

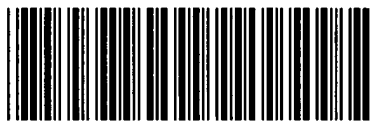
Company Registration Number: 8169384

**National Grid Interconnector Holdings Limited**

**Annual Report and Financial Statements**

**For the year ended 31 March 2018**

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# National Grid Interconnector Holdings Limited

## Strategic Report

For the year ended 31 March 2018

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

### Review of the business

The Company is a holding company of National Grid's electricity interconnector businesses.

### Executive summary

During the year the Company has continued to progress the potential development of a number of new electricity interconnectors between the transmission systems of the UK and North West Europe. It is continuing to work with prospective partners and the regulatory bodies in the UK and a number of European countries to develop several projects to increase the level of electricity interconnection to the UK.

As previously reported on 27 February 2015, the Company and Elia System Operator NV/SA entered into an equally sharing joint venture agreement in the Company's then subsidiary undertaking, Nemo Link Limited (formerly National Grid Nemo Link Limited), in connection with the design, development, financing, construction, ownership and maintenance of an electrical interconnector between Great Britain and Belgium. Following Directors' approval, the Company subscribed for 100,000 ordinary shares of €1 each and one redeemable B preference share of €1 of the issued share capital of Nemo Link Limited and also subscribed for €150,000 4% fixed rate unsecured loan notes issued by Nemo Link Limited. To date, the Company has subscribed for one redeemable B preference share and €97,720,800 ordinary shares of €1 each of the issued share capital of Nemo Link Limited. The Company has also subscribed for €146,581,200 4% fixed rate unsecured loan notes issued by Nemo Link Limited. During the financial year, the Company investments have progressed the interconnector's construction phase. Both convertor sites have completed civil works: Richborough (GB) and Herdersbrug (Belgium). The production and the first phase of installation of an innovative XPLE cable is completed. Seabed surveys have also been completed for the entire route to allow for the second phase of the cable lay to be completed later this calendar year.

As previously reported on 23 March 2015, National Grid NSN Link Limited, a wholly owned subsidiary of the Company, entered into an ownership agreement with Statnett SF for the construction, ownership and operation of an electrical interconnector between Great Britain and Norway. On 14 July 2015, National Grid NSN Link Limited signed a Construction Commitment and Settlement Agreement with Statnett SF. This date represented 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). National Grid NSN Link Limited changed its name to National Grid North Sea Link Limited on 22 October 2015. To date, all scheduled milestones on our EPC contracts with Nexans, Prysmian and ABB have been achieved. This includes completion of insulation lapping and FAT (final acceptance testing) on our first Prysmian cable length (Cable Length 7) and the finalisation of our Converter Station design and development with ABB. During this financial year, the project team has also completed the principal civil site preparation works in both Kvilldal, Norway and Blyth, England, ahead of the contracted date for transferring both sites to ABB for their converter station mobilisation.

In January 2017, the Company via a wholly owned subsidiary National Grid IFA2 Limited (NG IFA2) and RTE, the French Transmission System Operator, entered into an equally sharing joint venture agreement in forming IFA2 SAS, a French limited company. In April 2017, IFA2 SAS signed engineering procurement construction (EPC) contracts with Prysmian (Cable) and ABB (Converter Station). Expected progressed against the schedules on our EPC contracts with Prysmian and ABB has been achieved, including the start of detailed and final Design works for the cable Route, Cable design and Converter designs in both the UK and France. Subcontractors for the civil works were also appointed in the UK and France for completion of the civil works, within onshore France cable civils commencing in February 2018.

# National Grid Interconnector Holdings Limited

## Strategic Report (continued)

For the year ended 31 March 2018

### Executive summary (continued)

As previously reported, the Company applied with RTE to the Innovation and Networks Executive Agency for a grant for studies under the EU's Connecting Europe Facility for business development relating to the project, and successfully obtained a grant of up to €6.0m to be shared between the two parties. A payment of €1.5m was received in May 2016 and the balance is due after our final submission and audit of our claim which is expected to be next year.

During the year the company entered into a competitive process to build, own and operate a HVDC Link connecting Shetland to mainland Scotland. SHEPD planned to contract with National Grid Shetland Link Limited (a subsidiary company of NGIH) for 20 years to use its capacity to meet the energy needs for the Shetland Isles. In June 2017 the company won preferred bidder status however, due to major developments in December 2017 Ofgem deemed that security of supply to the Shetland Isles could be maintained until at least 2025 and therefore rejected the proposal. The project came to an end by the end of the financial year and as such, an impairment was made with the majority of the cost expected to be recoverable.

During the year the Company has continued to hedge its foreign exchange risk associated with its Euro investments in joint ventures. This has resulted in an increase of £5,601,000 (2017: £13,044,000) in the carrying value of investments.

During the year the Company received dividends from its joint venture, BritNed Development Limited, of £42,863,000 (2017: £74,821,000).

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 dividend received, offset by operating losses.

### Results

The Company's profit for the financial year was £36,004,000 (2017: £68,295,000).

### Financial position

The financial position of the Company is presented in the balance sheet. Total shareholders' equity at 31 March 2018 was £251,373,000 (2017: £215,301,000) comprising fixed asset investments of £487,292,000 (2017: £301,965,000) less net current liabilities of £235,919,000 (2017: £86,664,000).

### 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.

# National Grid Interconnector Holdings Limited

## Strategic Report (continued)

For the year ended 31 March 2018

### Future developments

During the year the company made significant progress in the development of Viking Link, an electrical interconnector between Great Britain and Denmark. Main activities included technical refinement of the cable route, commencement of the procurement process for the cable and converter Engineering, Procurement and Construction (EPC) contracts, submission of planning consent applications and legal preparations for the purchase of onshore land options/easements.

Viking Link is expected to seek Final Investment Decision (FID) in September 2018. Pending a successful decision, future project spend will be reported and controlled in a separate company National Grid Viking Link Limited (NGVLL), a subsidiary of National Grid Interconnectors Holdings Limited. During the construction and operation of Viking Link, NGVLL will form an Unincorporated Joint Venture (UJV) with the Danish Partners Energinet and the UJV will be governed by a Joint Operating and Ownership Agreement (JOOA). This includes a cost and income sharing agreement and confirms that NGVLL will own 100% of the interconnector assets to the West of the interconnector midpoint.

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 Grid Interconnector Holdings 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 3.

#### **Dividends**

During the year the Company has not paid any interim 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 and intercompany loans 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. 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 both interest bearing intercompany assets and interest bearing intercompany liabilities. 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 derivative contracts denominated in Euros.

# National Grid Interconnector Holdings Limited

## Directors' Report (continued)

For the year ended 31 March 2018

### 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 2018 the fair value of these derivative financial instruments resulted in an asset of £336,202,000 (2017: £663,000) which has been reflected in amounts owed by immediate parent company. The net notional principal of contracts was £3,524,000 (2017: £253,580,000) with a net foreign exchange exposure of £336,202,000 (2017: £253,580,000). 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  
M C Cook  
I R Graves (Resigned 30 November 2017)  
T McCormick  
N Sides

### 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 to generate positive cash flows, or 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.

# National Grid Interconnector Holdings Limited

## Directors' Report (continued)

For the year ended 31 March 2018

### 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: 8169384

**Independent auditor's report to the members of  
National Grid Interconnector Holdings 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 Interconnector Holdings Limited (the 'Company') which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 13, 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 Interconnector Holdings 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](http://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 Interconnector Holdings 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 Interconnector Holdings Limited

## Profit and loss account

For the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Administrative expenses		(10,826)	(12,973)
<b>Operating loss</b>	2	<u>(10,826)</u>	<u>(12,973)</u>
Income from shares in a joint venture	7	42,863	74,821
Interest receivable and similar income	4	6,248	5,199
Interest payable to fellow subsidiary undertakings		(1,622)	(1,149)
<b>Profit before tax</b>		<u>36,663</u>	<u>65,898</u>
Tax	5	(659)	2,397
<b>Profit for the financial year</b>		<u><u>36,004</u></u>	<u><u>68,295</u></u>

The results reported above relate to continuing activities.

There have been no other comprehensive income/losses during either the current or prior year other than as disclosed in the profit and loss account and therefore no separate statement of comprehensive income has been presented.

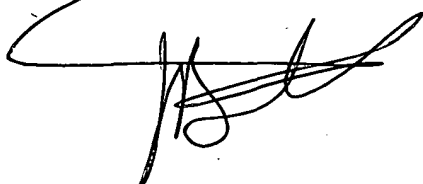
# National Grid Interconnector Holdings Limited

## Balance sheet

As at 31 March 2018

	Notes	2018 £'000	2017 £'000
<b>Fixed assets</b>			
Investments	7	487,292	301,965
<b>Current assets</b>			
Debtors (amounts falling due within one year)	8	51,063	57,996
Debtors (amounts falling due after more than one year)	8	128,603	59,975
Cash at bank and in hand		-	4,836
<b>Total current assets</b>		<u>179,666</u>	<u>122,807</u>
Creditors (amounts falling due within one year)	9	(415,585)	(209,471)
<b>Net current liabilities</b>		<u>(235,919)</u>	<u>(86,664)</u>
<b>Total assets less current liabilities</b>		<u>251,373</u>	<u>215,301</u>
<b>Net assets</b>		<u>251,373</u>	<u>215,301</u>
<b>Equity</b>			
Share capital	10	50,000	50,000
Profit and loss account		<u>201,373</u>	<u>165,301</u>
<b>Total shareholders' equity</b>		<u>251,373</u>	<u>215,301</u>

The financial statements on pages 10 to 23 were approved by the Board of Directors on 13 December 2018 and signed on its behalf by:



**J Butterworth**  
Director

**National Grid Interconnector Holdings Limited**  
Company registration number: 8169384

# National Grid Interconnector Holdings Limited

## Statement of changes in equity

For the year ended 31 March 2018

	Share capital £'000	Profit and loss account £'000	Total shareholders' equity £'000
At 1 April 2016	50,000	96,950	146,950
Profit for the financial year	-	68,295	68,295
Share-based payments	-	56	56
At 31 March 2017	50,000	165,301	215,301
Profit for the financial year	-	36,004	36,004
Share-based payments	-	68	68
<b>At 31 March 2018</b>	<b>50,000</b>	<b>201,373</b>	<b>251,373</b>

# National Grid Interconnector Holdings Limited

## Notes to the financial statements

For the year ended 31 March 2018

### 1 Summary of significant accounting policies

National Grid Interconnector Holdings 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.

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).

In accordance with Section 400 of the Companies Act 2006, the Company is exempt from preparing consolidated financial statements, as it is included within the consolidated financial statements of National Grid plc, which are publicly available.

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.

# National Grid Interconnector Holdings Limited

## Notes to the financial statements (continued)

For the year ended 31 March 2018

### 1 Summary of significant accounting policies (continued)

#### (a) Basis of preparation (continued)

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, due to year on year market price and foreign exchange rate fluctuations.

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

#### (b) Fixed asset investments

Investments in subsidiary undertakings and joint ventures are recorded at cost less any provisions for impairment. Costs will also include any adjustments arising from hedge accounting as described in accounting policy 1 (f).

Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value-in-use.

#### (c) Tax

The tax charge/ credit 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/ credit 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/ credit 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.

# National Grid Interconnector Holdings Limited

## Notes to the financial statements (continued)

For the year ended 31 March 2018

### 1 Summary of significant accounting policies (continued)

#### (c) Tax (continued)

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.

#### (e) 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.



# National Grid Interconnector Holdings Limited

## Notes to the financial statements (continued)

For the year ended 31 March 2018

### 1 Summary of significant accounting policies (continued)

#### (e) Financial instruments (continued)

Borrowings, which include interest-bearing loans and overdrafts, are recorded at their initial fair value which normally reflects 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.

#### (f) Hedge accounting

The Company enters into derivatives and foreign currency denominated inter company loans in order to manage its foreign currency exposures, with a view to managing the risk 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 and foreign currency denominated intercompany loans 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. The Company has used hedge accounting to hedge investments in overseas subsidiary undertakings. The Company has used hedge accounting to hedge an investment in a joint venture.

Changes in the carrying value of financial instruments that are designated as hedges of the changes in the fair value of assets or liabilities ('fair value hedges') are recognised in the profit and loss account. An offsetting amount is recorded as an adjustment to the carrying value of hedged items, with a corresponding entry in the profit and loss account, to the extent that the change is attributable to the risk being hedged and that the fair value hedge is effective. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. For fair value hedges the cumulative adjustment recorded to its carrying value at the date hedge accounting is discontinued is recognised in the profit and loss account on impairment or disposal of the investment.

# National Grid Interconnector Holdings Limited

## Notes to the financial statements (continued)

For the year ended 31 March 2018

### 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 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 loss

	2018	2017
	£'000	£'000
<b>Operating loss is stated after (crediting)/charging:</b>		
Foreign exchange gains	(8)	(13)
Property, plant and equipment	6,897	-
	<u>6,889</u>	<u>-</u>
<b>Services provided by the Company's auditor</b>		
Audit fees	12	16
	<u>12</u>	<u>16</u>

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	2017
	£'000	£'000
Aggregate emoluments	66	-

Post employment benefits are accruing to 1 (2017: 1) Director under a defined benefit scheme.

During the year there were 4 (2017: 4) 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.

**National Grid Interconnector Holdings Limited**

**Notes to the financial statements (continued)**

**For the year ended 31 March 2018**

**3 Directors and employees (continued)**

**Highest paid Director**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Total amount of emoluments and amounts receivable (excluding shares) under long term incentive schemes	60	-
<b>Group defined benefit pension scheme:</b>		
- Accrued pension at end of year	<u>6</u>	<u>-</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**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	3,001	3,803
Social security costs	240	97
Defined contribution scheme pension costs	150	43
Other pension costs	324	143
Share-based payments	68	56
	<u>3,783</u>	<u>4,142</u>

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

	<b>2018</b>	<b>2017</b>
<b>By activity</b>	<b>No.</b>	<b>No.</b>
Administration	<u>11</u>	<u>12</u>

# National Grid Interconnector Holdings Limited

## Notes to the financial statements (continued)

For the year ended 31 March 2018

### 4 Interest receivable and similar income

	2018 £'000	2017 £'000
Net gains on derivative financial instruments designated as fair value hedges	1,624	1,801
Exchange gains on revaluation of foreign currency denominated intercompany loans	817	1,700
Derivative gains	-	144
Interest receivable from immediate parent company	-	40
Interest receivable from a joint venture	3,807	1,514
	<u>6,248</u>	<u>5,199</u>

Net gains on derivative financial instruments designated as fair value hedges comprise:

	2018 £'000	2017 £'000
Derivative gains	(3,977)	(11,243)
Fair value hedge accounting adjustments recorded against fixed asset investments (note 7)	5,601	13,044
	<u>1,624</u>	<u>1,801</u>

### 5 Tax

#### Tax charged/(credited) to the profit and loss account

	2018 £'000	2017 £'000
<b>Current tax:</b>		
UK corporation tax	152	(2,066)
Adjustments in respect of prior years <sup>(i)</sup>	508	(331)
Total current tax	<u>660</u>	<u>(2,397)</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	1	-
Adjustments in respect of prior years	(2)	-
Total deferred tax	<u>(1)</u>	<u>-</u>
<b>Tax charge /(credit) on profit</b>	<u>659</u>	<u>(2,397)</u>

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

# National Grid Interconnector Holdings Limited

## Notes to the financial statements (continued)

For the year ended 31 March 2018

### 5 Tax (continued)

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

	2018 £'000	2017 £'000
Profit before tax	<u>36,663</u>	<u>65,898</u>
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2017: 20%)	6,966	13,180
Effect of:		
Expenses not deductible for tax purposes	1,318	-
Impact of share-based payments	13	10
Non-taxable income from shares in a joint venture	(8,144)	(15,256)
Adjustments in respect of prior years	506	(331)
<b>Total tax charge/(credit) for the year</b>	<u><u>659</u></u>	<u><u>(2,397)</u></u>

#### 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 Property, plant and equipment

	Assets in the course of construction £'000
<b>Cost:</b>	
Additions	<u>6,897</u>
<b>Provision:</b>	
Impairment charge for the year	<u>(6,897)</u>
<b>Net book value:</b>	
At 31 March 2018	<u><u>-</u></u>

During the year the Directors have reviewed the carrying value of asset in the course of construction and have considered it appropriate to make a impairment of £6,897,000 which has been charged to the profit and loss account. The asset in the course of construction related to a subsea cable link to Shetland where the development was terminated as it no longer formed part of the future business strategy. There is an expectation that the majority of the amount will be recovered.

# National Grid Interconnector Holdings Limited

## Notes to the financial statements (continued)

For the year ended 31 March 2018

### 7 Fixed asset investments

	Shares in Subsidiary Undertakings £'000	Shares in joint ventures £'000	Total £'000
<b>Cost and net book value:</b>			
At 1 April 2017	-	301,965	301,965
Additions	134,540	45,186	179,726
Fair value hedge accounting adjustments	-	5,601	5,601
At 31 March 2018	<b>134,540</b>	<b>352,752</b>	<b>487,292</b>

During the year the Company has continued to hedge its foreign exchange risk associated with its Euro investments in joint ventures using derivatives. This has resulted in an increase of £5,601,000 (2017: £13,044,000) in the carrying value of investments.

During the year the Company received dividends from its joint venture, BritNed Development Limited of £42,863,000 (2017: £74,821,000).

On 20 March 2018 the Company acquired a further investment of 95,000,000 ordinary shares of £1 each at par in its subsidiary National Grid North Sea Link Limited and 35,000,000 ordinary shares of £1 each at par in its subsidiary National Grid IFA2 Limited. Both acquisitions were funded by loans from the immediate parent company.

Additions to shares in joint ventures £45,186,000 (2017: £21,388,000) represents a further investment in Nemo Link Limited.

The Company's subsidiary undertakings as at 31 March 2018 were as follows:

Name of subsidiary	% Holding	Principal activity
National Grid IFA 2 Limited	100	Interconnector company – Provision of an interconnector between the UK and France
National Grid North Sea Link Limited	100	Interconnector company – Provision of an interconnector between the UK and Norway
National Grid Viking Link Limited	100	Dormant
NG Shetland Link Limited	100	Dormant

The above subsidiaries are registered in England and Wales with a registered office at 1-3 Strand, London WC2N 5EH.

The Company's joint ventures as at 31 March 2018 were as follows:

Name of joint venture	% Holding	Principal activity
BritNed Development Limited	50	Provision of an interconnector between the UK and the Netherlands
Nemo Link Limited	50	Provision of an interconnector between the UK and Belgium

The above joint ventures are registered in England and Wales with a registered office at 1-3 Strand, London, WC2N 5EH

The Directors believe that the carrying value of the investments is supported by the value of their underlying net assets.

# National Grid Interconnector Holdings Limited

## Notes to the financial statements (continued)

For the year ended 31 March 2018

### 8 Debtors

	2018 £'000	2017 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors	1,050	10
Amounts owed by fellow subsidiary undertakings	27,316	1,580
Amounts owed by subsidiary undertaking	2,488	48,325
Amounts owed by immediate parent company <sup>(i)</sup>	3,524	3,369
Other tax and social security	172	167
Other debtors	5,775	1,968
Prepayment and accrued income	10,738	2,577
	<u>51,063</u>	<u>57,996</u>

- (i) Included within amounts owed by immediate parent company are intercompany derivatives balances with a fair value of £3,524,000 (2017: £663,000). The net notional principal of contracts was £336,202,000 (2017: £253,580,000) with a net foreign exchange exposure of £336,202,000 (2017: £253,580,000). 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.

	2018 £'000	2017 £'000
<b>Amounts falling due after more than one year:</b>		
Amount owed by a joint venture	128,602	59,975
Deferred tax	1	-
	<u>128,603</u>	<u>59,975</u>

At 31 March 2018, both National Grid Interconnector Holdings Limited and Elia System Operator NV/SA (joint venture partner with Nemo Link Limited) have subscribed for €146,491,000 (2017: €70,381,000) 4% fixed rate unsecured loan notes issued by Nemo Link Limited.

	2018 £'000	2017 £'000
Accelerated capital allowances	(1)	-
Deferred tax asset	(1)	-

#### Deferred tax

	2018 £'000	2017 £'000
Credited to profit and loss account	(1)	-
Deferred tax asset at 31 March	(1)	-

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

# National Grid Interconnector Holdings Limited

## Notes to the financial statements (continued)

For the year ended 31 March 2018

### 9 Creditors (amounts falling due within one year)

	2018 £'000	2017 £'000
Bank overdraft	133	-
Trade creditors	1,938	821
Amounts owed to a fellow subsidiary undertaking	30,228	13,230
Amounts owed to immediate parent company	380,170	191,073
Taxation and social security	21	12
Other creditors	511	410
Accruals and deferred income	2,584	3,925
	<u>415,585</u>	<u>209,471</u>

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

### 10 Share capital

	2018 £'000	2017 £'000
<b>Allotted, called up and fully paid</b>		
50,000,001 (2017: 50,000,001) ordinary shares of £1 each	<u>50,000</u>	<u>50,000</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.

### 11 Contingent Liabilities:

#### Litigation

Through the ordinary course of operations, the Company is party to various litigation, claims and investigations. The Directors do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the Company's results of operations, cash flows or financial position.

### 12 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.

As disclosed in note 7 to the financial statements the Company holds investments in two joint ventures, BritNed Development Limited and Nemo Link Limited. The Company received dividends from BritNed Development Limited during the year of £42,864,000 (2017: £74,821,000)

As disclosed in note 8 to the financial statements the Company is owed €146,491,000 (2017: €70,381,200) 4% fixed rate unsecured loan notes issued by Nemo Link Limited with interest of €4,840,925 (2016: €1,762,705).

Sales to Nemo Link Limited consist of cost recharges which are offset within administrative expenses of £2,264,000 (2017: £2,076,000) including accrued income within note 8 of £610,000 (2017: £475,000).



# **National Grid Interconnector Holdings Limited**

## **Notes to the financial statements (continued)**

**For the year ended 31 March 2018**

### **13 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.