GNI (UK) Ltd.

(Formerly BGE (UK) Limited)

# Report & Financial Statements

Year ended 31 December 2014

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# *DIRECTORS AND OTHER INFORMATION*

**BOARD OF DIRECTORS:**

R Jemmett
C J Beattie
J Barry
S Casey (retired 26th February 2015)
L O' Sullivan (appointed as alternate director to J Barry on 26th February 2015)

**SECRETARY AND REGISTERED OFFICE:**

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

Company Registration Number 2827969

**AUDITOR:**

Deloitte & Touche
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

**BANKERS:**

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

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

AIB Group (UK) plc trading as First Trust Bank
Head Office
92 Ann Street
Belfast
BT1 3AY

# *GNI (UK) LIMITED*
# *(FORMERLY BGE (UK) LIMITED)*

## ***STRATEGIC REPORT***

### FAIR REVIEW OF THE BUSINESS & FUTURE DEVELOPMENTS

The principal activity of the business is the carriage of gas. This carriage is provided by a pipeline from Moffat in Scotland to Loughshinny in Ireland, a pipeline in Northern Ireland from Belfast to Derry (North-West) that supplies the Coolkeeragh power station and a pipeline from Gormanstown, Ireland to Belfast (South-North) that underpins security of gas supply for Northern Ireland.

The company had net liabilities of £3.2 million at 31 December 2014. The directors expect the company to continue trading for the foreseeable future. The company has three facility agreements with the parent company, Ervia (formerly Bord Gáis Éireann), to finance the operations of GNI (UK) Limited, (formerly (BGE (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 £140 million arising from the purchase of Interconnector 1 in connection with the termination of the leasing arrangements. Both these facilities were converted to Euro functional currency on 31 December 2013. The company also has an interest bearing facility of £165 million in respect of the North-West and South-North pipelines. Each of the facility agreements will mature on 31 December 2015. The agreements provide that Ervia (formerly Bord Gáis Éireann) will not terminate the loans unless GNI (UK) Limited has alternative committed financing arrangements in place. The net cash balance of GNI (UK) limited was £1.9 million at 31 December 2014, the company also held £3.1 million in restricted deposits.

### 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 the 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 framework in which GNI (UK) Limited operates may impact unfavourably.

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 GNI (UK) Limited's control and other factors besides those listed above may also have an adverse effect.

### 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 £22.5million an increase of £3.4million on the previous year. The target for 2015 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 deficit reducing to £3.2 million from £20 million. The target for 2015 will be to continue this trend. 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. The target for 2015 is to continue to maintain that statistic and undertake a number of regulatory projects.

For and on behalf of GNI (UK) Limited:

| | |
|---|---|
| Liam O'Riordan | 14th May 2015 |
| **Liam O'Riordan** | **Date of Approval** |
| **Secretary** | |

# *GNI (UK) LIMITED*
# *(FORMERLY BGE (UK) LIMITED)*

## ***DIRECTORS' REPORT***

The directors submit their report together with the audited financial statements for the year from 1 January 2014 to 31 December 2014.

**PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS**

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

There have been no significant events affecting the company since the year end.

**GOING CONCERN**

The Financial Statements are prepared on a going concern basis as the Board, after making appropriate enquiries, is satisfied that GNI (UK) Limited has adequate resources to continue in operation for the foreseeable future.

**FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

***Credit risk***

GNI (UK) Limited's principal financial assets are bank balances and cash and trade and other receivables. The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified event, which based on previous experience is evidence of a reduction in the recoverability of the cash flows.

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.

***Liquidity risk***

The company has three facility agreements with the parent company Ervia (formerly Bord Gáis Éireann), 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.

**RESULTS AND DIVIDENDS**

The profit for the financial year amounted to £14.6 million (2013: £13.8 million).

The Directors are not permitted to pay a dividend as GNI (UK) Limited has insufficient Distributable Reserves.

**DIRECTORS**

The directors are as set out on page 2.

None of the directors had any interest in the shares of the company during the year or at the year end. J Barry and the company secretary are beneficiaries of the Bord Gáis Éireann Employee Share Ownership Plan.

# *GNI (UK) LIMITED*
# *(FORMERLY BGE (UK) LIMITED)*

## ***DIRECTORS' REPORT (CONTINUED)***

**SECRETARY**

The secretary is as set out on page 2.

**CREDITOR PAYMENT POLICY**

It is GNI (UK) Limited's 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.

**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**

The auditor, Deloitte & Touche Chartered Accountants and Statutory Audit Firm has expressed its willingness to continue in office as auditor and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

**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:

| | | |
|---|---|---|
| | | 14/05/2015 |
| **R Jemmett**<br>**Director** | **C J Beattie**<br>**Director** | **Date of Approval** |

# *GNI (UK) LIMITED*
# *(FORMERLY BGE (UK) LIMITED)*

## ***DIRECTORS' RESPONSIBILITIES STATEMENT***

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have 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:

**R Jemmett**
**Director**

14/05/2015
**Date of Approval**

CJ BEATTIE
DIRECTOR

Deloitte.

Deloitte
Chartered Accountants &
Statutory Audit Firm

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF GNI (UK) LIMITED (FORMERLY BGE (UK) LIMITED)

We have audited the financial statements of GNI (UK) Limited, (formerly BGE (UK) Limited) for the year ended 31 December 2014 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cashflows and 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.

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.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR**
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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**OPINION ON FINANCIAL STATEMENTS**
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act, 2006.

## OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

Ke Butler

Kevin Butler, ACA
Senior Statutory Auditor
for and on behalf of Deloitte
Chartered Accountants and Statutory Audit Firm
Cork, Ireland

Date: 15/7/15

# GNI (UK) LIMITED
# (FORMERLY BGE (UK) LIMITED)
# STATEMENT OF COMPREHENSIVE INCOME
## *for the year ended 31 December 2014*

| | Notes | 2014<br>£'000 | 2013<br>£'000 |
|---|---|---|---|
| **Continuing Operations** | | | |
| **Revenue** | 3 | 53,379 | 49,716 |
| Operating costs | 5 | (30,927) | (30,689) |
| **Profit from operating activities** | | 22,452 | 19,027 |
| Finance costs | 6 | (5,126) | (1,297) |
| **Profit before income tax** | | 17,326 | 17,730 |
| Income tax expense | 7 | (2,725) | (3,946) |
| **Profit for the year** | 13 | 14,601 | 13,784 |
| **Other Comprehensive Income** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Translation differences on conversion of foreign divisions to presentation currency: | | 2,179 | (1,563) |
| **Total items that may be reclassified subsequently to profit or** | | 2,179 | (1,563) |
| **loss** | | 2,179 | (1,563) |
| **Total other comprehensive income/(expense) for the year:** | | | |
| **Total Comprehensive income attributable to:** | | | |
| Owners of the company | | 16,780 | 12,221 |
| **Total Comprehensive income for the Year:** | | 16,780 | 12,221 |

The notes on pages 13 to 34 form part of these financial statements.

# GNI (UK) LIMITED
# (FORMERLY BGE (UK) LIMITED)
# STATEMENT OF FINANCIAL POSITION
# as at 31 December 2014

| | Notes | 31/12/2014 £'000 | 31/12/2013 £'000 | 01/01/2013 £'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 8 | 230,957 | 246,736 | 257,401 |
| Intangible assets | 9 | - | 2 | 3 |
| Deferred tax asset | 16 | 2,181 | 4,069 | 8,455 |
| **Total non-current assets** | | 233,138 | 250,807 | 265,859 |
| **Current assets** | | | | |
| Inventories | 10 | - | 5 | 29 |
| Trade and other receivables | 11 | 7,803 | 8,010 | 27,651 |
| Cash and cash equivalents | 12 | 1,907 | 2,500 | 550 |
| Restricted deposits | 12 | 3,145 | 2,693 | 2,693 |
| **Total current assets** | | 12,855 | 13,208 | 30,923 |
| **Total Assets** | | 245,993 | 264,015 | 296,782 |
| **Equity** | | | | |
| Called Up Share Capital | 13 | (400) | (400) | (400) |
| Other reserves | 13 | (1,378) | 801 | (762) |
| Retained earnings | 13 | 4,992 | 19,593 | 33,377 |
| **Total equity attributable to equity holders of the Parent** | | 3,214 | 19,994 | 32,215 |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Government grants | 14 | (22,618) | (24,138) | (25,658) |
| Trade and other payables | 15 | (215,624) | (248,980) | (283,088) |
| **Total non-current liabilities** | | (238,242) | (273,118) | (308,746) |
| **Current liabilities** | | | | |
| Government grants | 14 | (1,520) | (1,520) | (1,520) |
| Trade and other payables | 15 | (9,445) | (9,371) | (18,731) |
| **Total current liabilities** | | (10,965) | (10,891) | (20,251) |
| **Total Liabilities** | | (249,207) | (284,009) | (328,997) |
| **Total equity and liabilities** | | (245,993) | (264,015) | (296,782) |

The notes on pages 13 to 34 form part of these financial statements.

***For and on behalf of GNI (UK) Limited:***

14/05/2015

| | | |
|---|---|---|
| **R Jemmett** | **C J Beattie** | **Date of approval** |
| **Director** | **Director** | |

# GNI (UK) LIMITED
# (FORMERLY BGE (UK) LIMITED)
# STATEMENT OF CHANGES IN EQUITY
## *for the year ended 31 December 2014*

| | Share Capital £'000 | Retained Earnings £'000 | Translation Reserve £'000 | Total Equity £'000 |
|---|---|---|---|---|
| At 1 January 2013 | 400 | (33,377) | 762 | (32,215) |
| Total comprehensive income for the year | - | 13,784 | (1,563) | 12,221 |
| **Balance at 31 December 2013** | **400** | **(19,593)** | **(801)** | **(19,994)** |
| Total comprehensive income for the year | - | 14,601 | 2,179 | 16,780 |
| **Balance at 31 December 2014** | ***400*** | ***(4,992)*** | ***1,378*** | ***(3,214)*** |

# GNI (UK) LIMITED
# (FORMERLY BGE (UK) LIMITED)
# STATEMENT OF CASH FLOWS
## Year Ended 31 December 2014

| | Notes | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Cashflows from operating activities** | | | |
| Profit for the year | | 14,601 | 13,784 |
| **Adjustments for:** | | | |
| Depreciation and amortisation | 5 | 15,965 | 16,837 |
| Finance cost | | 5,126 | 1,297 |
| Income tax | | 2,725 | 3,946 |
| | | **38,417** | **35,864** |
| Working capital changes: | | | |
| Change in inventories | | 5 | 24 |
| Change in trade and other receivables | | 126 | 20,553 |
| Change in trade and other payables | | (31,530) | (50,040) |
| **Cash generated from operating activities** | | **7,018** | **6,401** |
| **Net cash generated from operating activities** | | **7,018** | **6,401** |
| **Cashflows from investing activities** | | | |
| Movement in restricted deposits | | (452) | - |
| Payments for property, plant and equipment | | (7,116) | (4,457) |
| **Net cash used in investing activities** | | **(7,568)** | **(4,457)** |
| **Net cash (decrease)/increase in cash and cash equivalents** | | **(550)** | **1,944** |
| Cash and cash equivalents at 1 January | | 2,500 | 550 |
| **Effect of exchange rate fluctuations on cash held** | | (43) | 6 |
| **Cash and cash equivalents at 31 December** | 12 | 1,907 | 2,500 |

# *NOTES TO FINANCIAL STATEMENTS*

## 1. Basis of Preparation

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

## Going Concern

The financial statements are prepared on a going concern basis as the Board, after making appropriate enquiries, is satisfied that GNI (UK) Limited, (formerly BGE (UK) Limited) has adequate resources to continue in operation for the foreseeable future.

## (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 Acts, 2006.

These are the company's first set of financial statements prepared in accordance with IFRS and IFRS 1 *First Time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the company is provided in the notes to the financial statements. There have been no material adjustments to the Statement of Cashflows following the adoption of IFRS.

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 2014.

## (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 fixed assets and various operating accruals. These items are estimated in accordance with relevant IFRSs and the company'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 company therefore revises the underlying estimates and assumptions based on regularly updated information.

***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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2014 and have not been applied in preparing these financial statements. The application of these new standards, amendments and interpretations is either not expected to have a material impact on the financial statements or is still under assessment:

| Standard/Amendment | Effective Date (EU IFRS) | Endorsed by the EU |
|---|---|---|
| Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations | 1 January 2016 [1] | (Outstanding) |
| Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 [1] | (Outstanding) |
| Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2016 [1] | (Outstanding) |
| Amendments to IAS 27: Equity Method in Separate Financial Statements | 1 January 2016 [1] | (Outstanding) |
| Annual Improvements to IFRSs 2012–2014 Cycle | 1 January 2016 [1] | (Outstanding) |
| Amendments to IAS 1: Disclosure Initiative | 1 January 2016 [1] | (Outstanding) |
| Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception | 1 January 2016 [1] | (Outstanding) |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2017 [1] | (Outstanding) |
| IFRS 14 Regulatory Deferral Accounts | 1 January 2016 [1] | (Outstanding) |
| IFRS 9 (2010 and 2009) Financial Instruments | 1 January 2018 [1] | (Outstanding) |

[1] represents the IASB effective date. Effective date under IFRS, as endorsed by the EU, may change depending on EU endorsement status.

### (b) Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions or at a contracted rate. 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 (translation reserve).

## (c) Property, Plant and Equipment Depreciation

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 | Owned Assets | 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.

## (d) 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.

## (e) Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased assets are consumed.

## Accounting for arrangements that contain a lease

The determination of whether an arrangement contains a lease is dependent on whether the arrangement relates to the use and the control of a specific asset. Leases are classified as finance leases if the arrangement transfers substantially all the risks and rewards of ownership. All other leases are categorised as operating leases.

## (f) Financial Assets and Liabilities

### i. Non-derivative financial assets and liabilities

**Trade and other receivables**

Trade and other receivables are recognised at fair value, which is the original invoiced amount less any impairment losses.

Impairment losses are recognised where there is objective evidence of a dispute or 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.

**Trade and other payables**

Trade and other payables are recorded at fair value, which is usually the original invoiced amount.

**Loans from group companies**

Loans from Group companies are non-derivative financial assets which are not quoted in an active market. They are included in current liabilities on the statement of financial position, except for those with maturities greater than twelve months after the reporting date, which are included in non-current liabilities.

## (g) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services in the normal course of the business, net of discounts VAT and other sales related taxes.

One of the company's sources of revenue is dependent on being approved by the Commission for Energy Regulation (CER). 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.

In line with IFRIC (18) Transfer of Assets from Customers, non-repayable supply contributions received are recognised in the income statement as revenue in accordance with IAS 18 Revenue. Contributions are recognised in deferred revenue when received, and are released to the income statement in accordance with fulfilment of performance obligations.

## (h) Profit from operating activities

Profit from operating activities is stated before finance costs.

## (i) Finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise interest payable on borrowings, financing charge on provisions. 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.

## (j) 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.

## (k) Stocks

Stocks, which comprise engineering materials, are valued at the lower of cost and net realisable value. Cost comprises invoice price plus freight and duty where appropriate. Net realisable value is the actual or estimated selling price less all costs to be incurred prior to disposal.

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

## (l) 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.

## 3. Revenue

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

## 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 | *2014* *£'000* | *2013* *£'000* |
|---|---|---|
| Board members' emoluments | | |
| -fees | 20 | 20 |
| **Total** | 20 | 20 |

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

# NOTES TO FINANCIAL STATEMENTS (CONT'D)

## 5. Operating costs

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Depreciation | 17,483 | 18,356 |
| Amortisation of intangible assets | 2 | 1 |
| Grant Amortisation | (1,520) | (1,520) |
| Auditor's remuneration | 16 | 16 |
| Board members' fees | 20 | 20 |
| Network maintenance | 5,756 | 4,771 |
| Rates | 3,520 | 3,316 |
| Management services | 2,560 | 2,657 |
| Other operating costs | 3,090 | 3,072 |
| **Total** | 30,927 | 30,689 |

## 6. Finance Costs

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Interest payable to parent undertaking | 4,942 | 5,472 |
| Other interest charges/(income) | 184 | (4,175) |
| **Total** | 5,126 | 1,297 |

## 7. Income Tax Expense

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Current tax expense:** | | |
| Current tax | - | - |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | 2,725 | 3,951 |
| Prior year under provision | - | (5) |
| **Total expense** | 2,725 | 3,946 |
| **Reconciliation of effective tax rate:** | | |
| **Profit before tax** | 17,326 | 17,730 |
| Tax at 21.49 % (2013:23.25%) | 3,723 | 4,122 |
| Expenses not deductible for tax purposes | 9 | (338) |
| Exchange adjustments | (866) | (346) |
| Effect of tax rate change | (141) | 513 |
| Adjustments to tax change in respect of previous years | - | (5) |
| **Income tax expense** | 2,725 | 3,946 |

# *NOTES TO FINANCIAL STATEMENTS (CONT'D)*

## 8. Property, Plant and Equipment

| | *Land and Buildings £'000* | *Plant Pipeline & Equipment £'000* | *Assets under Construction £'000* | *Total £'000* |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2013 | 6,783 | 436,301 | 3,018 | 446,102 |
| Effect of movement in exchange rates | 168 | 5,989 | 10 | 6,167 |
| Additions | - | 328 | 4,248 | 4,576 |
| Transfers in year | - | 3,903 | (3,903) | - |
| **At 31 December 2013** | 6,951 | 446,521 | 3,373 | 456,845 |
| At 1 January 2014 | 6,951 | 446,521 | 3,373 | 456,845 |
| Effect of movement in exchange rates | (464) | (17,338) | (315) | (18,117) |
| Additions | - | 3,046 | 6,571 | 9,617 |
| Transfers in year | - | 2,990 | (2,990) | - |
| **At 31 December 2014** | 6,487 | 435,219 | 6,639 | 448,345 |
| **Accumulated Depreciation** | | | | |
| At 1 January 2013 | 2,431 | 186,270 | - | 188,701 |
| Effect of movement in exchange rates | 60 | 2,992 | - | 3,052 |
| Depreciation charge for the year | 282 | 18,074 | - | 18,356 |
| **At 31 December 2013** | 2,773 | 207,336 | - | 210,109 |
| At 1 January 2014 | 2,773 | 207,336 | - | 210,109 |
| Effect of movement in exchange rates | (190) | (10,014) | - | (10,204) |
| Depreciation charge for the year | 224 | 17,259 | - | 17,483 |
| **At 31 December 2014** | 2,807 | 214,581 | - | 217,388 |
| **Net Book Value** | | | | |
| At 1 January 2013 | 4,352 | 250,031 | 3,018 | 257,401 |
| At 31 December 2013 | 4,178 | 239,185 | 3,373 | 246,736 |
| At 31 December 2014 | 3,680 | 220,638 | 6,639 | 230,957 |

## 9. Intangible Assets

| | Software £'000 | Total £,000 |
|---|---|---|
| **Cost** | | |
| At 1 January 2013 | 462 | 462 |
| **At 31 December 2013** | 462 | 462 |
| At 1 January 2014 | 462 | 462 |
| **At 31 December 2014** | 462 | 462 |
| **Accumulated Amortisation** | | |
| At 1 January 2013 | 459 | 459 |
| Amortisation charge for the year | 1 | 1 |
| **At 31 December 2013** | 460 | 460 |
| At 1 January 2014 | 460 | 460 |
| Amortisation charge for the year | 2 | 2 |
| **At 31 December 2014** | 462 | 462 |
| **Net Book Value** | | |
| At 1 January 2013 | 3 | 3 |
| At 31 December 2013 | 2 | 2 |
| At 31 December 2014 | - | - |

## 10. Inventory

| | 31-Dec-2014 £'000 | 31-Dec-2013 £'000 | 1-Jan-2013 £'000 |
|---|---|---|---|
| Engineering Materials | - | 5 | 29 |

In 2014 inventories recognised as maintenance costs amounted to £5,000 (2013:£24,000). There were no write-downs of inventories to net realisable value in 2014 (2013: nil).

## 11. Trade and Other Receivables

| | 31-Dec-2014 £'000 | 31-Dec-2013 £'000 | 1-Jan-2013 £'000 |
|---|---|---|---|
| **Current:** | | | |
| Trade Debtors | 2,424 | 2,956 | 4,573 |
| Use of System Receivable | 4,011 | 2,706 | 2,362 |
| Prepayments | 1,367 | 1,544 | 490 |
| VAT | 1 | 804 | 20,226 |
| **Total** | 7,803 | 8,010 | 27,651 |

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 Northwest transmission pipeline and the Southnorth 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.

## 12. Cash and Cash Equivalents

| | 31-Dec-2014 £'000 | 31-Dec-2013 £'000 | 1-Jan-2013 £'000 |
|---|---|---|---|
| Restricted Deposits* | 3,145 | 2,693 | 2,693 |
| Cash | 1,907 | 2,500 | 550 |
| **Total cash and cash equivalents** | 5,052 | 5,193 | 3,243 |

*Restricted Deposits comprise security deposits received from certain customers.

## 13. Equity

### i. Share capital

| | 31-Dec-2014 £'000 | 31-Dec-2013 £'000 | 1-Jan-2013 £'000 |
|---|---|---|---|
| ***Authorised:*** | | | |
| 400,000 ordinary shares of £1 each | 400 | 400 | 400 |
| ***Allotted, called up and fully paid:*** | | | |
| 400,000 ordinary shares of £1 each | 400 | 400 | 400 |

### ii. Retained earnings

| | 2014 £'000 | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| At 1 January | (19,593) | (33,377) | (34,411) |
| Profit for the year | 14,601 | 13,784 | 1,034 |
| At 31 December | (4,992) | (19,593) | (33,377) |

### iii. Other reserves

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| At 1 January | (801) | 762 |
| Other comprehensive income (expense) | 2,179 | (1,563) |
| At 31 December | 1,378 | (801) |

## 14. Government Grants

| | *2014* *£'000* | *2013* *£'000* | *2012* *£'000* |
|---|---|---|---|
| ***At 1 January*** | **25,658** | **27,178** | **28,698** |
| Amortised in Year | **(1,520)** | **(1,520)** | **(1,520)** |
| **At 31 December** | **24,138** | **25,658** | **27,178** |
| | | | |
| ***Current*** | **1,520** | **1,520** | **1,520** |
| ***Non- Current*** | **22,618** | **24,138** | **25,658** |
| | **24,138** | **25,658** | **27,178** |

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 2014 is £38m. (2013:£38m).

## 15. Trade and Other Payables

| | *31-Dec-2014* *£'000* | *31-Dec-2013* *£'000* | *1-Jan-2013* *£'000* |
|---|---|---|---|
| **Non-Current Liabilities:** | | | |
| Amounts due to parent undertaking | **215,624** | **248,980** | **283,088** |
| **Non-Current liabilities** | **215,624** | **248,980** | **283,088** |
| | | | |
| **Current Liabilities:** | | | |
| Trade Creditors | **386** | **1,826** | **59** |
| Accruals | **8,920** | **6,395** | **15,492** |
| Value Added Tax | **139** | **1,150** | **3,180** |
| **Current liabilities** | **9,445** | **9,371** | **18,731** |

## 16. Deferred tax assets and liabilities

| | *Property, plant and equipment* | *Losses forward* | *Other* | *Total* |
|---|---|---|---|---|
| | *£'000* | *£'000* | *£'000* | *£'000* |
| **At 1 January 2013** | (3,847) | 3,572 | 8,730 | 8,455 |
| Charge to statement of comprehensive income. | (2,387) | (420) | (1,139) | (3,946) |
| Exchange adjustment | (440) | - | - | (440) |
| **At 31 December 2013** | (6,674) | 3,152 | 7,591 | 4,069 |
| Charge to statement of comprehensive income. | (1,420) | (1,262) | (43) | (2,725) |
| Exchange adjustment | 837 | - | - | 837 |
| **At 31 December 2014** | (7,257) | 1,890 | 7,548 | 2,181 |

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:

| | *31-Dec-14* | *31-Dec-13* | *1-Jan-13* |
|---|---|---|---|
| | *£'000* | *£'000* | *£'000* |
| Deferred tax assets | 9,438 | 10,743 | 12,302 |
| Deferred tax liabilities | (7,257) | (6,674) | (3,847) |
| **Net deferred tax liabilities** | 2,181 | 4,069 | 8,455 |

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 recognized 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 encouraged by IAS 12, deferred tax asset recognition is regularly reassessed.

## 17. Financial Risk Management and Financial Instruments

### Nature and extent of risks

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

(i) credit risk derived from the possible default of a counterparty.
(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 the GNI (UK) Limited during the periods presented.

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

The fair values of the primary financial assets and liabilities of GNI (UK) Limited together with their carrying values excluding provisions can be analysed as follows:

| | *Amortised cost 31-Dec-14 £'000* | *Not Designated 31-Dec-14 £'000* | *Total Carrying Value 31-Dec-14 £'000* | *Fair Value 31-Dec-14 £'000* |
|---|---|---|---|---|
| **Assets** | | | | |
| *Current Financial Assets* | | | | |
| Trade and other receivables (excluding prepaids) | 6,436 | - | 6,436 | 6,436 |
| Cash and cash equivalents | 1,907 | - | 1,907 | 1,907 |
| Restricted Deposits | 3,145 | | 3,145 | 3,145 |
| **Total current assets** | 11,488 | - | 11,488 | 11,488 |
| **Liabilities** | | | | |
| *Non Current Liabilities:* | | | | |
| Intercompany Borrowings | (215,624) | - | (215,624) | (215,624) |
| **Total non-current financial liabilities** | (215,624) | - | (215,624) | (215,624) |
| *Current Liabilities:* | | | | |
| Trade and other payables | (9,445) | - | (9,445) | (9,445) |
| **Total current financial liabilities** | (9,445) | - | (9,445) | (9,445) |

| | *Amortised cost 31-Dec-13 £'000* | *Not Designated 31-Dec-13 £'000* | *Total Carrying Value 31-Dec-13 £'000* | *Fair Value 31-Dec-13 £'000* |
|---|---|---|---|---|
| **Assets** | | | | |
| *Current Financial Assets* | | | | |
| Trade and other receivables (excluding prepaids) | 6,466 | - | 6,466 | 6,466 |
| Cash and cash equivalents | 2,500 | - | 2,500 | 2,500 |
| Restricted Deposits | 2,693 | | 2,693 | 2,693 |
| **Total current assets** | 11,659 | - | 11,659 | 11,659 |
| **Liabilities** | | | | |
| *Non-Current Liabilities:* | | | | |
| Intercompany Borrowings | (248,980) | - | (248,980) | (248,980) |
| **Total non-current financial liabilities** | (248,980) | - | (248,980) | (248,980) |
| *Current Liabilities:* | | | | |
| Trade and other Payables | (9,371) | - | (9,371) | (9,371) |
| **Total current financial liabilities** | (9,371) | | (9,371) | (9,371) |

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

| | Amortised cost 01-Jan-13 £'000 | Not Designated 01-Jan-13 £'000 | Total Carrying Value 01-Jan-13 £'000 | Fair Value 01-Jan-13 £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| *Current Financial Assets* | | | | |
| Trade and other receivables (excluding prepaids) | 27,161 | - | 27,161 | 27,161 |
| Cash and cash equivalents | 550 | - | 550 | 550 |
| Restricted Deposits | 2,693 | - | 2,693 | 2,693 |
| **Total current assets** | 30,404 | - | 30,404 | 30,404 |
| **Liabilities** | | | | |
| *Non-Current Liabilities:* | | | | |
| Intercompany Borrowings | (283,088) | - | (283,088) | (283,088) |
| **Total non-current financial liabilities** | (283,088) | - | (283,088) | (283,088) |
| *Current Liabilities:* | | | | |
| Trade and other Payables | (18,731) | - | (18,731) | (18,731) |
| **Total current financial liabilities** | (18,731) | - | (18,731) | (18,731) |

**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.

*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.

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

*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:

| | *31-Dec-2014 £'000* | *31-Dec-2013 £'000* | *1-Jan-2013 £'000* |
|---|---|---|---|
| **Financial Assets** | | | |
| Trade and other receivables (excluding prepaids) | 6,436 | 6,466 | 27,161 |
| Cash and cash equivalents | 1,907 | 2,500 | 550 |
| Restricted deposits | 3,145 | 2,693 | 2,693 |
| **Total** | 11,488 | 11,659 | 30,404 |

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

| | *31-Dec-2014 £'000* | *31-Dec-2013 £'000* | *1-Jan-2013 £'000* |
|---|---|---|---|
| United Kingdom | 6,430 | 6,460 | 27,154 |
| Other | 6 | 6 | 7 |
| **Total** | 6,436 | 6,466 | 27,161 |

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

| | *31-Dec-2014 £'000* | *31-Dec-2013 £'000* | *1-Jan-2013 £'000* |
|---|---|---|---|
| Not past due | 5,994 | 4,360 | 25,671 |
| 0-30 days | 258 | 2,097 | 1,472 |
| 31-120 days | 182 | 4 | 3 |
| >120 days | 2 | 5 | 15 |
| **Total** | 6,436 | 6,466 | 27,161 |

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

| | *2014 £'000* | *2013 £'000* |
|---|---|---|
| **At 01 January** | - | - |
| Impairment loss recognised | 14 | - |
| Provision utilised | - | - |
| **At 31 December** | 14 | - |

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

**Market Risk**

*Description*

Market risk is the possibility that changes in interest 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 optimising the return.

*Policies and processes for the management and control of market risk*

GNI (UK) Limited actively manages market risk with respect to interest rates 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.

**Liquidity Risk**

Liquidity risk is the risk that suitable sources of funding for GNI (UK) Limited may not be available, or the the company is unable to sell its assets on the market place so as to be unable 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 three facility agreements with the parent company Ervia, which ensures that sufficient funds are available for on-going operations and future developments.

The Ervia Group's and in effect GNI (UK) Limited's approach 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.

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 develop and maintain relationships to facilitate its long-term liquidity, access to capital and availability of risk management facilities.

## 18. Related Party

A number of agreements exist between GNI (UK) Limited and Ervia which underpin the relationship between the subsidiary and the parent company. The following agreements relate to financial transactions.

### I. Transportation Agreement

| | *2014*<br>*£'000* | *2013*<br>*£'000* |
|---|---|---|
| Transportation Agreement | 21,209 | 20,394 |

### II. Operations and Maintenance Agreement

| | *2014*<br>*£'000* | *2013*<br>*£'000* |
|---|---|---|
| Operation and Maintenance Agreement Payments | 7,600 | 6,676 |

### III. Management Services Agreement

| | *2014*<br>*£'000* | *2013*<br>*£'000* |
|---|---|---|
| Management Services Agreement Payments | 2,560 | 2,657 |

### IV. Finance Charges

| | *2014*<br>*£'000* | *2013*<br>*£'000* |
|---|---|---|
| Interest charges due to Parent Undertaking | 4,942 | 5,472 |

The company has three facility agreements with the parent company, Ervia, to finance the operations of GNI (UK) Limited; an interest free facility of £110 million in respect of general GNI (UK) Limited corporate purposes and an interest bearing facility of £140 million arising from the purchase of IC1 in connection with the termination of the leasing arrangements. The structure of these loans will be reviewed following the completion of restructuring of the Ervia Group. Both these facilities were converted to Euro functional currency on 31st December 2013. The company also has an interest bearing facility of £165 million in respect of the North-West and South-North pipelines. Each of the facility agreements will mature on 31 December 2015. The agreements provide that Ervia will not terminate the loans unless GNI (UK) Limited has alternative committed financing arrangements in place.

## 18. Related Party (cont'd)

### Balances with related parties

| | *31-Dec-2014* *£'000* | *31-Dec-2013* *£'000* | *1-Jan-2013* *£'000* |
|---|---|---|---|
| Ervia Group: General Corporate Loan | **15,527** | **31,543** | **49,470** |
| Ervia Group: IC1 Funding | **125,733** | **131,612** | **138,325** |
| Ervia Group: Northern Ireland Project | **74,364** | **85,825** | **95,293** |
| **Total Loans to from Parent Company** | **215,624** | **248,980** | **283,088** |

### 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. Some of the Board Members and Secretary have a beneficial interest in the parent through their participation in the Bord Gáis Éireann Employee Share Ownership Scheme. The details of this scheme will be included in the Ervia Group Annual Report for the year ended 31 December 2014.

## 19. 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.

## 20. Commitments

| **Capital Expenditure** | *31-Dec-2014* *£'000* | *31-Dec-2013* *£'000* | *1-Jan-2013* *£'000* |
|---|---|---|---|
| Contracted for but not provided in the Financial Statements: | **4,978** | **1,828** | **1,214** |
| Approved by the Board but not contracted for: | **8,815** | **2,442** | **3,630** |

## 21. Notes to the Statement of Cashflows

Under UK GAAP, GNI (UK) Limited was not obliged to prepare a Cashflow Statement. The Statement of Cashflows prepared in the Financial Statements for year ended 31 December 2014 is the first Statement of Cashflow to be presented for the company.

### Cash and Cash Equivalents and Restricted Deposits

For the purpose of the Cashflow Statement, 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 Cashflow Statement can be reconciled to the related items in the statement of financial position as follows:

| | *31-Dec-2014* *£'000* | *31-Dec-2013* *£'000* | *01-Jan-2013* *£'000* |
|---|---|---|---|
| Restricted Deposit Accounts | 3,145 | 2,693 | 2,693 |
| Other bank balances | 1,907 | 2,500 | 550 |
| Total cash, cash equivalents and restricted deposits | 5,052 | 5,193 | 3,243 |

## 22. Events after the Reporting Period

There have been no events between 31 December 2014 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.

## 23. Ultimate Parent Undertaking

The company is a 100% owned subsidiary of Ervia, where Ervia is the ultimate parent undertaking and wholly 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.

## 24. Explanation of Transition to IFRS

As stated in note 1 (a), these are the company's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 December 2014, the comparative information presented in these financial statements for the year ended 31 December 2013 and in the preparation of an opening IFRS statement of financial position at 1 January 2013 (the company's date of transition).

The rules for first-time adoption of IFRS are set out in IFRS 1, *(First time adoption of International Financial Reporting Standards)*. IFRS 1 states that a company should use the same accounting policies in its opening IFRS statement of financial position date and throughout all periods presented in its first IFRS financial statements. The Standard requires these policies to comply with IFRS effective at the reporting date of the first published financial statements (31 December 2014) under IFRS. IFRS 1 allows exemptions from the application of certain IFRS to assist companies with the transition process. There are no exemptions taken by this company.

In preparing its opening IFRS statement of financial position, the company has adjusted the amounts previously reported in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the company financial position, financial performance and cashflows, is set out in the following tables and the notes that accompany the tables.

**24. Explanation of Transition to IFRS (cont'd)**

## *GNI (UK) LIMITED*
## *(FORMERLY BGE(UK) LIMITED)*
## *RECONCILIATION OF COMPREHENSIVE INCOME*
### *for the year ended 31 December 2013*

| | Notes | *Irish GAAP* £'000 | *Effect of transition to IFRS* 31 Dec '13 £'000 | *IFRS* £'000 |
|---|---|---|---|---|
| Revenue | | 49,716 | - | 49,716 |
| Operating Costs | *(a)* | (30,320) | (369) | (30,689) |
| **Profit from Operating Activities** | | 19,396 | (369) | 19,027 |
| Finance Costs | *(b)* | (5,471) | 4,174 | (1,297) |
| **Profit before income tax** | | 13,925 | 3,805 | 17,730 |
| Income tax | *(c)* | (4,361) | 415 | (3,946) |
| **Profit for the year** | | 9,564 | 4,220 | 13,784 |
| **<u>Other Comprehensive Income</u>** | | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | | |
| Translation differences on conversion for foreign divisions to presentation currency: | *(d)* | - | (1,563) | (1,563) |
| **Total Items that may be reclassified subsequently to profit or loss** | | - | (1,563) | (1,563) |
| **Total other comprehensive income for the year** | | - | (1,563) | (1,563) |
| **Total Comprehensive income attributable to:** | | | | |
| Owners of the Company | | 9,564 | 2,657 | 12,221 |
| **Total comprehensive income for the year** | | 9,564 | 2,657 | 12,221 |

## 24. Explanation of Transition to IFRS (cont'd)

### Reconciliations of Statement of Comprehensive Income-

**(a) Operating Costs.**

Recognition of on-line and sub-sea inspections previously included under UK GAAP operating costs are now capitalised as pipelines under IFRS, as a result of this, maintenance costs for the year ended December 2013 were £2.8m lower than previously reported under UK GAAP. Depreciation costs increased by £0.6m as a result of this change. Income, expenses and depreciation in relation to Euro denominated functional currency divisions are now translated at a yearly average rate, this has resulted in an increase of £2.6m in operating costs.

**(b) Finance Costs**

Finance costs are translated at the average exchange rate for the year in respect of Euro denominated divisions. Foreign exchange movements on a number of intercompany loans are now recognised in the Statement of Comprehensive income due to the translation of the Euro denominated divisions to GBP, resulting in a decrease in finance costs in 2013 of £4.2m.

**(c) Income Tax**

Income tax expense relating to divisions with a Euro functional currency is now translated to GBP at an average rate for the year. The treatment of certain items for tax purposes has also changed due to items (a) and (b) above.

**(d) Translation Difference**

Translation difference arises due to the translation of operating divisions whose functional currency is Euro. These divisions are presented in GBP in these financial statements with differences in opening and closing exchange rates being taken to reserves. The movement on the translation reserve in 2013 amounted to (£0.8m).

# NOTES TO FINANCIAL STATEMENTS (CONT'D)

## 24. Explanation of Transition to IFRS (cont'd)

### GNI (UK) LIMITED (FORMERLY BGE (UK) LIMITED)
### RECONCILIATION OF STATEMENT OF FINANCIAL POSITION

| | Notes | Irish GAAP | Effect of transition to IFRS 1 Jan '13 | IFRS | Irish GAAP | Effect of transition to IFRS 31 Dec '13 | IFRS |
|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Assets** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Property, plant & equipment | (e) | 238,831 | 18,570 | 257,401 | 225,466 | 21,270 | 246,736 |
| Intangible assets | (e) | - | 3 | 3 | - | 2 | 2 |
| Deferred tax asset | (f) | 12,454 | (3,999) | 8,455 | 8,093 | (4,024) | 4,069 |
| **Total non-current assets** | | 251,285 | 14,574 | 265,859 | 233,559 | 17,248 | 250,807 |
| **Current assets** | | | | | | | |
| Inventories | (g) | 1,292 | (1,263) | 29 | 1,283 | (1,278) | 5 |
| Trade and other Receivables | (h) | 27,658 | (7) | 27,651 | 8,015 | (5) | 8,010 |
| Cash and cash equivalents | (i) | 3,243 | (2,693) | 550 | 5,193 | (2,693) | 2,500 |
| Restricted Deposits | (i) | - | 2,693 | 2,693 | - | 2,693 | 2,693 |
| **Total current assets** | | 32,193 | (1,270) | 30,923 | 14,491 | (1,283) | 13,208 |
| **Total assets** | | 283,478 | 13,304 | 296,782 | 248,050 | 15,965 | 264,015 |
| **Equity** | | | | | | | |
| Called up share capital | | (400) | - | (400) | (400) | - | (400) |
| Other reserves | (j) | | (762) | (762) | | 801 | 801 |
| Retained earnings | | 45,734 | (12,357) | 33,377 | 36,170 | (16,577) | 19,593 |
| **Total equity attributable to equity holders of the Parent** | | 45,334 | (13,119) | 32,215 | 35,770 | (15,776) | 19,994 |
| **Liabilities** | | | | | | | |
| **Non-current liabilities** | | | | | | | |
| Government Grants | | (25,658) | - | (25,658) | (24,138) | - | (24,138) |
| Amounts due to parent company | | (282,899) | (189) | (283,088) | (248,791) | (189) | (248,980) |
| | | (308,557) | (189) | (308,746) | (272,929) | (189) | (273,118) |
| **Current liabilities** | | | | | | | |
| Government Grants | | (1,520) | - | (1,520) | (1,520) | - | (1,520) |
| Trade and other payables | (l) | (18,735) | 4 | (18,731) | (9,371) | - | (9,371) |
| **Total current liabilities** | | (20,255) | 4 | (20,251) | (10,891) | | (10,891) |
| **Total liabilities** | | (328,812) | (185) | (328,997) | (283,820) | (189) | (284,009) |
| **Total equity and liabilities** | | (283,478) | (13,304) | (296,782) | (248,050) | (15,965) | (264,015) |

## 24. Explanation of Transition to IFRS (cont'd)

**Reconciliations of Statement of Financial Position-**

**(e) Property, plant and equipment & intangible assets**

Recognition of on-line and sub-sea inspections previously included under UK GAAP operating costs are now capitalised as pipelines under IFRS. As a result of this property , plant and equipment is £2.3m higher than previously reported under UK GAAP at 01 January 2013,(£4.5m 31 December 2013).

Servicing equipment and spare parts to the value of £1.3m have been reclassified from inventory to property, plant and equipment in the Statement of Financial Position.

The redenomination of a number of divisions to Euro functional currency has resulted in an increase in the net book value of property plant and equipment of £15m at 01 January 2013, (£15.5m 31 December 2013).

Software assets previously classified as property, plant and equipment are now classified as Intangible assets under IAS 38. The Net Book value of these assets at 01 January 2013 and 31 December 2013 was £3,000 and £2,000 respectively.

**(f) Deferred Tax- Asset**

Adjustment arises in respect of IFRS adjustments.

**(g) Inventory**

Certain items of inventory have been reclassified and included in the carrying value of property, plant and equipment in accordance with IAS 16. The adjustment amounted to approximately £1.3m as at 01 January 2013 and 31 December 2013.

**(h) Trade and other receivables.**

Adjustment occurs due to the redenomination of certain divisions to Euro functional currency.

**(i) Restricted deposits, cash and cash equivalents**

Certain cash balances relating to security deposits from customers have been reclassified as restricted deposits.

**(j) Translation Reserve**

Translation difference arises due to the translation of operating divisions whose functional currency is Euro. These divisions are presented in GBP in these financial statements with differences in opening and closing exchange rates being taken to reserves. The effect of this translation was the recognition of £0.8m translation reserve as at 01 January 2013, the movement on this reserve during the 2013 financial year was (£0.8m).

**(k) Deferred Tax**

Deferred tax liability arises due to the retranslation of certain divisions from Euro functional currency to presentation currency of GBP.

**(l) Trade and other payables**

Adjustment occurs due to the retranslation of certain divisions from Euro functional currency to presentation currency of GBP.

## 25. Approval of Financial Statements

The Directors approved and authorised for issue the financial statements on 14/05/2015