

Company Registration Number: 8082344

National Grid North Sea Link Limited

Annual Report and Financial Statements

For the year ended 31 March 2019



National Grid North Sea Link Limited

Strategic Report

For the year ended 31 March 2019

The Directors present their Strategic Report on National Grid North Sea Link Limited ('the Company') for the year ended 31 March 2019.

Review of the business

The Company has entered into an unincorporated joint arrangement on behalf of National Grid with Statnett, the Norwegian system operator, to build and operate an interconnector between the United Kingdom (UK) and Norway. The Company is 100% owned by another subsidiary within the National Grid group, National Grid Interconnector Holdings Limited and it is the vehicle for recording National Grid's 50% share of the arrangement.

Executive summary

On 23 March 2015, the Company entered into an ownership agreement with Statnett SF for the construction, ownership and operation of an electrical interconnector between the UK and Norway. In support of this, the Company applied with Statnett SF to the Innovation and Networks Executive Agency for a grant for studies under the EU's Connecting Europe Facility for various technical studies and certain business development and commercial issues relating to the project, and successfully obtained a grant of up to €31,300,000 to be shared equally between the two parties. A payment of €4,695,000 was received in June 2015, with the balance of €10,955,000 received in March 2019 on successful completion of the applicable studies.

On 14 July 2015, the Company signed a Construction Commitment and Settlement Agreement with Statnett SF. This date represents the start date for the shared cost construction phase of the project. On the same date both partners also signed engineering procurement construction (EPC) contracts with Nexans (Cable Lot 1), Prysmian (Cable Lot 2 & 3) and ABB (Converter Station). Insurance contracts, administered by Willis, were also signed in late 2015.

The Company's share of the construction costs is recorded in the balance sheet as assets under construction and given that these costs are incurred in a variety of foreign currencies including Euros, Swedish Krona and Norwegian Krone the Company has entered into derivatives in order to manage its foreign currency exposure.

At 31 March 2019, capital commitments for these EPC contracts (at hedged rates), called project options, insurance contracts and NGET connection costs at Blyth were £300,100,000. £177,100,000 of this value will be released in the next financial year, with the balance of £123,100,000 released during the remainder of the construction phase through March 2022.

On 19 March 2019, the Company issued a further 80,000,000 ordinary shares of £1 each at par for a cash consideration of £80,000,000. This equity issuance permits the Company to remain in compliance with the terms and conditions of its loan agreement with National Grid Interconnector Holdings Limited (NGIH) which underpins funding of the construction of the United Kingdom and Norway Interconnector.

To date, all scheduled milestones on our EPC contracts with Nexans, Prysmian and ABB have been achieved. This includes completion of all cable laying, burial and protection on our first two Prysmian cable lengths (Cable Length 7a/7b & 6) and successful type testing of our Nexans cable ahead of manufacturing commencement. During this financial year, ABB also started construction works on our Converter Stations in both Kvilldal, Norway and Blyth, England, completing all steelwork and progressing on the structural and cladding activities on all site buildings.

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.

National Grid North Sea Link Limited

Strategic Report (continued)

For the year ended 31 March 2019

Executive summary (continued)

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, represent our year-end asset under construction (AUC) value, small operating loss and the financial impact of the recycled value of our foreign currency hedges.

Results

The Company's loss for the financial year was £8,997,000 (2018: £1,807,000 profit).

Financial position

The financial position of the Company is presented in the balance sheet. Total shareholders' equity at 31 March 2019 was £192,524,000 (2018: £142,513,000) comprising fixed assets of £201,306,000 (2018: £108,057,000); net current liabilities of £1,063,000 (2018: £46,250,000 net current assets), less creditors amounts falling due after more than year of £247,000 (2018: £40,000) and provisions for liabilities of £7,472,000 (2018: £11,754,000).

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, cumulative AUC investment value, together with the scheduled construction milestones achieved in the EPC contracts, 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 2018/19, which does not form part of this report.

Future developments

The Directors believe the current level of trading activity as reported in the profit and loss account will continue throughout the remainder of the interconnector construction phase. The AUC investment value on the balance sheet will also increase as per the Company's latest project forecast during the same period, with the interconnector's projected operational date being 31 December 2021.

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
19 September 2019

National Grid North Sea Link Limited

Directors' Report

For the year ended 31 March 2019

The Directors present their Report and the audited financial statements of the Company for the year ended 31 March 2019.

Future developments

Details of future developments have been included within the Strategic Report on page 2.

Dividends

During the year, the Company has not paid any interim ordinary dividends (2018: £nil) and the Directors do not recommend the payment of a final dividend (2018: £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 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 ('National Grid').

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 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 the subsidiaries are solvent and are covered by the National Grid group's liquidity arrangements.

Interest rate cash flow risk

The Company has both intercompany financial assets and liabilities which exposes it to interest rate cash flow risk. To the extent that the Company enters intercompany loan agreements, the Company's exposure to interest rate cash flow risk arises on such loans on which interest is currently 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 balances, loans and derivative contracts denominated in Euros (EUR), Swedish Krona (SEK) and Norwegian Krone (NOK).

National Grid North Sea Link Limited

Directors' Report (continued)

For the year ended 31 March 2019

Derivative financial instruments

Derivative financial instruments in the form of forward foreign exchange contracts are entered into for the purpose 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 2019 the fair value of these derivative financial instruments resulted in an asset of £36,576,000 (2018: £59,806,000) which has been reflected in amounts owed by fellow subsidiary undertakings and a liability of £287,000 (2018: £40,000) which has been reflected in amounts owed to a fellow subsidiary undertaking. The net notional principal of contracts was £366,707,000 (2018: £469,234,000) with a net foreign exchange exposure of £366,707,000 (2018: £469,234,000). The future expected cash flows from these derivatives are affected by changes in the Euro (EUR/GBP), Swedish Krona (SEK/GBP) and Norwegian Krone (NOK/GBP) exchange rates. 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
Z J Richardson (Appointed 7 January 2019)

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 Company's business activities, together with the factors likely to affect its future development and financial position are set out within the Strategic Report. In addition, within the Directors' Report there are details of the Company's financial risks that the Directors have highlighted as significant to the business.

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Company is in a net current liabilities position, but is expected to continue be able to obtain finance via intercompany loans to continue to operate for the foreseeable future. In completing this analysis, the Directors have considered the ability of the National Grid group to provide such finance.

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.

National Grid North Sea Link Limited

Directors' Report (continued)

For the year ended 31 March 2019

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 2018 Annual General meeting of National Grid plc, the Company's ultimate parent company, Deloitte LLP were reappointed as external auditor to the group. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed to the Company and Deloitte LLP will, therefore, continue in office.

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 judgements 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
19 September 2019

Registered office:

1-3 Strand
London
WC2N 5EH

Registered in England and Wales

Company registration number: 8082344

Independent auditor's report to the members of

National Grid North Sea Link Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of National Grid North Sea Link Limited ('the Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its loss 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 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 15, 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 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 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 North Sea Link 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 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 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 North Sea Link 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

19 September 2019

National Grid North Sea Link Limited

Profit and loss account

For the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
Administrative expenses		(74)	(130)
Operating loss	2	<u>(74)</u>	<u>(130)</u>
Interest receivable and similar income	4	-	2,368
Interest payable and similar charges	5	(4,828)	(1)
(Loss)/profit before tax		<u>(4,902)</u>	<u>2,237</u>
Tax	6	(4,095)	(430)
(Loss)/profit for the financial year		<u><u>(8,997)</u></u>	<u><u>1,807</u></u>

The results reported above relate to continuing activities.

Statement of comprehensive income

For the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
(Loss)/profit for the financial year		(8,997)	1,807
Other comprehensive (loss)/income			
Items that will never be reclassified subsequently to profit or loss			
Net losses in respect of cash flow hedges		(25,349)	(10,522)
Deferred tax on cash flow hedges	6	4,310	1,789
Total items that will never be reclassified subsequently to profit or loss		<u>(21,039)</u>	<u>(8,733)</u>
Other comprehensive loss for the year, net of tax		<u>(21,039)</u>	<u>(8,733)</u>
Total comprehensive loss for the year		<u><u>(30,036)</u></u>	<u><u>(6,926)</u></u>

National Grid North Sea Link Limited

Balance sheet

As at 31 March 2019

	Notes	2019 £'000	2018 £'000
Fixed assets			
Property, plant and equipment	7	<u>201,306</u>	<u>108,057</u>
Current assets			
Debtors (amounts falling due within one year)	8	17,121	16,206
Debtors (amounts falling due after more than one year)	8	<u>23,320</u>	<u>49,411</u>
Total current assets		<u>40,441</u>	<u>65,617</u>
Creditors (amounts falling due within one year)	9	(41,504)	(19,367)
Net current (liabilities)/ assets		<u>(1,063)</u>	<u>46,250</u>
Total assets less current liabilities		<u>200,243</u>	<u>154,307</u>
Creditors (amounts falling due after more than one year)	10	(247)	(40)
Provisions for liabilities	11	(7,472)	(11,754)
Net assets		<u>192,524</u>	<u>142,513</u>
Equity			
Share capital	12	175,000	95,000
Cash flow hedge reserve		36,574	57,613
Profit and loss account		(19,050)	(10,100)
Total shareholders' equity		<u>192,524</u>	<u>142,513</u>

These financial statements on pages 9 to 23 were approved by the Board of Directors on 19 September 2019 and signed on its behalf by:



N Hooper
Director

National Grid North Sea Link Limited
Company registration number: 8082344

National Grid North Sea Link Limited

Statement of changes in equity

For the year ended 31 March 2019

	Share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total shareholders' equity £'000
At 1 April 2017	-	66,346	(11,954)	54,392
Profit for the financial year	-	-	1,807	1,807
Other comprehensive loss for the year	-	(8,733)	-	(8,733)
Total comprehensive loss for the year		(8,733)	1,807	(6,926)
Issue of share capital	95,000	-	-	95,000
Share-based payments	-	-	47	47
At 31 March 2018	95,000	57,613	(10,100)	142,513
Loss for the financial year	-	-	(8,997)	(8,997)
Other comprehensive loss for the year	-	(21,039)	-	(21,039)
Total comprehensive loss for the year	-	(21,039)	(8,997)	(30,036)
Issue of share capital (note 12)	80,000	-	-	80,000
Share-based payments	-	-	47	47
At 31 March 2019	175,000	36,574	(19,050)	192,524

National Grid North Sea Link Limited

Notes to the financial statements

For the year ended 31 March 2019

1 Summary of significant accounting policies

National Grid North Sea Link 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 financial statements of National Grid North Sea Link Limited for the year ended 31 March 2019 were approved by the Board of Directors on 19 September 2019. 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 on a 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 2018 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 it to do so, for at least one year from the date the financial statements are signed. As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Company is in a net current liabilities position, but is expected to continue to be in a position to obtain finance via intercompany loans to continue to operate for the foreseeable future. In completing this analysis, the Directors have considered the ability of the National Grid group to provide such finance.

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.

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;
- disclosures in respect of transactions with National Grid plc and its subsidiaries;
- disclosures in respect of capital management; and
- the effects of new but not yet effective IFRS standards.

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 has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' with effect from 1 April 2018. The adoption of IFRS 9 has had no material impact and the adoption of IFRS 15 has had no impact on the Company.

National Grid North Sea Link Limited

Notes to the financial statements (continued)

For the year ended 31 March 2019

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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. Information about such judgements and estimations is contained in the notes to the financial statements, and the key areas are summarised below:

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 are as follows:

- valuation of financial instruments and derivatives, note 8 and 10;

The financial statements have been prepared in accordance with the Company's accounting policies approved by the Board of Directors and described below:

(b) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and any impairment losses.

Cost includes the purchase price of the asset; any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment; and the cost of any associated asset retirement obligations.

Property, plant and equipment which represents assets in the course of construction is recorded in the balance sheet at historical cost. 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 asset 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.

No depreciation is provided on freehold land or assets in the course of construction.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within operating profit in the profit and loss account.

Grants received contributing towards the cost of property, plant and equipment are recognised as a deduction to additions.

National Grid North Sea Link Limited

Notes to the financial statements (continued)

For the year ended 31 March 2019

1 Summary of significant accounting policies (continued)

(c) 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.

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.

(d) 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.

National Grid North Sea Link Limited

Notes to the financial statements (continued)

For the year ended 31 March 2019

1 Summary of significant accounting policies (continued)

(e) Financial instruments

The Company adopted IFRS 9 with effect from 1 April 2018. The comparatives are not required to be restated and are accounted for in accordance with IAS 39. Under IFRS 9 the Company has reported the following financial assets and liabilities, and the classification for each is dependent upon its contractual cash flows and for financial assets the business model it is held under. All financial instruments are initially recognised on trade date.

Financial assets that have contractual cash flows that are solely payments of principal and interest, and which are held within a business model whose objective is to collect contractual cash flows, are held at amortised cost. These instruments include loans to subsidiary undertakings, joint ventures and associates, and other loans to subsidiaries within the National Grid group. For the purposes of impairment assessment loans to subsidiary and fellow subsidiary undertakings are individually assessed based on comparable external credit ratings and a review of solvency and liquidity arrangements.

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

2018

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 receivable are derecognised or impaired, are recognised in the profit and loss account.

Derivative financial instruments 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 as required by IFRS 9. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a derivative liability.

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.

National Grid North Sea Link Limited

Notes to the financial statements (continued)

For the year ended 31 March 2019

1 Summary of significant accounting policies (continued)

(f) Hedge accounting

Cash flow hedges

The Company adopted IFRS 9 with effect from 1 April 2018. Hedge accounting comparatives are not required to be restated and are accounted for in accordance with IAS 39.

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.

Where appropriate, derivatives and other financial instruments used for hedging currency exposures are formally designated as cash flow hedges as defined in IFRS 9. Hedge accounting allows the timing of the profit or loss impact of qualifying hedging instruments to be recognised in the same reporting period as the corresponding impact of hedged exposures. To qualify for hedge accounting, documentation is prepared specifying the risk management objective and strategy, the component transactions and methodology used for effectiveness measurement. The Company uses the cash flow hedge accounting method which is described further below:

Cash flow hedging of currency risk of capital expenditure and revenues is designated as hedging the exposure to movements in the spot translation rates only; the timing of forecasted transactions is not designated as a hedged risk. Gains and losses on hedging instruments arising from forward points and foreign currency basis spreads are excluded from designation and are recognised immediately in profit or loss, along with any hedge ineffectiveness. Upon adoption of IFRS all cash flow hedges were treated as continuing with no impact to approach or results.

On recognition of the hedged purchase or sale in the financial statements, the associated hedge gains and losses deferred in cash flow hedge reserve in other equity reserves, are transferred out of reserves and included with the recognition of the underlying transaction. Where a non-financial asset or non-financial liability results from a forecast transaction or firm commitment being hedged, the amounts deferred in reserves are not recycled into profit or loss but are included directly in the initial measurement of that asset or liability. For these items under IFRS 9, the cash flow hedge reserve information is presented in the statement of other comprehensive income as "never recycled to profit or loss".

2018

Under IAS 39 hedging instruments were designated for hedge accounting in their entirety or when qualifying points were excluded from hedging relationships, unrealised gains and losses on excluded components were recognised in the profit and loss account.

Discontinuance of hedge accounting

Hedge accounting is discontinued when a hedging relationship no longer qualifies for hedge accounting. 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. If a forecasted transaction is no longer expected to occur, the cumulative gain or loss previously reported in equity would be transferred to the profit and loss account. This has not occurred in the current or comparative periods.

National Grid North Sea Link Limited

Notes to the financial statements (continued)

For the year ended 31 March 2019

1 Summary of significant accounting policies (continued)

(g) 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 has 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 which represents a recharge from the sponsoring employers.

(h) Equity instruments

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.

(i) Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are currently capitalised at the lease's commencement and are included in tangible fixed assets under construction. Upon the commissioning of the assets under construction the operating lease payments will be charged to the profit and loss account on a straight-line basis over the term of the lease.

2 Operating loss

	2019 £'000	2018 £'000
Operating loss is stated after charging:		
Foreign exchange losses	499	220
Services provided by the Company's auditor		
Audit fees	23	22

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

National Grid North Sea Link Limited

Notes to the financial statements (continued)

For the year ended 31 March 2019

3 Directors and employees

Directors' emoluments

	2019 £'000	2018 £'000
Aggregate emoluments	<u>78</u>	<u>82</u>

Post employment benefits are accruing to 1 (2018: 1) Director under a defined benefit scheme and 1 (2018: 1) Directors under a defined contribution scheme.

During the year there were 5 (2018: 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

	2019 £'000	2018 £'000
Total amount of emoluments and amounts receivable (excluding shares) under long term incentive schemes	40	60
Group defined benefit pension scheme:		
- Accrued pension at end of year	<u>15</u>	<u>6</u>

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

	2019 £'000	2018 £'000
Wages and salaries	1,784	1,782
Social security costs	129	130
Defined contribution scheme pension costs	105	99
Defined benefit scheme pension costs	161	194
Share-based payments	47	47
Capitalised salaries	<u>(2,226)</u>	<u>(2,252)</u>
	<u>-</u>	<u>-</u>

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

	2019 No	2018 No
By activity		
Administration	<u>27</u>	<u>24</u>

National Grid North Sea Link Limited

Notes to the financial statements (continued)

For the year ended 31 March 2019

4 Interest receivable and similar income

	2019 £'000	2018 £'000
Net gains on derivative financial instruments designated as cash flow hedges ⁽ⁱ⁾	-	2,368
	<u>-</u>	<u>2,368</u>

(i) The movement is due to cash flow hedges.

5 Interest payable and similar charges

	2019 £'000	2018 £'000
Other interest payable	-	(1)
Net losses on derivative financial instruments from a fellow subsidiary undertaking ⁽ⁱ⁾	4,828	-
	<u>4,828</u>	<u>(1)</u>

(i) The movement is due to cash flow hedges.

6 Tax

Tax charged to the profit and loss account

	2019 £'000	2018 £'000
Current tax:		
UK corporation tax	2,416	454
Adjustments in respect of prior years ⁽ⁱ⁾	1,651	(26)
Total current tax	<u>4,067</u>	<u>428</u>
Deferred tax:		
Origination and reversal of timing differences	(4)	(14)
Impact of change in tax rate	(3)	-
Adjustments in respect of prior years	35	16
Total deferred tax	<u>28</u>	<u>2</u>
Tax charge in the profit and loss account	<u>4,095</u>	<u>430</u>
Tax charged to equity		
Deferred tax charged on revaluation of cash flow hedges	<u>4,310</u>	<u>1,789</u>

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

The tax charge for the year is higher (2018: higher) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

National Grid North Sea Link Limited

Notes to the financial statements (continued)

For the year ended 31 March 2019

6 Tax (continued)

	2019 £'000	2018 £'000
(Loss)/ profit before tax	(4,902)	2,237
(Loss)/ profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	(931)	425
Effect of:		
Expenses not deductible for tax purposes	3,334	6
Impact of share-based payments	9	9
Impact of change in tax rate	(3)	-
Adjustments in respect of prior years	1,686	(10)
Total tax charge in the profit and loss account	4,095	430

Factors that may affect future tax charges

The main rate of UK corporation tax is reduced to 17% with effect from 1 April 2020. Deferred tax balances have been calculated at this rate.

The Directors will continue to monitor the developments driven by Brexit, the OECD's Base Erosion and Profit Shifting (BEPS) project and European Commission initiatives including fiscal aid investigations. At this time the Directors do not expect this to cause any material impact on future tax charges.

7 Property, plant and equipment

	Assets in the course of construction £'000
Cost:	
At 1 April 2018	108,057
Additions	93,249
At 31 March 2019	201,306
Net book value:	
At 31 March 2019	201,306
At 31 March 2018	108,057

During the year the Company's additions were predominantly driven by the latest progress against our Cables and Convertors EPC contract milestones for £89,346,000. In addition to this there was also completed site preparation works and general project management costs of £3,903,000.

National Grid North Sea Link Limited

Notes to the financial statements (continued)

For the year ended 31 March 2019

8 Debtors

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade debtors	-	34
Amounts owed by fellow subsidiary undertakings ⁽ⁱ⁾	16,357	10,400
Other tax and social security	414	216
Prepayments and accrued income	350	5,556
	<u>17,121</u>	<u>16,206</u>

(i) Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Where intercompany loans are interest-bearing interest is charged at rates determined by Treasury. For the purposes of the impairment assessment such loans to group undertakings are considered low risk as the subsidiaries are solvent and are covered by the National Grid group's liquidity arrangements.

Amounts falling due after more than one year:

	2019 £'000	2018 £'000
Amounts owed by fellow subsidiary undertakings ⁽ⁱ⁾	<u>23,320</u>	<u>49,411</u>

(i) Included within amounts owed by fellow subsidiary undertakings are intercompany derivatives balances due in less than one year of £13,256,000 (2018: £10,395,000) and intercompany derivatives due in more than one year of £23,320,000 (2018: £49,411,000). The net notional principal of these contracts was £357,278,000 (2018: £469,568,000) with a net foreign exchange exposure of £357,278,000 (2018: £469,568,000). The future expected cash flows from these derivatives are affected by changes in the Euro (EUR/GBP), Swedish Krona (SEK/GBP) and Norwegian Krone (NOK/GBP). The contracts have fixed settlement dates.

9 Creditors (amounts falling due within one year)

	2019 £'000	2018 £'000
Bank overdraft	56	5
Trade creditors	52	9,547
Amounts owed to fellow subsidiary undertakings ⁽ⁱ⁾	5,139	1,086
Amounts owed to immediate parent company	19,072	2,488
Other tax and social security	15	14
Other creditors	691	421
Accruals and deferred income	16,479	5,806
	<u>41,504</u>	<u>19,367</u>

(i) Amounts owed to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Where intercompany loans are interest-bearing interest is charged at rates determined by Treasury.

National Grid North Sea Link Limited

Notes to the financial statements (continued)

For the year ended 31 March 2019

10 Creditors (amounts falling due after more than one year)

	2019 £'000	2018 £'000
Amounts owed to a fellow subsidiary undertaking ⁽ⁱ⁾	247	40
	<u>247</u>	<u>40</u>

(i) Included within amounts owed to a fellow subsidiary undertaking are intercompany derivatives balances due in less than one year of £40,000 (2018: £nil) and intercompany derivatives due in more than one year of £247,000 (2018: £40,000). The net notional principal of contracts was £9,429,000 (2018: £335,000) with a net foreign exchange exposure of £9,429,000 (2018: £335,000). The future expected cash flows from these derivatives are affected by changes in the Euro (EUR/GBP) and Swedish Krona (SEK/GBP). The contracts have fixed settlement dates.

11 Provisions for liabilities

	2019 £'000	2018 £'000
Other short-term timing differences ⁽ⁱ⁾	7,472	11,754
Deferred tax liability	<u>7,472</u>	<u>11,754</u>

Deferred tax

	2019 £'000	2018 £'000
Deferred tax liability at 1 April	11,754	13,541
Charged to profit and loss account	28	2
Credited to other comprehensive income	(4,310)	(1,789)
Deferred tax liability at 31 March	<u>7,472</u>	<u>11,754</u>

(i) These are arising from deferred tax in derivatives.

There are no other significant unrecognised deferred tax assets or liabilities (2018: £0).

National Grid North Sea Link Limited

Notes to the financial statements (continued)

For the year ended 31 March 2019

12 Share capital

	2019 £'000	2018 £'000
Allotted, called up and fully paid		
175,000,002 (2018: 95,000,002) ordinary shares of £1 each	<u>175,000</u>	<u>95,000</u>

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

On 19 March 2019, the Company issued a further 80,000,000 ordinary shares of £1 each at par for a cash consideration of £80,000,000. This equity issuance permits the Company to remain in compliance with the terms and conditions of its loan agreement with National Grid Interconnector Holdings Limited (NGIH) which underpins funding of the construction of the United Kingdom and Norway Interconnector.

13 Capital and other commitments

	2019 £'000	2018 £'000
Contracts for future capital expenditure not provided in the financial statements	<u>300,100</u>	<u>382,500</u>

The Company had the following future minimum lease payments under non-cancellable operating leases for the following periods:

	2019 £'000	2018 £'000
Less than 1 year	437	437
In 1-5 years	1,989	1,989
More than 5 years	<u>12,860</u>	<u>13,297</u>
	<u>15,286</u>	<u>15,723</u>

14 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.

15 Ultimate parent company

The ultimate parent and controlling company is National Grid plc and the immediate parent company is National Grid Interconnector Holdings Limited. 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.