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**National Grid International Limited**

**Directors' Report**

**and Financial Statements**

**For the year ended 31 March 2012**

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# **National Grid International Limited**

## **Directors' Report**

### **For the year ended 31 March 2012**

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2012

#### **Principal activities**

The Company's principal activity during the year was acting as an investment holding company. The Company holds investments in other National Grid plc subsidiary companies and obtains and provides finance to fellow subsidiary companies via inter company balances.

#### **Business review**

During the year the Company has made a further investment of £8,579,000 in its joint venture investment, Britned Development Limited, to provide additional funding in that company and £15,706,000 in its subsidiary, National Grid Zambia Limited following a call on its partly paid shares. Both these investments were funded by inter company movements.

The Directors have also reviewed the carrying value of the previously impaired investments in National Grid Seven Limited and National Grid Indus BV and following a decrease in net assets of those companies the Directors considered it appropriate to charge £1,632,000 (2011 £7,156,000 credit) and £1,339,000 (2011 £1,513,000) respectively to the profit and loss account.

There have been no further significant changes in the Company's inter company balances.

Results, as detailed below, largely depend on fixed asset investment impairments and interest costs incurred.

#### **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 Operating and Financial Review included in National Grid plc's Annual Report and Accounts 2011/12, which does not form part of this report.

#### **Future developments**

The Directors believe the current level of trading activity as reported in the profit and loss account will continue in the foreseeable future with no anticipated significant balance sheet movements.

#### **Results and dividends**

The Company's loss for the financial year was £19,731,000 (2011 £10,672,000).

The Directors do not recommend the payment of a dividend (2011 £nil).

#### **Financial position**

The financial position of the Company is presented in the balance sheet. Total shareholders' deficit at 31 March 2012 was £604,716,000 (2011 £584,985,000) comprising fixed asset investments of £1,022,435,000 (2011 £1,046,221,000) less net current liabilities of £1,627,151,000 (2011 £1,631,206,000).

## **National Grid International Limited**

### **Directors' Report (continued)**

**For the year ended 31 March 2012**

#### **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 and foreign currency risks. These risks are monitored through a National Grid Treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for National Grid plc and its subsidiaries.

Treasury also seeks to limit third party counter-party 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 counter party 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 new share issues and inter company balances to ensure that the Company has sufficient long-term and short-term funds available for current operations and future activities.

#### **Credit risk**

No material exposure is considered to exist in respect of inter company loans.

#### **Interest rate cash flow risk**

The Company has both interest bearing intercompany receivables and interest bearing inter company payables. To the extent that the Company enters into inter company loan agreements, the Company's exposure to cash flow interest rate risk arises on such loans on which interest is based upon sterling and Euro LIBOR.

#### **Foreign currency risk**

To the extent that the Company enters into inter company loan and derivative agreements 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 inter company loan agreements 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 2012 the fair value of these derivative financial instruments resulted in an asset of £483,000 (2011 £1,320,000 liability) which has been reflected in amounts owed by fellow subsidiary undertakings (2011 amounts owed to fellow subsidiary undertakings).

As at 31 March 2012 the net notional principal of contracts was £184,373,000 (2011 £192,159,000) with a net foreign exchange exposure of £184,373,000 (2011 £192,159,000). The future expected cash flows from these derivatives are affected by changes in the Euro/GBP exchange rate. The contracts have fixed settlement dates.

## **National Grid International Limited**

### **Directors' Report (continued)**

**For the year ended 31 March 2012**

#### **Directors**

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

A J Agg  
D C Bonar (Appointed 1 March 2012)  
J G Cochrane  
M C Cooper  
M A D Flawn  
S J Holliday  
G Holroyd (Resigned 1 March 2012)  
A M Lewis  
M J Sellars  
C J Waters

#### **Statement of Directors' responsibilities**

The Directors are responsible for preparing the Directors' 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). 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 those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and 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.

#### **Directors' indemnities and insurance**

National Grid plc indemnifies officers of subsidiary companies against liabilities arising from the conduct of National Grid's business, to the extent permitted by law, by the placing of Directors' and Officers' insurance. The insurance indemnifies individual Directors' and Officers' personal legal liability and cost for claims arising out of actions taken in connection with the business of National Grid plc and its subsidiaries.

# **National Grid International Limited**

## **Directors' Report (continued)**

**For the year ended 31 March 2012**

### **Going concern**

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

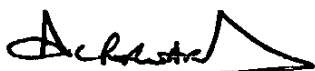
As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Company is expected to continue to be in a position to obtain finance via inter company loans to continue to operate for the foreseeable future. In addition, as indicated in note 14 to the financial statements, a fellow subsidiary undertaking, National Grid Holdings One plc, has confirmed its intention to support the Company. The Directors have no reason to doubt this continued support.

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

### **Disclosure of information to auditors**

Having made the requisite enquiries, so far as the Directors in office at the date of the signing 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.

Approved by the Board and signed on its behalf by



**D C Forward**  
Secretary  
5 September 2012

**Registered office:**  
1-3 Strand  
London  
WC2N 5EH

**Registered in England and Wales**  
**Company registration number: 2537092**

## **Independent auditors' report to the members of**

### **National Grid International Limited**

We have audited the financial statements of National Grid International Limited for the year ended 31 March 2012 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

#### **Respective responsibilities of Directors and auditors**

As explained more fully in the statement of Directors' responsibilities set out in the Directors' Report the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.



**Stephen Snook (Senior Statutory Auditor)**  
**For and on behalf of PricewaterhouseCoopers LLP**  
Chartered Accountants and Statutory Auditors  
Birmingham  
5 September 2012

**National Grid International Limited**

**Profit and loss account**

**For the years ended 31 March**

	Notes	2012 £'000	2011 £'000
Operating (charges)/income		(3)	2
<b>Operating (loss)/profit</b>	2	<u>(3)</u>	<u>2</u>
Amount (charged)/released from impairment of fixed asset investments	7	(2,971)	5,643
Interest receivable and similar income	4	1,108	1,066
Interest payable and similar charges	5	(24,083)	(18,943)
<b>Loss on ordinary activities before taxation</b>		<u>(25,949)</u>	<u>(12,232)</u>
Tax on loss on ordinary activities	6	6,218	1,560
<b>Loss for the financial year transferred from reserves</b>	11	<u>(19,731)</u>	<u>(10,672)</u>

The results reported above relate to continuing activities

**National Grid International Limited**  
**Statement of total recognised gains and losses**  
**For the years ended 31 March**

	Notes	2012 £'000	2011 £'000
Loss for the financial year after taxation		(19,731)	(10,672)
Losses taken to equity in respect of cash flow hedges (net of tax)	12	-	(228)
<b>Total recognised gains and losses for the year</b>		<b><u>(19,731)</u></b>	<b><u>(10,900)</u></b>

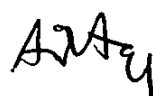
# National Grid International Limited

## Balance sheet

As at 31 March

	Notes	2012 £'000	2011 £'000
<b>Fixed asset investments</b>	7	<b>1,022,435</b>	1,046,221
<b>Current assets</b>			
Debtors amounts falling due within one year	8	135,103	118,207
Debtors amounts falling due after one year	8	2	3
Cash at bank and in hand		102	130
		<b>135,207</b>	118,340
<b>Creditors: amounts falling due within one year</b>	9	<b>(1,762,358)</b>	(1,749,546)
<b>Net current liabilities</b>		<b>(1,627,151)</b>	(1,631,206)
<b>Total assets less current liabilities</b>		<b>(604,716)</b>	(584,985)
<b>Net liabilities</b>		<b>(604,716)</b>	(584,985)
<b>Capital and reserves</b>			
Called up share capital	10	83,600	83,600
Share premium account	11	10,376	10,376
Profit and loss account	11	(698,692)	(678,961)
<b>Total shareholders' deficit</b>	12	<b>(604,716)</b>	(584,985)

The financial statements on pages 6 to 17 were approved by the Board of Directors on 5 September 2012 and signed on its behalf by



**A J Agg**  
Director

# **National Grid International Limited**

## **Notes to the financial statements**

**For the year ended 31 March 2012**

### **1 Accounting policies**

#### **(a) Basis of preparation**

These financial statements have been prepared on the going concern basis in accordance with applicable UK accounting and financial reporting standards (FRS) and the Companies Act 2006. These financial statements have been prepared using the historical cost convention, except for the revaluation of financial instruments, and in accordance with the consistently applied accounting policies set out below. There have been no changes to accounting policies during the year.

These financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates.

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 accounts of National Grid plc.

The Company is a wholly owned subsidiary within a group headed by National Grid plc and is included in the consolidated financial statements of that company which are publicly available. Consequently the Company has taken advantage of the exemption within FRS 1 (revised 1996) 'Cash flow statements' from preparing a cash flow statement.

Further, in accordance with exemptions under FRS 29 'Financial Instruments: Disclosures', the Company has not presented the financial instruments disclosures required by the standard, as disclosures that comply with the standard are included in the consolidated financial statements of National Grid plc.

#### **(b) Fixed asset investments**

Investments held as fixed assets are stated at cost less any provisions for impairment. Cost 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) Taxation**

Current tax for the current and prior periods is provided at the amount expected to be paid (or recovered) using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax is recognised in respect of retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in the future has been entered into by the subsidiary or an associate.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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## **National Grid International Limited**

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

**For the year ended 31 March 2012**

#### **1 Accounting policies (continued)**

##### **(d) Foreign currencies**

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.

##### **(e) Financial instruments**

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences 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 and the balance recorded in the share premium account.

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. 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 losses when the loans are impaired, is recognised using the effective interest method in the profit and loss account.

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 recorded at fair value, and where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a 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. Gains and losses arising from changes in fair value are included in the profit and loss account in the period they arise.

The fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for issued liabilities. When independent prices are not available, fair values are determined by using valuation techniques which are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

**National Grid International Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 31 March 2012**

**1 Accounting policies (continued)**

**(f) Hedge accounting**

The Company enters into derivatives 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 include currency swaps and forward foreign currency contracts.

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the profit and loss account. The Company uses the following accounting method:

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 item, 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.

In the year ended 31 March 2011 the Company also used the following accounting method:

Changes in the carrying value of financial instruments that were designated and effective as hedges of future cash flows ('cash flow hedges') were recognised directly in equity and any ineffective portion was recognised immediately in the profit and loss account. Amounts deferred in equity in respect of cash flow hedges were subsequently recognised in the profit and loss account in the same period in which the hedged item affected net profit or loss. Where a non-financial asset or liability results from a forecasted transaction the amounts deferred in equity were included in the initial measurement of that non-monetary asset or liability.

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. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the profit and loss account in the same periods in which the previously hedged item affects net profit or loss. 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.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the profit and loss account immediately.

**2 Operating (loss)/profit**

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
<b>Operating (loss)/profit is stated after (crediting)/charging:</b>		
Foreign exchange gains	-	(29)
Audit fees of subsidiaries	-	5

Audit fees for the year of £5,000 (2011 £4,000) have been borne by a fellow subsidiary undertaking and not recharged.

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

# National Grid International Limited

## Notes to the financial statements (continued)

**For the year ended 31 March 2012**

### 3 Directors and employees

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements. During the year there were seven Directors (2011: one) who exercised share options in the ordinary shares of the ultimate parent company, National Grid plc.

There were no employees of the Company during the year (2011: none).

### 4 Interest receivable and similar income

	2012 £'000	2011 £'000
Interest receivable from a subsidiary undertaking*	1,057	893
Interest receivable from fellow subsidiary undertakings*	51	35
Net gains on derivatives designated as fair value hedges (see below)	-	138
	<u>1,108</u>	<u>1,066</u>

\* Interest receivable from a subsidiary undertaking has been separately presented in the current year, comparatives have been adjusted accordingly.

### 5 Interest payable and similar charges

	2012 £'000	2011 £'000
Interest payable to subsidiary undertakings*	14,194	12,054
Interest payable to fellow subsidiary undertakings*	4,308	6,447
Interest payable to immediate parent company*	4,896	387
Exchange losses on revaluation of foreign currency denominated loans with a fellow subsidiary undertaking	95	12
Net losses on derivatives designated as fair value hedges (see below)	590	-
Net losses on derivatives designated as cash flow hedges (see below)	-	43
	<u>24,083</u>	<u>18,943</u>

\* Interest payable to subsidiary undertakings and immediate parent company have been separately presented in the current year, comparatives have been adjusted accordingly.

Net losses/(gains) on derivatives designated as fair value hedges

	2012 £'000	2011 £'000
Derivative (gains)/losses	(10,401)	1,670
Fair value hedge accounting adjustments	10,991	(1,808)
	<u>590</u>	<u>(138)</u>

**National Grid International Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 31 March 2012**

**5 Interest payable and similar charges (continued)**

Net losses on derivatives designated as cash flow hedges

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
Derivative losses	-	2,012
Cash flow hedge accounting adjustments	-	(1,969)
	<u>-</u>	<u>43</u>

**6 Tax on loss on ordinary activities**

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
<b>Current tax:</b>		
UK corporation tax	<b>(5,383)</b>	(3,496)
Adjustments in respect of prior periods	<b>(836)</b>	1,935
Total current tax	<u><b>(6,219)</b></u>	<u>(1,561)</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	<u>1</u>	<u>1</u>
Total deferred tax	<u>1</u>	<u>1</u>
<b>Tax credit on loss on ordinary activities</b>	<u><b>(6,218)</b></u>	<u>(1,560)</u>

The tax credit for the year is lower than the standard rate of corporation tax in the UK of 26% (2011 28%). The differences are explained below

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
Loss on ordinary activities before taxation	<u><b>(25,949)</b></u>	<u>(12,232)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 26% (2011 28%)	<b>(6,747)</b>	(3,425)
Effect of		
Non-taxable income	-	(1,580)
Expenses not deductible for tax purposes	<b>773</b>	5
Taxation on transfer pricing adjustments	<b>592</b>	1,505
Capital allowance for period in excess of depreciation	<b>(1)</b>	(1)
Adjustments in respect of prior periods	<b>(836)</b>	1,935
<b>Total current tax credit for the year</b>	<u><b>(6,219)</b></u>	<u>(1,561)</u>

**National Grid International Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 31 March 2012**

**6 Tax on loss on ordinary activities (continued)**

**Factors affecting current and future tax charges**

A reduction in the corporation tax rate to 24% from April 2012 was announced in the 2012 UK Budget Report and has been enacted in Finance Act 2012. This had been substantively enacted at the balance sheet date and, as such, deferred tax balances have been calculated at this rate.

Other changes such as the reduction in the UK corporation tax rate to 23% from April 2013, with a further 1% reduction in the following year will result in a corporation tax rate of 22% from April 2014. Although the reduction in the UK corporation tax rate to 23% from April 2013 has now been enacted, none of these rate changes had been substantively enacted as at the balance sheet date and have therefore not been reflected in these financial statements.

The lengthy process for reforming the UK's rules for taxing controlled foreign companies completed with the issue of draft legislation in the Finance Bill 2012. This has now been enacted in Finance Act 2012 and we do not expect any material adverse impact of this legislation on our holdings in foreign operations.

**7 Fixed asset investments**

	Shares in subsidiary undertakings £'000	Shares in joint venture £'000	Total £'000
<b>Cost:</b>			
At 1 April 2011	1,267,849	239,999	1,507,848
Additions	15,706	8,579	24,285
Disposals	(34,445)	-	(34,445)
Fair value hedge accounting adjustments	-	(10,991)	(10,991)
At 31 March 2012	1,249,110	237,587	1,486,697
<b>Provision:</b>			
At 1 April 2011	461,627	-	461,627
Disposals	(336)	-	(336)
Charged to the profit and loss account	2,971	-	2,971
At 31 March 2012	464,262	-	464,262
<b>Net book value:</b>			
At 31 March 2012	<b>784,848</b>	<b>237,587</b>	<b>1,022,435</b>
At 31 March 2011	806,222	239,999	1,046,221

## National Grid International Limited

### Notes to the financial statements (continued)

For the year ended 31 March 2012

#### 7 Fixed asset investments (continued)

As previously reported, in the prior year the Company made further investments in the ordinary share capital of its joint venture BritNed Development Limited amounting to £104,069,000. During the current year, on 1 December 2011, the Company made a further investment of £8,579,000 to provide additional funding in that company. In addition, on 15 March 2012, the Company made a further investment of £15,706,000 in its subsidiary National Grid Zambia Limited representing a call on its partly paid shares.

One of the Company's subsidiaries, The Electricity Transmission Company Limited, has been officially dissolved and this has been reflected as a disposal during the current year. At the same time the offsetting inter company loan owed to this subsidiary was released.

The Directors have also reviewed the carrying value of the previously impaired investments in National Grid Seven Limited and National Grid Indus BV and following a decrease in net assets of those companies the Directors considered it appropriate to charge £1,632,000 (2011: £7,156,000 credit) and £1,339,000 (2011: £1,513,000) respectively to the profit and loss account. Net assets of National Grid Seven Limited have decreased following an impairment in an overseas subsidiary which has inter company receivables and other net monetary assets denominated in Euros. In order to calculate the net realisable value these assets are retranslated at the year end exchange rate with any difference charged or credited to the profit and loss account. Net assets of National Grid Indus BV have decreased following additional overseas tax provisions related to prior years.

The Company's principal subsidiary undertakings as at 31 March 2012 were as follows:

Name of subsidiary	% Holding	Principal activity
National Grid Indus BV	100	Investment holding company
National Grid Overseas Limited	100	Investment holding company
National Grid Seven Limited	100	Investment holding company
National Grid Zambia Limited	100	Investment holding company

The above subsidiaries are registered in England and Wales with the exception of National Grid Indus BV which is incorporated in The Netherlands.

BritNed Development Limited, a Company registered in England and Wales is a 50% joint venture, whose principal activity is the provision of an interconnector between the UK and The Netherlands.

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

#### 8 Debtors

	2012 £'000	2011 £'000
<b>Amounts falling due within one year:</b>		
Amounts owed by subsidiary undertakings*	95,060	93,989
Amounts owed by fellow subsidiary undertakings*	40,043	24,218
	<b>135,103</b>	<b>118,207</b>

\* Amount owed by subsidiary undertakings has been separately presented in the current year, comparatives have been adjusted accordingly.

**National Grid International Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 31 March 2012**

**8 Debtors (continued)**

	2012 £'000	2011 £'000
<b>Amounts falling due after more than one year</b>		
<b>Deferred tax</b>		
Accelerated capital allowances	<u>2</u>	<u>3</u>
	2012 £'000	2011 £'000
Deferred tax asset/(liability) at 1 April	3	(84)
Charged to profit and loss account	(1)	(1)
Credited to equity	-	88
Deferred tax asset at 31 March	<u>2</u>	<u>3</u>

**9 Creditors: amounts falling due within one year**

	2012 £'000	2011 £'000
Amounts owed to subsidiary undertakings*	1,078,806	1,098,720
Amounts owed to fellow subsidiary undertakings*	409,166	397,037
Amounts owed to immediate parent company*	273,761	253,159
Other creditors	625	630
	<u>1,762,358</u>	<u>1,749,546</u>

\* Amount owed to subsidiary undertakings and immediate parent company have been separately presented in the current year, comparatives have been adjusted accordingly

**10 Called up share capital**

	2012 £'000	2011 £'000
<b>Allotted, called up and fully paid</b>		
83,600,100 ordinary shares of £1 each	<u>83,600</u>	<u>83,600</u>

**11 Reserves**

	Share premium account £'000	Profit and loss account £'000
At 1 April 2011	10,376	(678,961)
Loss for the financial year	-	(19,731)
<b>At 31 March 2012</b>	<u>10,376</u>	<u>(698,692)</u>

**National Grid International Limited**  
**Notes to the financial statements (continued)**  
**For the year ended 31 March 2012**

**12 Reconciliation of movements in total shareholders' deficit**

	<b>2012</b> <b>£'000</b>	<b>2011</b> <b>£'000</b>
Loss for the financial year	<b>(19,731)</b>	(10,672)
Movement on cash flow hedge reserve (net of tax)	-	(228)
Net increase in shareholders' deficit	<b>(19,731)</b>	(10,900)
Opening shareholders' deficit	<b>(584,985)</b>	(574,085)
<b>Closing shareholders' deficit</b>	<b>(604,716)</b>	(584,985)

**13 Commitments and contingencies**

The Company has provided a bank guarantee in respect of tax liabilities to an overseas tax authority on behalf of one of its subsidiaries. The sterling equivalent of this guarantee at 31 March 2012 was £3,310,000 (2011 £3,345,000).

**14 Related party transactions, ultimate parent company and financial support**

The Company is exempt under the terms of FRS 8 'Related Party Disclosures' 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 companies where not all of the voting rights are held within the National Grid plc group of companies.

As disclosed in note 7 to the financial statements the Company holds an investment in a joint venture, BritNed Development Limited. The Company has not made or received any recharges of costs during the current or prior year.

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

An intermediate holding company, National Grid Holdings One plc, has confirmed its intention to ensure that the Company will be in a position to meet its liabilities for a period of not less than one year from the date of these financial statements.

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