Company Registration Number: 3385525

National Grid Interconnectors Limited

Annual Report and Financial Statements

For the year ended 31 March 2020

National Grid Interconnectors Limited

Strategic Report

For the year ended 31 March 2020

The Directors present their Strategic Report on National Grid Interconnectors Limited ('the Company') for the year ended 31 March 2020.

Review of the business

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

Executive summary

There have been no significant changes in the Company's trading activities during the year, as reported in the profit and loss account. There were no other significant changes in the Company's investments or intercompany balances. During the year, the company accounted for the legal obligations associated with retiring our interconnector assets resulting in a £10,000,000 provision and equivalent adjustment to the property, plant and equipment carrying value.

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

COVID - 19

The COVID - 19 pandemic became known in January 2020 and since this time there have been various actions taken by the UK government. None of these developments have impacted or caused adjustment to these financial statements.

Results

The Company's profit for the year was £49,801,000 (2019: £53,214,000).

Financial position

The financial position of the Company is presented in the balance sheet. Total shareholders' equity at 31 March 2020 was £124,361,000 (2019: £395,920,000) comprising fixed assets of £195,450,000 (2019: £190,509,000); net current liabilities of £29,909,000 (2019: net current assets of £239,984,000); creditors: amounts falling due after more than one year of £18,313,000 (2019: £12,271,000); and less provisions for liabilities of £22,867,000 (2019: £22,302,000).

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 2019/20, which does not form part of this report. Further details of Company financial risk management have been included in the Directors' Report.Further details of Company financial risk management have been included in the Directors' Report.

Future developments

The level of income received from the auction of capacity rights is linked to power price differences between the UK and France. Power prices are driven by generation mix, commodity prices and government policy and as such are volatile and difficult to predict. The changes in power prices and their impact on the profit and loss are regularly monitored and the Directors believe that the current level of trading activity as reported in the profit and loss account will continue in the immediate future with no anticipated significant balance sheet movements.

Section 172 (1) statement

The Board believes that, individually and together, they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members, as a whole, having regard to the stakeholders and matters set out in section 172(a)-(f) of the Companies Act 2006 in the decisions taken during the year ended 31 March 2020. It follows the National Grid Group's ('the Group's') business standards and compliance with local corporate governance requirements, and is committed to acting if our business should fail to act in the manner we expect of them. For the Group's section 172 statement please see the National Grid plc Annual Report and Accounts.

The Board is responsible for monitoring and upholding the culture, values, standards, ethics and reputation of the Company to ensure that our obligations to our shareholder and to our stakeholders are met. For each matter, which comes before the Board, stakeholders who may be affected are identified and their interests are carefully considered as part of the Board's decision-making.

The Board is also mindful of the wider social context within which our businesses operate, including those issues related to climate change which are of fundamental importance to the planet's well-being.

Our culture and decision making

Our culture is shaped by our clearly defined values to help ensure we achieve our vision. It determines how we behave, how we make decisions and our attitude towards risk aligned with the Group's purpose, vision and values. Decisions affecting a subsidiary are required to be taken in line with the National Grid Statement of Delegations of Leadership, Responsibility and Financial Authority. In making such decisions the Directors have regard to a variety of matters including the interests of various stakeholders, the consequences of their decisions in the long term and the long-term reputation of the Company and its businesses

Employee engagement

The Company has 28 employees. All UK employees engaged in the activities of the Company are employed by subsidiary undertakings of National Grid plc. The employees are kept informed about what is happening across the Group through the Group's intranet and through email, newsletters, and leadership blogs and briefings.

Disclosures relating to employees may be found in the Annual Report and Accounts of these companies. You can read more about the Group's engagement with employees on page 73 of the National Grid plc Annual Report and Accounts (available at: www.nationalgrid.com/investors).

Fostering Business Relationships with our customers, suppliers and others

The Directors recognise that fostering business relationships with key stakeholders, such as customers and suppliers, is essential to the success of the Group and are satisfied that the Group has close relationships with its customers, suppliers to meet our strategic priorities. The Board receives regular updates on the interactions between the Directors and senior management and key stakeholders, including Government, Ofgem, the HSE, customers and suppliers.

The community and the environment

The Directors recognise that the Group delivers sustainable energy safely, reliably and affordably for the communities we serve. Giving back to the communities in which we operate, and to charities that have meaning to our business, is vitally important to the Group and its employees, allowing them to make a positive difference and have an impact where it counts.

Strategic Report (continued)

For the year ended 31 March 2020

Section 172 (1) statement (continued)

The Directors recognise the critical role the Group plays in tackling climate change in the markets that we operate. Ambitious carbon reduction targets and further legislative actions are anticipated in all our markets which will be challenging and as a Group we embrace the opportunity to support the delivery of these goals. The Group continues to focus on and advance its work in relation to its environmental sustainability strategy.

You can read more about the Group's responsible business on pages 48 to 56 in the National Grid plc Annual Report and Accounts.

Shareholders

The Board considers the long-term impact of corporate actions and decisions on our shareholders. During the year, the Board paid no any interim dividends and the Directors do not recommend the payment of a final dividend.

Our ultimate shareholder is National Grid plc and there is ongoing communication and engagement with the National Grid Board. Any matters requiring escalation are escalated by the Board through the Chairman to its ultimate parent.

Maintaining a reputation for high standards of business conduct

The Group's Code of Ethical Business Conduct sets out the standards and behaviours expected from all employees to meet the Group's values.

Detailed information on the Group-wide business conduct processes and policies are described in the National Grid plc Annual Report and Accounts on pages 55 and 56 (available at: www.nationalgrid.com/investors).

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

DocuSigned by:

L. Hagan

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L Hagan
Company Secretary
29 July 2020

National Grid Interconnectors Limited

Directors' Report

For the year ended 31 March 2020

The Directors present their Report and the audited financial statements of the Company for the year ended 31 March 2020.

Future developments

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

Dividends

During the year, the Company has not paid any interim dividends £nil (2019: £nil). The Directors do not recommend the payment of a final dividend (2019: £320,000,000).

Financial risk management

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

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

Liquidity risk

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

Credit risk

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

The UK's Financial Conduct Authority announced that LIBOR will cease to exist by the end of 2021, and will be replaced by alternative reference rates ('ARRs'). National Grid's interest rate risk arises from long-term borrowings, which currently use LIBOR as the benchmark. The migration to ARRs will impact contracts at National Grid including financial liabilities that pay LIBOR-based cash flows, derivatives that receive or pay LIBOR-based cash flows, and other contracts such as leases or procurement contracts that reference LIBOR. The change in benchmark also affects discount rates which can impact valuations. National Grid are managing the risk by identifying affected contracts and planning to replace LIBOR cash flows with alternative reference rates on those contracts.

Foreign exchange risk

To the extent that the Company enters 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.

Derivative financial instruments

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

As at 31 March 2020 the fair value of these derivative financial instruments resulted in an asset of £440,000 (2019: £1,805,000) which has been reflected in amounts owed by immediate parent company and a liability of £287,000 (2019: £2,000) which has been reflected in amounts owed to immediate parent company. The net notional principal of contracts was £24,912,000 (2019: £40,980,000) with a net foreign exchange exposure of £24,912,000 (2019: £40,980,000). The future expected cash flows from these derivatives are affected by changes in the EUR/GBP exchange rate. The contracts have fixed settlement dates.

Directors

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

J Butterworth	
N Hooper	
N Sides	
A Singhal	Resigned 1 June 2020

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 during 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 impact of COVID-19 on the National Grid group's operations is continually being assessed and subject to rapid change. These risks and uncertainties are included within the Strategic Report and described in note 1 to the consolidated financial statements in National Grid plc's Annual Report and Accounts 2019/20 and have been taken into consideration in assessing the ability of the Group to continue as a going concern. Based on this analysis the Directors of National Grid plc concluded that the Group has adequate resources to continue in operation and adopted the going concern basis of accounting in preparing the Group financial statements.

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 and have received assurances in writing that the Group will continue to provide funding for the foreseeable future.

Going concern (continued)

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. The Directors have considered the impact of COVID-19 on the Group and on the Company and have concluded that there are no material uncertainties related to these events or conditions that may cast doubt upon the Company's ability to continue as a going concern. Therefore, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Disclosure of information to auditors

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

Auditors

At the 2020 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.

Events after the reporting period

In the period since year end to the date of signing of these financial statements there have continued to be substantial economic and social changes in the UK as a result of the ongoing pandemic of coronavirus disease (COVID-19). These changes and risks are being actively managed by the Directors of the Company and none of these developments have impacted or caused adjustment to these financial statements.

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.

National Grid Interconnectors Limited

Directors' Report (continued)

For the year ended 31 March 2020

Statement of Directors' responsibilities (continued)

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:

DocuSigned by:
L. Hagan
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L Hagan
Company Secretary
29 July 2020

Registered office:
1-3 Strand
London
WC2N 5EH

Registered in England and Wales
Company registration number: 3385525

Independent auditor's report to the members of

National Grid Interconnectors Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of National Grid Interconnectors Limited ('the Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 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 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 21, 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.

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.

Independent auditor's report to the members of

National Grid Interconnectors Limited (continued)

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.

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.

Independent auditor's report to the members of

National Grid Interconnectors Limited (continued)

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.

DocuSigned by:
James Isherwood
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James Isherwood (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, UK
29 July 2020

National Grid Interconnectors Limited

Profit and loss account

For the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Turnover	2	**66,527**	89,056
Administrative expenses		**(6,343)**	(25,971)
Operating profit	3	**60,184**	63,085
Profit on sale of tangible fixed assets		**380**	—
Interest receivable and similar income	5	**2,083**	4,319
Interest payable and similar charges	6	**(346)**	(1,426)
Profit before tax		**62,301**	65,978
Tax	7	**(12,500)**	(12,764)
Profit for the year		**49,801**	53,214

The results for both years reported above relate to continuing activities.

Statement of comprehensive income

For the year ended 31 March 2020

	2020 £'000	2019 £'000
Profit for the year	**49,801**	53,214
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Net (losses)/gains in respect of cash flow hedges	**(1,680)**	1,135
Tax on items that may be reclassified subsequently to profit or loss	**290**	(193)
Total items that may be reclassified subsequently to profit or loss	**(1,390)**	942
Other comprehensive income for the year, net of tax	**(1,390)**	942
Total comprehensive income for the year	**48,411**	54,156

National Grid Interconnectors Limited

Balance sheet

As at 31 March 2020

	Note	2020 £'000	2019 (restated) £'000
Fixed assets			
Intangible assets	8	**37,277**	35,733
Property, plant and equipment	9	**158,173**	154,776
		195,450	190,509
Current assets			
Debtors (amounts falling due within one year)	10	**55,791**	297,017
Cash at bank and in hand		**1,322**	—
Total current assets		**57,113**	297,017
Creditors (amounts falling due within one year)	11	**(87,022)**	(57,033)
Net current liabilities/assets		**(29,909)**	239,984
Total assets less current liabilities		**165,541**	430,493
Creditors (amounts falling due after more than one year)	12	**(18,313)**	(12,271)
Provisions for liabilities	13	**(22,867)**	(22,302)
Net assets		**124,361**	395,920
Equity			
Share capital	15	**31,938**	31,938
Cash flow hedge reserve		**(193)**	1,197
Profit and loss account		**92,616**	362,785
Total shareholders' equity		**124,361**	395,920

The financial statements set out on pages 11 to 34 were approved by the Board of Directors on 29 July 2020 and were signed on its behalf by:

DocuSigned by:

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J Butterworth
Director

National Grid Interconnectors Limited
Company registration number: 3385525

National Grid Interconnectors Limited

Statement of changes in equity

For the year ended 31 March 2020

	Share capital	Cash flow hedge reserve	Profit and loss account	Total shareholders' equity
	£'000		£'000	£'000
At 1 April 2018	31,938	255	309,541	341,734
Profit for the financial year	—	—	53,214	53,214
Other comprehensive income for the year	—	942	—	942
Total comprehensive income for the year	—	942	53,214	54,156
Share-based payments	—	—	30	30
At 31 March 2019	31,938	1,197	362,785	395,920
Profit for the financial year	—	—	49,801	49,801
Other comprehensive income for the year	—	(1,390)	—	(1,390)
Total comprehensive income for the year	—	(1,390)	49,801	48,411
Equity dividends (note 16)	—		(320,000)	(320,000)
Share-based payments	—	—	30	30
At 31 March 2020	31,938	(193)	92,616	124,361

1 Summary of significant accounting policies

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

(a) Basis of preparation

These financial statements of National Grid Interconnectors Limited for the year ended 31 March 2020 were approved by the Board of Directors on 29 July 2020. 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 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 2019 comparative financial information has also been prepared on this basis. Note that the 2019 comparatives have been restated. See note 1(m) for further details.

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.

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 and have received assurances in writing that the Group will continue to provide funding for the foreseeable future.

The Directors have considered the impact of COVID-19 on the Group and on the Company and have concluded that there are no material uncertainties related to these events or conditions that may cast doubt upon the Company's ability to continue as a going concern. Therefore, they continue to adopt the going concern basis of accounting in preparing the 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).

As a qualifying entity, the Company has taken the following exemptions in the preparation of these financial statements in accordance with FRS 101:

- a cash flow statement and related notes;
- disclosures in respect of transactions with National Grid plc and its wholly owned subsidiaries;
- disclosures in respect of capital management;
- disclosures in respect of IFRS 15 'revenue from contracts with customers';
- disclosures in respect of fixed asset investments; and
- the effects of new but not yet effective IFRS standards.

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 adopted IFRS 16 'Leases' with effect from 1 April 2019. The Company has applied the modified retrospective approach permitted in the standard whereby prior year comparatives have not been restated on adoption. Instead, any cumulative transition adjustments would be reflected through profit and loss account reserve. Refer to note 20.

The UK's Financial Conduct Authority announced that LIBOR will cease to exist by the end of 2021, and will be replaced by alternative reference rates. In September 2019, the IASB amended IFRS 9 and IFRS 7 by issuing Interest Rate Benchmark Reform, which provides exceptions to specific hedge accounting requirements to ensure that hedging relationships are not considered to be modified as a result of uncertainties during the migration from LIBOR to alternative reference rate. The Company early-adopted these changes to IFRS 7 and IFRS 9 with effect from 1 April 2019. There were no transition adjustments on adoption.

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 the decommissioning provision, note 13

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

(b) Intangible assets

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Intangible assets are tested for impairment only if there is an indication that the carrying value of the assets may have been impaired. Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Impairments are recognised in the profit and loss account and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets, such as software, are recognised only if: (i) an asset is created that can be identified; (ii) it is probable that the asset created will generate future economic benefits; and (iii) the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

1 Summary of significant accounting policies (continued)

(b) Intangible assets (continued)

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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

Amortisation periods for categories of intangible assets are:

Software	Over 3 to 10 years

(c) Property, plant and equipment

Property, plant and equipment is recorded 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 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.

Other items of property, plant and equipment are depreciated on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessments of estimated useful economic lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of tangible fixed assets are, in general, as shown in the table below:

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

The Company leases various properties, land, equipment and cars. With effect from 1 April 2019, new lease arrangements entered into are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company (see note 20). The right-of-use asset and associated lease liability arising from a lease are initially measured at the present value of the lease payments expected over the lease term. The discount rate applied is the rate implicit in the lease or if that is not available, then the incremental rate of borrowing for a similar term . The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not

1 Summary of significant accounting policies (continued)

(c) Property, plant and equipment (continued)

to exercise the option. The lease term does not include any lease extension options at the option of the lessor but does include lease termination options unless we are reasonably certain that the lessor will not exercise them. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), the Company continues to recognise a lease expense on a straight-line basis.

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.

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

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

Impairments are recognised in the profit and loss account and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

(d) Tax

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

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

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

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

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor the taxable profit or loss.

1 Summary of significant accounting policies (continued)

(d) 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.

(e) Foreign currency transactions and balances

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

(f) Financial instruments

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 impairment assessment purposes loans to subsidiary and fellow subsidiary undertakings are individually assessed based on comparable external credit ratings and a review of solvency and liquidity arrangements and as such the expected credit loss for the year is £nil.

1 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

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.

Lease liabilities

The Company adopted IFRS 16 on 1 April 2019, which resulted in the recognition of £68,000 of additional lease liabilities. As the Company applied the modified retrospective approach to transition, comparatives were not restated. Refer to note 20 for details.

Lease liabilities are initially measured at the present value of the lease payments expected over the lease term. The discount rate applied is the rate implicit in the lease or if that is not available, then the incremental rate of borrowing for a similar term. The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not to exercise the option. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method.

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.

(g) Hedge accounting

Cash flow hedges

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:

1 Summary of significant accounting policies (continued)

(g) Hedge accounting (continued)

Cash flow hedges (continued)

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.

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".

Discontinuation 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.

(h) Turnover

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

Total turnover is stated after deducting excess profits which are required to be returned to users of the transmission network via the system operator (note 2). The adjustment is a non-IFRS 15 adjustment on the basis that the entity does not refund this excess profit to its own customers.

The entity's liability in relation to excess profits due to be returned under IFA's Use of Revenues framework is disclosed in notes 11 and 12.

(i) Pensions

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

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

1 Summary of significant accounting policies (continued)

(i) Pensions (continued)

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.

(j) 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.

(k) Dividends

Dividend income is recognised when the right to receive payment is established. Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(l) Provisions for liabilities

General

Provisions for liabilities are recognised where a legal or constructive obligation exists at the reporting date, as a result of a past event, where the amount of the obligation can be reliably estimated and where the outcome of economic benefit is probable.

Environmental and decommissioning

Provision is made for decommissioning and environmental costs, based on future estimated expenditures, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.
Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying values and depreciated prospectively over their remaining estimated useful economic lives, otherwise such changes are recognised in the profit and loss account.

The unwinding of discount where applicable is included within the profit and loss account as an interest expense.

1 Summary of significant accounting policies (continued)

(m) Prior year restatement

The comparatives have been restated to reflect the obligations for the restoration of onshore land (where our transformers are located) and offshore seabed (where our cables are placed) arrangements that existed at the prior period end. The impact of this restatement is to increase liabilities (long term provisions) by £10m and to increase fixed assets (property, plant and equipment) by £10m. The property, plant and equipment note (note 9), and the provisions for liabilities note have been accordingly restated (note 13). Retrospective application of any impact prior to 2019 is impracticable on the basis that an assessment cannot be undertaken without the use of hindsight, hence the obligation has been recognised from 2019 through the restatement of 2019 comparatives. Retrospective application of any impact prior to 2019 would require the use of hindsight and we do not have sufficient information to assess the likely costs when the contracts were signed.

The provision has been calculated by estimating current cash outflows to remediate the land and the seabed to its former condition, discounted using a real discount rate of 0.5%.

2 Turnover

Turnover arises in the course of ordinary activities and principally comprise of transmission services through the interconnector by means of customers' use of capacity and volumes. This falls within the scope of IFRS 15 'Revenue from Contracts with Customers'. Revenue is measured based on the consideration specified in a contract with customers and excludes amounts collected on behalf of third parties and value added tax.

Turnover for the year ended 31 March 2020 is analysed as follows:

	2020	2019
	£'000	£'000
		(Re-presented)
Transmission turnover under IFRS 15	**84,826**	109,704
Non-IFRS 15 adjustment (note 1(h))	**(18,299)**	(12,191)
Total turnover from continuing operations	**66,527**	97,513

In the financial statements for the year ended 31 March 2019, the Non-IFRS 15 adjustment in note 2 was £20,648,000. This reflected the cumulative position rather than the profit and loss movement in the year and should have been £12,191,000 We have re-presented the comparatives as a result.

3 Operating profit

	2020 £'000	2019 £'000
Operating profit is stated after (crediting)/charging:		
Foreign exchange (gains)/losses	**(632)**	457
Amortisation of intangible fixed assets	**368**	24
Depreciation of property, plant and equipment:		
Owned assets	**5,874**	5,396
Leased assets	**53**	
Services provided by the Company's auditor		
Audit fees of the Company	**12**	12

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

4 Directors and employees

Directors' emoluments

	2020 £'000	2019 £'000
Aggregate emoluments	**246**	319

Post-employment benefits are accruing to 2 (2019: 2) Directors under a Group defined benefit scheme and 1 (2019: 1) Director under a defined contribution scheme.

During the year there were 4 (2019:4) 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.

Highest paid Director

The highest paid Director's emoluments were as follows:

	2020 £'000	2019 £'000
Total amount of emoluments and amounts receivable (excluding shares) under long term incentive schemes		
Group defined benefit pension scheme:	**169**	173
Accrued pension at end of year	**14**	30

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.

4 Directors and employees (continued)

Staff costs

	2020 £'000	2019 £'000
Wages and salaries	**1,779**	2,694
Social security costs	**156**	125
Defined contribution scheme pension costs	**112**	91
Defined benefit scheme pension costs	**170**	136
Share-based payments	**30**	30
	2,247	3,076

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

By activity	2020 No	2019 No
Administration	**28**	29

5 Interest receivable and similar income

	2020 £'000	2019 £'000
Interest receivable from immediate parent company	**1,195**	2,152
Net gains on derivative financial instruments from immediate parent company	**—**	2,167
Net gains on derivative financial instruments designated as cash flow hedges	**888**	—
	2,083	4,319

6 Interest payable and similar charges

	2020 £'000	2019 £'000
Interest payable to immediate parent company	**253**	—
Lease interest	**1**	—
Net losses on derivative financial instruments designated as cash flow hedges	**—**	1,426
Net losses on derivative financial instruments from immediate parent company	**92**	—
	346	1,426

7 Tax

Tax charged to the profit and loss account

	2020 £'000	2019 £'000
Current tax:		
UK corporation tax	**11,772**	12,305
Adjustments in respect of prior years (i)	**(127)**	311
Total current tax	**11,645**	12,616
Deferred tax:		
Origination and reversal of timing differences	**117**	255
Impact of change in tax rate	**1,419**	—
Adjustments in respect of prior years	**(681)**	(107)
Total deferred tax	**855**	148
Tax charge in the profit and loss account	**12,500**	12,764

Tax charged to equity

Deferred tax charged on revaluation of cash flow hedges	(290)	193

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

The tax charge for the year is higher (2019: higher) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £'000	2019 £'000
Profit before tax	**62,301**	65,978
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	**11,837**	12,536
Effect of:		
Expenses not deductible for tax purposes	**46**	35
Impact of share-based payments	**6**	6
Impact of change in UK tax rate	**1,419**	(17)
Other	**—**	—
Adjustments in respect of prior years	**(808)**	204
Total tax charge in the profit and loss account	**12,500**	12,764

7 Tax (continued)

Factors that may affect future tax charges

On 17 March 2020, the UK government utilised the Provisional Collection of Taxes Act 1968 to substantively enact a reversal of the reduction in the main UK corporation tax rate to 17% with effect from 1 April 2020. The main UK corporation tax rate therefore remains at 19%. 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. Governments across the world including the UK have introduced various stimulus/reliefs for businesses to cope with the impact of COVID 19 pandemic. The Directors will monitor as the details become available for any that may materially impact our future tax charges.

8 Intangible assets

	Goodwill £'000	Software £'000	Total £'000
Cost:			
At 1 April 2019	32,790	2,983	35,773
Additions	—	151	151
Reclassification	—	1,761	1,761
At 31 March 2020	32,790	4,895	37,685
Accumulated amortisation:			
At 1 April 2019	—	40	40
Amortisation charge for the year	—	368	368
At 31 March 2020	—	408	408
Net book value:			
At 31 March 2020	**32,790**	**4,487**	**37,277**
At 31 March 2019	32,790	2,943	35,733

The goodwill represents the purchase value of the assets acquired from National Grid Electricity Transmission plc, having been higher than the net book value of the acquired assets. During the year the software additions relate mainly to the nomination platform.

9 Property, plant and equipment

	Freehold land and buildings £'000	Plant and machinery £'000	Assets in the course of construction £'000	Motor vehicles and office equipment £'000	Total £'000
Cost					
At 31 March 2019	7,023	127,422	54,479	1,975	190,899
Restatement	—	10,000	—	—	10,000
31 March 2019 (as restated)	7,023	137,422	54,479	1,975	200,899
Right-of-use assets recognised on transition to IFRS 16*	—	—	—	68	68
Additions	—	68	10,884	64	11,016
Disposals	—	—	—	(81)	(81)
Reclassifications	1,407	57,480	(60,716)	68	(1,761)
At 31 March 2020	8,430	194,970	4,647	2,094	210,141
Accumulated depreciation					
At 1 April 2019	2,496	41,863	—	1,764	46,123
Depreciation charge for the year	240	5,507	—	180	5,927
Disposals	—	(75)	—	(7)	(82)
At 31 March 2020	2,736	47,295	—	1,937	51,968
Net book value:					
At 31 March 2020	**5,694**	**147,675**	**4,647**	**157**	**158,173**
At 31 March 2019 (as restated)	4,527	95,559	54,479	211	154,776

During the year assets under construction additions are being driven by the asset refurbishment project and a change in estimate of the costs for legal obligations in relation to the retirement of the interconnector assets.

* £68,000 of additional right-of-use assets were recognised on transition to IFRS 16 on 1 April 2019 (see note 20 for further details). Included within the net book value of property, plant and equipment at 31 March 2020 are right-of-use assets, split as follows:

	Motor vehicles and office equipment £'000	Total £'000
Net book value at 31 March 2020	**73**	**73**
Additions	**64**	**64**
Disposals	**(13)**	**(13)**
Depreciation charge for year	**46**	**46**

The associated lease liabilities are disclosed in note 14.

10 Debtors (amounts falling due within one year)

	2020 £'000	2019 £'000
Trade debtors	**1,312**	8,101
Amounts owed by fellow subsidiary undertakings	**4,314**	674
Amounts owed by immediate parent company (i)	**440**	243,535
Other tax and social security	**423**	395
Other debtors	**32,104**	22,391
Restricted cash	**11,129**	11,436
Prepayments and accrued income	**6,069**	10,485
	55,791	297,017

(i) Included within amounts owed by immediate parent company are intercompany derivative balances with a fair value of £440,000 (2019: £1,805,000). The net notional principal of these contracts was £5,466,000 (2019: £40,127,000) with a net foreign exchange exposure of £5,466,000 (2019: £40,127,000). 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. Where intercompany loans are interest-bearing interest is charged at rates determined by Treasury. For impairment assessment purposes, 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 and as such the expected credit loss for the year is £nil.

11 Creditors (amounts falling due within one year)

	2020 £'000	2019 £'000
Borrowings (note 14)	**42**	33
Trade creditors	**1,927**	6,828
Amounts owed to fellow subsidiary undertakings	**18,181**	6,561
Amounts owed to immediate parent company (i)	**32,541**	12,617
Other tax and social security	**14**	15
Other creditors	**193**	787
Contract liabilities	**3,121**	—
Accruals and deferred income (ii)	**31,003**	30,192
	87,022	57,033

(i) Included within amounts owed to immediate parent company are intercompany derivative balances with a fair value of £287,000 (2019: £2,000). The net notional principal of these contracts was £19,446,000 (2019: £853,000) with a net foreign exchange exposure of £19,446,000 (2019: £853,000). The future expected cash flows from these derivatives were affected by changes in the EUR/GBP exchange rate. The contracts had fixed settlement dates.

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 Group Treasury.

11 Creditors (amounts falling due within one year) (continued)

(ii) Included within accruals and deferred income is an amount of £15,071,000 (2019: £8,377,000) which relates to excess profits due to be returned under IFA's Use of Revenues framework (refer to note 1(h)).

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

	2020 £'000	2019 £'000
Borrowings (note 14)	**22**	—
Accruals and deferred income (i)	**18,291**	12,271
	18,313	12,271

(i) Included within accruals and deferred income is an amount of £18,291,000 (2019: £12,271,000) which relates to excess profits due to be returned under IFA's Use of Revenues framework (refer to note 1(h)).

13 Provisions for liabilities

	Decommissioning £'000	Deferred taxation £'000	Total £'000
At 31 March 2019	—	12,302	12,302
Restatement	10,000	—	10,000
At 31 March 2019 (as restated)	10,000	12,302	22,302
Charged to the profit and loss account	—	855	855
Charged to the statement of other comprehensive income and equity	—	(290)	(290)
At 31 March 2020	**10,000**	**12,867**	**22,867**

(i) The decommissioning provision is based on a current cost estimate of £12,048,000. Because the expenditure would not occur until 2058 the cost is discounted using a real risk free rate of 0.5%. A 10% increase in expected costs would increase the decommissioning provision by approximately £1,000,000.

13 Provisions for liabilities (continued)

Deferred tax:

	2020 £'000	2019 £'000
Accelerated capital allowances	**13,113**	12,109
Other short term timing differences	**(246)**	193
Deferred tax liability	**12,867**	12,302

	2020 £'000	2019 £'000
Deferred tax liability at 1 April	**12,302**	11,961
Credited to the profit and loss account	**855**	148
Charged to the statement of other comprehensive income and equity	**(290)**	193
Deferred tax liability at 31 March	**12,867**	12,302

There are no other significant unrecognised deferred tax assets or liabilities (2019: £0).

14 Borrowings

	2020 £'000	2019 £'000
Amounts falling due within one year		
Bank overdrafts	—	33
Lease liabilities	**42**	—
	42	33
Amounts falling due after more than one year		
Lease liabilities	**22**	—
	22	—

The notional amount of borrowings outstanding as at 31 March 2020 was £64,000 (2019: £33,000).

14 Borrowings (continued)

Lease liabilities

	2020 £'000	2019 £'000
Gross lease liabilities are repayable as follows:		
Less than 1 year	43	—
1 to 5 years	22	—
	65	—
Less: finance charges allocated to future periods	(1)	—
	64	—

	2020 £'000	2019 £'000
The present value of lease liabilities are as follows:		
Less than 1 year	42	—
1 to 5 years	22	—
	64	—

15 Share capital

	2020 £'000	2019 £'000
Allotted, called up and fully paid		
31,938,500 (2019: 31,938,500) ordinary shares of £1 each	31,938	31,938

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

16 Equity dividends

	2020 £'000	2019 £'000
Equity - ordinary		
Final paid: 1002p (2019: 0p) per £1 share	320,000	—
	320,000	—

17 Capital and other commitments

	2020 £'000	2019 £'000
Contracts placed for future capital expenditure not provided for in the financial statements	**9,656**	7,540

18 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.

19 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 at the registered office below.

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

20 Transition to IFRS 16

The Company has adopted IFRS 16 'Leases', with effect from 1 April 2019. IFRS 16 introduces a single lease accounting model for lessees (rather than the current distinction between operating and finance leases). A contract is, or contains, a lease, if it provides the right to control the use of an identified asset for a specific period of time in exchange for consideration. The new standard results in operating leases being accounted for in the balance sheet as 'right-of-use' assets with corresponding lease liabilities also recognised. It therefore increases both our assets and liabilities. It also changes the timing and presentation in the profit and loss account as it results in an increase in finance costs and depreciation largely offset by a reduction in the previously straight-line operating costs.

Transition options

The Company has applied IFRS 16 using the modified retrospective approach. Comparatives have not been restated on adoption. Instead, on the opening balance sheet date, right-of-use assets (net of accrued rent or rent free periods, and reported within property, plant and equipment), additional lease liabilities and any associated deferred tax have been recognised, with no adjustment to retained profit and loss account reserve. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), the Company continues to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

The Company has elected to apply the practical expedient to grandfather our previous assessments of whether contracts were previously accounted for as a lease, as permitted by the standard, instead of reassessing all significant contracts as at the date of initial application to determine whether they met the IFRS 16 definition of a lease.

The Company has elected to apply the practical expedient on transition, which permits right-of-use assets to be measured at an amount equal to the lease liability on adoption of the standard (adjusted for any prepaid or accrued lease expenses).

20 Transition to IFRS 16 (continued)

In addition, the Company has also elected the option to adjust the carrying amounts of the right-of-use assets as at 1 April 2019 for any onerous lease provisions that had been recognised on the balance sheet as at 31 March 2019, rather than performing impairment assessments on transition.

Impact of transition

At 1 April 2019, the Company disclosed non-cancellable operating lease commitments of £nil. A further £69,000 of lease liabilities were recognised due to the requirement in IFRS 16 to recognise lease liabilities for the term that we are reasonably certain to exercise lease extension or lease termination options for, rather than only for the period of the minimum contractual term that was used in determining our lease liability commitments. This was partially offset by the £1,000 impact of discounting our lease liabilities at the incremental borrowing rate for each lease. The weighted average discount rate applied to lease liabilities recognised on the transition date was 1.14%. There were some immaterial short term and low value leases, which will be recognised on a straight-line basis as an expense in the consolidated income statement over the remaining lease term.

As a result, the Company has recognised additional right-of-use assets of £68,000 and lease liabilities of £68,000 at 1 April 2019. No additional net deferred tax has arisen. There is no impact on net assets as shown in the table below, which shows the impacted balances on the Company balance sheet.

	31 March 2019 as previously reported £'000	IFRS 16 transition adjustment £'000	1 April 2019 as restated £'000
Property, plant and equipment			
Land and buildings	4,527	—	**4,527**
Plant and machinery	85,559	—	**85,559**
Assets in the course of construction	54,479	—	**54,479**
Motor vehicles and office equipment	211	68	**279**
Total property, plant and equipment	**144,776**	**68**	**144,844**
Lease liabilities			
Current	—	46	**46**
Non-current	—	22	**22**
Total lease liabilities	**—**	**68**	**68**
Other liabilities			
Trade and other payables	—	—	—
Other non-current liabilities	—	—	—
Net assets	**395,920**	**—**	**395,920**
Equity	**395,920**	**—**	**395,920**

20 Transition to IFRS 16 (continued)

The impact of IFRS 16 on profit after tax as a result of adopting the new standard is not material. However, it has resulted in an increase in operating profit due to the operating costs now being replaced with depreciation and interest charges.

Ongoing accounting policy

With effect from 1 April 2019, new lease arrangements entered into are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. The right of use asset and associated lease liability arising from a lease are initially measured at the present value of the lease payments expected over the lease term. The discount rate applied is the rate implicit in the lease or if that is not available, then the incremental rate of borrowing for a similar term.

The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not to exercise the option.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), the Company continues to recognise a lease expense on a straight-line basis.

21 Events after the reporting period

In the period since year end to the date of signing of these financial statements there have continued to be substantial economic and social changes in the UK as a result of the ongoing pandemic of coronavirus disease (COVID-19). These changes and risks are being actively managed by the Directors of the Company and none of these developments have impacted or caused adjustment to these financial statements.