



Regulatory Financial Statements

Year Ended 31 December 2018

GNI (UK) LIMITED

REGULATORY FINANCIAL STATEMENTS

For the year ended 31 December 2018

<u>Contents</u>	Page
Statement of Licensee's Responsibilities	2
Independent Auditor's Report	3-5
Regulatory Statement of Comprehensive Income	6
Regulatory Statement of Financial Position	7
Regulatory Statement of Changes in Equity	8
Regulatory Statement of Cash Flows	9
Notes to the Regulatory Financial Statements	10-21

Appendices

Appendix 1: Reconciliation of GNI (UK) Limited Regulatory Statement of Comprehensive Income to GNI (UK) Limited Financial Statements	22
Appendix 2: Reconciliation of GNI (UK) Limited Regulatory Statement of Financial Position to GNI (UK) Limited Financial Statements	23
Appendix 3: GNI (UK) Limited Statement of Comprehensive Income	24
Appendix 4: GNI (UK) Limited Statement of Financial Position	25

GNI (UK) LIMITED

Statement of Licensee's Responsibilities in respect of the Regulatory Financial Statements for the year ended 31 December 2018

These Regulatory Financial Statements for the year ended 31 December 2018, relate to a Licence ("the Conveyance Licence") granted by the Northern Ireland Authority for Utility Regulation ("the Authority") to Ervia and subsequently assigned to GNI (UK) Limited ("the Licensee").

The Licensee is responsible for maintaining internal accounting and reporting arrangements which enable separate financial statements to be prepared for the regulated business. The Licence also considers that all applicable accounting standards have been followed and that it is appropriate to prepare the accounts on the going concern basis.

The Licensee is responsible for the preparation of those separate financial statements as set out in condition 1.2 of the Conveyance Licence which, having regard to that condition conform to International Financial Reporting Standards as adopted by the European Union and regulatory accounting guidelines, state the accounting policies adopted and be so prepared to a level of detail as may reasonably be required by the Authority and so that they may be reconciled with the published accounts of the Licensee.

The Licensee has responsibility for keeping proper books of account for the separate business and for taking such steps as are reasonably open to it to safeguard the assets of the business and to prevent and detect fraud and other irregularities.

On behalf of the Licensee


Chairman

Date *11th April 2019*

**INDEPENDENT AUDITOR'S REPORT
TO THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION ("THE AUTHORITY")
AND GNI (UK) LIMITED ("THE LICENSEE")**

Opinion

In our opinion, the regulatory financial statements for the year ended 31 December 2018 are prepared, in all material respects, in accordance with Condition 1.2 of the Regulatory Licence.

We have audited the regulatory financial statements of GNI (UK) Limited ("the Licensee") which comprise the regulatory statement of comprehensive income, the regulatory statement of financial position as at 31 December 2018, the regulatory statement of changes in equity, the regulatory statement of cash flows for the year then ended and notes to the regulatory financial statements 1 to 15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the regulatory financial statements* section of our report. We are independent of the Licensee in accordance with the ethical requirements that are relevant to our audit of the regulatory financial statements in the United Kingdom, 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.

Emphasis of matter – basis of accounting and restriction on distribution and use

We draw attention to note 2 to the regulatory financial statements which describes the basis of accounting. The regulatory financial statements have been prepared in accordance with condition 1.2.6 of the Licensee's Gas Conveyance Licence, Regulatory Accounting Guidelines issued by the Authority and the accounting policies set out in note 2 to the financial statements. The nature, form and content of the regulatory financial statements are determined by the Authority. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Authority's purposes. Accordingly, we make no such assessment. Our opinion is not modified in respect of this matter.

Our report is intended solely for the Licensee and the Authority and should not be distributed to or used by parties other than the Licensee or the Authority.

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 regulatory financial statements is not appropriate; or
- the directors have not disclosed in the regulatory financial statements any identified material uncertainties that may cast significant doubt about the Licensee'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 regulatory 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 annual report, other than the regulatory financial statements and our auditor's report thereon. Our opinion on the regulatory 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 regulatory financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the regulatory 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 regulatory 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.

INDEPENDENT AUDITOR'S REPORT TO THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION ("THE AUTHORITY") AND GNI (UK) LIMITED ("THE LICENSEE")

Responsibilities of the Licensee for the regulatory financial statements

The Licensee is responsible for the preparation of the regulatory financial statements in accordance with the financial reporting provisions as set out by condition 1.2 of the Licensee's Gas Conveyance Licence which, having regard to that condition conform to International Financial Reporting Standards as adopted by the European Union and Regulatory Accounting Guidelines, state the accounting policies adopted and be so prepared to a level of detail as may reasonably be required by the Authority and so that they may be reconciled with the published accounts of the Licensee.

The Licensee is responsible for maintaining internal accounting and reporting arrangements which enable separate financial statements to be prepared for the regulated business and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Licensee also considers that all applicable accounting standards have been followed and that it is appropriate to prepare the regulatory financial statements on the going concern basis.

Auditor's responsibilities for the audit of the regulatory financial statements

Our objectives are to obtain reasonable assurance about whether the regulatory 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 regulatory financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the regulatory financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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.
- Obtain an understanding of internal control relevant to 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 Licensee's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of Licensee's 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 Licensee's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the regulated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Licensee to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the regulatory financial statements, including the disclosures, and whether the regulatory financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate 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 we identify during our audit.

**INDEPENDENT AUDITOR'S REPORT
TO THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION ("THE AUTHORITY")
AND GNI (UK) LIMITED ("THE LICENSEE")**

Other matter

Our opinion on the regulatory financial statements is separate from our opinion on the statutory financial statements of the Licensee for the year ended 31 December 2018 on which we reported on 9/5/19, which are prepared for different purposes. Our audit report in relation to the statutory financial statements of the Licensee (our "statutory audit") was made solely to the Licensee's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006.



Kevin Butler
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
No. 6 Lapp's Quay,
Cork, Ireland

Date: 9/5/19

GNI (UK) LIMITED
Regulatory Statement of Comprehensive Income
for the year ended 31 December 2018

	Notes	2018	2017
		£'000s	£'000s
Revenue	3	18,846	17,628
Operating costs (net)	4	(11,998)	(11,113)
Profit from operating activities	5	6,848	6,515
Finance costs	6	(46)	(180)
Profit for the year		6,802	6,335
Total comprehensive income for the year		6,802	6,335
Total comprehensive income attributable to:			
Owners of the division		6,802	6,335

Signed: On behalf of licensee





Denis O' Sullivan
Director

Richard Jemmett
Director


11th April 2019
Date of approval

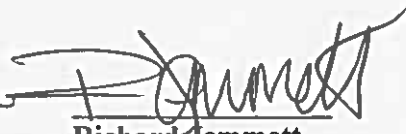
GNI (UK) LIMITED

Regulatory Statement of Financial Position as at 31 December 2018

	Notes	2018 £'000s	2017 £'000s
Non-current assets			
Property, plant & equipment	7	89,149	96,289
Intangible assets	8	847	1,124
Total non-current assets		89,996	97,413
Current assets			
Trade and other receivables	9	8,354	4,343
Cash and cash equivalents	10	737	1,667
Restricted deposits	10	1,638	1,629
Total current assets		10,729	7,639
Total assets		100,725	105,052
Equity			
Retained earnings	11	(45,546)	(38,744)
Total equity attributable to equity holders of the division		(45,546)	(38,744)
Liabilities			
Trade and other payables	13	-	(10,677)
Government grants	12	(16,537)	(18,057)
Total non-current liabilities		(16,537)	(28,734)
Current liabilities			
Trade and other payables	13	(37,122)	(36,054)
Government grants	12	(1,520)	(1,520)
Total current liabilities		(38,642)	(37,574)
Total liabilities		(55,179)	(66,308)
Total equity and liabilities		(100,725)	(105,052)

Signed: On behalf of licensee


Denis O' Sullivan
 Director


Richard Jemmett
 Director

11th April 2019
 Date of approval

GNI (UK) LIMITED**Regulatory Statement of Changes in Equity as at 31 December 2018**

	Retained Earnings £'000	Total Equity £'000
At 1 January 2017	(32,409)	(32,409)
Total comprehensive income for the year	(6,335)	(6,335)
Balance at 31 December 2017	(38,744)	(38,744)
Total comprehensive income for the year	(6,802)	(6,802)
Balance at 31 December 2018	(45,546)	(45,546)

GNI (UK) LIMITED
Regulatory Statement of Cash Flows
for the year ended 31 December 2018

Description	Notes	2018 £'000's	2017 £'000's
Cashflows from operating activities			
Profit for year		6,802	6,335
Adjustment for:			
Depreciation and amortisation (net)		5,964	5,461
Finance costs	6	46	180
		12,812	11,976
Working capital changes			
Change in trade and other receivables		(4,011)	(676)
Change in trade and other payables		2,679	(11,105)
Cash generated from operating activities		11,480	195
Interest paid		(1,632)	-
Net cash generated from operating activities		9,848	195
Cashflows from investing activities			
Payments for tangible and intangible assets		(101)	(577)
Cashflows from financing activities			
Repayment of loan to parent undertaking		(10,677)	-
Net decrease in cash and cash equivalents		(930)	(382)
Cash and cash equivalents at 1 January		1,667	2,049
Cash and cash equivalents at 31 December	10	737	1,667

GNI (UK) LIMITED

NOTES TO THE REGULATORY FINANCIAL STATEMENTS

1. Basis of Preparation

The regulatory financial statements are prepared in Pound Sterling (GBP), under the historical cost convention.

(a) Going Concern

The regulatory 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 Group's approach to managing funding and liquidity risk is to ensure, as far as possible, that it has adequate resources to meet its liabilities when due. The Ervia Group manages credit risk. The division has an interest bearing facility of £165 million in respect of the North-West and South-North pipelines. The remaining amounts outstanding on this facility were repaid in full in 2018. In addition GNI UK Ltd has an interest free facility of £110 million for general corporate purposes in place with its parent entity. The agreement provides that Ervia will not terminate the loan unless GNI (UK) Limited has alternative committed financing arrangements in place.

(b) Statement of Compliance

The regulatory financial statements have been prepared in accordance with the measurement principles of International Financial Reporting Standards (IFRS) as adopted by the European Union and regulatory accounting guidelines.

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

(c) 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 division'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 require a high degree of estimation and judgement, including; impairment allowance in respect of trade and other receivables, the useful lives of fixed assets and various operating accruals. These items are estimated in accordance with relevant IFRSs and the division's accounting policies.

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 division therefore revises the underlying estimates and assumptions based on regularly updated information.

GNI (UK) LIMITED

NOTES TO THE REGULATORY FINANCIAL STATEMENTS (CONT'D)

1. Basis of Preparation (continued)

(c) Use of Estimates and Judgements (continued)

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.

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.

Other judgements

When there is no standard or interpretation applicable to a specific transaction, the division 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).

GNI (UK) LIMITED

NOTES TO THE REGULATORY FINANCIAL STATEMENTS (CONT'D)

2. Summary of Significant Accounting Policies (continued)

(a) New Accounting Standards and Interpretations (continued)

The Company's accounting policies for its revenue streams are disclosed 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

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.

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.

GNI (UK) LIMITED

NOTES TO THE REGULATORY FINANCIAL STATEMENTS (CONT'D)

2. Summary of Significant Accounting Policies (continued)

(a) New Accounting Standards and Interpretations (continued)

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.

GNI (UK) LIMITED
NOTES TO THE REGULATORY FINANCIAL STATEMENTS (CONT'D)

2. Summary of Significant Accounting Policies (continued)

In addition to IFRS 15 and IFRS 9 outlined above, in the current year, the company has 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 regulated financial statements for 2018.

(a) New Accounting Standards and Interpretations (continued)

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

GNI (UK) LIMITED

NOTES TO THE REGULATORY FINANCIAL STATEMENTS (CONT'D)

2. Summary of Significant Accounting Policies (continued)

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. 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.

(b) 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 Ervia Group Treasury is responsible for managing market risk with respect to currency exchange rates for the Group.

(c) 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.

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. The asset classification and depreciation rates are as follows:

Pipeline Systems	3.5%
------------------	------

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 division, 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 statement of comprehensive income.

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.

GNI (UK) LIMITED

NOTES TO THE REGULATORY FINANCIAL STATEMENTS (CONT'D)

2. Summary of Significant Accounting Policies (continued)

(d) Intangible Assets

Software and software under development

Software costs 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 which are controlled by the division. 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 capitalised 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.

(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 statement of comprehensive income. 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

i. 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.

GNI (UK) LIMITED

NOTES TO THE REGULATORY FINANCIAL STATEMENTS (CONT'D)

2. Summary of Significant Accounting Policies (continued)

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 rate method.

Loans to/amounts 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. Ervia Group Treasury is responsible for managing market risk with respect to interest rates for the Group.

(g) Revenue Recognition

The company's revenue is principally derived from gas transportation services in regulated markets 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.

The division's source of revenue is dependent on being approved by the Utility Regulator. 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) Finance costs

Finance costs comprise interest payable on borrowings and financing charge on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in statement of comprehensive income using the effective interest method.

(j) Capital grants

Capital grants received in respect of the purchase of tangible fixed assets 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.

GNI (UK) LIMITED
NOTES TO THE REGULATORY FINANCIAL STATEMENTS (CONT'D)

3. Revenue recognition

Revenue, which was derived solely from gas transportation services, arose solely in the United Kingdom.

GNI (UK) Limited is entitled to all revenues arising in consideration for the provision of such services, to the extent that they represent the recovery of the division's allowed revenue. This allowed revenue represents the recovery of the expected operating and capital costs of the division as agreed in advance with the industry regulator, the Utility Regulator (UR).

This expenditure is recorded on an accruals basis and therefore the associated revenue is also recorded on an accruals basis. Capacity revenue is recognised in line with the underlying contract while any related commodity revenue is recognised based on throughput for the year for each customer.

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 year's regulatory revenue. No adjustment is made for over or under recoveries in the year that they arise.

Analysis of revenue

	2018 £'000s	2017 £'000s
Revenue		
Transportation revenue	18,846	17,628
Total	18,846	17,628

GNI (UK) LIMITED
NOTES TO THE REGULATORY FINANCIAL STATEMENTS (CONT'D)

4. Operating costs (net)

	2018 £'000s	2017 £'000s
Direct costs and facilities	3,619	3,278
Rates	575	597
Depreciation and amortisation	5,964	5,461
Insurance	103	126
Transportation	961	807
Shared services	270	270
Other	506	574
Total	11,998	11,113

	2018 £'000s	2017 £'000s
Actual uncontrollable operating expenditure	1,740	1,646
Actual controllable operating expenditure	4,294	4,006
Depreciation and amortisation	5,964	5,461
Total	11,998	11,113

Uncontrollable expenditure are costs that are mandated to the business from a statutory or regulatory perspective e.g. local authority rates or regulatory levies, as management cannot influence the quantum of these costs the regulator will allow full revenue recovery of these costs through the yearly tariff setting process. Controllable expenditure refers to categories of costs for which a recoverable allowance is set by the Utility Regulator (UR). Management are deemed to be able to influence the quantum of these costs.

	2018 £'000s	2017 £'000s
Direct operating costs	10,158	9,336
Indirect operating costs	1,840	1,777
Total	11,998	11,113

5. Profit from operating activities

There are no direct employees in GNI (UK) Limited. Profit from operating activities is stated after charging/(crediting):

	2018 £'000s	2017 £'000s
Depreciation and amortisation	7,484	6,981
Grant amortisation	(1,520)	(1,520)
	5,964	5,461

GNI (UK) LIMITED
NOTES TO THE REGULATORY FINANCIAL STATEMENTS (CONT'D)

6. Finance costs

	2018 £'000s	2017 £'000s
Interest payable to parent undertaking	46	180
	46	180

7. Property, Plant & Equipment

	2018 £'000s	2017 £'000s
Cost:		
Balance at 1 January	180,083	179,730
Additions	58	353
Balance at 31 December	180,141	180,083
Depreciation:		
Balance at 1 January	83,794	76,830
Charge for the year	7,198	6,964
Balance at 31 December	90,992	83,794
Net book value at 31 December	89,149	96,289

8. Intangible Assets

	2018 £'000s	2017 £'000s
Cost:		
Balance at 1 January	1,622	747
Additions	10	875
Balance at 31 December	1,632	1,622
Depreciation:		
Balance at 1 January	498	481
Charge for the year	287	17
Balance at 31 December	785	498
Net book value at 31 December	847	1,124

GNI (UK) LIMITED
NOTES TO THE REGULATORY FINANCIAL STATEMENTS (CONT'D)

9. Trade and Other Receivables

	2018 £'000s	2017 £'000s
Current		
Trade debtors	1,824	1,837
Amounts due from group companies	3,743	-
Unbilled transportation tariff	2,144	1,796
Other debtors and prepayments	643	710
Total debtors	8,354	4,343

Trade receivables are stated net of allowances for impairment. The movement in the allowance for impairment in respect of trade receivables during the year was £nil (2017: £nil). Trade receivables mainly represent receivables in charges for use of the transmission pipelines in Northern Ireland

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 postalsised system is in place in Northern Ireland. Invoices are issued by the administrator, non-payment of invoices attracts a daily interest charge. Credit risk is primarily attributable to trade receivables and the maximum credit exposure to credit risk is £8,354 (2017: £4,343).

10. Cash and Cash Equivalents

	2018 £'000s	2017 £'000s
Cash	737	1,667
Restricted deposits *	1,638	1,629
Total Cash and Cash Equivalents	2,375	3,296

*Restricted deposits comprise security deposits received from certain customers.

11. Equity

Retained earnings

	2018 £'000s	2017 £'000s
At 1 January	38,744	32,409
Profit for the year	6,802	6,335
At 31 December	45,546	38,744

GNI (UK) LIMITED
NOTES TO THE REGULATORY FINANCIAL STATEMENTS (CONT'D)

12. Government Grants

	2018 £'000s	2017 £'000s
Balance at 1 January	19,577	21,097
Amortised in year	(1,520)	(1,520)
At 31 December	18,057	19,577
Current	1,520	1,520
Non-current	16,537	18,057
At 31 December	18,057	19,577

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. 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 is £38.4 million (2017: £38.4 million).

13. Trade and Other Payables

	2018 £'000s	2017 £'000s
Current liabilities:		
Trade creditors	204	176
VAT	831	147
Customer deposits	10	10
Accruals	2,469	2,113
Amounts owed to group companies	33,608	33,608
Current liabilities	37,122	36,054
Non-current liabilities		
Amounts owed to group companies	-	10,677

GNI (UK) LIMITED

NOTES TO THE REGULATORY FINANCIAL STATEMENTS (CONT'D)

14. Commitments

Capital Expenditure	2018 £'000s	2017 £'000s
Contracted for but not provided in the financial statements	9	1,482

15. Approval of Financial Statements

The financial statements were approved by the licensee on 11th April 2019.

GNI (UK) LIMITED

APPENDIX 1 TO REGULATORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

RECONCILIATION OF GNI (UK) LIMITED REGULATORY STATEMENT OF COMPREHENSIVE INCOME TO GNI (UK) LIMITED FINANCIAL STATEMENTS

	Regulated GNI (UK) Ltd 2018 £'000s	Other 2018 £'000s	GNI (UK) Ltd. 2018 £'000s
Revenue	18,846	39,885	58,731
Operating costs (excluding depreciation)	(6,033)	(7,146)	(13,179)
Depreciation (net of grant amortisation)	(5,965)	(16,562)	(22,527)
Profit on ordinary activities before interest	6,848	16,177	23,025
Net interest cost and other financing charges	(46)	(1,960)	(2,006)
Profit on ordinary activities before taxation	6,802	14,217	21,019
Tax charge on profit on ordinary activities	-	(4,466)	(4,466)
Profit for the year	6,802	9,751	16,553
<u>Other comprehensive income</u>			
Items that may be reclassified subsequently to profit or loss:			
Translation differences on conversion of foreign divisions to presentation currency	-	463	463
Total items that may be reclassified subsequently to profit or loss	-	463	463
Total other comprehensive income for the year:	-	463	463
Total comprehensive income attributable to:			
Owners of the company	6,802	10,214	17,016
Total comprehensive income for the year	6,802	10,214	17,016

GNI (UK) LIMITED

APPENDIX 2 TO REGULATORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

RECONCILIATION OF GNI (UK) LIMITED REGULATORY STATEMENT OF FINANCIAL POSITION TO GNI (UK) LIMITED FINANCIAL STATEMENTS

	REGULATED GNI (UK) Ltd. 2018 £'000s	Other 2018 £'000s	GNI (UK) Ltd. 2018 £'000s
ASSETS			
Property, plant and equipment	89,149	280,910	370,059
Intangible assets	847	33	880
Total non-current assets	89,996	280,943	370,939
Current assets			
Inventories	-	50	50
Trade and other receivables	8,354	31,976	40,330
Derivative financial instruments	-	17	17
Cash and cash equivalents	737	8,578	9,315
Restricted deposits	1,638	2,014	3,652
Total current assets	10,729	42,635	53,364
Total assets	100,725	323,578	424,303
Equity			
Called up share capital	-	(400)	(400)
Other reserves	-	(6,896)	(6,896)
Retained earnings	(45,546)	(56,885)	(102,431)
Total equity attributable to equity holders of the company	(45,546)	(64,181)	(109,727)
LIABILITIES			
Non-current liabilities			
Government grants	(16,537)	(29,516)	(46,053)
Trade and other payables	-	-	-
Derivative financial instruments	-	(13,267)	(13,267)
Deferred tax liabilities	-	(8)	(8)
Total non-current liabilities	(16,537)	(42,791)	(59,328)
Current liabilities			
Government grants	(1,520)	(756)	(2,276)
Deferred income	-	(420)	(420)
Trade and other payables	(37,122)	(215,430)	(252,552)
Total current liabilities	(38,642)	(216,606)	(255,248)
Total liabilities	(55,179)	(259,397)	(314,576)
Total equity and liabilities	(100,725)	(323,578)	(424,303)

GNI (UK) LIMITED

APPENDIX 3 TO REGULATORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

GNI (UK) LIMITED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £'000s	2017 £'000s
Continuing operations		
Revenue	58,731	60,908
Operating costs	(35,706)	(33,728)
Profit from operating activities	23,025	27,180
Finance costs	(2,006)	(2,715)
Profit before income tax	21,019	24,465
Income tax expense	(4,466)	(4,608)
Profit for the year	16,553	19,857
<u>Other comprehensive income</u>		
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:	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

GNI (UK) LIMITED

APPENDIX 4 TO REGULATORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

GNI (UK) LIMITED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

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