GNI (UK) Ltd.

Report & Financial Statements

Year ended 31 December 2018

Contents

GNI (UK) LIMITED

DIRECTORS AND OTHER INFORMATION

BOARD OF DIRECTORS:

D O'Sullivan (Appointed 27th March 2018)
R Jemmett
A McCrea (Appointed 3rd August 2018)
C J Beattie (Resigned 3rd August 2018)
L O'Sullivan (Resigned 27th March 2018)
J Burchill (Alternate Director)

SECRETARY AND REGISTERED OFFICE:

L O'Riordan
5th Floor
6, St. Andrew Street
London EC4A 3AE

Company Registration Number
2827969

AUDITOR:

Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
No. 6 Lapps Quay
Cork
Ireland

SOLICITORS:

McCann Fitzgerald
St Michael's House
1 George Yard
Lombard Street
London
EC3V 9DH

Shepherd and Wedderburn LLP
1 Exchange Crescent
Conference Square
Edinburgh
EH3 8UL

BANKERS:

Barclays Commercial Bank
Donegal House
7 Donegal Square North
Belfast
BT1 5GB

Allied Irish Bank (GB)
Bankcentre
51 Belmont Road
Uxbridge
Middlesex
UB8 1RZ

AIB Group (UK) plc trading as First Trust Bank
Head Office
31-35 High Street
Belfast
BT1 2AL

Dankse Bank
Corporate Danske
International House
3 Harbourmaster Place
IFSC
Dublin 1

GNI (UK) LIMITED

STRATEGIC REPORT

FAIR REVIEW OF THE BUSINESS

GNI (UK) Limited is a wholly owned subsidiary of Gas Networks Ireland and part of the Ervia group of companies. The principal activity of the business is the transportation of gas. The company owns part of the interconnector system connecting Ireland and Scotland and a transmission network in Northern Ireland to carry out this activity. GNI (UK) Limited's network in Northern Ireland supplies the Coolkeeragh Power Plant, the 10-towns network (circa 36,000 downstream end-users) and reinforces supplies to the Belfast area. GNI (UK) Limited is capable of supplying gas for the Northern Ireland network from its connection point to the Republic of Ireland network at Gormanston.

The company had net assets of £109.7 million at 31 December 2018. The directors expect the company to continue trading for the foreseeable future. The company has five facility agreements with the parent company, Gas Networks Ireland, to finance the operations of GNI (UK) Limited. These facilities include an interest free facility of £110 million for general corporate purposes and an interest bearing facility of £160 million which funded the purchase of Interconnector 1 in connection with the termination of the leasing arrangements. Both of these facilities were denominated in Euro in December 2013. The company also has interest bearing facilities of £165 million in respect of the North-West and South-North pipelines, €88.5m in respect of Interconnector 2 and €50 million in respect of accrued interest with the it's ultimate parent Eriva. Each of the facility agreements will mature on 31 December 2019. The agreements provide that Gas Networks Ireland will not terminate the loans unless GNI (UK) Limited has alternative committed financing arrangements in place. At 31 December 2018 GNI (UK) Limited had a net cash balance of £9.3 million, the company also held £3.7 million in restricted deposits.

The Utility Regulator in Northern Ireland and the Regulatory Authority in the UK, Ofgem, both certified GNI (UK) Limited as Full Ownership Unbundled (FOU) in accordance with the third European Union Gas Directive 2009/73/EC (the "Directive"). This directive provides for the separation of production and supply activities from transmission network operation activities through ownership unbundling.

In Q4 2018 works were completed on the construction of the new 50km natural gas pipeline in Scotland, following allocation of €34 million of EU grant aid, which was initially secured in 2014. This infrastructure project was the final step in the full twinning of the two pipelines which supply the Republic of Ireland (ROI), Northern Ireland and Isle of Man. The project addresses the current pressure restriction in the ROI onshore system, completes a dual pipeline between Ireland and the UK and removes security of supply concerns. There are currently two high pressure pipelines running from Moffat, in Scotland, to Ireland and the Isle of Man.

PRINCIPAL RISKS AND UNCERTAINTIES

Safety: GNI (UK) Limited is exposed to the usual risks associated with ownership of onshore and subsea transmission pipelines. A major safety incident could result in injury, loss of life, or a security of supply issue. Attention to safety is a key priority and GNI (UK) Limited operates a comprehensive safety programme.

Regulation: GNI (UK) Limited business activities are subject to a broad range of legislation and regulation. Changes in the regulatory climate and the framework in which GNI (UK) Limited operates may impact unfavourably.

The key regulatory risk for GNI (UK) Limited as at the end of 2018 was Brexit. The full implications of the UK's exit from the EU remain uncertain as the nature of Brexit has not yet been finalised. During 2018, GNI (UK) Limited engaged extensively with energy regulators, Department for the Economy, the Department of Communications, Climate Action and Environment and key gas stakeholders to ensure that the advent of Brexit would not adversely affect GNI (UK) Limited operations. During 2018, the UK, various publications from Ofgem, BEIS (Department for Business, Energy and Industrial Strategy) and National Grid (British Multinational electricity and gas utility company) have indicated a strong commitment to continue the alignment with EU gas regulations and therefore at this juncture we anticipate no adverse effect on gas flows through Moffat on Brexit day. Two broader risks however are the risk of longer term divergence between the UK gas regulatory regime and that operating in EU member states. A further risk is that it currently appears that GNI (UK) Limited will not be in a position to continue to avail of full membership of ENTSOG post Brexit and its participation would cease in December 2019. This would mean that GNI (UK) Limited would no longer have the influence in steering European energy policy and associated voting rights.

The Board has analysed these and other risks. Appropriate actions are being taken by management to mitigate these risks. Not all of these risks are within the control of GNI (UK) Limited and other factors aside from those listed above may also have an adverse effect.

STRATEGIC REPORT (CONT'D)

KEY PERFORMANCE INDICATORS

GNI (UK) Limited monitors performance by measuring and tracking key performance indicators (KPIs) that are important to longer-term success. Operating profit is one of the key measures of financial performance. GNI (UK) Limited generated an operating profit of £23 million in 2018 a decrease of £4.2 million on the previous financial year. The target for 2019 will be to deliver the company's approved budget which is in line with the company's financial plan. In addition to operating profit GNI (UK) Limited also measures the improvement in the financial strength of its statement of financial position with the Shareholder's surplus increasing from £92.7 million to £109.7 million together with capital expenditure of £39.3million in 2018 compared to a spend of £56.1million in 2017. In terms of non-financial indicators safety remains a core priority. There were no major incidents which resulted in loss of life or loss of supply on the system during 2018. In addition all planned maintenance activities were completed in line with agreed targets.

During 2018, the single system operator model continued to apply, having gone live during Q4 2017. The new model is working effectively and involved the consolidation of the Northern Ireland gas transmission market from a commercial point of view with the development of one single code of operations, one single IT system and one central team to engage with gas shippers and administrate the market framework in Northern Ireland. This offers more efficient business processes for the gas shipping community in Northern Ireland. A survey of NI gas shippers was undertaken during Q4 2018 and shipper sentiment was generally positive on the new model.

As a regulated business, periodic reviews of the revenue requirements to operate the natural gas transmission networks are undertaken by the Commission for the Regulation of Utilities for the Interconnector System and by the Utility Regulator for the Northern Ireland Transmission System.

FUTURE DEVELOPMENTS

The EU continued to develop a single internal energy market during 2018 with further studies planned in 2019. New Security of Gas Supply Regulations, part of the Clean Energy Package, came into force on 1 November 2017 with a number of deliverables due in 2018. A key piece of work during 2018 was the completion of the EU tariff network code which went to comitology and the various regulators are undertaking consultations on their respective tariff regimes. It is anticipated that the provisions of the tariff network code will be fully applicable from October 2019. The key changes anticipated for Moffat deliveries will be the introduction of a new Virtual Reverse Flow (VRF) tariff and the amendment of monthly capacity multipliers to realign to the proposed EU model. During 2019, GNI (UK) Limited will continue to work with the Commission for Regulation of Utilities, the Utility Regulator and Ofgem to ensure compliance with the Regulations.

In 2019, GNI (UK) Limited plans to construct and commission a new connection to the GNI (UK) network at Derryhale in Northern Ireland. The connection will facilitate the expansion of the Northern Ireland gas network as part of the "Gas to the West" project.

For and on behalf of GNI (UK) Limited:

Liam O'Riordan	11th April 2019
Liam O'Riordan	**Date of Approval**
Secretary	

GNI (UK) LIMITED

DIRECTORS' REPORT

The directors submit their report and audited financial statements for the year from 1 January 2018 to 31 December 2018.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities and review of the business of GNI (UK) Limited, are addressed in the strategic report.

GOING CONCERN

The financial statements are prepared on a going concern basis as the Board, after making appropriate enquiries including reviewing and approving the 2019 annual budget and assessing the continuing profitability, is satisfied that GNI (UK) Limited has adequate resources to continue in operation for the foreseeable future. The company has five facility agreements with the parent company, Gas Networks Ireland and its ultimate parent Ervia, to finance the operations of GNI (UK) Limited. The agreements provide that Gas Networks Ireland will not terminate the loans unless GNI (UK) Limited has alternative committed financing arrangements in place.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The activities of GNI (UK) Limited expose it to a number of financial risks including credit risk, market risk and liquidity risk.

Credit risk

Credit risk is defined as the total loss that the Company would sustain on its business and market transactions if a counterparty defaulted and failed to perform its contractual obligations. These include assets held with banks and financial institutions, transactions in relation to derivative financial instruments and credit exposures arising from trading relationships with customers. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with investment grade ratings. The company has no significant concentration of credit risk. Refer to Note 17 for further details of treasury related credit risk.

The principal financial assets of GNI (UK) Limited are bank balances, cash and trade and other receivables. The company's credit risk is primarily attributable to its trade receivables. Refer to Note 11 and note 17 for further details of trade related credit risk. The objective of credit risk management is to manage and control credit risk exposures within acceptable parameters.

Market risk

Market risk is the possibility that changes in currency exchange rates or interest rates will adversely affect the value of the company's financial assets, liabilities or expected future cashflows. Within the Ervia Group, the treasury function is responsible for managing market risk with respect to interest rates and currency exchange rates. The group buys and sells derivatives and also incurs financial liabilities, in order to manage market risks.

Liquidity risk

The company has five facility agreements with the parent company Gas Networks Ireland and ultimate parent Ervia, which ensures that sufficient funds are available for on-going operations and future developments.

The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet the liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

Brexit

Throughout 2018 the Company continued its close liaison with all relevant stakeholders (including other pipeline operators) in Ireland, UK and the EU in relation to the potential impact of Brexit. A key focus for 2018 was ensuring that the Company is prepared for a 'no deal' Brexit and that all the necessary arrangements are in place prior to the withdrawal of the UK from the EU.

RESULTS AND DIVIDENDS

The profit for the financial year amounted to £16.6 million (2017: £19.9 million).

DIRECTORS

The directors are as set out on page 2.

None of the directors had any beneficial interest in the company during the year or at 31 December 2018

SECRETARY

The Secretary is as set out on page 2.

CREDITOR PAYMENT POLICY

GNI (UK) Limited has a policy in respect of all suppliers to settle the terms of payment with those suppliers when agreeing the terms of each transaction and also to ensure that those suppliers are aware of the terms of payment. The standard terms specified in the standard purchase order are 45 days and the company operates a policy of paying all undisputed supplier invoices within these terms.

POLITICAL DONATIONS

There were no donations made during the year to any political party.

MODERN SLAVERY

The UK Modern Slavery Act 2015 imposes obligations on organisations of a certain size which carry on business in the United Kingdom. Modern slavery can occur in various forms, including servitude, forced and compulsory labour and human trafficking, all of which have in common the deprivation of a person's liberty by another in order to exploit them for personal or commercial gain. GNI (UK) Limited is an applicable entity for the purposes of the Modern Slavery Act and is fully supportive of the aims of the Act.

POST BALANCE SHEET EVENTS

There have been no significant events between the statement of financial position date and the date on which the financial statements were approved.

AUDITOR

Deloitte Ireland LLP were originally appointed as auditors to the Ervia Group including GNI(UK) Limited in August 2014 with the option to extend for a further two years which was exercised in February 2017.

Ervia carried out a tender process with the approval and oversight of the Ervia Audit and Risk Committee during 2018 in order to select the next external auditor for the Ervia Group, including GNI (UK) Limited. Following completion of the tender process, Ministerial consent was received on 25 March 2019 to appoint Deloitte as external auditor to the Ervia Group including GNI (UK) Limited for the years 2019, 2020 and 2021.

GNI (UK) LIMITED

DIRECTORS' REPORT (CONT'D)

DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act, 2006.

For and on behalf of GNI (UK) Limited:

11th April 2019

D O' Sullivan	**R Jemmett**	**Date of Approval**
Director	**Director**	

GNI (UK) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

For and on behalf of GNI (UK) Limited:

		11th April 2019
D O' Sullivan	**R Jemmett**	**Date of Approval**
Director	**Director**	

Deloitte.

Deloitte Ireland LLP
Chartered Accountants &
Statutory Audit Firm

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF GNI (UK) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and;
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of GNI (UK) Limited (the 'company') which comprise:
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the Statement of Cash Flows;
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:
- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF GNI (UK) LIMITED

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. The auditor also:

- Identifies and assesses the risks of material misstatement of the entity's financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

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Deloitte.

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF GNI (UK) LIMITED

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

Kevin Butler FCA (Senior Statutory Auditor)
For and on behalf of Deloitte Ireland LLP
Statutory Auditor
Cork
Ireland

Date: 9/5/19

GNI (UK) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Notes	*2018* *£'000*	*2017* *£'000*
Continuing operations			
Revenue	3	58,731	60,908
Operating costs	5	(35,706)	(33,728)
Profit from operating activities		23,025	27,180
Finance costs	6	(2,006)	(2,715)
Profit before income tax		21,019	24,465
Income tax expense	7	(4,466)	(4,608)
Profit for the year	13	16,553	19,857
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Translation differences on conversion of foreign divisions to presentation currency		463	1,055
Total items that may be reclassified subsequently to profit or loss		463	1,055
Total other comprehensive income for the year	13	463	1,055
Total comprehensive income attributable to:			
Owners of the company		17,016	20,912
Total comprehensive income for the year		17,016	20,912

The notes on pages 15 to 41 form part of these financial statements.

GNI (UK) LIMITED
STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

	Notes	2018 £'000	2017 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	370,059	348,580
Intangible assets	9	880	1,124
Total non-current assets		370,939	349,704
Current assets			
Inventory	10	50	43
Trade and other receivables	11	40,330	8,402
Cash and cash equivalents	12	9,315	10,861
Restricted deposits	12	3,652	3,633
Derivative financial instruments	17	17	-
Total current assets		53,364	22,939
Total assets		424,303	372,643
EQUITY			
Called up share capital	13	(400)	(400)
Other reserves	13	(6,896)	(6,433)
Retained earnings	13	(102,431)	(85,878)
Total equity attributable to equity holders of the company		(109,727)	(92,711)
LIABILITIES			
Non-current liabilities			
Government grants	14	(46,053)	(33,534)
Trade and other payables	15	-	(181,666)
Deferred tax liabilities	16	(13,267)	(12,479)
Derivative financial instruments	17	(8)	(35)
Total non-current liabilities		(59,328)	(227,714)
Current liabilities			
Government grants	14	(2,276)	(1,520)
Trade and other payables	15	(252,552)	(50,698)
Deferred income	18	(420)	-
Total current liabilities		(255,248)	(52,218)
Total liabilities		(314,576)	(279,932)
Total equity and liabilities		(424,303)	(372,643)

The notes on pages 15 to 41 form part of these financial statements.

For and on behalf of GNI (UK) Limited:

11th April 2019

D O' Sullivan
Director

R Jemmett
Director

Date of approval

GNI (UK) LIMITED
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Called-up Share Capital £'000	*Retained Earnings £'000*	*Other Reserves £'000*	*Total Equity £'000*
At 1 January 2017	**400**	**66,021**	**5,378**	**71,799**
Total comprehensive income for the year	**-**	**19,857**	**1,055**	**20,912**
Balance at 31 December 2017	**400**	**85,878**	**6,433**	**92,711**
Total comprehensive income for the year	**-**	**16,553**	**463**	**17,016**
Balance at 31 December 2018	**400**	**102,431**	**6,896**	**109,727**

GNI (UK) LIMITED
STATEMENT OF CASH FLOWS
Year Ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Cashflows from operating activities			
Profit for the year		16,553	19,857
Adjustments for:			
Depreciation and amortisation (net)	5	19,361	18,505
Finance costs	6	2,051	2,841
(Gain) on derivatives	6	(45)	(126)
Income tax expense	7	4,466	4,608
		42,386	**45,685**
Working capital changes:			
Change in inventories		(7)	(11)
Change in trade and other receivables		(25,367)	(1,098)
Change in trade and other payables		9,414	8,708
Change in deferred grants		-	11,567
Change in deferred income		420	-
Cash generated from operating activities		**26,846**	**64,851**
Income tax paid		(3,840)	(3,903)
Interest paid		(12,094)	-
Net cash generated from operating activities		**10,912**	**60,948**
Cashflows from investing activities			
Grants received		8,311	-
Movements in restricted deposits		-	196
Payments for property, plant and equipment		(34,755)	(51,873)
Payments for intangible assets		(44)	(872)
Net cash used in investing activities		**(26,488)**	**(52,549)**
Cashflows from financing activities			
Proceeds/(Repayments) of loan from/to ultimate parent undertaking		14,132	-
Net (decrease)/increase in cash and cash equivalents		**(1,444)**	**8,399**
Cash and cash equivalents at 1 January		10,861	2,373
Effect of exchange rate fluctuations on cash held		(102)	89
Cash and cash equivalents at 31 December	12	**9,315**	**10,861**

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS

1. Basis of Preparation

The financial statements are prepared in pound sterling (GBP), under the historical cost convention, except for certain assets which are measured at fair value.

Going Concern

The financial statements are prepared on a going concern basis as the Board, after making appropriate enquiries including reviewing and approving the 2019 annual budget and assessing the continuing profitability is satisfied that GNI (UK) Limited has adequate resources to continue in operation for the foreseeable future. The company has five facility agreements with the parent company, Gas Networks Ireland, to finance the operations of GNI (UK) Limited. The agreements provide that Gas Networks Ireland will not terminate the loans unless GNI (UK) Limited has alternative committed financing arrangements in place.

(a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the Companies Act, 2006.

The financial statements have been prepared in accordance with those IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective for accounting periods ending on or before 31 December 2018.

(b) Use of Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions in determining the value of assets and liabilities, income and expenses recorded for the year and positive and negative contingencies at year-end. Actual results in future financial statements may differ from current estimates due to changes in these assumptions or economic conditions.

The principal estimates and judgements are described below. Given their importance in the company's financial statements, the impact of any change in assumption in these areas could be significant.

Measurement
The measurement of certain assets, liabilities, income and costs which require a high degree of estimation and judgement, including; impairment allowance in respect of trade and other receivables, the useful lives of property, plant and equipment and various operating accruals. These items are estimated in accordance with relevant IFRSs and the company's accounting policies.

Certain assets and liabilities are measured at fair value. Fair value is defined as the price that would be received in selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Impairment of long-term assets
Impairment tests on long-term assets are sensitive to the macro-economic and segment assumptions used, and medium-term financial forecasts. The company therefore revises the underlying estimates and assumptions based on regularly updated information.

Classification of costs between operating expenditure and capital expenditure
The classification of expenditure as capital or operating expenditure can require significant judgements, particularly in instances where projects include elements of both enhancement (capital) and maintenance (operating) activities. The Company has appropriate policies, controls and procedures in place to mitigate against the risks of ineligible expenditure being capitalised.

(b) Use of Estimates and Judgements (cont'd)

Other judgements
When there is no standard or interpretation applicable to a specific transaction, the company exercises judgement to determine the most appropriate accounting policy that will supply relevant, reliable information for preparation of its financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which these estimates are revised and in any future periods affected.

2. Summary of Significant Accounting Policies

The policies set out below have been consistently applied to all years presented in these financial statements.

(a) New Accounting Standards and Interpretations

i) Impact of adoption of IFRS 15 revenue from Contracts with Customers.

In the current year, the Company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduces a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the company's financial statements are described below. The Company has applied IFRS 15 in accordance with the modified retrospective transitional approach, using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), and for modified contracts in IFRS 15:C5(c).

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position and the Company has continued to use the more common terminology to describe such balances (refer to note 18 for details on deferred revenue).

The Company's accounting policies for its revenue streams are disclosed in in note 2 (g) below. Apart from providing more extensive disclosures for the Company's revenue transactions, the application of IFRS 15 had no impact on the financial position and/or financial performance of the Company, as described in further detail below.

The adoption of IFRS 15 has had no impact on the timing or amount of revenue recognised in relation to transportation capacity contracts which is recognised in line with the underlying contract while any related commodity revenue is recognised based on throughput for the period for each customer. In addition, the adoption of IFRS 15 has had no impact on the timing or amount of revenue recognised in relation to new connections contracts, where the performance obligation is distinct to the connection works and revenue is recognised over time as the contracted connection works are completed. Following a detailed assessment of the Company's other revenue contracts with customers, no adjustment was recognised in the financial statements in respect of the adoption of IFRS 15 from 1 January 2018.

ii) Impact of adoption of IFRS 9 Financial Instruments

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

These new requirements have not impacted on the Company's financial statements.

a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 January 2018 have been restated where appropriate.All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Directors of the Company reviewed and assessed the Company's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had no impact on the Company's financial assets as regards their classification and measurement.

b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. The Company having regard to the nature and credit risk of its financial assets, has not identified any transition adjustment in respect of the loss allowance, arising from the adoption of IFRS 9.

c) Classification and measurement of financial liabilities

IFRS 9 introduces a change in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer. Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised.

(d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Company's risk management activities have also been introduced. The adoption of these new requirements had no impact on the Company's hedging relationships.

(e) Disclosures in relation to the initial application of IFRS 9

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in no adjustments to the measurement of financial assets and financial liabilities previously measured under IAS 39. The application of IFRS 9 has had no impact on the cash flows of the Company. The updated accounting policies are set in section (c) of this note.

2. Summary of Significant Accounting Policies (cont'd)

(b) New Accounting Standards and Interpretations (cont'd)

In addition to IFRS 15 and IFRS 9 outlined above, in the current year, the company has also applied a number of new and revised IFRS, as set out below, that are mandatorily effective under IFRS, as endorsed by the EU, for accounting periods beginning on or after 1 January 2018. The application of these amendments to standards did not have a material impact on the GNI (UK) Limited financial statements for 2018.

Standard/Amendment	EU Effective Date	Endorsed by the EU
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	March 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018	March 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018	February 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2018 / 1 January 2017	February 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018	November 2017
Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January 2018	October 2017

The table below sets out the standards, amendments to standards and interpretations that are in issue but are not yet effective under IFRS, as endorsed by the EU, for the year ended 31 December 2018 and thus have not been applied in preparing these financial statements.

Standard/Amendment	EU Effective Date[1]	Endorsed by the EU
IFRS 16 Leases	1 January 2019	October 2017
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019	October 2018
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019	March 2018
IFRS 17 Insurance Contracts	1 January 2021[2]	(Outstanding)
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	1 January 2019	(Outstanding)
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019	(Outstanding)
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019	(Outstanding)
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020	(Outstanding)
Amendment to IFRS 3 Business Combinations	1 January 2020	(Outstanding)
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020	(Outstanding)

[1] *IASB date provided if not yet endorsed by the EU.*

[2] *The IASB has tentatively decided to defer the effective date of IFRS 17 Insurance to periods beginning on or after 1 January 2022.*

2. Summary of Significant Accounting Policies (cont'd)

(b) New Accounting Standards and Interpretations (cont'd)

IFRS 16 Leases was issued on 13 January 2016 with an IASB effective date of 1 January 2019, as endorsed by the EU (October 2017). This new standard will replace IAS 17 Leases (and associated interpretative guidance), and offers a new comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The most significant change will be to lessee accounting, where the distinction between operating and finance leases is removed, and will effectively bring onto the statement of financial position the accounting for assets and liabilities associated with operating leases. There will be no significant changes in respect of lessor accounting. The Company has assessed the impact of adopting the standard, IFRS 16 will not have a significant impact on the financial statements.

The company has adopted the practical expedient offered by IFRS 16, whereby an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application, and instead, is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 and not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. GNI (UK) Ltd has no contracts identifying as operating leases when the criteria of IAS17 and IFRIC4 are applied.

It is anticipated that application of the remaining IFRS/amendments/annual improvements, in issue at 31 December 2018 but not yet effective, will not have a significant impact on the Company's financial statements.

2. Summary of Significant Accounting Policies (cont'd)

(c) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into the functional currency at rates ruling at the reporting date. The resulting foreign currency gain or loss arising on translation is recognised in profit or loss. Non-monetary assets and liabilities in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction, and are not subsequently retranslated. The assets and liabilities of foreign operations are translated to GBP at exchange rates at the reporting date. The results of foreign operations are translated to GBP at average rates for the year, when they represent a reasonable approximation of the actual rates incurred. Exchange differences on retranslation on the opening net assets and the results are recognised in other comprehensive income and dealt with as a separate component of equity (other reserve).

(d) Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses thereon. Cost includes direct costs (including direct labour), overheads and interest incurred in financing the construction of the asset. Capitalisation of interest ceases when the asset is commissioned or where active development has been interrupted for an extended period. Assets under construction represent the cost of purchasing, constructing and installing property, plant and equipment ahead of their productive use.

The charge for depreciation is calculated to write down the cost of property, plant and equipment less estimated residual value over their expected useful lives on a straight line basis over their expected useful lives. The asset classification and depreciation rates are as follows:

Buildings	3%
Pipeline Systems	3% - 5%
Plant & Equipment	14% - 33.3%

Depreciation is not charged on land or assets under construction.

Subsequent expenditure, for example, the cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits associated with the item will flow to the company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Borrowing costs are capitalised as a cost of an asset if they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. Capitalisation of interest ceases when the asset is commissioned or where active development has been interrupted for an extended period. All other borrowing costs are recognised in profit or loss in the year in which they were incurred.

2. Summary of Significant Accounting Policies (cont'd)

(d) Intangible Assets

Software costs include both include both internally developed and externally purchased assets. Internally developed software refers to costs directly associated with the production of identifiable and unique software products that are controlled by the company. These costs are recognised as intangible assets as it is considered probable that these products will generate economic benefits exceeding the recognised costs. These costs are capitalised only if the criteria set out in IAS 38 are met. The expenditure includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into use the specific assets.

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives of up to seven years, from the date that they are available for use. Amortisation is not charged on development assets not yet available for use.

(e) Impairment of assets

The carrying amounts of assets are reviewed at each reporting date to determine whether there is any indication of impairment. If an indication of impairment exists, then the asset's recoverable amount is estimated. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

(f) Financial assets and liabilities

Non-derivative financial assets and liabilities

Trade and other receivables

Trade and other receivables are initially recognised at fair value of the consideration receivable and are subsequently carried at this value less an appropriate allowance for impairment losses. Impairment losses are provided for using a lifetime expected credit loss model, with the expected impairment being recognised as an expense in operating costs. The expected credit loss amount is calculated by applying expected loss rates, based on actual historical cash collection performance, to the aged debt profile with future macro-economic factors and factors specific to the debtors taken into consideration.

Policy applicable before 1 January 2018: Specific allowances are made where there is objective evidence of impairment, for example where there is an inability to pay. An additional allowance is made on a portfolio basis to cover additional incurred losses based on an analysis of previous losses experienced and adjusted to reflect current economic conditions.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits repayable on demand and other short-term highly liquid investments with original maturities of three months or less, less overdrafts payable on demand.

Restricted deposits include amounts held in respect of collateral held by third parties, credit support agreements and gas network related security deposits.

2. Summary of Significant Accounting Policies (cont'd)

Trade and other payables

Trade and other payables are initially recorded at fair value, which is usually the original invoiced amount, net of transaction costs and subsequently carried at amortised cost using the effective interest method.

Loans/amounts due from group companies

Loans from group companies are non-derivative financial assets which are not quoted in an active market. They are included in non-current liabilities on the statement of financial position. Amounts due from group companies in respect of working capital are included in current assets.

(g) Revenue recognition

The Company's revenues are principally derived from gas transportation services, in both regulated and unregulated markets. The Company operates and owns the two interconnector gas pipelines between Scotland and Ireland and has network infrastructure assets in Northern Ireland. No operating lease revenue is earned by the company.

Revenue is measured based on the consideration which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when or as the performance obligations, as set out in the contract, are satisfied. Transportation capacity revenue (billed and unbilled) is recognised over time as the performance obligation is fulfilled being the provision of network capacity, while any related commodity revenue is recognised based on throughput for the period for each customer. Customer contributions are recognised in deferred revenue when received, and are released to the income statement in accordance with the fulfilment of performance obligations. The performance obligation is distinct to the connection works and revenue is recognised over time as the connection works are completed.

It is considered that the criteria for revenue recognition are not met for a transaction, revenue recognition is delayed until such time as collectability is considered probable. Where required, revenue and receivables are discounted to reflect a financing element of the transaction and the interest unwind is presented annually as a credit to the income statement.

The company's main sources of revenue are dependent on being approved by the Utility Regulator Northern Ireland. And the Commission for Regulation of Utilities (CRU).Certain circumstances may result in the regulatory "allowed" revenue being over or under recovered in the financial year. Any over or under recovery may be included, within certain parameters, in the calculation of the following years' regulatory revenue. No adjustment is made for over or under recoveries in the year that they arise.

(h) Profit from operating activities

Profit from operating activities is stated before finance costs.

(i) Net finance costs

Finance income comprises interest income on funds invested and fair value gains on financial derivative instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise interest payable on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

2. Summary of Significant Accounting Policies (cont'd)

(j) Derivatives

Financial derivative instruments are used by GNI (UK) Limited to hedge currency exposures. All such derivatives are recognised at fair value and are remeasured to fair value at the reporting date.

The designation of the hedge relationship is established at the inception of the contract and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on remeasurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a 'fair value' or 'cash flow' hedge.

Derivatives not part of effective hedging relationships are treated as if held for trading, with all fair value movements being recorded through profit or loss.

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. When the firm commitment or forecasted transaction results in the recognition of an asset or liability, the cumulative gain or loss is removed from other comprehensive income and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss is removed from other comprehensive income and recognised in profit or loss at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately. When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in other comprehensive income, is recognised in profit or loss immediately.

(ii) Fair Value hedges

Where a derivative financial instrument is designated as a fair value hedge, changes in the fair value of the derivative are recognised in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss with an adjustment to the carrying amount of the hedged item

2. Summary of Significant Accounting Policies (cont'd)

(k) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured, at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it is probable that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying temporary differences can be deducted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(l) Inventory

Inventory, which comprise engineering materials, are measured at the lower of cost and net realisable value, using the first in, first out (FIFO) cost formula in line with IAS 2 Inventories. Cost comprises purchase and all direct costs that have been incurred in bringing inventories to their present location and condition. Net realisable value is the actual or estimated selling price less all costs to be incurred prior to disposal.

Specific allowance is made for damaged, deteriorated, obsolete and unusable items where appropriate.

(m) Capital grants

Capital grants received in respect of the purchase property, plant and equipment are treated as a deferred credit, a portion of which is amortised to the statement of comprehensive income annually over the useful economic life of the asset to which it relates.

3. Revenue

A significant portion of the entity's sources of revenue are subject to a regulatory model and are dependent on being approved by the Industry Regulators for the regulatory price control periods.

	2018 *£'000*	*2017* *£'000*
Regulated	54,134	52,609
Unregulated- other	4,597	8,299
Total	58,731	60,908

Included in regulated revenue above are amounts charged to the Parent Company, Gas networks Ireland Limited (GNI Ltd) for use of the Interconnectors between Scotland and ROI. As the Commission for Regulation of Utilities (CRU) Ltd regulates the costs and revenues of GNI Ltd, these amounts are also deemed to be regulated revenues.

Refer to Note 18 for analysis of deferred revenue recognised in respect of new connections revenue which represents the transaction price allocated to the performance obligations that are unsatisfied as of the end of the reporting period

All revenue of GNI (UK) Ltd was earned in the United Kingdom.

	2018 *£'000*	*2017* *£'000*
United Kingdom	**58,731**	**60,908**

4. Employees and remuneration

The company is a transporter of gas and does not have any direct employees. Operating costs are stated after charging:

Key Management Remuneration	*2018* *£'000*	*2017* *£'000*
Board members' emoluments		
-fees	20	20
Total	20	20

The Board of Directors are considered to be the key management of the company.

5. Operating costs

	2018 *£'000*	*2017* *£'000*
Depreciation	**20,656**	**20,008**
Amortisation of intangible assets	**288**	**17**
Grant amortisation	**(1,583)**	**(1,520)**
Auditor's remuneration	**17**	**17**
Board members' fees	**20**	**20**
Network maintenance	**6,420**	**6,478**
Rates	**4,311**	**4,134**
Management services	**2,299**	**2,203**
Other operating costs	**3,278**	**2,371**
Total	**35,706**	**33,728**

6. Finance Costs

	2018 £'000	2017 £'000
Fair value adjustments on derivative financial instruments (i)	(45)	(126)
Interest payable to parent undertaking	2,926	3,250
Other interest charges	21	145
Capitalised interest	(896)	(554)
Total	2,006	2,715

(i) These are remeasurements arising on financial instruments of a financing nature which are accounted for as if held for trading or as fair value hedges in accordance with the Company accounting policy. The impact of these remeasurements on net finance costs for 2018 was £0.05 million gain (2017: £0.1 million gain). Further details on derivative financial instruments falling within the scope of IFRS 9 are set out in note 17.

7. Income Tax Expense

	2018 £'000	2017 £'000
Current tax expense:		
Current tax	4,034	3,719
Prior year under/(over) provision	89	(90)
	4,123	3,629
Deferred tax expense		
Origination and reversal of temporary differences	343	932
Prior year under provision	-	47
	343	979
Total tax expense	4,466	4,608
Reconciliation of effective tax rate:		
Profit before tax	21,019	24,465
Tax at 19% (2017: 19.25%)	3,994	4,710
Expenses not deductible for tax purposes	57	64
Effect of tax rate change	326	(123)
Adjustments to tax change in respect of previous years	89	(43)
Income tax expense	4,466	4,608

8. Property, plant and equipment

	Land and Buildings £'000	*Plant, Pipeline & Equipment £'000*	*Assets under Construction £'000*	*Total £'000*
Cost				
At 1 January 2017	7,137	473,550	32,011	512,698
Effect of movement in exchange rates	288	11,233	1,712	13,233
Additions	-	2,300	53,826	56,126
Transfers in year	-	8,132	(8,132)	-
At 31 December 2017	7,425	495,215	79,417	582,057
Effect of movement in exchange rates	79	3,194	1,300	4,573
Additions	-	219	39,011	39,230
Transfers in year	-	114,034	(114,034)	-
At 31 December 2018	7,504	612,662	5,694	625,860
Accumulated Depreciation				
At 1 January 2017	3,544	204,794	-	208,338
Effect of movement in exchange rates	146	4,985	-	5,131
Depreciation charge for the year	246	19,762	-	20,008
At 31 December 2017	3,936	229,541	-	233,477
Effect of movement in exchange rates	45	1,623	-	1,668
Depreciation charge for the year	249	20,407	-	20,656
At 31 December 2018	4,230	251,571	-	255,801
Net Book Value				
At 31 December 2017	3,489	265,674	79,417	348,580
At 31 December 2018	3,274	361,091	5,694	370,059

During the period GNI (UK) Limited capitalised £0.9 million in interest. The capitalisation rate was 1.3%.

9. Intangible Assets

	Software £'000	Software Under Development £'000	Total £'000
Cost			
At 1 January 2017	548	200	748
Additions		874	874
At 31 December 2017	548	1,074	1,622
Additions	3	41	44
Transfers in year	1,081	(1,081)	-
At 31 December 2018	1,632	34	1,666
Accumulated Amortisation			
At 1 January 2017	481	-	481
Amortisation charge for the year	17	-	17
At 31 December 2017	498	-	498
Amortisation charge for the year	288	-	288
At 31 December 2018	786	-	786
Net Book Value			
At 31 December 2017	50	1,074	1,124
At 31 December 2018	846	34	880

10. Inventory

	2018 £'000	2017 £'000
Engineering materials	50	43

In 2018 inventories recognised as maintenance costs amounted to £198,000 (2017: £214,000). There were no write-downs of inventories to net realisable value in 2018 (2017: £nil).

11. Trade and other receivables

	2018 £'000	2017 £'000
Current:		
Amounts due from parent undertaking	27,179	-
Trade receivables	2,190	2,626
Use of system receivable	2,983	3,856
Prepayments	1,578	1,646
Grant receivable	6,378	-
VAT	-	253
Withholding tax	22	21
Total	40,330	8,402

11. Trade and other receivables (Cont'd)

Trade receivables are stated net of allowances for impairment. Impairment losses are provided for using a lifetime expected credit loss model, with the expected impairment being recognised as an expense in operating costs. The expected credit loss amount is calculated by applying expected loss rates, based on actual historical cash collection performance, to the aged debt profile with future macro-economic factors and factors specific to the debtors taken into consideration. Trade receivables mainly represent receivables in charges for use of the transmission pipelines in Northern Ireland. Refer to note 19 for further detail in respect of balances with related parties.

Use of system receivable comprises unbilled transportation revenue. In respect of the GNI (UK) Limited's business in Northern Ireland, revenue is derived principally from charges for use of the North-West transmission pipeline and the South-North pipeline. A postalised system is in place in Northern Ireland. Invoices are issued by the administrator, non-payment of invoices attracts a daily interest charge.

Payments in relation to new connections or alterations are paid for in advance of the work being carried out. Credit risk on all other receivables is managed through proactive monitoring and management of balances and credit vetting (where applicable).

Prepayments and grants receivable are excluded from the analysis of credit exposure. The maximum exposure to credit risk for trade and other receivables at the reporting has been analysed and dealt with in note 17.

12. Cash and cash equivalents

	2018 £'000	*2017 £'000*
Restricted Deposits*	**3,652**	**3,633**
Cash	**9,315**	**10,861**
Total cash and cash equivalents	**12,967**	**14,494**

*Restricted deposits comprise security deposits received from certain customers.

13. Equity

i. Share capital

	2018 £'000	*2017 £'000*
Authorised:		
400,000 ordinary shares of £1 each	**400**	**400**
Allotted, called up and fully paid:		
400,000 ordinary shares of £1 each	**400**	**400**

ii. Retained earnings

	2018 £'000	*2017 £'000*
At 1 January	**85,878**	**66,021**
Profit for the year	**16,553**	**19,857**
At 31 December	**102,431**	**85,878**

iii. Other reserves

	2018 £'000	*2017 £'000*
At 1 January	**6,433**	**5,378**
Other comprehensive income	**463**	**1,055**
At 31 December	**6,896**	**6,433**

Other reserves comprise translation reserves arising on the translation of branches with a Euro functional currency to the presentation currency of GBP.

14. Government Grants

	2018 *£'000*	*2017* *£'000*
At 1 January	**35,054**	**24,754**
Receivable in year	**14,690**	**11,567**
Amortised in year	**(1,583)**	**(1,520)**
Effect of movement in exchange rates	**168**	**253**
At 31 December	**48,329**	**35,054**
Current	**2,276**	**1,520**
Non-Current	**46,053**	**33,534**
	48,329	**35,054**

The capital grants are from the Northern Ireland Department of Enterprise, Trade & Investment in respect of the North-West pipeline connecting Belfast with Derry which was commissioned in October 2004 and the South-North pipeline from Dublin to Belfast which was commissioned in November 2006. £14.7 million was received in 2018 in respect of the IC1 twinning of Southwest Scotland onshore system between Cluden and Brighouse Bay (UK). The grants are being amortised to the statement of comprehensive income over the life of the pipeline. In certain circumstances the grants may become repayable if conditions laid down in the grant agreements are not adhered to. Total grants received as at 31 December 2018 are £67.6 million (2017: £52.9 million).

15. Trade and Other Payables

	2018 *£'000*	*2017* *£'000*
Non-Current Liabilities:		
Amounts due parent undertakings	-	**181,666**
Non-Current liabilities	-	**181,666**
Current Liabilities:		
Amounts due to ultimate parent undertaking	**33,608**	**33,608**
Amounts due to parent undertakings	**195,799**	-
Trade creditors	**606**	**424**
Accruals	**17,857**	**12,792**
Customer deposits	**2,023**	**2,014**
VAT	**516**	-
Current tax	**2,143**	**1,860**
Current liabilities	**252,552**	**50,698**

16. Deferred tax assets and liabilities

	Property, plant and equipment £'000	*Other £'000*	*Total £'000*
At 1 January 2017	(16,670)	6,386	(10,284)
Charge to statement of comprehensive income	(979)	-	(979)
Exchange adjustment	(1,216)	-	(1,216)
At 31 December 2017	(18,865)	6,386	(12,479)
Charge to statement of comprehensive income	(15)	(328)	(343)
Exchange adjustment	(445)	-	(445)
At 31 December 2018	(19,325)	6,058	(13,267)

Certain deferred tax asset and liabilities have been offset, including the asset balances analysed in the table above. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2018 £'000	*2017 £'000*
Deferred tax assets	6,058	6,386
Deferred tax liabilities	(19,325)	(18,865)
Net deferred tax liability	(13,267)	(12,479)

A deferred tax provision has been made in respect of accelerated capital allowances and other temporary differences. As required by IAS 12 Income Taxes, deferred tax assets are only recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Potential deferred tax asset utilisation falling outside that planning horizon is not currently recognised on the statement of financial position. As required by IAS 12, deferred tax asset recognition is regularly reassessed.

17. Financial Risk Management and Financial Instruments

Nature and extent of risks

The main risks that GNI (UK) Limited are facing and actively monitoring and managing are the following:

i. Credit risk is primarily attributable to trade receivables
ii. market risk derived from exposure to fluctuations in foreign currency exchange rates.
iii. liquidity risk derived from the risk that suitable sources of funding for the company's operations will not be available.

This note presents information about GNI (UK) Limited's exposure to the above risks, its objectives, policies and processes for measuring and managing risk, and its management of capital. Further quantitative disclosures are included throughout these financial statements.

GNI (UK) Limited was subject to the Ervia Group governance structures, including financial risk management, and group wide risk management objectives, policies and processes during the periods presented. Consequently, disclosures in these financial statements in respect of governance and risk management structures and policies are representative of Ervia Group structures, which also applied to GNI (UK) Limited during the periods presented.

Accounting classifications and fair values

The following table combines information about:
• classes of financial instruments based on their nature and characteristics;
• the carrying amounts of financial instruments;
•fair values of financial instruments (except financial instruments when carrying amount approximates their fair value).

	Amortised Cost 2018 £'000	*FVTPL-undesignated 2018 £'000*	*Total Carrying Value 2018 £'000*	*Fair value 2018 £'000*
Assets				
Current financial assets				
Trade and other receivables (excluding prepaids)	32,354	-	32,354	32,354
Derivative financial instruments	-	17	17	17
Cash and cash equivalents	9,315	-	9,315	9,315
Restricted deposits	3,652	-	3,652	3,652
Total current assets	45,321	17	45,338	45,338
Liabilities				
Derivative financial instruments	-	(8)	(8)	(8)
Total non-current financial liabilities	-	(8)	(8)	(8)
Current liabilities:				
Amounts due to parent undertakings	(195,799)	-	(195,799)	(195,799)
Amounts due to ultimate parent undertaking	(33,608)	-	(33,608)	(33,608)
Trade and other payables	(250,409)	-	(250,409)	(250,409)
Total current financial liabilities	(250,409)	-	(250,409)	(250,409)

17. Financial Risk Management and Financial Instruments (cont'd)

	Amortised Cost 2017 £'000	*FVTPL-undesignated 2017 £'000*	*Total Carrying Value 2017 £'000*	*Fair value 2017 £'000*
Assets				
Current financial assets				
Trade and other receivables (excluding prepaids)	6,756	-	6,756	6,756
Cash and cash equivalents	10,861	-	10,861	10,861
Restricted deposits	3,633	-	3,633	3,633
Total current assets	21,250	-	21,250	21,250
Liabilities				
Derivative financial instruments	-	(35)	(35)	(35)
Amounts due to parent undertaking	(181,666)	-	(181,666)	(181,666)
Total non-current financial liabilities	(181,666)	-	(181,701)	(181,701)
Current liabilities				
Trade and other payables	(48,838)	-	(48,838)	(48,838)
Total current financial liabilities	(48,838)	-	(48,838)	(48,838)

A number of the company's accounting policies and disclosures require the measurement of fair values for financial assets and liabilities. In estimating the fair value of an asset or a liability, the company uses market observable data to the extent that it is available.

17. Financial risk management and financial instruments (cont'd)

Valuation technique

The fair value of quoted foreign exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated as the difference between the contractual forward price and the current forward price for the residual maturity of the contract.

All significant inputs required to fair value the instrument are observable.
Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair Value Hierarchy

	Level 2 2018 £'000	*Level 2 2017 £'000*
Financial assets		
Forward exchange contracts	17	-
Total financial assets	17	-
Financial liabilities		
Forward exchange contracts	(8)	(35)
Total financial liabilities	(8)	(35)
Net financial assets/liabilities	9	(35)

Credit/counterparty risk

Description

Counterparty risk is defined as the risk of GNI (UK) Limited, sustaining a loss on its business and market transactions if a counterparty defaulted and failed to perform its contractual obligations. These include assets held with banks and financial institutions and credit exposures arising from trading relationships with customers.

Objective

The objective of credit risk management is to manage and control credit risk exposures within acceptable parameters, while optimising the return.

17. Financial risk management and financial instruments (cont'd)

Credit/counterparty risk (cont'd)

Policies and processes for the management and control of counterparty/credit risk

Credit risk is managed by the parent company Ervia. Ervia develops and maintains relationships with a small number of key relationship banks who have a long-term commitment to Ervia, who understand the business, and who provide funding on competitive terms. Ervia ensures that banking and treasury services are obtained at competitive prices. Ervia's policy is to manage treasury related credit risk through the use of counterparty credit limits which take account of, among other relevant factors, published credit ratings. Exposure to credit risk on cash and derivative financial instruments is monitored by Ervia's Treasury function. Ervia regularly evaluates and measures its treasury counterparty exposures. Where the exposure on derivative instruments has the potential to be material to Ervia's net worth, Ervia will consider entering into credit support arrangements. The Group Credit rating was moved to Gas Networks Ireland in 2015. Gas Networks Ireland is rated A by Standard & Poor's and A3 by Moody's Investors Services.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2018 *£'000*	*2017* *£'000*
Financial Assets		
Trade and other receivables (excluding prepaids)	5,195	6,756
Intercompany receivable	27,159	-
Derivative financial instruments *	17	-
Cash and cash equivalents	9,315	10,861
Restricted deposits	3,652	3,633
Total	45,338	21,250

** Derivative Financial Instruments are comprised of foreign exchange forward contracts used to hedge exposure on the foreign currency balances of GNI (UK) Limited as at 31 December 2018.*

Prepayments are excluded from the analysis of the credit exposure.

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic location is as follows:

	2018 *£'000*	*2017* *£'000*
United Kingdom	5,195	6,756
Other	27,159	-
Total	32,354	6,756

The aging of trade and other receivables, net of impairment is as follows:

	2018 *£'000*	*2017* *£'000*
Not past due	32,354	6,313
0-30 days	-	152
31-120 days	-	290
>120 days	-	1
Total	32,354	6,756

17. Financial risk management and financial instruments (cont'd)

Exposure to credit risk (cont'd)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2018 *£'000*	*2017* *£'000*
At 1 January	-	-
Provision utilised	-	-
At 31 December	-	-

Market risk

Description

Market risk is the possibility that changes in exchange rates will adversely affect the value of GNI (UK) Limited's financial assets, liabilities or expected future cash flows.

Objective

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Policies and processes for the management and control of market risk

GNI (UK) Limited actively manages market risk with respect to exchange rate risk through its parent company Ervia's treasury function, who operate in accordance with a set of policies and guidelines that provide a centralised model of conducting finance, treasury and risk management operations.

No sensitivity analysis has been prepared in respect of the derivative financial instruments held at 31 December 2018 on the basis that it is not material to the financial statements.

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for GNI (UK) Limited may not be available, or the company is unable to sell its assets on the market place so as to be able to meet short-term finance requirements and to settle obligations. Such a situation would negatively impact the company's results as it could result in the incurrence of higher borrowing expenses to meet obligations.

The company has facility agreements with the parent company, Gas Networks Ireland, which ensures that sufficient funds are available for on-going operations and future developments.

The Ervia Group and in effect the approach which GNI (UK) Limited has to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The Ervia Group seeks to ensure it has a mix of funding sources at acceptable terms and conditions to finance the development of the business and to meet financial obligations as they fall due. The Ervia Group maintains a balanced maturity profile to minimise, insofar as possible, peaked repayments and refinancing risk.

The Ervia Group's Treasury function negotiate the appropriate pricing and terms for all relevant financial transactions. Cash and liquidity management are undertaken centrally by treasury. Cash pooling is carried out and account balances netted where possible to minimise cash leakage and to minimise the interest expense. The Ervia Group Treasury function undertake cash forecasting and planning in conjunction with the Business Units/Departments on a regular basis. Cash flow forecasts are updated on a daily and weekly basis and used to manage liquidity.

17. Financial risk management and financial instruments (cont'd)

Liquidity risk (cont'd)

Cash surpluses are used primarily to reduce the level of debt. The Ervia Group does not systematically and continually deposit and borrow funds, although circumstances will arise from time to time where it is necessary or advantageous to hold cash on deposit. Cash surpluses may be invested in, but not limited to; Deposit Accounts, Time Deposits, Commercial Paper, Exchequer Bills, Government Gilts, Money Market Funds and Certificates of Deposit. The Ervia Group will invest surplus cash in euro or in the currency of overseas operations.

The Ervia Group's policy and in effect the GNI (UK) Limited policy is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

18. Deferred Revenue

	2018 *£'000*	*2017* *£'000*
At 1 January	-	-
Received in year	911	-
Amortised in year	(491)	-
At 31 December	420	-
Current	420	-
Non-Current	-	-
	420	-

19. Related Party

A number of agreements that had exist between GNI (UK) Limited and Gas Networks Ireland. These agreements underpin the relationship between the subsidiary and the parent company. The following agreements relate to financial transactions.

I. Transportation agreement

	2018 *£'000*	*2017* *£'000*
Transportation agreement	35,288	34,982

II. Management services agreement

	2018 *£'000*	*2017* *£'000*
Management services agreement payments	2,299	2,203

III. Finance charges

	2018 *£'000*	*2017* *£'000*
Interest charges due to Parent Undertaking	2,926	3,250

19. Related Party (cont'd)

The company has five facility agreements with the parent company, Gas Networks Ireland, to finance the operations of GNI (UK) Limited; an interest free facility of £110 million in respect of the general corporate purposes of GNI (UK) Limited and an interest bearing facility of £160 million arising from the purchase of Interconnector 1 in connection with the termination of the leasing arrangements (both converted to Euro in December 2013). The company also has interest bearing facilities of £165 million in respect of the North-West and South-North pipelines, €88.5million in respect of the twinning of Interconnector 2 and €50 million in respect of accrued interest from its ultimate parent Ervia. Each of the facility agreements will mature on 31 December 2019. The company has one facility with the ultimate parent undertaking which will also mature in December 2019

Balances with related parties

	2018 £'000	*2017 £'000*
Receivables:		
GNI: Working Capital Receivable	**27,159**	**-**
Total Receivables from Parent Company	**27,159**	**-**
Payables:		
GNI Parent: Twinning Loan	**(73,106)**	**(45,691)**
GNI Parent: IC1 Funding	**(122,693)**	**(121,396)**
GNI Parent: Northern Ireland Project	**-**	**(14,580)**
Ervia Group: Northern Ireland Project Parked Interest	**(33,608)**	**(33,608)**
Total Loans received from Parent Entities	**(229,407)**	**(215,275)**

Interests of Board Members, Secretary and Key Management Personnel

All Board Members and the Secretary had no interests in the company during the year or at the year end.

20. Contingencies

Contingent liabilities may arise in respect of contractual agreements to which GNI (UK) Limited is a party. These are estimated based on information available of the potential cost associated with the outturn of any such events which exist at the reporting date. Liabilities over and above those provided for in the financial statements could arise as a result of the occurrence or non-occurrence of one or more uncertain future events but given the nature of the contingencies it is not practicable to make an estimate of the financial impact.

21. Commitments

Capital expenditure	*2018 £'000*	*2017 £'000*
Contracted for but not provided in the Financial Statements:	**4,389**	**9,697**

22. Notes to the statement of cashflows

Cash and cash equivalents and restricted deposits

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand and in bank. Cash and cash equivalents at the end of the reporting period as shown in the statement of cashflows can be reconciled to the related items in the statement of financial position as follows:

	2018 *£'000*	*2017* *£'000*
Restricted Deposit Accounts	3,652	3,633
Other bank balances	9,315	10,861
Total cash, cash equivalents and restricted deposits	12,967	14,494

23. Events after the reporting period

There have been no events between 31 December 2018 and the date on which the financial statements were approved by the Directors, which would require adjustment to the financial statements or any additional disclosures.

24. Ultimate parent undertaking

The company is a 100% owned subsidiary of Gas Networks Ireland, and part of the Ervia Group of companies. Ervia is the ultimate parent undertaking and ultimate controlling party, for which group financial statements are drawn up. Copies of the Group financial statements can be obtained from the secretary of Ervia at Webworks, Eglinton Street, Cork, Ireland.

25. Approval of financial statements

The Directors approved and authorised for issue the financial statements on 11th April 2019.