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**NATIONAL GRID INTERNATIONAL LIMITED**

**DIRECTORS' REPORT**

**AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2010**

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# **NATIONAL GRID INTERNATIONAL LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 MARCH 2010**

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2010

#### **PRINCIPAL ACTIVITY**

The Company's principal activity during the year was acting as an investment holding company

#### **DEVELOPMENT AND PERFORMANCE DURING THE YEAR**

The Company holds investments in other National Grid plc subsidiary companies and obtains and provides finance to fellow subsidiary companies via inter company balances. During the year the Company's activities relating to the developing of new investment opportunities have been transferred to a fellow subsidiary undertaking giving a significant fall in operating costs. At the same time various balance sheet accruals no longer required have been released back to the profit and loss account resulting in an overall operating income for the year.

Results, as detailed below, largely depend on investment and operating income offset by interest costs incurred. The Directors believe the current level of activity will continue in the foreseeable future.

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 2009/10, which does not form part of this report.

#### **RESULTS AND DIVIDENDS**

The loss for the year after taxation was £12,562,000 (2009 £52,193,000). The Directors do not recommend the payment of a dividend (2009 £nil).

#### **FINANCIAL POSITION**

The financial position of the Company is presented in the balance sheet. Shareholders' deficit at 31 March 2010 was £574,085,000 (2009 £561,751,000) comprising fixed asset investments of £932,732,000 (2009 £875,772,000) less net current liabilities of £1,506,733,000 (2009: £1,437,523,000) less provisions for liabilities and charges of £84,000 (2009 £nil).

#### **FINANCIAL RISK MANAGEMENT**

The management of the Company and the execution of the Company's strategy are subject to a number of risks. The Directors have identified the need to manage the Company's material financial risks, including liquidity, credit, interest rate and foreign exchange 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.

# **NATIONAL GRID INTERNATIONAL LIMITED**

## **DIRECTORS' REPORT (continued)**

### **FOR THE YEAR ENDED 31 MARCH 2010**

#### **FINANCIAL RISK MANAGEMENT (continued)**

Treasury also seeks to limit counter-party risk by conducting most of its banking and dealing activities with a limited number of major international banks, whose status is kept under review

#### **LIQUIDITY RISK**

The Company finances its operations through a combination of new share issues and inter company loans

#### **CREDIT RISK**

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

#### **INTEREST RATE RISK**

To the extent that the Company enters into inter company loan agreements, the Company's exposure to interest rate risk arises on such loans on which interest is based upon sterling LIBOR. The Company does not participate in interest rate hedging

#### **FOREIGN EXCHANGE 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

#### **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 2010 the net notional principal of contracts was £66,136,000 (2009 £63,618,000) with a net foreign exchange exposure of £66,136,000 (2009 £63,618,000). The future expected cash flows from these derivatives are affected by changes in the Euro/GBP exchange rate. The contracts have fixed settlement dates

#### **POST BALANCE SHEET EVENTS**

Subsequent to the year end, during April, June and August 2010 the Company has made further investments in its joint venture investment, BritNed Development Limited, totalling £40,514,000.

# **NATIONAL GRID INTERNATIONAL LIMITED**

## **DIRECTORS' REPORT (continued)**

### **FOR THE YEAR ENDED 31 MARCH 2010**

#### **DIRECTORS**

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

AJ Agg (Appointed 10 July 2009)  
JG Cochrane  
MC Cooper  
MAD Flawn  
SJ Holliday  
G Holroyd (Appointed full Director 10 July 2009, previously alternate to AM Lewis)  
AM Lewis  
SC Lucas  
SF Noonan (Resigned 10 July 2009)  
MJ Sellars (Appointed 10 July 2009)  
CJ 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, 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.

# **NATIONAL GRID INTERNATIONAL LIMITED**

## **DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 MARCH 2010**

### **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 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 generate positive cash flows or 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 13 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.

### **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.

### **AUDIT INFORMATION**

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.

### **ON BEHALF OF THE BOARD**

### **REGISTERED OFFICE**

1-3 STRAND  
LONDON  
WC2N 5EH



**DC Forward**  
Company Secretary  
28 September 2010

Registered in England and Wales  
No 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 ended 31 March 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses 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 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 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.

#### **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 2010 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.



Phil Harrold (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham  
28 September 2010

# NATIONAL GRID INTERNATIONAL LIMITED

## PROFIT AND LOSS ACCOUNT

### FOR THE YEARS ENDED 31 MARCH

	Notes	2010 £'000	2009 £'000
Operating income/(charges)	3	93	(3,338)
<b>Operating profit/(loss)</b>		<u>93</u>	<u>(3,338)</u>
Profit on sale of fixed asset investments		-	3
Amount (charged to)/released from impairment of fixed asset investments	7	(180)	13,187
Interest receivable and similar income	4	1,126	4,436
Interest payable and similar charges	5	(22,139)	(71,289)
<b>Loss on ordinary activities before taxation</b>		<u>(21,100)</u>	<u>(57,001)</u>
Tax on loss on ordinary activities	6	8,538	4,808
<b>Loss for the year transferred from reserves</b>	12	<u><b>(12,562)</b></u>	<u><b>(52,193)</b></u>

The results reported above relate to continuing activities

There are no material differences between the loss on ordinary activities before and after taxation for the financial years stated above and their historical cost equivalents

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

### FOR THE YEARS ENDED 31 MARCH

	2010 £'000	2009 £'000
Loss for the financial year	(12,562)	(52,193)
Net gains recognised directly in equity in respect of cash flow hedges (net of tax)	228	-
<b>Total recognised gains and losses for the year</b>	<u><b>(12,334)</b></u>	<u><b>(52,193)</b></u>

# NATIONAL GRID INTERNATIONAL LIMITED

## BALANCE SHEET

AT 31 MARCH

	Notes	2010 £'000	2009 £'000
<b>Fixed asset investments</b>	7	<u>932,732</u>	<u>875,772</u>
<b>Current assets</b>			
Debtors amounts falling due within one year	8	117,547	109,159
Cash at bank		<u>176</u>	<u>-</u>
		117,723	109,159
<b>Creditors: amounts falling due within one year</b>	9	(1,624,456)	(1,546,682)
<b>Net current liabilities</b>		<u>(1,506,733)</u>	<u>(1,437,523)</u>
<b>Total assets less current liabilities</b>		(574,001)	(561,751)
<b>Provision for liabilities and charges</b>	10	(84)	-
<b>Net liabilities</b>		<u>(574,085)</u>	<u>(561,751)</u>
<b>Capital and reserves</b>			
Called up share capital	11	83,600	83,600
Share premium account	12	10,376	10,376
Cash flow hedge reserve	12	228	-
Profit and loss account	12	(668,289)	(655,727)
<b>Shareholders' deficit</b>	13	<u>(574,085)</u>	<u>(561,751)</u>

The financial statements on pages 6 to 16 were approved by the Board of Directors on 28 September 2010 and signed on its behalf by



**MAD Flawn**  
Director



# **NATIONAL GRID INTERNATIONAL LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 MARCH 2010**

#### **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 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.

These financial statements are presented in pounds sterling because that 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 a wholly owned subsidiary of National Grid Five Limited and is included within the consolidated accounts of National Grid Holdings One plc.

The Company has taken the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash flow statements'. 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) Investments**

Investments held as fixed assets are stated at cost less any provisions for impairment. 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 all 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.

# **NATIONAL GRID INTERNATIONAL LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **FOR THE YEAR ENDED 31 MARCH 2010**

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

##### **(c) Taxation (continued)**

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

##### **(d) 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 rate 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 on an effective interest basis 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 rate 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 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 counter party, 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 2010**

**1 Accounting policies (continued)**

**(e) Hedge accounting and derivative financial instruments**

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

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

Firstly, changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ('cash flow hedges') are recognised directly in equity and any ineffective portion is recognised immediately in the profit and loss account. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss.

Secondly, changes in the carrying value of financial instruments that are designated as hedges of the changes in the fair value of assets or liabilities ('fair value hedges') are recognised in the profit and loss account. An offsetting amount is recorded as an adjustment to the carrying value of hedged items, with a corresponding entry in the profit and loss account, to the extent that the change is attributable to the risk being hedged and that the fair value hedge is effective.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. 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.

**NATIONAL GRID INTERNATIONAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2010**

**1 Accounting policies (continued)**

**(f) 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 exchange 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.

**2 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 nine Directors (2009: two) 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 (2009: none).

**3 Operating loss**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Operating loss is stated after charging		
Audit fees	13	5
Foreign exchange losses	<u>57</u>	<u>-</u>

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

**4 Interest receivable and similar income**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Interest receivable on external deposits	-	1
Interest receivable from fellow subsidiary undertakings	1,123	4,077
Exchange gains on revaluation of foreign currency denominated loans with fellow subsidiary undertakings	-	157
Net gains on derivatives designated as cash flow hedges	3	-
Net gains on derivatives designated as fair value hedges (see below)	<u>-</u>	<u>201</u>
	<u>1,126</u>	<u>4,436</u>
Derivative losses	-	(8,764)
Fair value hedge accounting adjustments	<u>-</u>	<u>8,965</u>
	<u>-</u>	<u>201</u>

# NATIONAL GRID INTERNATIONAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2010

#### 5 Interest payable and similar charges

	2010 £'000	2009 £'000
Interest payable to fellow subsidiary undertakings	21,947	71,287
External interest payable	-	2
Exchange losses on revaluation of foreign currency denominated loans with fellow subsidiary undertakings	80	-
Net losses on derivatives designated as fair value hedges (see below)	<u>112</u>	<u>-</u>
	<b><u>22,139</u></b>	<b><u>71,289</u></b>
Derivative gains	(2,311)	-
Fair value hedge accounting adjustments	<u>2,423</u>	<u>-</u>
	<b><u>112</u></b>	<b><u>-</u></b>

#### 6 Tax on loss on ordinary activities

	2010 £'000	2009 £'000
<b>Current tax:</b>		
UK corporation tax	(5,515)	(9,167)
Adjustments in respect of prior periods	<u>(3,019)</u>	<u>4,359</u>
Total current tax	<b><u>(8,534)</u></b>	<b><u>(4,808)</u></b>
<b>Deferred tax:</b>		
Adjustment in respect of prior periods	<u>(4)</u>	<u>-</u>
Total deferred tax	<b><u>(4)</u></b>	<b><u>-</u></b>
<b>Tax credit on loss on ordinary activities</b>	<b><u>(8,538)</u></b>	<b><u>(4,808)</u></b>

The tax credit for the year is higher (2009 lower) than the standard rate of corporation tax in the UK 28% (2009 28%) The differences are explained below

	2010 £'000	2009 £'000
Loss on ordinary activities before taxation	<u>(21,100)</u>	<u>(57,001)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009. 28%)	(5,908)	(15,960)
Effect of		
Taxation on transfer pricing adjustments	321	10,480
Non-taxable income	-	(3,693)
Expenses not deductible for tax purposes	72	6
Adjustments in respect of prior periods	<u>(3,019)</u>	<u>4,359</u>
<b>Total current tax credit for the year</b>	<b><u>(8,534)</u></b>	<b><u>(4,808)</u></b>

# NATIONAL GRID INTERNATIONAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2010

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

##### Factors that may affect future tax charges

A number of changes to the UK corporation tax system were announced in the 2010 Budget Report which have been enacted in the 2010 Finance Act. The impact of these changes is not considered to be material to the future tax charge in the UK.

Further changes were announced in the Emergency Coalition Budget on 22 June 2010. These included a reduction in the main corporation tax rate from the current 28% to 24% comprising a 1% per annum reduction over the course of a four year period commencing from 1 April 2011. We are in the process of evaluating the impact these changes will have on our future tax charges. On 27 July 2010 Finance (No 2) Act 2010 was enacted following Royal Assent and as such, the initial 1% main corporate tax rate reduction will first affect our deferred tax balances as at 31 March 2011.

There is currently ongoing consultation on the reform of the controlled foreign company legislation. The outcome of the consultation process will not be known for some time and we will monitor the impact of the taxation on our holdings in our overseas operations.

The worldwide debt cap, which restricts the amount of finance expense available for UK tax purposes, will apply for accounting periods ended 31 March 2011 onwards but is not expected to have a material effect on our future tax charge.

Furthermore a number of additional issues will also be the subject of future consultation such as a possible general anti-avoidance rule. We will monitor the impact of these proposals on our future tax charge.

#### 7 Fixed asset investments

	Shares in subsidiary undertakings £'000	Shares in joint venture £'000	Total £'000
<b>Cost:</b>			
At 1 April 2009	1,267,849	75,013	1,342,862
Additions	-	59,563	59,563
Fair value hedge accounting adjustments	-	(2,423)	(2,423)
At 31 March 2010	1,267,849	132,153	1,400,002
<b>Provision:</b>			
At 1 April 2009	467,090	-	467,090
Charged to the profit and loss account	180	-	180
At 31 March 2010	467,270	-	467,270
<b>Net book value:</b>			
At 31 March 2010	800,579	132,153	932,732
At 31 March 2009	800,759	75,013	875,772

# NATIONAL GRID INTERNATIONAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2010

#### 7 Fixed asset investments (continued)

During the year the Company made further investments in the ordinary share capital of a joint venture undertaking BritNed Development Limited amounting to £59,563,000

The Directors have also reviewed the carrying value of its previously impaired investments. Following an increase in the net assets of National Grid Seven Limited, as a result of an impairment release, the Directors consider it appropriate to release £445,000 back to the profit and loss account. Following a decrease in net assets of National Grid Indus BV, following trading losses, the Directors consider it appropriate to charge £625,000 to the profit and loss account.

The Company's principal subsidiary undertakings as at 31 March 2010 relate to shares in the following investment holding companies:

Name of subsidiary	Type of share	Country of incorporation
National Grid Indus BV	Ordinary	Netherlands
National Grid Overseas Limited	Ordinary	UK
National Grid Seven Limited	Ordinary	UK
National Grid Zambia Limited	Ordinary	UK
NGC Indus Limited	Ordinary	UK
The Electricity Transmission Company Limited	Ordinary	UK

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.

Subsequent to the year end, during April, June and August 2010 the Company has made further investments in its joint venture investment, BritNed Development Limited, totalling £40,514,000.

The Directors have reviewed the carrying value of the investments and believe that they are supported by their underlying net assets.

#### 8 Debtors

	2010 £'000	2009 £'000
Amounts owed by fellow subsidiary undertakings	116,894	109,030
Other debtors	13	129
	<u>117,547</u>	<u>109,159</u>

**NATIONAL GRID INTERNATIONAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2010**

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

	2010 £'000	2009 £'000
Bank overdraft	-	783
Amounts owed to fellow subsidiary undertakings	1,623,818	1,544,205
Other creditors	638	1,694
	<u>1,624,456</u>	<u>1,546,682</u>

**10 Provision for liabilities and charges**

	2010 £'000	2009 £'000
<b>Deferred tax</b>		
Accelerated capital allowances	(4)	-
Other short term timing differences	88	-
	<u>84</u>	<u>-</u>

	2010 £'000	2009 £'000
<b>Deferred tax</b>		
At 1 April 2009	-	-
(Credited) to profit and loss account	(4)	-
Charged to equity	88	-
At 31 March 2010	<u>84</u>	<u>-</u>

**11 Called up share capital**

	2010 £'000	2009 £'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>

**12 Reserves**

	Cash flow hedge reserve £'000	Share premium account £'000	Profit and loss account £'000
At 1 April 2009	-	10,376	(655,727)
Loss for the financial year	-	-	(12,562)
Transferred to equity in respect of cash flow hedges (net of tax)	228	-	-
At 31 March 2010	<u>228</u>	<u>10,376</u>	<u>(668,289)</u>



**NATIONAL GRID INTERNATIONAL LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2010**

**13 Reconciliation of movements in shareholders' deficit**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Loss for the financial year	(12,562)	(52,193)
Movement on cash flow hedge reserve (net of tax)	228	-
Net increase in shareholders' deficit	(12,334)	(52,193)
Opening shareholders' deficit	(561,751)	(509,558)
<b>Closing shareholders' deficit</b>	<b>(574,085)</b>	<b>(561,751)</b>

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

The Company is exempt from disclosing transactions with National Grid plc and its subsidiary undertakings where all of the voting rights are held within the group

As disclosed in note 7 to the financial statements the Company holds an investment in a joint venture, BritNed Development Limited. During the year ended 31 March 2009 the Company received recharges of costs from its joint venture amounting to £499,000 and owed £499,000 at 31 March 2009 in relation to these recharges. These transactions were in the normal course of business and on normal commercial terms. There were no such recharges in the year ended 31 March 2010.

The ultimate parent and controlling company is National Grid plc and the immediate parent company is National Grid Five Limited. The largest and smallest groups which include the Company and for which consolidated financial statements are prepared are headed by National Grid plc and National Grid Holdings One plc respectively. All 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.