



GNI (UK)
Ltd.

Report & Financial Statements

Year ended 31 December 2015

Contents

	<i>Page</i>
<i>Directors and Other Information</i>	<i>2</i>
<i>Strategic Report</i>	<i>3-4</i>
<i>Directors' Report</i>	<i>5-6</i>
<i>Directors' Responsibilities Statement</i>	<i>7</i>
<i>Independent Auditor's Report</i>	<i>8-9</i>
<i>Statement of Comprehensive Income</i>	<i>10</i>
<i>Statement of Financial Position</i>	<i>11</i>
<i>Statement of Changes in Equity</i>	<i>12</i>
<i>Statement of Cash Flows</i>	<i>13</i>
<i>Notes to Financial Statements</i>	<i>14-34</i>

GNI (UK) LIMITED

DIRECTORS AND OTHER INFORMATION

BOARD OF DIRECTORS:

R Jemmett
C J Beattie
J Barry (retired 21st September 2015)
S Casey (retired as alternate director 26th
February 2015)
L O'Sullivan (retired as alternate director and
appointed as director 21st September 2015)
J Burchill (appointed as alternate director 21st
September 2015)

SECRETARY AND REGISTERED OFFICE:

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

Company Registration Number 2827969

AUDITOR:

Deloitte
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

STRATEGIC REPORT

FAIR REVIEW OF THE BUSINESS & FUTURE DEVELOPMENTS

The principal activity of the business is the transportation of gas. The company owns part of the interconnector system connecting Ireland and Scotland and a transmission network in Northern Ireland to carry out this activity.

GNI (UK) Limited was a subsidiary of Ervia (formerly known as Bord Gáis Éireann) up until the 1st August 2015. As part of a re-organisation of Ervia's gas networks business, the transmission and distribution businesses undertaken by Ervia and the shares and/or the businesses of subsidiaries that owned network businesses were transferred to a recently incorporated wholly owned subsidiary of Ervia, Gas Networks Ireland. All the gas network related assets, licences, rights and liabilities and staff to the extent that these were governed by Irish law transferred by means of a statutory transfer plan. Ervia's investment in GNI (UK) Limited transferred to Gas Networks Ireland at book value by means of a share transfer agreement. Facility agreements and related liabilities with GNI (UK) Limited previously held with Ervia were also novated to Gas Networks Ireland on this date.

On 31st July, immediately prior to the transfer pursuant to the transfer plan, the ownership of the interconnectors was re-organised. Certain interests in Interconnector 1 in Irish, International and Manx waters with a net book value of £26.8m and a market value of £65.6m were disposed of to the parent company Ervia (formerly Bord Gáis Éireann). At the same time GNI (UK) Limited obtained certain interests in Interconnector 2 (a pipeline from Moffat in Scotland to Ballough in Ireland) from Ervia, namely the portion onshore in Scotland together with the portion in the territorial waters of the United Kingdom, with a value of £72.4m, net book value £49.1 million.

Following the interconnector re-organisation, the portion of the interconnector system (Interconnector 1 and Interconnector 2) onshore in Scotland and in UK territorial waters is owned by GNI (UK) Limited and the balance of the system is owned by GNI (UK) Limited's parent Gas Networks Ireland. The two companies work together to operate their respective parts as a single system.

The company had net assets of £46.4 million at 31 December 2015. The directors expect the company to continue trading for the foreseeable future. The company has three facility agreements with the parent company, Gas Networks Ireland, to finance the operations of GNI (UK) Limited; an interest free facility of £110 million in respect of the general corporate purposes of GNI (UK) Limited and an interest bearing facility of £140 million arising from the purchase of Interconnector 1 in connection with the termination of the leasing arrangements. 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 2016. The agreements provide that Gas Networks Ireland 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 £1.5 million at 31 December 2015, the company also held £3.5 million in restricted deposits.

The Commission for Energy Regulation approved the construction of a new 50km natural gas pipeline in Scotland in 2015. In twinning a section of the interconnector system which had previously comprised a single pipe, this project will result in two separate independent interconnector pipelines linking the gas system in Ireland with the GB system. This new section of pipe will be owned and constructed by GNI (UK) Limited. GNI (UK) Limited had already secured EU grant aid funding of €34m in 2014 in relation to this investment.

In early 2016 the Northern Ireland Authority for Utility Regulation (NIAUR) imposed a financial penalty of £500,000 on GNI (UK) Limited following an investigation into GNI (UK) Limited's failure to comply with Condition 2.2.2(c)(ii)(ab) of its Gas Conveyance Licence. This relates to a financial management issue which happened within GNI (UK) Limited and Bord Gáis Éireann (now known as Ervia) approximately ten years ago.

GNI (UK) LIMITED

STRATEGIC REPORT (CONT'D)

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.

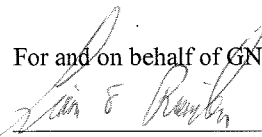
KEY PERFORMANCE INDICATORS

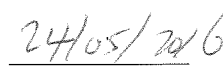
GNI (UK) Limited monitors performance by measuring and tracking key performance indicators (KPIs) that are important to longer-term success. Operating profit is one of the key measures of financial performance. GNI (UK) Limited generated an operating profit of £24.6 million in 2015 an increase of £2.1 million on the previous year. Exceptional income of £38.8 million arose from the disposal of Interconnector 1 at market value to Ervia, the ultimate parent company of GNI (UK) Limited. The target for 2016 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 from £3.2 million to a surplus of €46.4 million. 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 2016 is to continue to maintain that statistic and undertake a number of regulatory projects.

FUTURE DEVELOPMENTS

The Northern Ireland (NI) gas transmission regime transitioned to an Entry-Exit regime on the 1st October 2015 and Phase 1 of the Northern Ireland European Development (NIED) project was successfully implemented including the implementation of capacity auctions and a new tariff structure. Phase 2 of the project is to develop and implement a Contractual Joint Venture (CJV) and a System Operator Agreement (SOA) between all NI TSO's with a go-live date of 1st October 2017.

For and on behalf of GNI (UK) Limited:


Liam O'Riordan
Secretary


Date of Approval

GNI (UK) LIMITED

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year from 1 January 2015 to 31 December 2015.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

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

GOING CONCERN

The financial statements are prepared on a going concern basis as the Board, after making appropriate enquiries including reviewing and approving the 2016 annual budget and assessing the continuing profitability is satisfied that GNI (UK) Limited has adequate resources to continue in operation for the foreseeable future. The company has three facility agreements with the parent company, Gas Networks Ireland, to finance the operations of GNI (UK) Limited. The agreements provide that Gas Networks Ireland will not terminate the loans unless GNI (UK) Limited has alternative committed financing arrangements in place.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Credit risk

GNI (UK) Limited's principal financial assets are bank balances, cash and trade and other receivables. The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position 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.

Market risk

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

Liquidity risk

The company has three facility agreements with the parent company Gas Networks Ireland, 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 £47.6 million (2014: £14.6 million). An exceptional profit of £38.8 million arose on the disposal of property, plant and equipment to Ervia.

GNI (UK) LIMITED

DIRECTORS' REPORT (CONT'D)

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, S Casey, J Burchill and the company secretary are beneficiaries of the Ervia (formerly Bord Gáis Éireann) Employee Share Ownership Plan.

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 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.

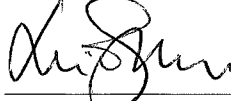
DISCLOSURE OF INFORMATION TO THE AUDITOR


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:


L O' Sullivan
Director


C J Beattie
Director

24/05/16
Date of Approval

GNI (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.

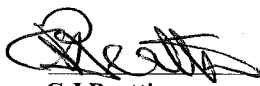
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies 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:



L O' Sullivan
Director



C J Beattie
Director

24/05/16

Date of Approval

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

We have audited the financial statements of GNI (UK) Limited, for the year ended 31 December 2015 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows 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 2015 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.

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

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.



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

Date: 1/6/16

GNI (UK) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Continuing Operations			
Revenue	3	54,700	53,379
Operating costs	5	<u>(30,128)</u>	<u>(30,927)</u>
Profit from operating activities		24,572	22,452
Exceptional item	6	38,751	-
Finance income	7	215	-
Finance costs	7	<u>(4,602)</u>	<u>(5,126)</u>
Profit before income tax		58,936	17,326
Income tax expense	8	<u>(11,331)</u>	<u>(2,725)</u>
Profit for the year	14	<u>47,605</u>	<u>14,601</u>
<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		2,045	2,179
Total items that may be reclassified subsequently to profit or loss	14	<u>2,045</u>	<u>2,179</u>
Total other comprehensive income for the year:		<u>2,045</u>	<u>2,179</u>
Total Comprehensive income attributable to:			
Owners of the company		<u>49,650</u>	<u>16,780</u>
Total Comprehensive income for the year		<u>49,650</u>	<u>16,780</u>


The notes on pages 14 to 34 form part of these financial statements.

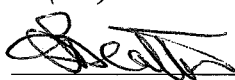
GNI (UK) LIMITED
STATEMENT OF FINANCIAL POSITION
as at 31 December 2015

	Notes	2015 £'000	2014 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	268,104	230,957
Intangible assets	10	-	-
Deferred tax asset	17	-	<u>2,181</u>
Total non-current assets		268,104	233,138
Current assets			
Inventory	11	28	-
Trade and other receivables	12	6,635	7,803
Derivative financial instruments	18	218	-
Cash and cash equivalents	13	1,481	1,907
Restricted deposits	13	<u>3,456</u>	<u>3,145</u>
Total current assets		<u>11,818</u>	<u>12,855</u>
Total assets		<u>279,922</u>	<u>245,993</u>
EQUITY			
Called up share capital	14	(400)	(400)
Other reserves	14	(3,423)	(1,378)
Retained earnings	14	<u>(42,613)</u>	<u>4,992</u>
Total equity attributable to equity holders of the company		<u>(46,436)</u>	<u>3,214</u>
LIABILITIES			
Non-current liabilities			
Government grants	15	(21,504)	(22,618)
Trade and other payables	16	(167,929)	(215,624)
Deferred tax liabilities	17	<u>(7,886)</u>	-
Total non-current liabilities		(197,319)	(238,242)
Current liabilities			
Government grants	15	(1,520)	(1,520)
Trade and other payables	16	<u>(34,647)</u>	<u>(9,445)</u>
Total current liabilities		(36,167)	(10,965)
Total liabilities		<u>(233,486)</u>	<u>(249,207)</u>
Total equity and liabilities		<u>(279,922)</u>	<u>(245,993)</u>

The notes on pages 14 to 34 form part of these financial statements.

For and on behalf of GNI (UK) Limited:


L O Sullivan
Director


C J Beattie
Director

24/05/16
Date of approval

GNI (UK) LIMITED
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015

	<i>Share Capital £'000</i>	<i>Retained Earnings £'000</i>	<i>Translation Reserve £'000</i>	<i>Total Equity £'000</i>
At 1 January 2014	400	(19,593)	(801)	(19,994)
Total comprehensive income for the year	=	<u>14,601</u>	<u>2,179</u>	<u>16,780</u>
Balance at 31 December 2014	<u>400</u>	<u>(4,992)</u>	<u>1,378</u>	<u>(3,214)</u>
Total comprehensive income for the year	=	<u>47,605</u>	<u>2,045</u>	<u>49,650</u>
Balance at 31 December 2015	<u>400</u>	<u>42,613</u>	<u>3,423</u>	<u>46,436</u>

GNI (UK) LIMITED
STATEMENT OF CASH FLOWS
Year Ended 31 December 2015

	<i>Notes</i>	2015 £'000	2014 £'000
Cashflows from operating activities			
Profit for the year		47,605	14,601
Adjustments for:			
Depreciation and amortisation (net)	5	14,936	15,965
Finance cost		4,602	5,126
Gain on derivatives		(215)	-
Income tax		10,374	2,725
Exceptional Items		<u>(38,751)</u>	<u>-</u>
		38,551	38,417
Working capital changes:			
Change in inventories		(28)	5
Change in trade and other receivables		901	126
Change in trade and other payables		(30,551)	(31,530)
Change in deferred grants		400	-
Cash generated from operating activities		<u>9,273</u>	<u>7,018</u>
Income tax paid		<u>(495)</u>	<u>-</u>
Net cash generated from operating activities		<u>8,778</u>	<u>7,018</u>
Cashflows from investing activities			
Movement in restricted deposits		(311)	(452)
Payments for property, plant and equipment		<u>(8,864)</u>	<u>(7,116)</u>
Net cash used in investing activities		<u>(9,175)</u>	<u>(7,568)</u>
Net cash decrease in cash and cash equivalents		(397)	(550)
Cash and cash equivalents at 1 January		1,907	2,500
Effect of exchange rate fluctuations on cash held		<u>(29)</u>	<u>(43)</u>
Cash and cash equivalents at 31 December	13	<u>1,481</u>	<u>1,907</u>

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS

1. Basis of Preparation

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

Going Concern

The financial statements are prepared on a going concern basis as the Board, after making appropriate enquiries including reviewing and approving the 2016 annual budget and assessing the continuing profitability is satisfied that GNI (UK) Limited has adequate resources to continue in operation for the foreseeable future. The company has three facility agreements with the parent company, Gas Networks Ireland, to finance the operations of GNI (UK) Limited. The agreements provide that Gas Networks Ireland will not terminate the loans unless GNI (UK) Limited has alternative committed financing arrangements in place.

(a) Statement of Compliance

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

The financial statements have been prepared in accordance with those IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective for accounting periods ending on or before 31 December 2015.

(b) Use of Estimates and Judgements

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

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

Measurement

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

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

Impairment of long-term assets

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

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.

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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 2015. The application of these amendments to standards did not have a material impact on the GNI (UK) Limited financial statements for 2015.

Standard/Amendment	Effective Date (as endorsed by the EU)	Endorsed by the EU
Annual Improvements to IFRS 2010-2012	1 July 2014	December 2014
Annual Improvements to IFRS 2011-2013	1 July 2014	December 2014
Amendment to IAS 19 Defined Benefit Plans: Employee Contributions	1 July 2014	December 2014

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2015 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	IASB Effective Date	Endorsed by the EU
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016 ¹	November 2015
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016 ¹	December 2015
Amendments to IAS 16 and IAS 41: Bearer Plants	1 January 2016 ¹	November 2015
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	December 2015
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)

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

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

Standard/Amendment	IASB Effective Date	Endorsed by the EU
IFRS 15 Revenue from Contracts with Customers	1 January 2018 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.

IFRS 16 Leases was issued on 13 January 2016 with an IASB effective date of 1 January 2019 (not yet endorsed by the EU). 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 balance sheet the accounting for assets and liabilities associated with operating leases. There will be no significant changes in respect of lessor accounting.

(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 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

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.

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(c) Property, Plant and Equipment (cont'd)

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) Financial Assets and Liabilities

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.

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 FINANCIAL STATEMENTS (CONT'D)

(e) Financial Assets and Liabilities (cont'd)

Non-derivative financial assets and liabilities (cont'd)

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.

(f) 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.

(g) Profit from Operating Activities

Profit from operating activities is stated before finance costs.

(h) Exceptional Items

An item is considered exceptional if it is considered unusual by nature and scale and of such significance that separate disclosure is required for the financial statements to be properly understood.

(i) Net Finance Costs

Finance income comprises interest income on funds invested and fair value gains on financial derivative instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise interest payable on borrowings 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 profit or loss using the effective interest method.

(j) Derivatives

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

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(j) Derivatives (cont'd)

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

(k) Income Tax

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

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

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

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

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

(l) Inventory

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

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

(m) Capital Grants

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

3. Revenue

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

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

4. Employees and Remuneration

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

	2015 £'000	2014 £'000
Key Management Remuneration		
Board members' emoluments		
-fees	<u>20</u>	<u>20</u>
Total	<u>20</u>	<u>20</u>

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

5. Operating costs

	2015 £'000	2014 £'000
Depreciation	16,456	17,483
Amortisation of intangible assets	-	2
Grant amortisation	(1,520)	(1,520)
Auditor's remuneration	16	16
Board members' fees	20	20
Network maintenance	6,195	5,756
Rates	4,100	3,520
Management services	3,201	2,560
Other operating costs	<u>1,660</u>	<u>3,090</u>
Total	<u>30,128</u>	<u>30,927</u>

6. Exceptional item

The exceptional item arises due to profit on disposal of property plant & equipment. On 1st August 2015 assets with a net book value of £26.8 million and a market value of £65.6 million were disposed of to the parent company Ervia. In return assets to the value of £72.4 million were acquired from Ervia by GNI (UK) Limited.

7. Finance (Income)/Costs

	2015 £'000	2014 £'000
Fair value adjustments on derivative financial instruments	<u>(215)</u>	-
Interest payable to parent undertaking	4,097	4,942
Other interest charges	<u>505</u>	<u>184</u>
Total	<u>4,602</u>	<u>5,126</u>

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

8. Income Tax Expense

	2015 £'000	2014 £'000
Current tax expense:		
Current tax	957	-
Deferred tax expense		
Origination and reversal of temporary differences	10,417	2,725
Prior year under provision	(43)	-
	<u>10,374</u>	<u>-</u>
Total tax expense	<u>11,331</u>	<u>2,725</u>
Reconciliation of effective tax rate:		
Profit before tax	58,936	17,326
Tax at 20.25% (2014: 21.49%)	11,934	3,723
Expenses not deductible for tax purposes	34	9
Exchange adjustments	(468)	(866)
Effect of tax rate change	(126)	(141)
Adjustments to tax change in respect of previous years	(43)	-
Income tax expense	<u>11,331</u>	<u>2,725</u>

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

9. Property, Plant and Equipment

	<i>Land and Buildings £'000</i>	<i>Plant, Pipeline & Equipment £'000</i>	<i>Assets under Construction £'000</i>	<i>Total £'000</i>
Cost				
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
Effect of movement in exchange rates	(327)	(12,266)	(162)	(12,755)
Additions	-	73,829	11,187	85,016
Transfers in year	-	4,614	(4,614)	-
Disposals	-	(78,452)	-	(78,452)
At 31 December 2015	6,160	422,944	13,050	442,154
Accumulated Depreciation				
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
Effect of movement in exchange rates	(137)	(7,969)	-	(8,106)
Depreciation charge for the year	182	16,274	-	16,456
Disposals	-	(51,688)	-	(51,688)
At 31 December 2015	2,852	171,198	-	174,050
Net Book Value				
At 31 December 2014	<u>3,680</u>	<u>220,638</u>	<u>6,639</u>	<u>230,957</u>
At 31 December 2015	<u>3,308</u>	<u>251,746</u>	<u>13,050</u>	<u>268,104</u>

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

10. Intangible Assets

	<i>Software</i> £'000	<i>Total</i> £,000
Cost		
At 1 January 2014	462	462
At 31 December 2014	462	462
At 1 January 2015	462	462
At 31 December 2015	462	462
Accumulated Amortisation		
At 1 January 2014	460	460
Amortisation charge for the year	2	2
At 31 December 2014	462	462
At 1 January 2015	462	462
Amortisation charge for the year	-	-
At 31 December 2015	462	462
Net Book Value		
At 31 December 2014	=	=
At 31 December 2015	=	=

11. Inventory

	<i>2015</i> £'000	<i>2014</i> £'000
Engineering materials	<u>28</u>	=

In 2015 inventories recognised as maintenance costs amounted to £189,000 (2014: £5,000). There were no write-downs of inventories to net realisable value in 2015 (2014: £nil).

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

12. Trade and Other Receivables

	2015 £'000	2014 £'000
Current:		
Trade Debtors	1,512	2,424
Use of System Receivable	1,597	4,011
Prepayments	1,916	1,367
VAT	-	1
Withholding Tax	<u>1,610</u>	<u>-</u>
Total	<u>6,635</u>	<u>7,803</u>

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

13. Cash and Cash Equivalents and Restricted Deposits

	2015 £'000	2014 £'000
Restricted Deposits*	3,456	3,145
Cash	<u>1,481</u>	<u>1,907</u>
Total cash and cash equivalents	<u>4,937</u>	<u>5,052</u>

*Restricted Deposits comprise security deposits received from certain customers.

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

14. Equity

i. Share capital

	2015 £'000	2014 £'000
<i>Authorised:</i>		
400,000 ordinary shares of £1 each	400	400
<i>Allotted, called up and fully paid:</i>		
400,000 ordinary shares of £1 each	400	400

ii. Retained earnings

	2015 £'000	2014 £'000
At 1 January	(4,992)	(19,593)
Profit for the year	<u>47,605</u>	<u>14,601</u>
At 31 December	42,613	(4,992)

iii. Other reserves

	2015 £'000	2014 £'000
At 1 January	1,378	(801)
Other comprehensive income	<u>2,045</u>	<u>2,179</u>
At 31 December	3,423	1,378

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

15. Government Grants

	2015 £'000	2014 £'000
<i>At 1 January</i>	24,138	25,658
Received in year	400	-
Amortised in year	(1,520)	(1,520)
Effect of movement in exchange rates	<u>6</u>	<u>-</u>
At 31 December	23,024	24,138
<i>Current</i>	1,520	1,520
<i>Non- Current</i>	<u>21,504</u>	<u>22,618</u>
	23,024	24,138

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 2015 are £38.4 million (2014:£38 million). £400,000 was received in 2015 in respect of the IC1 twinning of Southwest Scotland onshore system between Cluden and Brighthouse Bay (UK).

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

16. Trade and Other Payables

	2015 £'000	2014 £'000
Non-Current Liabilities:		
Amounts due to parent undertaking	<u>167,929</u>	<u>215,624</u>
Non-Current liabilities	<u>167,929</u>	<u>215,624</u>
Current Liabilities:		
Amounts due to parent undertaking	17,913	-
Trade creditors	1,404	386
Accruals	14,855	8,920
Value added tax	56	139
Current tax	<u>419</u>	-
Current liabilities	<u>34,647</u>	<u>9,445</u>

17. Deferred tax assets and liabilities

	<i>Property, plant and equipment</i> £'000	<i>Losses forward</i> £'000	<i>Other</i> £'000	<i>Total</i> £'000
At 1 January 2014	(6,674)	3,152	7,591	4,069
Charge to statement of comprehensive income	(1,420)	(1,262)	(43)	(2,725)
Exchange adjustment	<u>837</u>	-	-	<u>837</u>
At 31 December 2014	<u>(7,257)</u>	<u>1,890</u>	<u>7,548</u>	<u>2,181</u>
Charge to statement of comprehensive income	(7,658)	(1,890)	(826)	(10,374)
Exchange adjustment	<u>307</u>	-	-	<u>307</u>
At 31 December 2015	<u>(14,608)</u>	-	<u>6,722</u>	<u>(7,886)</u>

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:

	2015 £'000	2014 £'000
Deferred tax assets	6,722	9,438
Deferred tax liabilities	<u>(14,608)</u>	<u>(7,257)</u>
Net deferred tax (liability)/ asset	<u>(7,886)</u>	<u>2,181</u>

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

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

18. Financial Risk Management and Financial Instruments

Nature and extent of risks

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

- (i) credit risk 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 GNI (UK) Limited during the periods presented.

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

	<i>Amortised Cost 2015 £'000</i>	<i>Derivatives not in hedging relationship 2015 £'000</i>	<i>Total Carrying Value 2015 £'000</i>	<i>Fair value 2015 £'000</i>
Assets				
<i>Current Financial Assets</i>				
Trade and Other Receivables (excluding prepaids)	4,719	-	4,719	4,719
Derivative Financial Instruments	-	218	218	218
Cash and Cash Equivalents	1,481	-	1,481	1,481
Restricted Deposits	<u>3,456</u>	=	<u>3,456</u>	<u>3,456</u>
Total current assets	<u>9,656</u>	<u>218</u>	<u>9,874</u>	<u>9,874</u>
Liabilities				
Amounts due to parent undertakings	<u>(167,929)</u>	=	<u>(167,929)</u>	<u>(167,929)</u>
Total non-current financial liabilities	<u>(167,929)</u>	=	<u>(167,929)</u>	<u>(167,929)</u>
<i>Current Liabilities:</i>				
Trade and Other Payables	<u>(34,647)</u>	=	<u>(34,647)</u>	<u>(34,647)</u>
Total current financial liabilities	<u>(34,647)</u>	=	<u>(34,647)</u>	<u>(34,647)</u>

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

	<i>Amortised Cost 2014 £'000</i>	<i>Total Carrying Value 2014 £'000</i>	<i>Fair Value 2014 £'000</i>
Assets			
<i>Current Financial Assets</i>			
Trade and Other Receivables (excluding prepaids)	6,436	6,436	6,436
Cash and Cash Equivalents	1,907	1,907	1,907
Restricted Deposits	<u>3,145</u>	<u>3,145</u>	<u>3,145</u>
Total current assets	<u>11,488</u>	<u>11,488</u>	<u>11,488</u>
Liabilities			
<i>Non-Current Liabilities:</i>			
Amounts due to parent undertakings	<u>(215,624)</u>	<u>(215,624)</u>	<u>(215,624)</u>
Total non-current financial liabilities	<u>(215,624)</u>	<u>(215,624)</u>	<u>(215,624)</u>
<i>Current Liabilities:</i>			
Trade and Other Payables	<u>(9,445)</u>	<u>(9,445)</u>	<u>(9,445)</u>
Total current financial liabilities	<u>(9,445)</u>	<u>(9,445)</u>	<u>(9,445)</u>

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

Valuation technique

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

All significant inputs required to fair value the instrument are observable.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

Fair Value Hierarchy

	<i>Level 2 2015 £'000</i>	<i>Level 2 2014 £'000</i>
Financial assets		
Forward exchange contracts	218	-
Total financial assets	218	-

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.

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

18. 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:

	2015 £'000	2014 £'000
Financial Assets		
Trade and other receivables (excluding prepaids)	4,719	6,436
Derivative Financial Instruments *	218	-
Cash and cash equivalents	1,481	1,907
Restricted deposits	<u>3,456</u>	<u>3,145</u>
Total	<u>9,874</u>	<u>11,488</u>

* Derivative Financial Instruments are comprised of foreign exchange forward contracts used to hedge exposure on the foreign currency balances of GNI (UK) Limited as at 31 December 2015.

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

	2015 £'000	2014 £'000
United Kingdom	4,713	6,430
Other	<u>6</u>	<u>6</u>
Total	<u>4,719</u>	<u>6,436</u>

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

	2015 £'000	2014 £'000
Not past due	4,521	5,994
0-30 days	70	258
31-120 days	128	182
>120 days	<u>-</u>	<u>2</u>
Total	<u>4,719</u>	<u>6,436</u>

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

	2015 £'000	2014 £'000
At 1 January	14	-
Impairment loss recognised	-	14
Provision utilised	<u>(7)</u>	-
At 31 December	<u>7</u>	<u>14</u>

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

Market Risk

Description

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

Objective

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

Policies and processes for the management and control of market risk

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

No sensitivity analysis has been prepared in respect of the derivative financial instruments held at 31 December 2015 on the basis that it is not material to the financial statements.

Liquidity Risk

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

The company has 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.

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

19. Related Party

On 1 August 2015 Ervia's investment in GNI (UK) Limited transferred to Gas Networks Ireland at book value.

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

I. Transportation Agreement

	2015	2014
	£'000	£'000
Transportation Agreement	<u>26,875</u>	<u>21,209</u>

II. Operations and Maintenance Agreement

	2015	2014
	£'000	£'000
Operation and Maintenance Agreement Payments	<u>5,940</u>	<u>7,600</u>

III. Management Services Agreement

	2015	2014
	£'000	£'000
Management Services Agreement Payments	<u>3,201</u>	<u>2,560</u>

IV. Finance Charges

	2015	2014
	£'000	£'000
Interest charges due to Parent Undertaking	<u>4,097</u>	<u>4,942</u>

The company's facility agreements with Ervia, also transferred to Gas Networks Ireland on 1 August 2015. These three facility agreements 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 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 2016. The agreements provide that Ervia will not terminate the loans unless GNI (UK) Limited has alternative committed financing arrangements in place.

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

19. Related Party (cont'd)

Balances with related parties

	<i>2015</i> <i>£'000</i>	<i>2014</i> <i>£'000</i>
Ervia Group: General Corporate Loan	17,913	15,527
Ervia Group: ICI Funding	114,812	125,733
Ervia Group: Northern Ireland Project	<u>53,117</u>	<u>74,364</u>
Total Loans to from Parent Company	<u>185,842</u>	<u>215,624</u>

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 Ervia Employee Share Ownership Scheme. The details of this scheme are included in the Ervia Group Annual Report for the year ended 31 December 2015.

20. Contingencies

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

21. Commitments

Capital Expenditure	<i>2015</i> <i>£'000</i>	<i>2014</i> <i>£'000</i>
Contracted for but not provided in the Financial Statements:	<u>22,301</u>	<u>4,978</u>
Approved by the Board but not contracted for:	<u>220,555</u>	<u>8,815</u>

GNI (UK) LIMITED

NOTES TO FINANCIAL STATEMENTS (CONT'D)

22. Notes to the Statement of Cashflows

Cash and Cash Equivalents and Restricted Deposits

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

	<i>2015</i> <i>£'000</i>	<i>2014</i> <i>£'000</i>
Restricted Deposit Accounts	3,456	3,145
Other bank balances	<u>1,481</u>	<u>1,907</u>
Total cash, cash equivalents and restricted deposits	<u>4,937</u>	<u>5,052</u>

23. Events after the Reporting Period

There have been no events between 31 December 2015 and the date on which the financial statements were approved by the Directors, which would require adjustment to the financial statements or any additional disclosures.

24. Ultimate Parent Undertaking

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

25. Approval of Financial Statements

The Directors approved and authorised for issue the financial statements on 24/05/16