interest rate borrowing, hedged by an interest rate swap.

Interconnector (UK) Limited

Notes to the financial statements

20 Financial Instruments (continued)

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

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

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

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

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

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

	31 December 2016		**30 September 2015**	
	Carrying amount	Fair value	Carrying amount	Fair value
		£'000		
Group				
Financial assets				
Loans and receivables – bond (note 14) and accrued interest (note 16)	**110,428**	125,423	109,448	124,242
Financial liabilities				
Financial liabilities measured at amortised cost – net obligations under finance leases including accrued interest (note 18)	**(123,732)**	(138,181)	(124,032)	(138,280)
Company				
Financial assets				
Loans and receivables – bond (note 14) and accrued interest (note 16)	**111,977**	125,423	111,074	124,242
Financial liabilities				
Financial liabilities measured at amortised cost – net obligations under finance leases including accrued interest (note 18)	**(244,978)**	(266,091)	(294,219)	(321,773)

Interconnector (UK) Limited

Notes to the financial statements

20 Financial Instruments (continued)

Credit risk

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

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

Credit risk on trade and other receivables relates mainly to receivables due from customers, and is the risk that a customer fails to repay its obligation in respect of the amounts owed under the capacity contracts. This risk is managed through the minimum credit standard required in the standard capacity contracts. There has been no history of customers failing to pay the amounts due.

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

Liquidity risk

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

	Payable within one year	Payable after one year
Group	**£'000**	**£'000**
At 31 December 2016		
Trade and other payables	(7,885)	-
Borrowings and derivative financial instruments	(21,100)	(35,385)
Finance lease liabilities	(16,667)	(137,857)
Total	**(45,652)**	**(173,242)**
At 30 September 2015		
Trade and other payables	(7,571)	-
Borrowings and derivative financial instruments	(21,540)	(56,485)
Finance lease liabilities	(12,965)	(144,022)
Total	**(42,076)**	**(200,507)**

Interconnector (UK) Limited

Notes to the financial statements

20 Financial Instruments (continued)

Liquidity risk (continued)

Company	Payable within one year	Payable after one year
At 31 December 2016	**£'000**	**£'000**
Trade and other payables	(17,853)	-
Borrowings and derivative financial instruments	(21,100)	(35,385)
Finance lease liabilities	(80,052)	(204,411)
Total	**(119,005)**	**(239,796)**
At 30 September 2015		
Trade and other payables	(213,098)	-
Borrowings	(21,540)	(56,485)
Finance lease liabilities	(60,367)	(129,940)
Total	**(295,005)**	**(186,425)**

Capital risk management

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

The group's objectives when managing its capital are to safeguard the ability of the entities in the group to continue as going concerns, while maximising the return to shareholders, as earned from the capacity contracts, through the optimisation of the debt and equity balance. The group's overall strategy remains unchanged from 2015. 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 2016	**30 September 2015**
	£'000	£'000
Total borrowings, including obligations under finance leases	178,512	198,592
Less: Cash and cash equivalents	(29,283)	(31,153)
Net debt	149,229	167,439
EBITDA for the period / year ended	181,255	145,418
Ratio of net debt to EBITDA	**0.82**	**1.15**

Interconnector (UK) Limited

Notes to the financial statements

20 Financial Instruments (continued)

Financial instruments by class and by category – group

Loans and Receivables

	31 December 2016 £'000	30 September 2015 £'000
Non-current financial assets		
Loans receivable – bond	102,701	100,376
Current financial assets		
Loans receivable – bond	7,262	4,710
Trade and other receivables	16,937	16,597
Cash and cash equivalents	29,283	31,153
Total financial assets	**156,183**	152,836

Available-for-sale financial assets

	31 December 2016 £'000	30 September 2015 £'000
Non-current financial assets		
Investment – Shares	425	422
Less: Accumulated impairment	(204)	(169)
Total financial assets	**221**	253

Financial liabilities measured at amortised cost

	31 December 2016 £'000	30 September 2015 £'000
Current financial liabilities		
Borrowings	(19,824)	(19,824)
Obligations under finance leases	(11,596)	(11,975)
Trade and other payables	(7,885)	(7,571)
Non- current financial liabilities		
Borrowings	(34,956)	(54,736)
Obligations under finance leases	(112,136)	(112,057)
Total financial liabilities measured at amortised cost	**(186,397)**	(206,163)

Financial instruments measured at fair value through profit and loss

	31 December 2016 £'000	30 September 2015 £'000
Non-current financial liabilities		
Derivative financial instruments (level 2)	**(580)**	(891)

Interconnector (UK) Limited

Notes to the financial statements

20 Financial Instruments (continued)

Financial instruments by class and by category – company

Loans and Receivables

	31 December 2016	**30 September 2015**
	£'000	£'000
Non-current financial assets		
Loans receivable	155,234	104,175
Current financial assets		
Loans receivable	56,164	4,934
Trade and other receivables	21,287	16,353
Cash and cash equivalents	27,590	30,945
Total financial assets	**260,275**	156,407

Available-for-sale financial assets

	31 December 2016	30 September 2015
	£'000	£'000
Non-current financial assets		
Investment – Shares	425	422
Less: Accumulated impairment	(204)	(169)
Total financial assets	**221**	**253**

Financial liabilities measured at amortised cost

	31 December 2016	30 September 2015
	£'000	£'000
Current financial liabilities		
Borrowings	(19,824)	(19,824)
Obligations under finance leases	(69,874)	(62,620)
Trade and other payables	(17,853)	(213,100)
Non- current financial liabilities		
Borrowings	(34,956)	(54,736)
Obligations under finance leases	(175,104)	(231,599)
Total financial liabilities measured at amortised cost	**(317,611)**	(581,879)

Financial instruments measured at fair value through profit and loss

	31 December 2016	30 September 2015
	£'000	£'000
Non-current financial liabilities		
Derivative financial instruments (level 2)	**(580)**	(891)

Interconnector (UK) Limited

Notes to the financial statements

21 Derivative financial instruments

Group and company	31 December 2016 £'000	30 September 2015 £'000
Interest rate swap liability– cash flow hedge – non-current	**580**	891

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

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

The notional principal amount of the outstanding interest rate swap at 31 December 2016 was £55 million (30 September 2015: £75 million). The interest rate swap has fixed the cost of debt at 1.50%, replacing LIBOR. Gains and losses recognised in the hedging reserve in equity (note 26) on the interest rate swap are gradually released to the income statement within finance cost until the repayment of the bank borrowings (note 17).

22 Provisions

Group	Tax £'000	Interest £'000	Total £'000
At 1 October 2014	5,370	2,664	8,034
Charged to the income statement	-	673	673
Settlement of ZCLN	(2,908)	(1,114)	(4,022)
Transfer from deferred tax	(21)	-	(21)
As at 1 October 2015	2,441	2,223	4,664
Charged to the income statement	-	345	345
Settlement of DCLN	(2,441)	(2,568)	(5,009)
As at 31 December 2016	**-**	**-**	**-**

The tax and interest provisions related to corporation tax in dispute on intra-group financing arrangements, which were under enquiry by HMRC. All outstanding tax and interest were settled with HMRC as part of the £9.1 million payment in July 2016. The group has also released the deferred tax balance relating to the DCLN (see Note 19) during the period. All enquiries on the company's corporation tax returns have now been closed.

Interconnector (UK) Limited

Notes to the financial statements

23 Trade and other payables

	Group	Group	**Company**	Company
	31 December 2016	30 September 2015	**31 December 2016**	30 September 2015
	£'000	£'000	**£'000**	£'000
Deferred revenue	**11,625**	10,079	**11,625**	10,079
Accruals and other payables	**6,520**	6,386	**6,660**	6,540
Other taxes including social security	**3,103**	2,246	**3,103**	2,246
Trade payables	**1,365**	1,134	**959**	1,121
Other interest payable	**-**	52	**-**	52
Amounts owed to wholly-owned subsidiary undertakings	**-**	-	**10,234**	205,387
	22,613	19,897	**32,581**	225,425
Less: Non-current portion: Deferred revenue	**(10,998)**	(9,731)	**(10,998)**	(9,731)
Current portion	**11,615**	10,166	**21,583**	215,694

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

24 Operating lease commitments

Group and company	**31 December 2016**	30 September 2015
	£'000	£'000
Total commitments under non-cancellable operating leases		
Land and buildings: less than one year	**369**	616
Land and buildings: between two and five years	**1,477**	962
Land and buildings: over five years	**1,447**	-
	3,293	**1,578**

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

Interconnector (UK) Limited

Notes to the financial statements

25 Share capital

Authorised, issued and fully paid	31 December 2016 £'000	30 September 2015 £'000
11,785,680 (2015: 11,785,680) ordinary shares of £1 each	**11,786**	11,786
969,000 (2015: 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 period and consequently, no dividend attaches to the preference shares.

26 Other reserves

	Group		Company		Total	
	Hedging reserve £'000	Translation reserve £'000	Hedging reserve £'000	Translation reserve £'000	Group £'000	Company £'000
At 1 October 2014	(179)	(32)	(179)	-	(211)	(179)
Exchange differences arising on translation of foreign operations	-	(147)	-	-	(147)	-
Cash flow hedge: fair value losses	(712)	-	(712)	-	(712)	(712)
At 1 October 2015	(891)	(179)	(891)	-	(1,070)	(891)
Exchange differences arising on translation of foreign operations	-	487	-	-	487	-
Cash flow hedge: fair value gains	311	-	311	-	311	311
At 31 December 2016	**(580)**	**308**	**(580)**	**-**	**(272)**	**(580)**

Interconnector (UK) Limited

Notes to the financial statements

27 Cash generated from operations

Group	**For the period from 1 October 2015 to 31 December 2016 £'000**	For the year from 1 October 2014 to 30 September 2015 £'000
Profit before income tax	**141,133**	112,440
Adjustments for:		
Depreciation and amortisation	**37,349**	29,942
Finance costs - net	**2,676**	3,145
Decrease in provisions	**(5,009)**	(4,019)
Other non-cash items in the income statement	**1,843**	659
Changes in working capital:		
(Increase) / decrease in debtors	**(7,084)**	2,374
Increase in creditors	**2,422**	2,132
Cash generated from operations	**173,330**	**146,673**

Company	**For the period from 1 October 2015 to 31 December 2016 £'000**	For the year from 1 October 2014 to 30 September 2015 £'000
Profit before income tax	**144,481**	102,592
Adjustments for:		
Depreciation and amortisation	**37,314**	29,913
Impairment of investments	**35**	3,972
Finance costs - net	**(1,380)**	8,536
Other non-cash items in the income statement	**1,656**	589
Changes in working capital:		
(Increase) / decrease in debtors	**(7,447)**	2,346
Increase in creditors	**2,014**	3,037
Cash generated from operations	**176,673**	150,985

Interconnector (UK) Limited

Notes to the financial statements

28 Commitments

The company has committed to financially support its wholly-owned subsidiary ICC, to enable it to meet its liabilities as they fall due and carry on its business without curtailment of its operations.

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

29 Contingent liabilities

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

The scope of the offshore decommissioning will depend on the legislative requirements and the seabed conditions at the point of decommissioning. These circumstances cannot be reliably predicted so far in advance. The current costs of removing the pipeline in such areas would be approximately £1.5 million per kilometre removed. The estimated present value of removing a section of 10 kilometres is £2.0 million, if discounted to the end of the service life of the pipeline.

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

30 Related party transactions

Group

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

During the 15 month period ended 31 December 2016, dividends of £35.1 million (year ended 30 September 2015: £29.8 million) were paid to La Caisse de dépôt et placement du Québec and its subsidiary CDP Investissements Inc., who together have significant influence over the group.

The group's operating expenses for the 15 month period ended 31 December 2016 include £2.4 million (year ended 30 September 2015: £1.9 million), primarily in relation to maintenance and operation of the Zeebrugge terminal, paid to Fluxys Belgium SA, which is an affiliate of Fluxys Europe BV, a shareholder with significant influence.

In addition, during the 15 month period ended 31 December 2016, lease rentals in relation to the Belgium terminal (see note 18) of £3.3 million (year ended 30 September 2015: £2.5 million) were paid to Fluxys Belgium SA, and dividends of £53.2 million (year ended 30 September 2015: £36.3 million) were paid to Fluxys Interconnector Ltd, Fluxys UK Ltd, and Fluxys Europe BV affiliates, Gasbridge 1 BV and Gasbridge 2 BV.

Interconnector (UK) Limited

Notes to the financial statements

30 Related party transactions (continued)

The amounts payable to Fluxys Belgium SA at 31 December 2016 in relation to operating expenses were £0.03 million (at 30 September 2015: £nil). The finance lease liability (see note 18) outstanding at 31 December 2016 was £11.8 million (at 30 September 2015: £12.9 million).

Company

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

The company's cost of sales for the 15 month period ended 31 December 2016 includes £12.4 million (year ended 30 September 2015: £6.5 million) in relation to purchases from IZT, in accordance with the Service Agreement between the company and IZT. The amounts outstanding at 31 December 2016, in relation to these purchases, were £0.3 million payable to the company (year ended 30 September 2015: £nil).

In addition, during the 15 month period ended 31 December 2016, lease rentals of £18.1 million (year ended 30 September 2015: £12.6 million) were recharged by IZT to the company. The amounts outstanding at 31 December 2016, in relation to these lease rentals, were £2.0 million (year ended 30 September 2015: £8.4 million) payable to IZT.

At 31 December 2016, IZT owed £2.6 million (year ended 30 September 2015: £2.2 million) to the company under an inter-company loan agreement. Interest income, based upon a variable rate linked to EURIBOR, of £2,600 (year ended 30 September 2015: £7,000) has been recognised during the 15 month period ended 31 December 2016 by the company. IZT's interest expense is recharged to the company in accordance with the Service Agreement between the company and IZT. The company's transactions with wholly-owned subsidiaries are summarised below:

	Sales		Interest expense		Finance lease interest expense		Dividend income	
	2016[1]	2015[2]	**2016[1]**	2015[2]	**2016[1]**	2015[2]	**2016[1]**	2015[2]
Related party	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
ILC	**50**	-	**1,320**	1,538	**11,424**	12,272	**-**	-
BAS	**133**	286	**91**	94	**-**	-	**16,254**	8,200
ICC	**-**	-	**83**	77	**-**	-	**-**	-
IFC	**6**	-	**-**					
	189	286	**1,494**	1,709	**11,424**	12,272	**16,254**	8,200

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

[1] **For the period from 1 October 2015 to 31 December 2016**
[2] For the year from 1 October 2014 to 30 September 2015

Interconnector (UK) Limited

Notes to the financial statements

30 Related party transactions (continued)

During the period BAS has undergone a capital reduction and declared a dividend totalling £333,247,558 to the company. The dividend and the existing intercompany balance between BAS and the company were settled by the transfer of the Discounted Convertible Loan Note ("DCLN") from BAS to the company as a dividend in specie.

During the 15 month period ended 31 December 2016 the company issued a new loan to ILC of £97.3 million. The loan is repayable in equal instalments until September 2018 and has a fixed interest rate of 1.9994%. ILC has used the new loan and the existing intercompany receivable to repay the DCLN to the company.

The company had the following balances outstanding at 31 December 2016 with wholly-owned subsidiaries:

	Amounts owed To / (from) subsidiary undertakings		Finance lease liabilities owed to subsidiary undertakings	
Related party	**31 December 2016 £'000**	30 September 2015 £'000	**31 December 2016 £'000**	30 September 2015 £'000
ILC	**(1,785)**	192,145	**119,543**	170,188
BAS	**94**	6,911	**-**	-
ICC	**10,140**	6,331	**-**	-
IFC	**(6)**	-	**-**	-
	8,443	205,387	**119,543**	170,188

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 period-end, as disclosed in the table above.

Commitments and guarantees

See note 28 for details of the company's commitments in respect of related parties.

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

Key Management Personnel remuneration

See note 5 for further details.