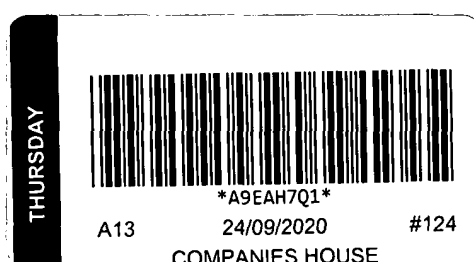


Registered number
08246443

BUUK Infrastructure No 2 Limited
Annual Report & Financial Statements
for the year ended
31 December 2019



BUUK Infrastructure No 2 Limited
Annual Report and Financial Statements

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BUUK Infrastructure No 2 Limited

Strategic Report

Principal Activity

The BUUK Infrastructure No 2 Limited Group (the Group) owns and operates "last mile" utility distribution systems in locations throughout mainland UK, providing essential services to both residential and commercial premises. The business operates in gas, electricity, fibre, water and waste water, district energy, and domestic smart metering sectors, which are regulated by Ofgem (gas and electricity), Ofcom (fibre) and Ofwat (water and waste water).

Business Model

The Group competes against other infrastructure providers, including regional utility incumbents, to provide "last mile" utility network solutions to all types of new build developments. Once completed, the Group will own and operate these networks in perpetuity. The regulated entities owning and operating the utility assets are known as:

- Gas – Independent Gas Transporter (IGT)
- Electricity – Independent Distribution Network Operator (IDNO)
- Water – New Appointee (formerly known as Inset License)

For the provision of its distribution networks and infrastructure, the Group charges the gas, electricity and water suppliers a regulated use-of-system tariff.

The Group has also developed similar business models in the provision of fibre optic communications networks, district heating networks, and domestic smart metering.

Financing

The Group has £1,386.1m of long-term Senior Notes issued in 2013, 2014, 2015, 2016 and 2018 which have an investment grade credit rating of Baa2 from Moody's Investor Services. The Group's existing short-term facilities totalling £281,526,903 expire on 18 September 2024.

Review of performance during the year to 31 December 2019

Key Performance Indicators

	Year ended 31/12/19	Year ended 31/12/18
Revenue (GBP '000)	366,733	336,416
EBITDA ¹ (GBP '000)	272,035	245,510
FFO ² (GBP '000)	217,138	194,402
AFFO ³ (GBP '000)	206,366	180,798
Cumulative Connections (No. of connections)	2,204,790	2,010,826

¹ EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) is calculated as Operating Profit adding back depreciation, amortisation, bad debt expense, gains or losses on disposal of fixed assets and share-based pay expense.

² FFO (Funds from Operations) is calculated as EBITDA less interest expense and tax paid or received.

³ AFFO (Adjusted Funds from Operations) is calculated as FFO less maintenance capital expenditure.

Note – EBITDA, FFO and AFFO are not defined under IFRS and may not be comparable to other organisations.

On the key financial KPIs of Revenue, EBITDA, FFO and AFFO, the Group outperformed both the prior year and the detailed budget for the year as the Group continued to expand its network of assets. Completed connections increased in line with the build out of the contracted order book and a continued confidence in UK house building.

At the year-end the Group had net assets of £1,225,662,000 (2018: £997,242,000).

Strategic Report (continued)

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of Directors are presented with and review a wide range of papers relating to different stakeholders. The papers are discussed at Board meetings and form the basis by which policies and actions of the business are developed and, through this process, the Board have identified the key stakeholders. The Board consider that, both individually and together, they have acted in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole in the decisions taken during the year and, in doing so, have had regard to the stakeholders and matters set out in s172(1) (a-f) of the Companies Act 2006.

The Board of Directors' intention is to behave responsibly and to ensure that management operate the business in a responsible manner to maintain a reputation for high standards of business conduct. The Board of Directors also recognise the importance of behaving fairly between the members of the company.

The Board of Directors' aim to create a balance between the development of opportunities with our customers, stimulating and rewarding our staff, working with and supporting our local communities, sustaining the environment in which we operate, interact with and comply with policies of the relevant regulators and engage in positive relationships with lenders. The following disclosures describe how the Board of Directors have had regard to the matters set out in section 172(1) (a-f) in respect of the Group's stakeholders and forms the Directors' Statement required under Section 414CZA of The Companies Act 2006.

Engagement with Employees

We aim to create, develop and retain highly motivated people and teams who are equipped with the necessary competencies and skills to perform highly and who demonstrate our core values.

We support and engage with our people in a range of ways:

Stimulating positive and responsive communication

- Company news is always available to employees through the Company's intranet
- Conduct quarterly cascade team briefings to keep employees appraised of business performance and industry changes followed by Q&A opportunities
- Regularly circulate internal magazines and articles
- Provide a platform where the business can pose challenges to employees for ideas and where employees can also post other ideas or questions
- Engage in the "Great Place to Work" Programme to understand what improvements we can make to improve the working lives of employees
- Conduct annual face to face Directors presentations to encourage two-way communication

The feedback loop created by the communication has led to the development and enhancement of policies which enhance the working environment and benefits employees receive.

Supporting appropriate learning and development opportunities

- Offer a dual utility engineering apprenticeship scheme
- Offer a Graduate Development Programme
- Annual process to identify training needs backed by investment in development for staff

Supporting our staff to realise their full potential

- Offer a flexible employee benefits scheme
- Employee assistance programmes including stress counselling and medical information services
- Dedicated Health and Wellbeing Committee established
- Offer regular employee social events
- Maintaining a safe, healthy and sustainable working environment for our staff, those we work for and for the general public
- Provide a platform for staff to commit to building a positive safety culture irrespective of role or responsibility
- In April 2019 the Group was recognised as a 'Best Super Large Workplace' by Great Places to Work which reflects the Group's commitment to the importance of its employees

BUUK Infrastructure No 2 Limited

Strategic Report (continued)

Equal opportunities

A fair and equal opportunities culture is operated throughout the Group. Employment opportunities, whether in the recruitment, training or promotion of employees, are granted on merit irrespective of race, colour, religion, national origin, age, gender, disability or sexual orientation.

Full consideration and equal opportunities are given to employment applications from disabled persons with due regard to the requirements of the job. Where existing employees become disabled every effort is made to provide opportunities for continued employment within the Group supported with training and development as appropriate.

Business Relationships

We recognise the importance of engaging with the Group's suppliers and customers and the need to foster relationships with them.

Customers

- Customer satisfaction is closely monitored via both the Net Promoter Score and Customer Effort Score frameworks and results are used to drive process and performance improvements
- Customer feedback is reviewed by Senior Management regularly and is used to continuously improve the business, an example being developing the way in which work is requested by our developer customers to ensure site visits are not aborted

Suppliers

- Corporate social responsibility is a key selection and approval criteria for suppliers
- Group corporate social responsibility requirements are communicated to all suppliers and are accessible on our websites
- Collaborative working with suppliers is critical to the business, an example being the way a key supplier delivers stock to sites has been enhanced and automated to ensure stock is available at critical times.

Regulators

We have a positive relationship with our regulators and are focused on maintaining this and ensuring we act in a way which is open and transparent. We regularly liaise with our regulators at different levels and through a variety of "touch points" with regulatory and government departments to ensure the business evolves alongside any regulatory changes. Our engagement includes:

- Actively participating in strategic regulatory reviews through industry working groups, consultation responses and one to one meetings;
- Engaging with government departments and regulators on a one to one basis and through broader industry groups to promote industry change;
- Responding to regulatory consultations and requests for information;
- Meeting with regulators to promote industry change or to develop solutions to potential concerns;
- Hosting visits to our offices or to sites where we operate to demonstrate how our business model of operating in a multi utility world brings value to customers.

The Board receive regular updates on regulatory interaction and are committed to complying with all relevant regulatory requirements and continue to closely monitor the status of our regulatory relationships, enhancing engagement across key regulatory changes.

Lenders

We actively engage with banks and other lenders to foster a strong relationship. The Board proactively ensures compliance with all borrowing covenants and has an open dialogue with lenders to manage the financing needs of the business.

- Proposals are prepared and reviewed with our lenders for all significant decisions pertinent to those lenders
- Lenders are kept up to date by sharing quarterly accounts and budget information

BUUK Infrastructure No 2 Limited

Strategic Report (continued)

Communities and Environment

BUUK recognises the impacts that it has on the community and the environment and seeks to make a positive difference in the places where we operate.

- Engage in community projects which involve employees working in and amongst the local community
- Actively make available work experience opportunities for 16 to 18 year old students
- Provision of volunteering leave to support local community projects
- Integration of Climate Change Adaptation
- Increasing awareness of environmental issues
- Drive to eliminate single use plastics in our supply chain
- Waste elimination programmes at all sites
- Solar panels installed at head office
- Maintained registration of ISO 14001 environmental accreditation
- The Group expects all employees and its suppliers to work to the Group's own policies and procedures, which as a minimum standard requires compliance with any relevant international and national legal or regulatory framework

Future Prospects

A key driver for the future growth of the Group is the general health of the UK residential housing market. As at the end of 2019, the Group had a contracted forward order book to complete approximately 1,147,000 connections across all of its services over the next 5-10 years, up from approximately 1,050,000 connections as at the end of 2018. Furthermore, any favourable improvement in general economic conditions in the UK that improves the level of enquiries from house builders is generally positive for the Group's businesses.

Brexit

The Directors have considered whether Brexit has had any significant impact on the current year's performance and the likely effect on future periods. In the Directors' opinion, there has been no substantial impact in the current year and, given the Government's commitment to deliver 300,000 homes a year by 2023, it is not felt to be likely that there is a significant risk to future periods. The only risk the Directors foresee is a potential short-term impact on supply chains, for which sufficient contingency plans have been put in place.

COVID-19

The Directors have considered the expected impact of COVID-19 on future periods. As at the date of the approval of this report the Group had £350m of undrawn committed facilities, of which £119.6m is available for general corporate purposes and £230.4m is linked to future capital expenditure. This availability of facilities, combined with the nature of the Group's activities, as discussed below, has led the Directors to the conclusion that it is unlikely the Group would be unable to meet its obligations as they fall due. The Group's business model and financing structure are resilient and there is a strong order book in place for the provision of new connections in the future.

The Group's core business activity is the ownership and operation of infrastructure assets, supplying essential services of gas, electricity, water and fibre. The transportation revenues from this activity are highly stable and predictable and are currently underpinned by a supportive regulatory framework. These revenues are expected to remain stable and continue to generate positive cash flows.

Additionally, BUUK undertakes the construction of new infrastructure assets to be owned and operated by the Group. Construction activity levels are reduced as at the date of signing these financial statements due to the suspension of works by some housebuilders on some new housing sites. The reduction in available work does not negatively impact the Group's cash flows in the short term as construction spend relating to the postponement of infrastructure installations reduces in line. It will however reduce the number of new connections the Group is expecting to complete in 2020. The Directors are committed to ensuring BUUK retains the resources necessary to resume previous levels of construction activity once it is practical and safe to do so.

The Directors note the UK Government has set out a package of temporary measures to support UK businesses:

- A Coronavirus Job Retention Scheme:
 - a) Employees will be designated as 'furloughed workers' and notified if applicable
 - b) Information about furloughed workers will need to be provided to HMRC
 - c) HMRC will reimburse 80% of furloughed workers wage costs, up to a cap of £2,500 per month
- Deferring VAT and Income Tax payments
- A new lending facility from the Bank of England to help support liquidity among larger firms, helping them bridge coronavirus disruption to their cash flows through loans
- The HMRC Time To Pay Scheme

BUUK Infrastructure No 2 Limited

Strategic Report (continued)

The Directors intend to utilise these temporary support measures as and when necessary, in conjunction with other temporary measures, to ensure jobs are protected and the Group is well positioned to return to normal when possible. The Group will continue to invest in the future of its staff even during periods of unproductivity by ensuring training is undertaken where possible.

The Directors have also undertaken a series of stress test financial models over the impact of Covid-19. The key uncertainty and area of judgement in this modelling is construction activity levels. BUUK has based its assumptions on a reference scenario published by the UK Government's independent forecaster, the Office for Budget Responsibility ("OBR") on 14 April 2020, evidence from operations undertaken by the Group and detailed understanding of the industry. Under the OBR scenario and all other reasonably possible scenarios, the Group can continue to meet its obligations as they fall due. Further details of this can be found in the Going Concern note on page 20.

Principal Risks and Uncertainties

The principal risks facing the group are:

Regulatory

The Group operates in stable and transparent regulated utility markets in the UK. The Group is not aware of any significant proposed changes impacting the existing regulatory frameworks in which it operates. Any such change could have either a positive or negative impact on our future business prospects. The Group has carried on investing in both regulated and non-regulated markets, diversifying its regulatory risk.

Health, Safety and Environmental

The Group operates a comprehensive Health, Safety and Environmental framework to ensure that, as far as possible, it eliminates risk to its employees, customers, members of the public and the environment. The Group has an excellent track record in this regard and has culturally aligned itself to improve continually its performance in this area.

Liquidity and Interest Rates

The Group has a policy of seeking to have a number of sources of funds and financial instruments at any given time to meet its liquidity needs, as well as maintaining a balanced maturity profile to minimise, as far as possible, peaked repayments and refinancing risk. Debt facilities are arranged with appropriate financial and operating covenants, ensuring that management has the necessary flexibility in the operation of its business.

The majority of the Group's existing debt has an unexpired term exceeding 10 years and is subject to a fixed interest rate.

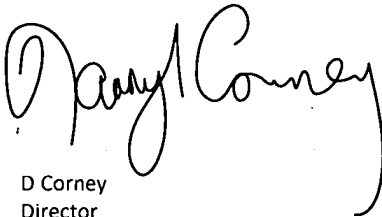
Cash flow risk

The Group uses derivative financial instruments to manage certain exposures to fluctuations in interest rates, inflation rates and exchange rates. The Group does not hold any speculative financial instruments.

Credit risk

Whilst the Group is dependent on a number of large customers, the credit risk from the failure of those customers is limited by regulatory regimes. The Group takes appropriate measures to reduce credit risk to a manageable level and has strict procedures to manage credit risk relating to trade receivables.

This report was approved by the Board on 24 April 2020 and signed on its behalf.



D Corney
Director

BUUK Infrastructure No 2 Limited

Registered number: 08246443

Directors' Report

The Directors present their annual report and audited financial statements for the Group and Company for the year ended 31 December 2019.

Information

BUUK Infrastructure No 2 Limited is a private Company limited by shares incorporated in England and Wales, registration number 08246443. The Company's registered address is Synergy House, Woolpit Business Park, Woolpit, Bury St Edmunds, Suffolk, IP30 9UP.

Details of the Group's future developments, equal opportunities, employee engagement and business relationships can be found in the Strategic Report.

Results and dividends

The results for the year are shown in the Consolidated Income Statement on page 12. The profit for the year, after taxation, amounted to £96.0m (2018: £82.8m).

During the year interim dividends were approved and paid of £94.8m (2018: £40.0m). The Directors do not propose the payment of a final dividend (2018: £nil).

Directors

The Directors who served during the year and to the date of this report, unless otherwise stated, are as follows:

P Sim	
D Corney	
C Linsdell	
N Shaw	(resigned 31 December 2019)
G Montesi	
J Kelly	(resigned 10 January 2020)

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 group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) 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.

BUUK Infrastructure No 2 Limited

Directors' Report (continued)

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue to adopt the going concern basis in preparing the annual report and financial statements. Further details regarding the adoption of the going concern basis can be found in Note 2 of the financial statements.

On the basis of the financing facilities available together with the business plans which confirm the adequacy of the current facilities for a period of at least the next 12 months, and which support the proposed funding strategy in the longer term, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Directors' indemnities

Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year for the benefit of the then Directors and, as at the date of this report, remain in force for the benefit of the current Directors in relation to certain losses and liabilities which they may incur in connection with their duties, powers or office.

Directors' statement as to disclosure of information to auditor

The Directors confirm that, so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware, and the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Financial risk management

Details of the Group's financial risk management objectives and policies can be found in note 19 of the financial statements.

This report was approved by the Board on 24 April 2020 and signed on its behalf.



D Corney
Director

Independent Auditor's Report to the member of BUUK Infrastructure No 2 Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of BUUK Infrastructure No 2 Limited (the 'parent company') and its subsidiaries ('the group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements; and
- the related notes 1 to 30.

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

Basis for opinion

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

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

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Independent Auditor's Report to the member of BUUK Infrastructure No 2 Limited (continued)

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

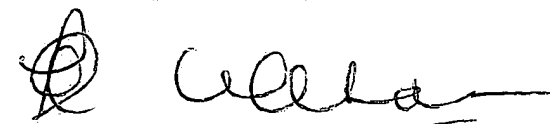
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Lee Welham FCA (Senior Statutory Auditor)
for and on behalf of
Deloitte LLP
Statutory Auditor
Cambridge, United Kingdom
24 April 2020

BUUK Infrastructure No 2 Limited
Consolidated Income Statement
for the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Continuing operations			
Revenue	4	366,733	336,416
Cost of sales		(74,194)	(64,526)
Gross profit		292,539	271,890
Administrative (expense)/income			
Amortisation and depreciation		(93,431)	(80,955)
Other operating expenses		(40,241)	(35,996)
Gain on disposal of a subsidiary	28	7,430	-
Operating profit		166,297	154,939
Finance costs	5	(51,694)	(55,439)
Profit before tax		114,603	99,500
Tax	8	(18,621)	(16,742)
Profit for the year attributable to the owners of the parent	6	95,982	82,758

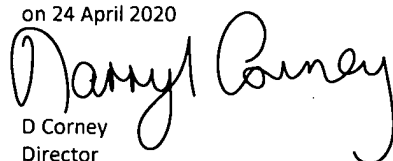
BUUK Infrastructure No 2 Limited
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Profit for the year		95,982	82,758
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Gain on revaluation of Infrastructure assets	12	269,692	157,974
Income tax relating to items that will not be reclassified subsequently		<u>(45,848)</u>	<u>(26,856)</u>
		223,844	131,118
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Cash flow hedges:			
Amounts reclassified to profit and loss in relation to exchange differences arising during the year		8,857	(13,349)
(Loss)/gain on hedging instruments designated as a cash flow hedge		(4,306)	16,945
Reclassification adjustments for amounts recognised in profit or loss		(623)	(623)
Income tax relating to items that may be reclassified subsequently		<u>(657)</u>	<u>(494)</u>
		3,271	2,479
 Other comprehensive income for the year, net of income tax		 <u>227,115</u>	 <u>133,597</u>
 Total Comprehensive Income for the year attributable to the owners of the parent		 <u>323,097</u>	 <u>216,355</u>

BUUK Infrastructure No 2 Limited
Consolidated Statement of Financial Position
as at 31 December 2019

	Notes	31 December 2019 £'000	31 December 2018 £'000
Non-current assets			
Goodwill	9	25,969	25,969
Other intangible assets	10	38,611	44,127
Property, plant and equipment	12	3,392,191	2,881,291
Derivative financial instruments	19	22,089	26,395
Deferred tax assets	15	31,047	34,426
		<u>3,509,907</u>	<u>3,012,208</u>
Current assets			
Inventories	14	1,207	334
Trade and other receivables	15	111,542	99,098
Cash and bank balances		4,197	3,979
		<u>116,946</u>	<u>103,411</u>
Total assets		<u>3,626,853</u>	<u>3,115,619</u>
Current liabilities			
Trade and other payables	16	(136,012)	(120,939)
Lease liabilities	29	(708)	-
Deferred income	18	(82,384)	(73,248)
		<u>(219,104)</u>	<u>(194,187)</u>
Non-current liabilities			
Borrowings	17	(1,686,118)	(1,491,235)
Lease liabilities	29	(1,548)	-
Deferred income	18	(49,097)	(41,692)
Derivative financial instruments	19	(57,773)	(65,443)
Deferred tax liabilities	16	(387,551)	(325,820)
		<u>(2,182,087)</u>	<u>(1,924,190)</u>
Total liabilities		<u>(2,401,191)</u>	<u>(2,118,377)</u>
Net assets		<u>1,225,662</u>	<u>997,242</u>
Equity			
Share capital	21	235,273	235,273
Merger reserve	21	(46,940)	(46,940)
Convertible loan notes	17	158,539	158,539
Revaluation reserve	21	830,533	606,689
Cash flow hedge reserve	21	139	(3,132)
Retained earnings		48,118	46,813
Total equity attributable to owners of the parent		<u>1,225,662</u>	<u>997,242</u>

The financial statements of BUUK Infrastructure No 2 Limited (registered number 08246443) were approved by the board on 24 April 2020


D Corney
Director

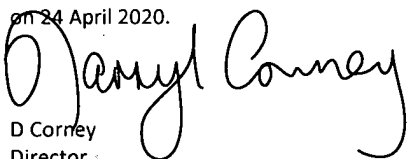
BUUK Infrastructure No 2 Limited
Company Statement of Financial Position
as at 31 December 2019

	Notes	31 December 2019 £'000	31 December 2018 £'000
Non-current assets			
Investments	11	1,854,024	1,654,024
Amounts receivable from group undertakings	15	37,994	37,179
Deferred tax assets	15	7,381	9,417
		<u>1,899,399</u>	<u>1,700,620</u>
Current assets			
Trade and other receivables	15	485	3,549
Amounts receivable from group undertakings	15	294,400	357,020
Cash and bank balances		4	2,241
		<u>294,889</u>	<u>362,810</u>
Total assets		<u>2,194,288</u>	<u>2,063,430</u>
Current liabilities			
Trade and other payables	16	(2,306)	(1,239)
Amounts payable to group undertakings	16	-	(2,000)
		<u>(2,306)</u>	<u>(3,239)</u>
Non-current liabilities			
Derivative financial instruments	19	(57,773)	(65,443)
Deferred tax liabilities	16	(546)	(663)
Amounts payable to group undertakings	16	(1,415,942)	(1,401,979)
Borrowings	17	(279,792)	(75,137)
		<u>(1,754,053)</u>	<u>(1,543,222)</u>
Total liabilities		<u>(1,756,359)</u>	<u>(1,546,461)</u>
Net assets		<u>437,929</u>	<u>516,969</u>
Equity			
Share capital	21	235,273	235,273
Convertible loan notes	17	158,539	158,539
Retained earnings		44,117	123,157
Total equity attributable to owners of the Company		<u>437,929</u>	<u>516,969</u>

The company reported a profit for the year ended 31 December 2019 of £15,733,000 (2018: £81,710,000). The Company has no items of comprehensive income other than the profit for the financial year.

The financial statements of BUUK Infrastructure No 2 Limited (registered number 08246443) were approved by the board on 24 April 2020.

D Corney
Director



BUUK Infrastructure No 2 Limited
Consolidated Statement of Changes in Equity
For the year ended 31 December 2019

	Share capital	Merger reserve	Convertible loan notes	Revaluation reserve	Cash flow hedge reserve	Retained earnings / (deficit)	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2018	235,273	(46,940)	158,539	475,571	(5,611)	3,936	820,768
Profit for the year	-	-	-	-	-	82,758	82,758
Other comprehensive income for the year, net of income tax	-	-	-	131,118	3,102	-	134,220
Reclassification adjustments for amounts recognised in profit or loss	-	-	-	-	(623)	-	(623)
Total comprehensive income for the year	-	-	-	131,118	2,479	82,758	216,355
Payment of dividends (note 20)	-	-	-	-	-	(40,000)	(40,000)
Movement in Share-based payments reserve	-	-	-	-	-	119	119
Balance at 31 December 2018	235,273	(46,940)	158,539	606,689	(3,132)	46,813	997,242
Profit for the year	-	-	-	-	-	95,982	95,982
Other comprehensive income for the year, net of income tax	-	-	-	223,844	3,894	-	227,738
Reclassification adjustments for amounts recognised in profit or loss	-	-	-	-	(623)	-	(623)
Total comprehensive income for the year	-	-	-	223,844	3,271	95,982	323,097
Payment of dividends (note 20)	-	-	-	-	-	(94,773)	(94,773)
Movement in Share-based payments reserve	-	-	-	-	-	96	96
Balance at 31 December 2019	235,273	(46,940)	158,539	830,533	139	48,118	1,225,662

BUUK Infrastructure No 2 Limited
Company Statement of Changes in Equity
For the year ended 31 December 2019

	Share capital	Convertible loan notes	Retained earnings	Total Equity
	£'000	£'000	£'000	£'000
Balance at 1 January 2018	235,273	158,539	81,447	475,259
Profit for the year	-	-	81,710	81,710
Total Comprehensive Income for the year	-	-	81,710	81,710
Payment of dividends (note 20)	-	-	(40,000)	(40,000)
Balance at 31 December 2018	235,273	158,539	123,157	516,969
Profit for the year	-	-	15,733	15,733
Total Comprehensive Income for the year	-	-	15,733	15,733
Payment of dividends (note 20)	-	-	(94,773)	(94,773)
Balance at 31 December 2019	235,273	158,539	44,117	437,929

The Company has taken advantage of the exemption available under Section 408 of the Companies Act 2006 and has not presented its own Income Statement in these financial statements.

BUUK Infrastructure No 2 Limited
Consolidated Cash Flow Statement
for the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Cash flows from operating activities			
Profit for the year		95,982	82,758
Adjustments for:			
Income tax expense recognised in profit or loss		18,621	16,742
Finance costs recognised in profit or loss		55,104	51,512
Gain on disposal of subsidiary		(7,430)	-
Loss on disposal of property, plant and equipment		5,570	5,835
Net (gains)/losses arising on financial instruments designated as fair value through profit and loss		(3,410)	3,928
Depreciation and amortisation of non-current assets		93,431	80,955
Operating cash flows before movements in working capital		257,868	241,730
Increase in trade and other receivables		(13,767)	(31,717)
(Increase)/decrease in inventories		(1,017)	82
Increase in deferred revenue		18,072	30,548
Increase in other liabilities		6,454	1,887
Cash generated from operations		267,610	242,530
Interest paid for derivative financial instruments		(4,260)	(3,928)
Interest paid on borrowings		(54,893)	(51,097)
Interest paid on lease liabilities		(97)	-
Net cash generated by operating activities		208,360	187,505
Investing activities			
Payments for property, plant and equipment		(323,647)	(311,203)
Proceeds on disposal of property, plant and equipment		3,242	1,194
Net cash inflow on disposal of subsidiaries	28	4,841	-
Net cash used in investing activities		(315,564)	(310,009)
Financing activities			
Payment for debt issue costs		(2,248)	(2,230)
Payment of lease liabilities		(633)	-
Proceeds from borrowings		247,076	398,083
Repayment of borrowings		(42,000)	(225,834)
Repayment of derivative financial instruments		-	(16,141)
Dividends paid		(94,773)	(40,000)
Net cash from financing activities		107,422	113,878
Net increase/(decrease) in cash and cash equivalents		218	(8,626)
Cash and cash equivalents at the beginning of the year		3,979	12,605
Cash and cash equivalents at the end of the year		4,197	3,979

BUUK Infrastructure No 2 Limited
Company Cash Flow Statement
for the year ended 31 December 2019

	Year ended 31 December 2019	Year ended 31 December 2018
	£'000	£'000
Cash flows from operating activities		
Profit for the year	15,733	81,710
Adjustments for:		
Income tax credit recognised in profit or loss	(8,113)	(6,542)
Finance gains recognised in profit or loss	(6,372)	(81,077)
Amortisation recognised in profit or loss	503	661
Net (gain)/loss arising on financial instruments designated as at fair value through profit or loss	(3,410)	3,928
Operating cash flows before movements in working capital	(1,659)	(1,320)
Net movement in receivables and payables	3,135	(3,412)
Cash from/(used in) operations	1,476	(4,732)
Interest paid for derivative financial instruments	(4,260)	(3,928)
Interest paid on borrowings	(4,312)	(3,142)
Net cash used in operating activities	(7,096)	(11,802)
Investing activities		
Amounts (advanced to)/received from group undertakings	(155,406)	88,740
Dividends received	50,887	109,258
Net cash (used in)/generated by investing activities	(104,519)	197,998
Financing activities		
Proceeds from borrowings	247,076	98,083
Repayment of borrowings	(42,000)	(225,834)
Repayment of derivative financial instruments	-	(16,141)
Payment for debt issue costs	(925)	(78)
Dividends paid to owners of the Company	(94,773)	(40,000)
Net cash generated by/(used in) financing activities	109,378	(183,970)
Net (decrease)/increase in cash and cash equivalents	(2,237)	2,226
Cash and cash equivalents at the beginning of the year	2,241	15
Cash and cash equivalents at the end of the year	4	2,241

1 General information

The financial information is presented in pounds sterling, rounded to the nearest thousand, because that is the currency of the primary economic environment in which the Group operates.

2 Basis of preparation

Basis of accounting

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

The consolidated and Company financial information has been prepared under the historical cost convention, except for the revaluation of financial instruments and certain properties, plant and equipment that are measured at revalued amounts or fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below and on the following pages.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The financial statements present results for the Group, and the Company, for the two 12 month periods ending 31 December 2018 and 2019, incorporating the results of the Company for the two 12 month periods ending 31 December 2018 and 2019.

Going concern

The Group holds a Baa2 (investment grade) rating from Moody's. The rating was reconfirmed by Moody's in May 2019. At the date of approval of the financial statements the Group has undrawn committed facilities of £350.0m, of which £119.6m is available for general corporate purposes and £230.4m is linked to future capital expenditure. These facilities were renewed in 2019 and are due to expire on 18 September 2024. As set out in Note 17 the Group's borrowings have an average remaining maturity of c.11 years with the first debt maturing in 2023.

In light of the Covid-19 pandemic the Group has undertaken a series of stress test financial models to assess the Group's ability to meet obligations as they fall due for a period of at least 12 months from the date of this report. Based on existing financing facilities, the Group has sufficient cash available to meet its obligations under all reasonably possible scenarios modelled.

The most likely scenario modelled by the Group is in line with a reference scenario published by the UK Government's independent forecaster, the Office for Budget Responsibility ("OBR") on 14 April 2020. This models a reduction in construction activity of 70% in Q2 2020 before recovering later in the year. Under this scenario, and other reasonable downside scenarios, the Group remains compliant with all borrowing covenants in existence and has sufficient cash to meet its obligations. This includes an extreme, if unlikely, scenario of construction activity remaining suppressed at current, or only marginally increased, levels for a period of 12 months.

Accordingly, the directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future and continue to adopt the going concern basis in preparing the financial statements.

Further details of the Covid-19 measures undertaken by the Group can be found in the Strategic Report.

2 Basis of preparation (continued)

The Company is partially financed by intercompany debt, the majority of which has long-term agreements. Debt with no specific agreement is held as under 1 year. The Company has received assurances from Group companies that these balances will not be recalled within 1 year of the date of this report unless the Company is in a position to repay these amounts while meeting its other obligations.

Adoption of new and revised standards

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 3 (amendments) Definition of Business

IAS 1 and IAS 8 (amendments) Definition of material

IFRS 9, IAS 39 and IFRS 7 (amendments) Interest Rate Benchmark Reform

IFRS 17 Insurance Contracts

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Directors anticipate that the adoption of the above Standards and Interpretations in future periods will not have a significant impact on these financial statements, except for additional disclosures, when the relevant standards come into effect.

IFRS 16 "Leases" is effective from 1 January 2019. Details of the adoption of this standard can be seen in note 30.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2 Basis of preparation (continued)

Critical judgments in applying the Group's accounting policies

The following are the critical judgments, apart from those involving estimates (which are dealt with separately below), that the Directors have made in applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- Revenue and asset recognition associated with developer contributions:

Revenue and property, plant and equipment are recognised on developer contributions in accordance with IFRS 15 (Revenue from Contracts with Customers). The Group recognition is based on the stage of completion of the infrastructure construction contract, which is measured by the proportion of costs incurred to estimated whole-life contract costs. Judgment is applied in determining the costs to complete existing networks and, therefore, the percentage of completion.

- Discount rate and long-term terminal growth rate used to determine the carrying amount of the Group's Infrastructure Assets:

Infrastructure Assets are stated in the statement of financial position at their re-valued amounts (with the exception of assets in the course of construction which are measured at cost), being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed by the Directors at each statement of financial position date. In determining the fair value at the statement of financial position date, the Directors use the income approach. The income approach requires the Directors to estimate the future cash flows expected to arise from the Infrastructure Assets and to discount those cash flows using a suitable discount rate in order to determine present value.

The discount rate applied by the Directors is an equity discount rate determined using various market based assumptions. Significant judgment is required when determining the risk premium to be applied in determining a suitable equity discount rate. The long-term terminal growth rate has been determined based on a combination of past experience, current order-book and management's expectations of future growth rates in the industry.

Details of the fair value calculation are set out in Note 12. As outlined in that note, a change in the discount rate or long-term terminal growth rate could have a significant impact on the calculated fair value.

The Group's completed infrastructure asset class is revalued at each statement of financial position date, with assets in the course of construction being held at historical cost.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

- Fair value measurements in respect of Derivative Financial Instruments:

Derivative financial instruments are stated in the statement of financial position at fair value.

In determining the fair value at the statement of financial position date, the Directors use the valuations calculated by the independent financial instrument experts, which are based on the discounted value of the expected future cash flows arising from the instruments.

In addition, the Directors are required to estimate the effect of own and counterparty creditworthiness on the risk-free valuations provided by the counterparties. The Directors use independent financial instrument experts and their judgment in applying third party credit measures to risk-adjust the discounted value of the expected future cash flows. Further information about the nature and carrying amount of derivative financial instruments is described in note 19.

3 Significant accounting policies

Fair value of derivatives and other financial instruments

As described in Note 19, the Directors use their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

Goodwill

Goodwill arising on the acquisition of a business, representing the difference between the cost of acquisition and the fair value of the identifiable net assets acquired, is capitalised and is tested annually for impairment. Goodwill is not amortised, and any impairment losses are not subsequently reversed. On the subsequent disposal or discontinuance of a previously acquired business, the relevant goodwill is dealt with in the income statement except for the goodwill already charged to reserves.

Impairment of goodwill

The Group determines whether goodwill is impaired on at least an annual basis or more frequently when there are indicators of possible impairment. The impairment review requires an enterprise value calculation of the Group. In estimating the enterprise value, management is required to make an estimate of the expected future cash flows attributable to the Group and to choose an appropriate discount rate to calculate the present value of those cash flows. Further details are given in Note 9.

Revenue recognition

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

Connections revenue

Revenue is recognised on developer contributions in accordance with IFRS 15 (Revenue from Contracts with Customers). The Group recognition is based on the stage of completion of the infrastructure construction contract, which is measured by the proportion of costs incurred to estimated whole-life contract costs.

Transportation revenue

Revenue is recognised when services are provided and are rendered based upon usage during the period.

Construction revenue

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the statement of financial position date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable. Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Interest income

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

3 Significant accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred. Arrangement fees which are incurred in relation to long-term financing are amortised over the life of the associated finance using the effective interest rate method.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the statement of financial position date.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity as appropriate. Where current or deferred tax arises from initial accounting for a business combination, the tax effect is included in accounting for the business combination.

3 Significant accounting policies (continued)

Property, plant and equipment

Initial measurement

Plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Buildings held for use in the production or supply of goods or services or for administrative purposes are stated in the statement of financial position at cost less accumulated depreciation and impairment losses.

As stated in Note 2, completed Infrastructure Assets are stated in the statement of financial position at their re-valued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impaired losses.

Any revaluation increase arising on the revaluation of such Buildings and Infrastructure Assets is credited to a revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously expensed. A decrease in carrying amount arising on the revaluation of such Buildings and Infrastructure Assets is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset. Land is held at historic cost.

Infrastructure assets in the course of construction are carried at cost, less any recognised impairment loss.

Depreciation

The cost of each item of property, plant and equipment is depreciated over its useful life. Depreciation is charged to the income statement so as to write-off the cost less estimated residual value on a straight-line basis over the estimated useful life of the asset. Depreciation commences on the date the assets are available for use and the asset carrying values are reviewed for impairment when there is an indication that they may be impaired. Freehold land and assets in the course of construction are not depreciated.

Infrastructure assets (infrastructure, mains, meters, inverters)	1.25% to 10%
Plant and machinery	20% to 33%
Buildings	2%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Cash and cash equivalents

For the purposes of the consolidated and Company statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of any outstanding bank overdrafts.

3 Significant accounting policies (continued)

Financial instruments

Recognition

The Group recognises financial assets and liabilities in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Measurement

When financial assets and liabilities are initially recognised, they are measured at fair value being the consideration given or received plus directly attributable transaction costs. In determining estimated fair value, investments are valued at quoted bid prices on the trade date. When quoted prices on an active market are not available, fair value is determined by reference to price quotations for similar instruments traded.

Loans and receivables comprise loans and advances other than purchased loans. Loans and receivables are initially recognised in accordance with the policy stated above and subsequently re-measured at amortised cost using the effective interest method less any impairment. Allowance for impairment is estimated on a case-by-case basis.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial derivative liabilities that are not classed as hedges are initially and subsequently held at fair value through profit or loss. Fair value is determined as being the discounted value of the expected future cash flows expected to arise from the transactions.

The Group use interest rate and cross currency swaps as derivative financial instruments to hedge risks associated with interest rate and exchange rate fluctuations. The cross currency swaps are designated as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item. Note 19 sets out details of the fair values of the derivative instruments used for hedging purposes.

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

Amounts deferred in equity are recycled in the income statement in the periods when the hedged item is recognised in the income statement, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

3 Significant accounting policies (continued)

Financial instruments (continued)

Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished. Originated loans and receivables are derecognised on the date they are transferred by the Group.

Impairment of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Retirement benefits

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered the service entitling them to the contribution.

Share-Based Payments

Equity settled share-based payments are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based payment transactions are set out in Note 22.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period; based on the Group's estimate of equity instruments that will eventually vest. At each statement of financial position date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Intangibles

Intangible assets acquired as part of a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired as part of a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful life of the asset. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Restructuring and integration costs

Restructuring and integration costs are charged to the Income Statement in the period in which they are incurred. They are disclosed separately on the face of the Income Statement as the Directors consider them to be one-off and non-recurring in nature, and so not reflective of the ongoing operations of the Group.

3 Significant accounting policies (continued)

Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 30.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019 leases were classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases were classified as operating leases.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

The Group as a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3 Significant accounting policies (continued)

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method except for acquisitions of subsidiaries already under common control. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. These provisional amounts are adjusted during the measurement period, or additional assets and/or liabilities recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised as of that date.

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as permitted by applicable IFRSs).

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4 Revenue

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Continuing operations in the UK		
Gas	121,150	120,399
Electricity	58,445	47,083
Fibre	14,308	12,137
Water & Waste	5,368	4,201
District Energy	1,051	639
Smart Metering	38,827	29,869
Transportation Revenue	239,149	214,328
Connections Revenue	114,900	104,159
Construction Revenue	79	5,239
Other Revenue	12,605	12,690
Total Revenue	366,733	336,416

5 Investment revenues and finance costs

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Interest income on bank deposits	104	95
Investment income recognised on derivative financial instruments	623	623
Total interest income	727	718
Interest on bank overdrafts and loans	(55,830)	(51,536)
Amortisation of arrangement fees	(834)	(1,037)
Commitment fees	(1,155)	(1,575)
Net change in fair value of inflation rate swaps	3,410	(3,928)
Interest on lease liabilities	(98)	-
Total interest expense	(54,507)	(58,076)
Less: amounts included in the cost of qualifying assets	2,086	1,919
Net finance costs recognised in profit or loss	(51,694)	(55,439)

All interest and investment income was earned from loans and receivables (including cash and bank balances) and derivatives.

The weighted average capitalisation rate on funds borrowed generally is 3.6% per annum (2018: 3.7%).

6 Profit for the year

Profit for the year has been arrived at after charging:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Depreciation of property, plant and equipment (see note 12)	87,915	75,439
Amortisation of intangible assets (see note 10)	5,516	5,516
Staff costs (see note 7)	73,102	59,984

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6 Profit for the year (continued)

	Year ended 31 December 2019 £'000	Restated Year ended 31 December 2018 £'000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual financial statements	85	65
Fees payable to the company's auditor and their associates for other services to the group:		
- the audit of the Company's subsidiaries and other services	565	435
Total audit fees	650	500
Total non-audit fees	-	-
Total fees payable to the Company's auditor and their associates	650	500

7 Staff costs

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Wages and salaries	61,298	50,720
Social security costs	6,432	5,332
Other pension costs	4,505	3,932
	72,235	59,984

The average monthly number of employees (including directors) was:

	Year ended 31 December 2019 No	Year ended 31 December 2018 No
Construction and asset management	1,060	921
Administrative staff	312	281
	1,372	1,202

Directors' Remuneration

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Emoluments	3,201	3,053
Company contributions to money purchase pension schemes	10	10
Total	3,211	3,063

The number of directors who:	No	No
Are members of a money purchase pension scheme	1	1

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7 Staff Costs (continued)

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Remuneration of the highest paid director		
Emoluments	1,959	1,538
Company contribution to money purchase schemes	-	-
	<u>1,959</u>	<u>1,538</u>

As at 31 December 2019 there were 5 (2018: 6) serving Directors of the Company. Three of these Directors are remunerated for their services by other members of the Brookfield Asset Management Inc Group and so are not reflected in the remuneration disclosed above. The remaining Directors' remuneration disclosed above reflects amounts paid to them for their services to the Group.

8 Tax

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
(a) Tax charge on ordinary activities		
The tax charge is made up as follows		
Current tax:		
Adjustment to prior year	15	(16)
Current year group relief	-	(15)
Total current tax charge/(credit)	<u>15</u>	<u>(31)</u>
Deferred tax:		
Adjustment to prior year	144	(66)
Origination and reversal of timing differences	18,462	16,934
Change in recognition of unused tax losses	-	(95)
Total deferred tax charge	<u>18,606</u>	<u>16,773</u>
Tax charge on ordinary activities (Note 8(b))	<u>18,621</u>	<u>16,742</u>

(b) Factors affecting tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the blended standard rate of corporation tax in the UK applicable to the Group in the year of 19.00% (2018 – 19.00%). The differences are reconciled below:

Profit on ordinary activities before tax	<u>114,603</u>	<u>99,500</u>
Standard rate of corporation tax in the UK	19.00%	19.00%
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK	<u>21,775</u>	<u>18,905</u>
Effects of:		
Adjustments to prior year	159	(82)
Income not taxable for tax purposes	(1,141)	(5)
Effect of difference between current and future tax rates	(2,172)	(1,981)
Change in recognition of unused tax losses	-	(95)
Total tax charge for year	<u>18,621</u>	<u>16,742</u>

(c) Factors that may affect future tax charges

A reduction in the corporation tax rate to 17% from 1 April 2020 was substantively enacted on 15 September 2016. Consequently deferred tax has been calculated at the year-end using a tax rate of 17%.

8 Tax (continued)

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Deferred tax		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Gains on infrastructure asset revaluations	(45,848)	(26,856)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Cash flow hedges:		
Gains arising during the year	(657)	(494)
Total income tax credit recognised in other comprehensive income	(46,505)	(27,350)

9 Goodwill

	2019 Group £'000	2018 Group £'000
Cost and carrying value		
At 1 January	25,969	25,969
At 31 December	25,969	25,969

Goodwill relates to £19,058,000 arising on acquisition of Inexus Group Limited in November 2012 and £6,911,000 arising on acquisition of Smart Meter Assets 1 Limited in February 2016. Goodwill has been allocated to the Group as a whole following integration of the relevant businesses.

During the year goodwill was tested for impairment in accordance with IAS 36. In assessing whether an impairment of goodwill is required, the carrying value of the Group's net assets is compared to the value in use of the Group.

The Group calculates value in use using a discounted cash flow model, which estimates the future cash flows and discounts them using a discount rate of 6.5%.

The key assumptions used in estimating the future cash flows are revenue growth, order-book build out rates, margins, capital expenditure growth and finance costs. These assumptions have been based on a combination of past experience, current order-book and management's expectations of future growth rates in the industry. The estimate is based on a 10 year valuation model using internally-approved budgets which are built on detailed RPI-based revenue growth models. A perpetuity calculation is then applied using a long-term growth rate of 1.5% and based on the final year of the 10 year model, normalised for any known one-off items reflected in year 10. The Directors consider this to be a Level 3 fair value in the hierarchy set out in the Accounting Policies.

On the basis of this assessment, the Directors consider that there is no requirement for impairment of goodwill in the year.

The estimated value in use was only materially sensitive to two input assumptions made in deriving the model – the discount rate and the long-term terminal growth rate. A 100 basis point increase in the discount rate would result in a decrease in the value in use of approximately £314m and a 100 basis point decrease in the long-term terminal growth rate would result in a decrease in the value in use of approximately £190m. Neither would indicate impairment.

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10 Other intangible fixed assets

Customer Order book	2019 Group £'000	2018 Group £'000
Cost		
At 1 January	60,782	60,782
At 31 December	60,782	60,782
Amortisation		
At 1 January	16,655	11,139
Charge for the year	5,516	5,516
At 31 December	22,171	16,655
Carrying amount		
At 31 December	38,611	44,127

Amortisation is charged on a straight line basis over 15 years representing the estimated useful life. Amortisation is included in the Income Statement within Depreciation and Amortisation. The remaining amortisation period for the order book is 8 years.

During the year the customer order book was tested for impairment in accordance with IAS 36. In assessing whether an impairment of the customer order book is required, the same test as described in Note 9 was applied and on that basis the Directors consider that there is no requirement for impairment of the customer order book in the year. The Company does not hold any intangible assets.

11 Investments

Company	2019 £'000	2018 £'000
Cost		
At 1 January	1,654,024	740,919
Additions	200,000	918,400
Realisation of investment	-	(5,295)
At 31 December	1,854,024	1,654,024

Additions in year represent £200,000,000 of additional share capital in GTC Pipelines Limited.

During the year the Group disposed of its shareholding in Independent Fibre Retail Limited, details of which can be seen in note 28.

Details of the Company's direct and indirect subsidiaries at the end of the reporting year are as follows:

Name of Subsidiary	Principal Activity	Place of incorporation and operations	Proportion of ownership at 31 December 2019	Proportion of ownership at 31 December 2018
GTC Pipelines Limited	Ownership of gas infrastructure	UK	100%	100%
Utility Grid Installations Limited	Dormant	UK	100%	100%
The Electricity Network Company Limited	Ownership of electricity infrastructure	UK	100%	100%
Power On Investments Limited	Holding company	UK	100%	100%

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11 Investments (continued)

Name of Subsidiary	Principal Activity	Place of incorporation and operations	Proportion of ownership at 31 December 2019	Proportion of ownership at 31 December 2018
Power On Connections Limited	Construction of electric infrastructure	UK	100%	100%
GTC Utility Construction Limited	Construction of infrastructure	UK	100%	100%
GPL Investments Limited	Dormant	UK	100%	100%
Independent Fibre Retail Limited	Provision of fibre retail services	UK	0%	100%
GTC Infrastructure Limited	Provider of services to the Group	Guernsey	100%	100%
The Gas Supply Company Limited	Dormant	Guernsey	100%	100%
BUUK Infrastructure Issuer Plc	Debt issuer	UK	100%	100%
Inexus Connections Limited	Holding company	UK	100%	100%
Inexus Group (Holdings) Limited	Holding company	UK	100%	100%
Independent Pipelines Limited	Ownership of gas infrastructure	UK	100%	100%
Quadrant Pipelines Limited	Ownership of gas infrastructure	UK	100%	100%
Independent Meters Limited	Ownership and operation of utility meters in the UK	UK	100%	100%
Independent Power Networks Limited	Ownership of electricity infrastructure	UK	100%	100%
Inexus (Services) Limited	Dormant	UK	100%	100%
Connect Utilities Limited	Procurement, design and management of utility infrastructure projects	UK	100%	100%
Envoy Asset Management Limited	Dormant	UK	100%	100%
Metropolitan Infrastructure Limited	Procurement, design and management of utility infrastructure projects	UK	100%	100%
Independent Community Heating Limited	Ownership and operation of district heating infrastructure	UK	100%	100%
Open Fibre Networks Limited	Ownership and operation of telecommunications infrastructure	UK	100%	100%
Independent Service Provider Limited	Provider of telecommunication services	UK	100%	100%
Independent Water Networks Limited	Ownership and operation of water infrastructure	UK	100%	100%
Farriss Holdings Limited	Holding company	UK	100%	100%
Farriss Limited	Dormant	UK	100%	100%
Reactive Flow Controls Limited	Dormant	UK	100%	100%
Gas Engineering Services Limited	Dormant	UK	100%	100%
Open Fibre Networks (Wholesale) Limited	Provision of wholesale fibre services	UK	100%	100%
Smart Meter Assets 1 Ltd	Ownership and operation of smart utility meters	UK	100%	100%

The registered office of each of the above subsidiary undertakings is the same as that of the Company, except for GTC Infrastructure Limited and The Gas Supply Company Limited whose registered office is Martello Court, Admiral Park, St Peter Port, Guernsey, GY1 3HB.

All shares held in subsidiary undertakings are ordinary shares.

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12 Property, Plant and Equipment

2019 Group					
	Land and buildings	Plant & Machinery	Infrastructure assets	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 31 December 2018 as previously stated	2,346	34,832	2,958,815	142,372	3,138,365
IFRS 16 transitional adjustment	2,059	-	-	-	2,059
Restated at 1 January 2019	4,405	34,832	2,958,815	142,372	3,140,424
Additions	228	8,689	65,279	263,695	337,891
Surplus on revaluation	-	-	269,692	-	269,692
Transferred between asset classes	7,047	-	210,751	(217,798)	-
Eliminated on disposal of assets	-	(1,522)	(9,403)	-	(10,925)
At 31 December 2019	11,680	41,999	3,495,134	188,269	3,737,082
Depreciation					
At 1 January 2019	274	18,934	237,866	-	257,074
Charge for the year	868	4,765	82,282	-	87,915
Capitalised into assets in the course of construction	-	2,015	-	-	2,015
Eliminated on disposal of assets	-	(1,514)	(599)	-	(2,113)
At 31 December 2019	1,142	24,200	319,549	-	344,891
Carrying amount					
At 31 December 2019	10,538	17,799	3,175,585	188,269	3,392,191
Comprising:					
At cost	10,538	17,799	-	188,269	216,606
At valuation	-	-	3,175,585	-	3,175,585
2018 Group					
	Land and buildings	Plant & Machinery	Infrastructure assets	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 31 December 2017 as previously stated	2,148	29,735	2,528,274	129,344	2,689,501
IFRS 15 transitional adjustment	-	-	-	(10,602)	(10,602)
Restated at 1 January 2018	2,148	29,735	2,528,274	118,742	2,678,899
Additions	198	6,817	96,631	209,280	312,926
Surplus on revaluation	-	-	157,974	-	157,974
Transferred between asset classes	-	-	185,650	(185,650)	-
Eliminated on disposal of assets	-	(1,720)	(9,714)	-	(11,434)
At 31 December 2018	2,346	34,832	2,958,815	142,372	3,138,365
Depreciation					
At 1 January 2018	152	14,870	169,570	-	184,592
Charge for the year	122	4,260	71,057	-	75,439
Capitalised into assets in the course of construction	-	1,448	-	-	1,448
Eliminated on disposal of assets	-	(1,644)	(2,761)	-	(4,405)
At 31 December 2018	274	18,934	237,866	-	257,074
Carrying amount					
At 31 December 2018	2,072	15,898	2,720,949	142,372	2,881,291
Comprising:					
At cost	2,072	15,898	-	142,372	160,342
At valuation	-	-	2,720,949	-	2,720,949

12 Property, Plant and Equipment (continued)

Included within land and buildings above are right of use assets with a carrying amount of £1,970,107. At the date of initial application, 1 January 2019, right of use assets with a value of £2,058,775 were recognised as part of a transitional adjustment. During the year ended 31 December 2019, additions of £502,949 and depreciation of £591,617 have been recognised in respect of right of use assets.

Infrastructure assets were revalued at the statement of financial position date by the Directors of the Group. The valuation was based on a value in use model which applied an RPI-based revenue growth methodology to a zero-connections growth scenario over a 10 year period using internally-approved budgets which are built on detailed RPI-based revenue growth models. A perpetuity calculation is then used and based on the final year of the 10 year model, normalised for any known one-off items reflected in year 10. The value in use model assumes an annual level of operating costs and maintenance expenditure sufficient only to support the continued operation of the infrastructure assets in existence at the statement of financial position date. The rate used to discount the estimated cash flows was 6.5%. The Directors consider this to be a Level 3 fair value in the hierarchy set out in the Accounting Policies.

The estimated value in use was materially sensitive to two input assumption made in deriving the model – the discount rate and the long-term terminal growth rate. A 100 basis point increase in the discount rate would result in a decrease in the value in use of approximately £187m and a 100 basis point decrease in the long-term terminal growth rate would result in a decrease in the value in use of approximately £113m.

At 31 December 2019, had infrastructure assets of the Group been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately £2,199m (2018: £1,999m).

The Company holds no Property, Plant and Equipment.

13 Construction contracts in progress at the statement of financial position date:

Group	31 December 2019 Group £'000	31 December 2018 Group £'000
Amounts due from contract customers included in trade and other receivables	31,229	28,623
Amounts due to contract customers included in trade and other payables	(22,738)	(19,418)
	<u>8,491</u>	<u>9,205</u>
Contract costs incurred plus recognised profits less recognised losses to date	473,250	406,569
Less: progress billings	(604,731)	(521,509)
	<u>(131,481)</u>	<u>(114,940)</u>

The Company holds no construction contracts.

The Group holds no retentions.

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14 Inventories

	31 December 2019 Group £'000	31 December 2018 Group £'000
Raw materials and consumables	1,207	334

Raw materials and consumables correspond to materials for construction held on construction site, warehouse and vans.
The Company holds no inventories.

15 Trade and other receivables

	31 December 2019 Group £'000	31 December 2019 Company £'000	31 December 2018 Group £'000	31 December 2018 Company £'000
<i>Amounts due within one year:</i>				
Amounts receivable for the sale of goods and provision of services	9,881	-	9,092	-
Amounts due from construction contract customers	31,229	-	28,623	-
Amounts due from fellow Brookfield Infrastructure Partners Group undertakings	-	-	5,896	3,000
Other receivables	8,298	431	4,003	441
Prepayments	4,272	54	3,676	108
Accrued income	57,862	-	47,808	-
	111,542	485	99,098	3,549
Amounts due from fellow Group undertakings	-	294,400	-	357,020
	111,542	294,885	99,098	360,569
<i>Amounts due in more than one year:</i>				
Amounts due from fellow Group undertakings	-	37,994	-	37,179
Deferred tax	31,047	7,381	34,426	9,417
	31,047	45,375	34,426	46,596

Excluding prepayments and accrued income, trade receivables disclosed above are measured at amortised cost.
The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 19.

Group

The Group and Company deferred tax asset included in the statement of financial position is as follows:

	31 December 2019 Group £'000	31 December 2019 Company £'000	31 December 2018 Group £'000	31 December 2018 Company £'000
Short-term timing differences	82	-	63	-
Financial instruments	7,891	7,381	10,435	9,417
Tax losses carried forward	23,074	-	23,928	-
Deferred tax asset	31,047	7,381	34,426	9,417

Deferred tax assets recognised of the Group and Company do not expire. The Group had unrecognised deferred tax assets of £394,893 as at 31 December 2019 (2018: £nil) in respect of unutilised tax losses.

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15 Trade and other receivables (continued)

Group

The Group movements in deferred tax assets are as follows:

	Other short-term timing differences £'000	Revaluation of financial assets £'000	Tax losses £'000	Total £'000
At 1 January 2018	52	11,412	24,996	36,460
Credit/(charge) to profit or loss	11	(483)	(1,068)	(1,540)
Credit to other comprehensive income	-	(494)	-	(494)
At 31 December 2018	63	10,435	23,928	34,426
Credit/(charge) to profit or loss	19	(1,887)	(854)	(2,722)
Charge to other comprehensive income	-	(657)	-	(657)
At 31 December 2019	82	7,891	23,074	31,047

Company

The Company movements in the deferred tax asset are as follows:

	Financial instruments 2019 £'000	Financial instruments 2018 £'000
At 1 January	9,417	10,231
Charge to profit or loss	(2,036)	(814)
At 31 December	7,381	9,417

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16 Trade and other payables

	31 December 2019 Group £'000	31 December 2019 Company £'000	31 December 2018 Group £'000	31 December 2018 Company £'000
<i>Amounts due within one year:</i>				
Trade payables	8,212	-	8,371	-
Amounts due to contract customers (see note 13)	22,738	-	19,418	-
Other taxes and social security costs	80	-	74	-
Other payables	7,030	-	9,590	-
Amounts due to fellow Brookfield Infrastructure Partners Group undertakings	8,638	-	10,568	2,000
Capital payables	37,996	-	26,269	-
Accruals	51,318	2,306	46,649	1,239
	<u>136,012</u>	<u>2,306</u>	<u>120,939</u>	<u>3,239</u>
Amounts owed to fellow Group undertakings	-	-	-	-
	<u>136,012</u>	<u>2,306</u>	<u>120,939</u>	<u>3,239</u>
<i>Amounts due in more than one year:</i>				
Amounts owed to fellow Group undertakings	-	1,415,942	-	1,401,979
Deferred tax	387,551	546	325,820	663
	<u>387,551</u>	<u>1,416,488</u>	<u>325,820</u>	<u>1,402,642</u>

Trade payables and accrued expenses principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purposes is 30 days (2018 - 30 days). The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The Directors consider that the carrying amount of trade payables approximates to their fair values.

Amounts owed to fellow Group undertakings are unsecured and bear interest at between 2.90% and 4.55% (2018: between 2.90% and 4.55%).

Group

The Group and Company deferred tax liability included in the statement of financial position is as follows:

	31 December 2019 Group £'000	31 December 2019 Company £'000	31 December 2018 Group £'000	31 December 2018 Company £'000
Accelerated tax depreciation	214,312	-	194,890	-
Revaluation of Property, Plant & Equipment	166,676	-	123,429	-
Intangibles	6,563	-	7,501	-
Financial instruments	-	546	-	663
Deferred tax liability	<u>387,551</u>	<u>546</u>	<u>325,820</u>	<u>663</u>

16 Trade and other payables (continued)

Group

The Group movements in deferred tax liability are as follows:

	Accelerated tax depreciation	Revaluation of Property, Plant & Equipment	Intangibles	Total
	£'000	£'000	£'000	£'000
At 1 January 2018	176,656	98,636	8,439	283,731
Charge/(credit) to profit or loss	18,234	(2,063)	(938)	15,233
Charge to other comprehensive income	-	26,856	-	26,856
At 31 December 2018	194,890	123,429	7,501	325,820
Charge/(credit) to profit or loss	19,422	(2,600)	(938)	15,884
Charge to other comprehensive income	-	45,847	-	45,847
At 31 December 2019	214,312	166,676	6,563	387,551

Company

The Company movements in deferred tax liability are as follows:

	Financial instruments 2019 £'000	Financial instruments 2018 £'000
At 1 January	663	779
Credit to profit or loss	(117)	(116)
At 31 December	546	663

17 Loans and borrowings

	31 December 2019 Group £'000	31 December 2019 Company £'000	31 December 2018 Group £'000	31 December 2018 Company £'000
Secured borrowings	1,692,857	281,527	1,496,560	76,450
Finance fees	(6,739)	(1,735)	(5,325)	(1,313)
	<u>1,686,118</u>	<u>279,792</u>	<u>1,491,235</u>	<u>75,137</u>
Amounts due for settlement within 12 months				
Amounts due for settlement after 12 months	1,692,857	281,527	1,496,560	76,450
Finance fees	(6,739)	(1,735)	(5,325)	(1,313)
Total secured borrowings	<u>1,686,118</u>	<u>279,792</u>	<u>1,491,235</u>	<u>75,137</u>
Total borrowings	<u>1,686,118</u>	<u>279,792</u>	<u>1,491,235</u>	<u>75,137</u>

The Company also has in issue £158,539,184 (2018: £158,539,184) of convertible loan notes which are non-interest bearing and which have been classified as equity (see Statement of Changes in Equity). The notes expire in 2044 and are redeemable in cash and/or convertible to equity at any time at the discretion of the Company.

Borrowings are secured by English law governed fixed and floating security over the assets of BUUK Infrastructure No 1 Limited, BUUK Infrastructure No 2 Limited, BUUK Infrastructure Issuer Plc, GTC Infrastructure Limited and certain other non-regulated group companies, and Guernsey law governed security over the shares and related rights in GTC Infrastructure Limited and The Gas Supply Company Limited.

Term Loans

The Group's debt consists of USPP bonds of which £601.1m were issued in 2013, £100m was issued in 2014, £100m was issued in 2015, £285m was issued in 2016 and £300m was issued in 2018. These bonds consist of \$300m and £1,185m principal with original maturity dates of between 10 and 30 years and an average remaining maturity of 11.1 years (2018 - 12.1 years).

In addition, the Group utilises a capex facility (facility B), a working capital facility (facility C) and a liquidity facility.

Facility B has total available to draw down of £300m of which £257.5m was drawn down at 31 December 2019 (2018 – £52.5m). Interest is charged at LIBOR + 1.5%. The Facility is drawn in tranches up to 6 months in length and the Group has the ability to rollover each drawdown at its discretion until the maturity of the facility in 2024. It is the Group's current intention to continue to rollover each drawdown, therefore in accordance with IAS 1 the liability is presented as non-current.

Facility C has total available to draw down of £50m of which £24m was drawn down at 31 December 2019 (2018 – £24m). Interest is charged at LIBOR + 1.5%.

The Liquidity facility has total available to draw down of £65m of which £nil was drawn down at 31 December 2019 (2018 – £nil). Interest is charged at LIBOR + 1.5%.

In September 2019, £325m of new USPP bonds were issued, with a delayed funding date of 19 February 2020. The tenors of the new bonds range from 10 to 25 years.

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17 Loans and borrowings (continued)

**Group
2019**

	Currency	Interest rate	Year of maturity	Weighted average interest rate for the period	31 December 2019	
					£'000 Nominal value	£'000 Carrying amount
Secured bank loan - Facility B & C	GBP	LIBOR + 1.5%	2024	2.43%	281,527	281,527
Bonds \$300m (USD)	USD	4.29%	2023	4.29%	201,139	226,330
Bonds £400m (GBP)	GBP	4.05%-4.63%	2023-2033	4.42%	400,000	400,000
Bonds £100m (GBP)	GBP	4.51%-4.61%	2029	4.55%	100,000	100,000
Bonds £100m (GBP)	GBP	3.72%-3.96%	2030-2035	3.79%	100,000	100,000
Bonds £285m (GBP)	GBP	2.62%-3.14%	2026-2036	2.90%	285,000	285,000
Bonds £300m (GBP)	GBP	2.62%-3.04%	2027-2048	2.92%	300,000	300,000
					<u>1,667,666</u>	<u>1,692,857</u>

Interest charged on the secured bank loans is fixed at LIBOR +1.5% for the period of each draw down as at the date of that draw down. All facilities are required to comply with the same financial covenants on a quarterly basis, being a Debt Service cover of greater than 1.4x and a Leverage ratio of less than 8.5x.

**Company
2019**

	Currency	Interest rate	Year of maturity	Weighted average interest rate for the period	31 December 2019	
					£'000 Nominal value	£'000 Carrying amount
Secured bank loan - Facility B & C	GBP	LIBOR+1.5%	2024	2.43%	281,527	281,527
					<u>281,527</u>	<u>281,527</u>

Interest charged on the secure bank loans is fixed at LIBOR +1.5% for the period of each draw down as at the date of that draw down.

**Group
2018**

	Currency	Interest rate	Year of maturity	Weighted average interest rate for the period	31 December 2018	
					£'000 Nominal value	£'000 Carrying amount
Secured bank loan - Facility B & C	GBP	LIBOR + 1.5%	2022	2.12%	76,450	76,450
Bonds \$300m (USD)	USD	4.29%	2023	4.29%	201,139	235,110
Bonds £400m (GBP)	GBP	4.05%-4.63%	2023-2033	4.42%	400,000	400,000
Bonds £100m (GBP)	GBP	4.51%-4.61%	2029	4.55%	100,000	100,000
Bonds £100m (GBP)	GBP	3.72%-3.96%	2030-2035	3.79%	100,000	100,000
Bonds £285m (GBP)	GBP	2.62%-3.14%	2026-2036	2.90%	285,000	285,000
Bonds £300m (GBP)	GBP	2.62%-3.04%	2027-2048	2.92%	300,000	300,000
					<u>1,462,589</u>	<u>1,496,560</u>

Interest charged on the secure bank loans is fixed at LIBOR +1.5% for the period of each draw down as at the date of that draw down. All facilities are required to comply with the same financial covenants on a quarterly basis, being a Debt Service cover of greater than 1.4x and a Leverage ratio of less than 8.5x.

**Company
2018**

	Currency	Interest rate	Year of maturity	Weighted average interest rate for the period	31 December 2018	
					£'000 Nominal value	£'000 Carrying amount
Secured bank loan - Facility B	GBP	LIBOR+1.5%	2022	2.12%	76,450	76,450
					<u>76,450</u>	<u>76,450</u>

Interest charged on the secure bank loans is fixed at LIBOR +1.5% for the period of each draw down as at the date of that draw down.

18 Deferred income

	31 December 2019 Group £'000	31 December 2018 Group £'000
Billing in advance of work completed	131,481	114,940
Current	82,384	73,248
Non-current	49,097	41,692
	131,481	114,940

The Group's standard terms of trade require the developer to make their contribution within 14 days of acceptance of the quote for new infrastructure. Upfront payments are held in deferred revenue in the statement of financial position and recognised as revenue in accordance with the percentage completion of the new infrastructure by reference to incurred and anticipated construction spend, in line with Accounting Policy set out in Note 3. The Company holds no deferred income.

19 Financial instruments and risk management

The Group's capital structure consists of a mixture of long-term fixed rate borrowing, short-term variable rate borrowings, long-term derivative financial instruments, convertible loan notes and ordinary shares. The long-term and short-term borrowings provide, in the opinion of the Directors, an appropriate combination of secured fixed instruments and more flexible, available-on-demand liquidity facilities and working capital, with the Group's capital management objective being to safeguard and support the business as a going concern through the business cycle. The derivative financial instruments exist to hedge risks arising from this capital structure, the main risks being interest rate risk, credit risk, currency risk and liquidity risk. These risks arise from exposures that occur in the normal course of business and are managed by the Group's finance department as well as BIP regional management. The responsibilities of the Group's finance department include, among others, the monitoring of financial risks, management of cash resources, debt and capital structure management, approval of counterparties and relevant transaction limits, and oversight of all significant treasury activities undertaken by the Group.

The Group's principal financial instruments comprise borrowings, cash and cash equivalents and derivatives used for risk management purposes. The Group's accounting policies with regard to financial instruments are detailed in note 3.

a) Derivatives, financial instruments and risk management

The Group uses derivative financial instruments to manage certain exposures to fluctuations in interest rates, inflation rates and exchange rates. The Group does not hold any speculative financial instruments.

As part of the issue of the fixed rate corporate bonds, the Group has entered into cross currency swaps with notional value \$300m to hedge the potential movement in the USD:GBP exchange rate. The market value at 31 December 2019 of this instrument is a £22.1m asset (2018 - £26.4m asset) (including IFRS 13 CVA adjustments). The Directors consider this to be a Level 2 valuation in the hierarchy set out in the Accounting Policies in Note 3, with the valuation being calculated by third party experts, JC Rathbones, and based on the discounted value of expected future cash flows arising from the instrument. The Directors have credit-risk adjusted the third party valuations taking into account the creditworthiness of the group. The cross currency swap has been designated as a cash flow hedge. During the year costs of £4.3m (2018: income of £16.9m) have been recognised in other comprehensive income and £8.9m (2018: £13.3m) has been reclassified to profit and loss.

The Group also holds inflation-linked interest rate swaps with a notional principal of £125.6m and a market value liability of £57.8m (2018 – notional principal of £125.6m and a market value of £65.4m) (including IFRS 13 CVA adjustments). As the Directors do not consider these instruments to be an effective hedge against any of the identified risks in the existing capital structure, they have been designated fair value through profit and loss. The Directors consider this to be a Level 2 valuation in the hierarchy set out in the Accounting Policies in Note 3, with the valuation being calculated by third party experts, JC Rathbones, and based on the discounted value of expected future cash flows arising from the instrument. The Directors have credit-risk adjusted the third party valuations taking into account the creditworthiness of the Group.

b) Interest rate risk

The Group has financial assets and liabilities which are exposed to changes in market interest rates. Changes in interest rates primarily impact borrowings by changing their future cash flows.

The exposure of the Group's financial assets and liabilities to interest rate risk is as follows.

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19 Financial instruments and risk management (continued)

	Floating rate £'000	Fixed rate £'000	Non-interest bearing £'000	Total £'000
Group				
31 December 2019				
Financial assets				
Measured at amortised cost:				
Loans and other receivables	-	-	107,270	107,270
Cash and bank balances	4,197	-	-	4,197
Measured at fair value:				
Derivative instruments in effective hedging relationships	-	22,089	-	22,089
Total financial assets	4,197	22,089	107,270	133,556
Financial liabilities				
Measured at amortised cost:				
Borrowings	281,527	1,411,330	-	1,692,857
Trade and other payables (at amortised cost)	-	-	135,932	135,932
Lease liabilities	-	2,256	-	2,256
Measured at fair value through profit and loss:				
Fair value through profit and loss derivative instruments	-	57,773	-	57,773
Total financial liabilities	281,527	1,471,359	135,932	1,888,818
	Floating rate £'000	Fixed rate £'000	Non-interest bearing £'000	Total £'000
Company				
31 December 2019				
Financial assets				
Measured at amortised cost:				
Loans and other receivables	-	-	431	431
Amounts due from Group undertakings	-	332,394	-	332,394
Cash and bank balances	4	-	-	4
Total financial assets	4	332,394	431	332,829
Financial liabilities				
Measured at amortised cost:				
Borrowings	281,527	-	-	281,527
Amounts payable to Group undertakings	-	1,415,942	-	1,415,942
Trade and other payables (at amortised cost)	-	-	2,306	2,306
Measured at fair value through profit and loss:				
Fair value through profit and loss derivative instruments	-	57,773	-	57,773
Total financial liabilities	281,527	1,473,715	2,306	1,757,548
	Floating rate £'000	Fixed rate £'000	Non-interest bearing £'000	Total £'000
Group				
31 December 2018				
Financial assets				
Measured at amortised cost:				
Loans and other receivables	-	-	95,422	95,422
Cash and bank balances	3,979	-	-	3,979
Measured at fair value:				
Derivative instruments in effective hedging relationships	-	26,395	-	26,395
Total financial assets	3,979	26,395	95,422	125,796
Financial liabilities				
Measured at amortised cost:				
Borrowings	76,450	1,420,110	-	1,496,560
Trade and other payables (at amortised cost)	-	-	120,939	120,939
Measured at fair value through profit and loss:				
Fair value through profit and loss derivative instruments	-	65,443	-	65,443
Total financial liabilities	76,450	1,485,553	120,939	1,682,942

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19 Financial instruments and risk management (continued)

	Floating rate	Fixed rate	Non-interest bearing	Total
	£'000	£'000	£'000	£'000
Company				
31 December 2018				
Financial assets				
Measured at amortised cost:				
Loans and other receivables	-	-	3,441	3,441
Amounts due from Group undertakings	-	394,199	-	394,199
Cash and bank balances	2,241	-	-	2,241
Total financial assets	2,241	394,199	3,441	399,881
Financial liabilities				
Measured at amortised cost:				
Borrowings	76,450	-	-	76,450
Amounts payable to Group undertakings	2,000	1,401,979	-	1,403,979
Trade and other payables (at amortised cost)	-	-	1,239	1,239
Measured at fair value through profit and loss:				
Fair value through profit and loss derivative instruments	-	65,443	-	65,443
Total financial liabilities	78,450	1,467,422	1,239	1,547,111

Financial liabilities at Fair Value Through Profit and Loss	31 December 2019	31 December 2018
	Group	Group
	£'000	£'000
Changes in fair value attributable to changes in counterparty credit risk recognised during the year	(608)	(640)
Cumulative changes in fair value attributable to changes in counterparty credit risk	1,067	1,675

Amounts payable at maturity relating to the derivative instruments at fair value through profit and loss are dependent on future LIBOR and RPI trends and so cannot be disclosed as at the Statement of Financial Position date. The principal is payable in two tranches, due in 2021 and 2024, based on RPI 3 months prior to the settlement date. Current estimations of these payments total £31.9m (2018 - £37m).

At 31 December 2019, 16.1% (2018 - 4.9%) of total interest bearing debt was at a floating rate, all of which has charged interest based on the relevant benchmark rate (LIBOR).

The effect on profit after tax of a 1% movement in LIBOR, based on the year-end floating rate net debt and with all other variables held constant, is estimated to be £2.3m (2018 - £0.6m). This sensitivity analysis is prepared by multiplying the floating rate debt by the variation in LIBOR.

c) Credit risk

Exposure to credit risk arises as a result of transactions in the Group's ordinary course of business and is applicable to all financial assets. Investments in cash and cash equivalents and derivative financial instruments are with approved counterparty banks and other financial institutions. Counterparties are assessed prior to, during, and after the conclusion of transactions to ensure exposure to credit risk is limited to an acceptable level. The maximum exposure with respect to credit risk is represented by the carrying amount of each financial asset on the Statement of Financial Position.

The Group is exposed to credit risk in respect of trade receivables. Whilst the Group is dependent on a number of large customers, the credit risk from the failure of those customers is limited by regulatory regimes therefore credit risk is believed to be limited. The Group is not reliant on any particular customer in the markets in which it operates and there is no significant concentration of credit risk. The Group regularly monitors its exposure to bad debts in order to minimise this exposure.

The Group has strict procedures in place to manage the credit risk on trade receivables. Credit evaluations are performed for all customers and credit limits are established based on internal or external rating criteria. The credit quality of the Group's significant customers is monitored on an on-going basis, and receivables that are neither past due nor impaired are considered of good credit quality.

The average credit period taken for trade receivables is 19 days (2018 - 19 days) for regulated transportation income, and 30 days (2018 - 30 days) for other income.

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19 Financial instruments and risk management (continued)

There were no material impairments of trade receivables as at 31 December 2019. The solvency of the debtor and their ability to repay the receivables were considered in assessing the impairment of such assets.

Ageing

Ageing of past due but not yet impaired receivables:

	31 December 2019	31 December 2018
	Group	Group
	£'000	£'000
Less than 90 Days	35,364	32,181
Greater than 90 Days	12,934	10,786
	<u>48,298</u>	<u>42,967</u>
Bad debt provisions (Note 19 e)	(7,188)	(5,252)
	<u>41,110</u>	<u>37,715</u>

d) Credit risk related to other financial assets and cash deposits

Credit risk relating to the Group's other financial assets, principally comprising cash and cash equivalents and derivative financial instruments, arises from the potential default of counterparties. Credit risk arising from balances with banks and financial institutions is managed by the Group's finance department. Investment of cash and deposits are made only with approved counterparties of high credit worthiness and are reviewed on a regular basis to take account of developments in financial markets.

No material exposure is considered to exist by virtue of the possible non-performance of the counterparties to derivative financial instruments and other receivables.

The carrying amount of financial assets represents the maximum credit exposure.

The Group holds no collateral as security in relation to credit advanced to customers nor deposits held at banks.

e) Movement in the allowance for doubtful debts

	31 December 2019	31 December 2018
	Group	Group
	£'000	£'000
Balance at the beginning of the year	5,252	2,317
Impairment losses recognised	2,785	3,315
Amounts written off during the year as uncollectible	(849)	(380)
Balance at the end of the year	<u>7,188</u>	<u>5,252</u>

f) The value of trade receivables which are due or past due which are impaired:

	31 December 2019	31 December 2018
	Group	Group
	£'000	£'000
Between 90 and 120 days	1,512	1,134
Greater than 120 days	9,903	8,359
	<u>11,415</u>	<u>9,493</u>

g) Currency risk

The Group has financial liabilities which are exposed to changes in market currency exchange rates. Changes in exchange rates primarily impact borrowings by changing their future cash flows.

The Group uses derivative financial instruments to manage its exposure to fluctuations in exchange rates. The \$300m bonds have been hedged using forward cross currency swap contracts, fixed until April 2023.

This contract is designated as a cash flow hedge to eliminate the Group's cash flow exposure resulting from variable rates of exchange. The contract settles on a half-yearly basis simultaneously with the interest settlement of the associated bonds. £nil (2018: £nil) was recognised in the Income Statement in respect of ineffectiveness of the cash flow hedge arrangements.

19 Financial instruments and risk management (continued)

h) Liquidity risk

The Group maintains a balance between availability of funding and maximising investment return on cash balances through the use of short-term cash deposits, credit facilities and longer term debt instruments. Management regularly reviews the funding requirements of the Group. The Group has an additional liquidity facility totalling £65m in order to minimise the liquidity risk of the Group to its stakeholders.

This facility is available on demand with interest charged at LIBOR-linked rates of interest fixed at the point of drawdown, and is unsecured.

Maturity of financial assets and liabilities

The table below analyses the Group's financial assets and liabilities, which will be settled on a gross basis, into relevant maturity groups based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2019	Weighted average effective interest rate	0 to 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Loans and other receivables	Nil	107,270	-	-	-	107,270
Cash and cash equivalents	0.25%	4,197	-	-	-	4,197
Derivative instruments in designated hedge accounting relationships	Nil	-	-	-	22,089	22,089
		111,467	-	-	22,089	133,556
Trade and other payables	Nil	135,932	-	-	-	135,932
Borrowings	3.51%	-	-	532,857	1,160,000	1,692,857
Fair value through profit and loss derivative instruments	Nil	-	-	-	57,773	57,773
Lease liabilities	4.0%	198	586	1,359	1,075	3,218
		136,130	586	534,216	1,218,848	1,889,780
2018	Weighted average effective interest rate	0 to 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Loans and other receivables	Nil	95,422	-	-	-	95,422
Cash and cash equivalent	0.25%	3,979	-	-	-	3,979
Derivative instruments in designated hedge accounting relationships	Nil	-	-	-	26,395	26,395
		99,401	-	-	26,395	125,796
Trade and other payables	Nil	120,939	-	-	-	120,939
Borrowings	3.65%	-	-	336,560	1,160,000	1,496,560
Fair value through profit and loss derivative instruments	Nil	-	-	-	65,443	65,443
		120,939	-	336,560	1,225,443	1,682,942

Committed borrowing facilities available

In addition to the £65m liquidity facility noted above the Group has undrawn committed borrowing facilities at 31 December 2019 of £68.5m (2018 - £223.5m) which expire in September 2024.

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19 Financial instruments and risk management (continued)

i) Fair value of financial assets and liabilities

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the consolidated financial information.

	31 December 2019 £'000 Carrying value	31 December 2019 £'000 Fair value	31 December 2018 £'000 Carrying value	31 December 2018 £'000 Fair value
Loans and other receivables	107,270	107,270	95,422	95,422
Cash and cash equivalents	4,197	4,197	3,979	3,979
Borrowings	(1,692,857)	(1,801,122)	(1,496,560)	(1,611,856)
Inflation Linked financial instruments	(57,773)	(57,773)	(65,443)	(65,443)
Cross currency financial instruments	22,089	22,089	26,395	26,395
Trade and other payables	(135,932)	(135,932)	(120,939)	(120,939)
Lease liabilities	(2,256)	(2,256)	-	-
	<u>(1,755,262)</u>	<u>(1,863,527)</u>	<u>(1,557,146)</u>	<u>(1,672,442)</u>

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- cash and cash equivalents, trade and other receivables, trade and other payables approximate to their carrying amounts largely due to the short-term maturities of these instruments;
- the fair value of the net derivative financial instrument liability of £35.7m (2018 - £39m) is estimated using risk-adjusted discounted future cash flow projections;
- provisions for cash payments are discounted back to their present value; and
- the fair value of derivatives are calculated using the method described in Note 19a. The Directors considered this and borrowings to be a Level 2 valuation in the hierarchy set out in the Accounting Policies in Note 3, with the valuation being based on the discounted value of expected future cash flows arising from the instrument.

20 Dividends

Company

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 31 December 2019 of 40.28p (2018: 17.01p) per share.	94,773	40,000
	<u>94,773</u>	<u>40,000</u>

21 Capital and reserves

	31 December 2019 Number of shares	31 December 2019 £'000	31 December 2018 Number of shares	31 December 2018 £'000
Share capital				
Ordinary shares of £1:				
Authorised	235,273,194	235,273	235,273,194	235,273
Allotted, called up and fully paid	235,273,194	235,273	235,273,194	235,273

Merger reserve

The merger reserve has been created to reflect the difference between the shares issued by the Company and the shares acquired as part of the acquisition of GTC Infrastructure Limited (and its subsidiaries) and The Gas Supply Company Limited via a share-for-share exchange in November 2012.

21 Capital and reserves (continued)

Revaluation reserve

The revaluation reserve relates to the revaluation of infrastructure assets in property, plant and equipment.

Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative amounts of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

22 Share-based payments

Equity settled LTIP share scheme

The Group operates a Long-Term Incentive Plan ("LTIP") share scheme for certain employees of the Group. The awards to employees are in the form of non-voting growth shares in BUUK Infrastructure No 1 Limited. Shares are subject to a hurdle based on a deemed market value of equity at the date of award plus other preferred equity. The vesting period is 5 years. 20% of the shares vest each year on the anniversary of the grant date. There are no performance considerations attached to the shares. The equity value is computed by calculating an enterprise value of the Group and subtracting net debt and prior ranking securities. The equity value has been used as an input into a Black-Scholes option pricing model to arrive at the Fair Market Value of the shares.

	31 December 2019		31 December 2018	
	Number of shares	Weighted average exercise price (£)	Number of shares	Weighted average exercise price (£)
Outstanding at beginning of period	2,319,353	£0.24	2,603,918	£0.28
Awarded during period	213,141	£0.33	395,816	£0.29
Forfeited during the period	-	-	-	-
Exercised during the period	(545,731)	£0.23	(680,381)	£0.40
Expired during the period	-	-	-	-
Outstanding at end of period	1,986,763	£0.25	2,319,353	£0.24
 Vested at end of period	 1,310,369		 1,406,344	

The shares outstanding as at 31 December 2019 have an average remaining contractual life of 1.6 years (2018: 1.7 years).

In 2019 213,141 shares were awarded on 10 April 2019. The fair market value of the shares awarded on that date was £0.33.

In 2018, 395,816 shares were awarded on 25 April 2018. The fair market value of the shares awarded on that date was £0.29.

The inputs into the Black-Scholes model are as follows:

	31 December 2019	31 December 2018
Weighted average share price	£0.25	£0.24
Expected volatility	24%	25%
Expected life	1.64 years	1.74 years
Risk-free rate	0.57%	0.88%

Expected volatility was determined by benchmarking comparable companies in the UK utilities sector over the historical period that matches the expected term of the shares. The expected life used in the model is based on management's best estimate. The group recognised total expenses of £96,161 and £119,968 related to equity settled share-based payment transactions in 2019 and 2018 respectively.

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23 Capital commitments

At 31 December 2019, the Group had entered into contractual commitments for the construction of infrastructure assets amounting to £678,786,000 (2018 - £717,030,000). The contractual obligations are expected to be constructed over the following profile:

	Infrastructure assets 31 December 2019 £'000	Infrastructure assets 31 December 2018 £'000
< 1 year	205,880	173,575
2-5 years	320,326	404,980
> 5 years	152,580	138,475
	<u>678,786</u>	<u>717,030</u>

24 Contingencies

Borrowings are secured by English law governed fixed and floating security over the assets of BUUK Infrastructure No 1 Limited, BUUK Infrastructure No 2 Limited, BUUK Infrastructure Issuer Plc, GTC Infrastructure Limited and certain other non-regulated group companies, and Guernsey law governed security over the shares and related rights in GTC Infrastructure Limited and The Gas Supply Company Limited.

25 Related party transactions

Balances and transactions between companies within the Group which are related parties have been eliminated on consolidation and are not disclosed in this note.

Transactions with key management personnel

Key management includes directors and members of the management team of the Group. The compensation paid or payable to key management for employee services is shown below:

	31 December 2019 £'000	31 December 2018 £'000
Salaries and other short-term benefits	4,751	4,556
Post-employment benefits	96	98
Total	<u>4,847</u>	<u>4,654</u>

25 Related party transactions (continued)

Other related party transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	31 December 2019		31 December 2018	
	Sale of goods	Purchase of goods	Sale of goods	Purchase of goods
	£'000	£'000	£'000	£'000
Braeburn Estates Developments (Infrastructure) Ltd	599	-	3,010	-

The following amounts were outstanding at the statement of financial position date:

	31 December 2019	31 December 2018
	£'000	£'000
Use of Group tax loss relief - BUUK Finance Limited	-	(8,329)
Payments made on behalf of - BUUK Infrastructure Holdings Limited	-	2,896
Receipts on behalf of - BUUK Infrastructure No 1 Limited	(8,638)	(2,239)
Amounts due from Braeburn Estates Developments (Infrastructure) Ltd	36	365
Loan receivable - Brookfield Infrastructure Partners Capital Management SRL	-	3,000

All of the above companies are related parties due to sharing a common ultimate parent company, being Brookfield Asset Management Inc, a company registered in Canada. Each related party transaction above has been undertaken on an arm's-length basis. Amounts outstanding are unsecured, and repayable on demand.

Unsecured non-interest bearing loans made to a director of £225,000 (2018: 154,000) were outstanding at the year-end. The loans are repayable in between 1 and 5 years with £nil (2018: £nil) being repaid during the year. Unsecured non-interest bearing loans made to another director of £111,000 (2018: £111,000) were outstanding at the year-end. The loans are repayable in between 1 and 5 years with £nil (2018: £38,000) being repaid during the year. Total loans made to directors of £336,000 (2018: £265,000) were outstanding at the year-end with £nil (2018: £38,000) being repaid during the year.

26 Retirement benefits

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The scheme is a stakeholder pension with the funds held within a discretionary trust by the scheme provider Scottish Widows. The only obligation of the Group with respect to the retirement benefit scheme is to remit the appropriate employer and employee contributions within time limits specified by the scheme.

The total cost charged to income of £4,505,478 (2018 - £3,932,308) represents contributions payable to the scheme by the Group at rates specified in the rules of the plan. As at 31 December 2019, contributions of £387,341 (2018 - £302,692) due in respect of the current reporting period had not been paid over to the scheme.

27 Parent Undertakings and Ultimate controlling party

The parent company of BUUK Infrastructure No 2 Limited is BUUK Infrastructure No 1 Limited, a Company registered in England and Wales. The ultimate controlling party is Brookfield Asset Management Inc, a company registered in Canada quoted on the New York Stock Exchange and Toronto Stock Exchange.

The smallest Group the Company is a member of and for which Group financial statements are prepared is Brookfield Infrastructure Partners LP. Copies of Brookfield Infrastructure Partners LP's financial statements can be obtained from: Brookfield Infrastructure Partners LP, Suite 300, Brookfield Place, 181 Bay Street, Toronto, Canada, ON M5J 2T3.

The largest Group the Company is a member of and for which Group financial statements are prepared is Brookfield Asset Management Inc. Copies of Brookfield Asset Management Inc's financial statements can be obtained from: Brookfield Asset Management Inc, Suite 300, Brookfield Place, 181 Bay Street, Toronto, Canada, ON M5J 2T3.

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28 Disposal of a subsidiary

During 2019 the Group disposed of 100% of the shareholding of Independent Fibre Retail Limited.

Subsidiary disposed:

Company	Principal activity	Date of disposal	Proportion of voting equity interests disposed (%)	Consideration received £'000
Independent Fibre Retail Limited	Provision of retail broadband and voice services over fibre optic telecommunications in the UK.	18 September 2019	100	6,735
				<u>6,735</u>

Consideration received:

	Independent Fibre Retail Limited £'000
Cash consideration for shares	5,204
Deferred consideration	<u>1,531</u>
	<u>6,735</u>

Fair Value of assets and liabilities disposed at the date of disposal:

	Independent Fibre Retail Limited £'000
Current assets	
Cash and cash equivalents	185
Trade and other receivables	1,323
Inventories	144
Current liabilities	
Trade payables	<u>(2,525)</u>
Total identifiable net liabilities disposed of	<u>(873)</u>

Gain on disposal of a subsidiary:

	Independent Fibre Retail Limited £'000
Consideration received	6,735
Less: net liabilities disposed of	873
Less: costs to sell	<u>(178)</u>
	<u>7,430</u>

Net cash inflow on disposal of a subsidiary:

	Independent Fibre Retail Limited £'000
Cash consideration for shares	5,204
Less: cash and cash equivalent balances disposed	(185)
Less: costs to sell	<u>(178)</u>
	<u>4,841</u>

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29 Leases

Maturity analysis – contractual undiscounted cash flows

	31 December 2019 £'000
Less than one year	783
One to five years	1,359
More than five years	1,076
Total undiscounted lease liabilities	<u>3,218</u>

Lease liabilities included in the Statement of Financial Position

	31 December 2019 £'000
Current	708
Non-current	1,548
Total lease liabilities	<u>2,256</u>

Operating lease liabilities as previously disclosed

	Land and buildings 31 December 2018 £'000
Not later than one year	782
Later than one year and not later than five years	1,654
Later than five years	1,210
	<u>3,646</u>

Amounts recognised in the Statement of Cash Flows

	31 December 2019 £'000
Total cash outflows for leases	730
	<u>730</u>

Termination options

Some leases contain termination options exercisable by the Group. Where practicable, the Group seeks to include termination options to provide operational flexibility. The termination options held are exercisable by the Group and not the lessors. Details of the potential future lease payments in relation to termination options can be seen below:

	31 December 2019 £'000
Potential future lease payments not included in lease liabilities (discounted)	2,134
	<u>2,134</u>

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30 Changes in Accounting Policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group applied IFRS 16 with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. The details of the changes in accounting policy are disclosed below.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease as explained in note 3.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions were leases. It applied IFRS 16 to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

Leases classified as operating leases under IAS 17

The Group decided to apply recognition exemptions to short-term leases. For leases of other assets, which were classified as operating under IAS 17, the Group recognised right-of-use assets and lease liabilities.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics
- Adjusted the right-of-use assets by the amounts of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

Impacts on financial statements

On transition to IFRS 16, the Group recognised an additional £2,058,775 of right-of-use assets and £2,386,411 of lease liabilities. When measuring lease liabilities, the Group discounted using its incremental rate of borrowing at 1 January 2019. The weighted average rate applied is 4%.

	£'000
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	3,646
Discounted using the incremental borrowing rate at 1 January 2019	2,571
Recognition exemption for:	
Short-term leases	(185)
Lease liabilities recognised at 1 January 2019	<u>2,386</u>