Company Registration Number: 3385525

National Grid Interconnectors Limited

Annual Report and Financial Statements

For the year ended 31 March 2018

National Grid Interconnectors Limited

Strategic Report

For the year ended 31 March 2018

The Directors present their Strategic Report on National Grid Interconnectors Limited ('the Company') for the year ended 31 March 2018.

Review of the business

The principal activity of the Company is that of owner and operator of the UK based elements of the electricity interconnectors between France and England. This is as part of a joint arrangement with the French transmission operator, RTE.

Executive summary

The directors expect Brexit will create a number of significant challenges and we have undertaken a thorough analysis of the main risks. We are continuing our detailed analysis as the Brexit negotiations progress and are developing contingency arrangements as needed.

Currently we cannot foresee any credible circumstances where we are unable to continue to facilitate trade in electricity between the UK, the EU27 and Norway and we will operate the interconnectors regardless of the Brexit outcome.

Results, as detailed below, largely depend on the income received from the auction of capacity rights.

Results

The Company's profit for the financial year was £52,920,000 (2017: £58,646,000).

Financial position

The financial position of the Company is presented in the balance sheet. Total shareholders' equity at 31 March 2018 was £341,734,000 (2017: £287,902,000) comprising fixed assets of £166,626,000 (2017: £150,206,000); net current assets of £187,980,000 (2017: £149,451,000) less provisions for liabilities of £12,872,000 (2017: £11,755,000).

Key performance indicators and principal risks and uncertainties

As the Company is part of a larger group, the management of the Company does not involve the use of key performance indicators, other than the profit or loss for the year, in measuring the development, performance or the position of the Company and the principal risks and uncertainties are integrated with the principal risks of National Grid plc. For information on the development, performance, risks, uncertainties and position of National Grid plc and its subsidiaries ('National Grid'), and of the key performance indicators used, refer to the Strategic Report included in National Grid plc's Annual Report and Accounts 2017/18, which does not form part of this report.

Future developments

The level of income received from the auction of capacity rights is linked to power price differences between the UK and France. Power prices are driven by generation mix, commodity prices and government policy and as such are volatile and difficult to predict. The Directors believe that the high GB-France price differences of the last few years will return to more normal levels in future years which may lead to a decline in the level of trading activity as reported in the profit and loss account.

The Strategic Report was approved by the Board of Directors and was signed by order of the Board on its behalf by:

L Hagan
Company Secretary
13 December 2018

National Gird Interconnectors Limited

Directors' Report

For the year ended 31 March 2018

The Directors present their Report and the audited financial statements of the Company for the year ended 31 March 2018.

Future developments

Details of future developments have been included within the Strategic Report on page 1.

Dividends

During the year the Company has not paid any interim ordinary dividends (2017: £nil) and the Directors do not recommend the payment of a final dividend (2017: £nil).

Financial risk management

The management of the Company and the execution of the Company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the Company's material financial risks, including liquidity, credit, interest rate cash flow and foreign exchange risks. These risks are monitored through a National Grid Treasury ('Treasury') management function which invests surplus funds, mitigates foreign exchange and interest rate exposure and manages borrowings for National Grid plc and its subsidiaries.

Treasury also seeks to limit third party counterparty risk which arises from the investment of surplus funds and the use of derivative financial instruments. Treasury monitors the exposure that National Grid has with any one counterparty against agreed limits and these limits are monitored regularly and updated for changes in credit ratings.

Liquidity risk

The Company finances its operations through a combination of retained profits, new share issues and intercompany balances to ensure that the Company has sufficient long-term and short-term funds available for current operations and future activities.

Credit risk

The Company aims to reduce the risk of loss arising from default by parties to financial transactions. To this end the Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The Company holds an approved list of counterparties of good credit quality and these counterparties and their credit ratings are routinely monitored. No exposure is considered to exist in respect of intercompany loans as these are fully recoverable from within the National Grid group.

Interest rate cash flow risk

The Company has interest bearing intercompany assets. To the extent that the Company enters into intercompany loan agreements, the Company's exposure to interest rate cash flow risk arises on such loans on which interest is charged based upon sterling LIBOR.

Foreign exchange risk

To the extent that the Company enters into intercompany loan agreements and derivative contracts in currencies different to that of the Company's functional currency, there is an exposure to movements in exchange rates. At the balance sheet date the Company has intercompany loans and derivatives contracts denominated in Euros.

Derivative financial instruments

Derivative financial instruments in the form of forward foreign exchange contracts are entered into for the purposes of hedging foreign exchange risk. These derivative financial instruments are recorded at fair value in the financial statements. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. Where available, market values have been used to determine fair values. In other cases, fair values have been calculated using quotations from independent financial institutions, or by discounting expected cash flows at prevailing market rates.

As at 31 March 2018 the fair value of these derivatives financial instruments resulted in an asset of £366,000 (2017: £40,000) which has been reflected in amounts owed by immediate parent company and a liability of £40,000 (2017: £543,000) which has been reflected in amounts owed to immediate parent company. The net notional principal of contracts was £37,265,000 (2017: £39,978,000) with a net foreign exchange exposure of £37,265,000 (2017: £39,978,000). The future expected cash flows from these derivatives are affected by changes in the EUR/GBP exchange rate. The contracts have fixed settlement dates.

Directors

The Directors of the Company during the year and up to the date of signing of the financial statements were:

J Butterworth
N Hooper
N Sides
A Singhal

Directors' indemnity

National Grid has arranged, in accordance with the Companies Act 2006 and the Articles, qualifying third-party indemnities against financial exposure that Directors may incur in the course of their professional duties. Equivalent qualifying third-party indemnities were, and remain, in force for the benefit of those Directors who stood down from the Board in prior financial years for matters arising when they were Directors of the Company. Alongside these indemnities, National Grid places Directors' and Officers' liability insurance cover for each Director.

Going concern

The Directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Disclosure of information to auditors

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given in accordance with the provisions of section 418 of the Companies Act 2006.

Auditors

At the 2017 Annual General meeting of National Grid plc, the Company's ultimate parent company, Deloitte LLP were appointed as external auditor to the group. Accordingly, Deloitte LLP were appointed auditor of the Company replacing PricewaterhouseCoopers LLP for the year ended 31 March 2018.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". 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, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors' Report was approved by the Board of Directors and was signed by order of the Board on its behalf by:

L Hagan
Company Secretary
13 December 2018

Registered office:
1-3 Strand
London
WC2N 5EH

Registered in England and Wales
Company registration number: 3385525

Independent auditor's report to the members of

National Grid Interconnectors Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of National Grid Interconnectors Limited ('the Company') which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 14, which includes a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the 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.

Independent auditor's report to the members of

National Grid Interconnectors Limited (continued)

Other information (continued)

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.

Responsibilities of Directors

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

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

Auditor'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 Financial Reporting Council'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 Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Independent auditor's report to the members of

National Grid Interconnectors Limited (continued)

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

Jane Whitlock (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, UK
13 December 2018

National Grid Interconnectors Limited

Profit and loss account

For the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Turnover	1(h)	**86,753**	93,074
Administrative expenses		**(22,865)**	(22,300)
Operating profit	2	**63,888**	70,774
Interest receivable and similar income	4	**1,475**	1,808
Profit before tax		**65,363**	72,582
Tax	5	**(12,443)**	(13,936)
Profit for the financial year		**52,920**	58,646

The results reported above relate to continuing activities.

Statement of comprehensive income

For the year ended 31 March 2018

	2018 £'000	2017 £'000
Profit for the financial year	**52,920**	58,646
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Net gains in respect of cash flow hedges	**967**	2,068
Deferred tax on cash flow hedges	**(164)**	(379)
Total items that may be reclassified subsequently to profit or loss	**803**	1,689
Other comprehensive income for the year, net of tax	**803**	1,689
Total comprehensive income for the year	**53,723**	60,335

National Grid Interconnectors Limited

Balance sheet

As at 31 March 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	6	**33,587**	32,790
Property, plant and equipment	7	**133,039**	117,416
		166,626	150,206
Current assets			
Debtors (amounts falling due within one year)	8	**236,823**	209,294
Total current assets		**236,823**	209,294
Creditors (amounts falling due within one year)	9	**(48,843)**	(59,843)
Net current assets		**187,980**	149,451
Total assets less current liabilities		**354,606**	299,657
Provisions for liabilities	10	**(12,872)**	(11,755)
Net assets		**341,734**	287,902
Equity			
Share capital	11	**31,938**	31,938
Cash flow hedge reserve		**255**	(548)
Profit and loss account		**309,541**	256,512
Total shareholders' equity		**341,734**	287,902

The financial statements on pages 8 to 22 were approved by the Board of Directors on 13 December 2018 and were signed on its behalf by:

N Hooper
Director

National Grid Interconnectors Limited
Company registration number: 3385525

National Grid Interconnectors Limited

Statement of changes in equity

For the year ended 31 March 2018

	Share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total shareholders' Equity £'000
At 1 April 2016	31,938	(2,237)	197,733	227,434
Profit for the financial year	-	-	58,646	58,646
Other comprehensive income for the year	-	1,689	-	1,689
Total comprehensive income for the year	-	1,689	58,646	60,335
Share-based payments	-	-	133	133
At 31 March 2017	31,938	(548)	256,512	287,902
Profit for the financial year	-	-	52,920	52,920
Other comprehensive income for the year	-	803	-	803
Total comprehensive income for the year	-	803	52,920	53,723
Share-based payments	-	-	109	109
At 31 March 2018	**31,938**	**255**	**309,541**	**341,734**

National Grid Interconnectors Limited

Notes to the financial statements

For the year ended 31 March 2018

1 Summary of significant accounting policies

National Grid Interconnectors Limited is a private company limited by shares. The nature of the Company's principal activities is set out in the Strategic Report on page 1. The Company is incorporated and domiciled in England, with its registered office at 1-3 Strand, London, WC2N 5EH.

(a) Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the EU, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken.

These financial statements have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006. They have been prepared on an historical cost basis except for the revaluation of financial instruments and are presented in pounds sterling which is the currency of the primary economic environment in which the Company operates. The 2017 comparative financial information has also been prepared on this basis.

These financial statements have been prepared on a going concern basis, which presumes that the Company has adequate resources to remain in operation, and that the Directors intend for it to do so, for at least one year from the date the financial statements are signed. The Directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

These financial statements are presented in the format as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements of the Company in accordance with FRS 101:

- a cash flow statement and related notes;
- disclosure in respect of transactions with National Grid plc and its subsidiaries;
- disclosure in respect of capital management; and
- the effects of new but not yet effective IFRSs.

As the consolidated financial statements of National Grid plc which are available from the registered office, include the equivalent disclosures, the Company has taken the exemptions under FRS 101 in respect of certain disclosures required by IFRS 13 'Fair value measurement' and the disclosures required by IFRS 7 'Financial instruments disclosures'. The Company intends to apply the above exemptions in the financial statements for the year ending 31 March 2018.

The preparation of financial statements may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

There are no critical areas of judgement that are considered to have a significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year

- is the valuation of financial instruments and derivatives, note 8 and note 9, due to year on year market price and foreign exchange rate fluctuations.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The balance sheet has been prepared in accordance with the Company's accounting policies approved by the Board and described below:

(b) Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Goodwill represents the difference between the consideration paid and the underlying net assets of the business acquired. Intangible assets are tested for impairment only if there is an indication that the carrying value of the assets may have been impaired. Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Intangible assets (excluding goodwill) are amortised on a straight-line basis over their estimated useful economic lives. The goodwill is tested on an annual basis for impairment. Amortisation periods for categories of intangible assets are:

Software	Over 3 to 10 years

(c) Property, plant and equipment

Property, plant and equipment is recorded in the balance sheet at historical cost less accumulated depreciation. Historical cost includes the purchase price of the asset, any payroll and finance costs incurred as well as those overheads that have been incurred in bringing the assets to their present location and condition which are directly attributable to the construction of property, plant and equipment.

Property, plant and equipment include assets in which the Company's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacements of existing assets. All costs associated with projects or activities which have not been fully commissioned at the period end are classified within assets in the course of construction.

Depreciation is not provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessments of estimated useful economic lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of tangible fixed assets are, in general, as shown in the table below:

Depreciation periods	**Years**
Freehold buildings	Up to 50
Plant and machinery	15 to 60
Motor vehicles and office equipment	Up to 5

Items within property, plant and equipment are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash

1 Summary of significant accounting policies (continued)

(c) Property, plant and equipment (continued)

flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

Impairments are recognised in the profit and loss account and are disclosed separately.

Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

(d) Tax

The tax charge for the period is recognised in the profit and loss account, the Statement of Comprehensive Income or directly in equity according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that have been enacted or substantively enacted by the reporting date.

The calculation of the total tax charge involves a degree of estimation and judgement, and management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases.

Deferred tax liabilities are generally recognised on 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. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor the taxable profit or loss.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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 the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting 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 deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax 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 tax authority and the Company intends to settle their current tax assets and liabilities on a net basis.

1 Summary of significant accounting policies (continued)

(e) Foreign currency transactions and balances

Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Gains and losses arising of retranslation of monetary assets and liabilities are included in the profit and loss account.

(f) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date. An equity instrument is any contract that includes a residual interest in the assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account.

Loans receivable and other receivables are initially recognised at fair value plus transaction costs and subsequently held at amortised cost using the effective interest method. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, are recognised in the profit and loss account.

Borrowings, which include interest-bearing loans and overdrafts, are recorded at their initial fair values which normally reflect the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the profit and loss account using the effective interest method.

Derivative financial instruments ('derivatives') are initially recognised at fair value and subsequently remeasured to fair value at each reporting date. Changes in fair values are recorded in the period they arise, in either the profit and loss account or other comprehensive income. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a derivative liability. Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis.

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are defined as closely related to those instruments or contracts. Consequently these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument.

The fair value of financial derivatives is calculated by discounting all future cash flows by the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the case of derivative instruments that include options, the Black's variation of the Black-Scholes model is used to calculate fair value.

1 Summary of significant accounting policies (continued)

(g) Hedge accounting

The Company enters into derivatives and non-derivative financial instruments in order to manage its foreign currency exposures, with a view to managing these risks associated with the Company's underlying business activities and the financing of those activities. The principal derivatives used are forward foreign currency contracts.

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the profit and loss account of changes in the fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. The Company uses the cash flow hedge accounting method, which is described as follows:

Cash flow hedges

Exposure arises from the variability in future currency cash flows on assets and liabilities which are in a foreign currency. Fair value changes on designated cash flow hedges are initially recognised directly in the cash flow hedge reserve, as gains or losses recognised in equity and any ineffective portion is recognised immediately in the profit and loss account. Amounts are transferred from equity and recognised in the profit and loss account as the income or expense is recognised on the hedged item.

Forward foreign currency contracts are used to hedge anticipated and committed future currency cash flows. When these contracts qualify for hedge accounting they are designated as cash flow hedges. On recognition of the underlying transaction in the financial statements, the associated hedge gains and losses, deferred in equity, are transferred and included within the recognition of the underlying transaction.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is transferred to the profit and loss account.

Where a non-financial asset or non-financial liability results from a forecasted transaction or firm commitment being hedged, the amounts deferred in equity are included in the initial measurement of that non-monetary asset or liability.

Derivatives not in a formal hedge relationship

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge when natural offset is more appropriate. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

Discontinuance of hedge accounting

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the profit and loss account in the same periods in which the previously hedged item affects net profit and loss.

1 Summary of significant accounting policies (continued)

(h) Turnover

Turnover mainly comprises the sales value derived from capacity charges for the right to flow electricity on the interconnectors during the year, including an assessment of the value of services provided, but not invoiced, at the year end. It excludes value added tax and other sales taxes.

(i) Pensions

National Grid operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as staff costs when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Company is not a participating employer of the defined benefit schemes operated by the National Grid group. However the Company will have employees who are members of one of these schemes. The net defined benefit cost is recognised in the individual company financial statements of the group company that is legally the sponsoring employer for the scheme. The other group companies in their individual financial statements recognise a cost equal to the contribution payable for the period.

2 Operating profit

	2018	2017
	£'000	£'000
Operating profit is stated after (crediting)/charging:		
Foreign exchange gains	**(337)**	(2,135)
Amortisation of intangible fixed assets	**16**	-
Depreciation of property, plant and equipment:		
- Owned assets	**4,892**	4,782
Services provided by the Company's auditor		
Audit fees	**12**	13

Disclosure of non-audit fees is not required as these have been disclosed in the consolidated financial statements of National Grid plc.

3 Directors and employees

Directors' emoluments

	2018 £'000	2017 £'000
Aggregate emoluments	**447**	148

Post employment benefits are accruing to 2 (2017: 1) Director under a defined benefit scheme and 1 (2017: none) Directors under a defined contribution scheme.

During the year there were 3 (2017: 3) Directors who exercised share options in or received ordinary shares as part of long term incentive plans of the ultimate parent company, National Grid plc.

Highest paid Director

The highest paid Director's emoluments were as follows:

	2018 £'000	2017 £'000
Total amount of emoluments and amounts receivable (excluding shares) under long term incentive schemes	**216**	123
Group defined benefit pension scheme:		
- Accrued pension at end of year	**83**	66

During the year the highest paid Director exercised share options in or received ordinary shares as part of long term incentive plans of the ultimate parent company, National Grid plc.

Staff costs

	2018 £'000	2017 £'000
Wages and salaries	**3,421**	2,582
Social security costs	**361**	375
Defined contribution scheme pension costs	**271**	270
Other pension costs	**476**	441
Share-based payments	**109**	133
	4,638	3,801

The average monthly number of employees employed by the Company during the year was as follows:

	2018	2017
By activity	**No**	**No**
Administration	**53**	59

4 Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable from immediate parent company	1,210	1,039
Net gains on derivative financial instruments designated as cash flow hedges	265	769
	1,475	1,808

5 Tax

Tax charged to the profit and loss account

	2018 £'000	2017 £'000
Current tax:		
UK corporation tax	12,307	14,635
Adjustments in respect of prior years(i)	94	(52)
Total current tax	12,401	14,583
Deferred tax:		
Origination and reversal of timing differences	138	(92)
Impact of change in tax rate	(5)	(704)
Adjustments in respect of prior years	(91)	149
Total deferred tax	42	(647)
Tax charge on profit	12,443	13,936
Tax charged to equity		
Deferred tax charged on revaluation of cash flow hedges	164	379

(i) Due to the estimated uncertainty from derivative trading.

The tax for the year is higher (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

	2018 £'000	2017 £'000
Profit before tax	65,363	72,582
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2017: 20%)	12,419	14,516
Effect of:		
Expenses not deductible for tax purposes	5	-
Impact of share based payments	21	27
Impact of change in tax rate	(5)	(704)
Adjustments in respect of prior years	3	97
Total tax charge for the year	12,443	13,936

Factors that may affect future tax charges

The Finance Act 2016 which was enacted on 15 September 2016 reduced the main rate of UK corporation tax to 17% with effect from 1 April 2020. Deferred tax balances have been calculated at this rate.

6 Intangible assets

	Goodwill £'000	Software £'000	Total £'000
Cost:			
At 1 April 2017	32,790	-	32,790
Additions	-	694	694
Reclassification(i)	-	119	119
At 31 March 2018	32,790	813	33,603
Accumulated amortisation:			
Amortisation charge for the year	-	16	16
At 31 March 2018	-	16	16
Net book value:			
At 31 March 2018	**32,790**	**797**	**33,587**
At 31 March 2017	32,790	-	32,790

(i) Represents amounts transferred from tangible assets (note 7).

The goodwill represents the purchase value of the assets acquired from National Grid Electricity Transmission plc, having been higher than the net book value of the acquired assets. During the year the software additions relate to the main control point and asset management systems.

7 Property, plant and equipment

	Freehold land and buildings £'000	Plant and Machinery £'000	Assets in the course of construction £'000	Motor vehicles and office equipment £'000	Total £'000
Cost:					
At 1 April 2017	7,023	123,183	21,070	1,975	153,251
Additions	-	-	20,634	-	20,634
Reclassification(i)	-	4,239	(4,358)	-	(119)
At 31 March 2018	7,023	127,422	37,346	1,975	173,766
Accumulated depreciation:					
At 1 April 2017	2,112	32,256	-	1,467	35,835
Depreciation charge for the year	192	4,552	-	148	4,892
At 31 March 2018	2,304	36,808	-	1,615	40,727
Net book value:					
At 31 March 2018	**4,719**	**90,614**	**37,346**	**360**	**133,039**
At 31 March 2017	4,911	90,927	21,070	508	117,416

(i) Represents amounts transferred to intangible assets (note 6).

During the year assets under construction additions are being driven by the implementation of the transformer replacement policy in respect of ageing assets.

8 Debtors (amounts falling due within one year)

	2018 £'000	2017 £'000
Trade debtors	**8,374**	7,757
Amounts owed by fellow subsidiary undertakings	**800**	4,763
Amounts owed by immediate parent company[(i)]	**215,903**	180,082
Other tax and social security	**1,648**	1,230
Other debtors	**4,000**	3,000
Prepayments and accrued income	**6,098**	12,462
	236,823	209,294

(i) Included within amounts owed by immediate parent company are intercompany derivative balances with a fair value of £366,000 (2017: £40,000). The net notional principal of these contracts was £35,344,000 (2017: £2,100,000) with a net foreign exchange exposure £35,344,000 (2017: £2,100,000). The future expected cash flows from these derivatives are affected by changes in the EUR/GBP exchange rate. The contracts have fixed settlement dates.

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

9 Creditors (amounts falling due within one year)

	2018 £'000	2017 £'000
Bank overdrafts	**77**	7,186
Trade creditors	**1,358**	717
Amounts owed to fellow subsidiary undertakings	**3,663**	9,841
Amounts owed to immediate parent company[(i)]	**12,425**	15,128
Other tax and social security	**35**	41
Other creditors	**359**	1,233
Accruals and deferred income	**30,926**	25,697
	48,843	59,843

(i) Included within amounts owed to immediate parent company are intercompany derivative balances with a fair value of £30,000 (2017: £543,000). The net notional principal of these contracts was £1,921,000 (2017: £37,878,000) with a net foreign exchange exposure £1,921,000 (2017: £37,878,000). The future expected cash flows from these derivatives are affected by changes in the EUR/GBP exchange rate. The contracts have fixed settlement dates.

Amounts owed to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

10 Provisions for liabilities

	Restructuring £'000	Deferred taxation £'000	Total £'000
At 1 April 2017	-	11,755	11,755
Charged to the profit and loss account	911	42	953
Charged to other comprehensive income and equity	-	164	164
At 31 March 2018	**911**	**11,961**	**12,872**

	2018 £'000	2017 £'000
Deferred tax:		
Accelerated capital allowances	**11,912**	**11,870**
Other short-term timing differences	**49**	**(115)**
Deferred tax liability	**11,961**	**11,755**

	2018 £'000	2017 £'000
Deferred tax liability at 1 April	**11,755**	12,023
Credited to profit and loss account	**42**	(647)
Charged to statement of comprehensive income and equity	**164**	379
Deferred tax liability at 31 March	**11,961**	11,755

There are no significant unrecognised deferred tax assets or liabilities (2017: £0).

11 Share capital

	2018 £'000	2017 £'000
Allotted, called up and fully paid		
31,938,500 (2017: 31,938,500) ordinary shares of £1 each	**31,938**	31,938

In line with the provisions of the Companies Act 2006, the Company has amended its Article of Association and ceased to have authorised share capital.

12 Capital and other commitments

	2018 £'000	2017 £'000
Contracts placed for future capital expenditure not provided for in the financial statements	**12,560**	6,584

13 Related party transactions

The Company is exempt under FRS 101.8(k) from disclosing transactions with National Grid plc and its subsidiary undertakings where all of the voting rights are held within the group. There were no related party transactions with other companies.

14 Ultimate parent company

The ultimate parent and controlling company is National Grid plc and the immediate parent company is National Grid Holdings One plc. The largest and smallest group which includes the Company and for which consolidated financial statements are prepared is headed by National Grid plc. Both of these companies are registered in England and Wales.

Copies of these consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.