

Company Registration Number: 3385525

National Grid Interconnectors Limited

Annual Report and Financial Statements

For the year ended 31 March 2023



National Grid Interconnectors Limited

Strategic Report

For the year ended 31 March 2023

The Directors present their Strategic Report on National Grid Interconnectors Limited ('the Company') for the year ended 31 March 2023.

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. Following the significant fire that occurred at the UK converter station in September 2021 resulting in extensive damage, re-build activity concluded in January 2023 with the asset returning to full capacity. The revenue losses and re-build costs we anticipate will largely be covered by insurance recovery, subject to policy limits. There were no other significant changes in the Company's investments or intercompany balances.

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

Results

The Company's profit for the year was £288,174,000 (2022: £34,270,000).

Financial position

The financial position of the Company is presented in the balance sheet. Total shareholders' equity at 31 March 2023 was £477,188,000 (2022: £206,820,000) comprising fixed assets of £441,961,000 (2022: £224,415,000); net current assets of £161,433,000 (2022: £34,618,000); less creditors: amounts falling due after more than one year of £89,353,000 (2022: £28,694,000) and provisions for liabilities of £36,853,000 (2022: £23,519,000).

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 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 2022/23, which does not form part of this report.

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 National Grid's 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.

National Grid Interconnectors Limited
Strategic Report (continued)
For the year ended 31 March 2023

Financial risk management (continued)

Liquidity risk

The Company finances its operations through a combination of retained profits 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 risk

The Company has one intercompany loan which can fluctuate between an asset and liability which exposes it to interest rate 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 Overnight Index Average (SONIA).

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 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 2023 the fair value of these derivative financial instruments resulted in an asset of £964,000 (2022: £499,000) which has been reflected in amounts owed by immediate parent company and a liability of £1,347,000 (2022: £46,000) which has been reflected in amounts owed to immediate parent company and amounts owed to fellow subsidiary undertakings. The net notional principal of contracts was £209,777,000 (2022: £68,584,000) with a net foreign exchange exposure of £209,777,000 (2022: £68,584,000). The future expected cash flows from these derivatives are affected by changes in the Euro/GBP exchange rate. The contracts have fixed settlement dates.

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 Directors believe that the high GB-France price differences of the last few years will return to more normal levels in future years which may lead to a gradual decline in the level of income as reported in the profit and loss account.

The IFA re-build programme is complete subject to full and final contract close-out. Since January 2023, the asset has returned to full capacity and is operating as expected.

National Grid Interconnectors Limited
Strategic Report (continued)
For the year ended 31 March 2023

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 2023. 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 no 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 pages 36 to 37 and 77 to 78 of the National Grid plc Annual Report and Accounts (available at: www.nationalgrid.com/investors).

Fostering business relationships with our customers and suppliers

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 and 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.

National Grid Interconnectors Limited
Strategic Report (continued)
For the year ended 31 March 2023

Section 172 (1) statement (continued)

The community and the environment (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 33 to 35 in the National Grid plc Annual Report and Accounts and in the National Grid plc Responsible Business Report.

Shareholders

The Board considers the long-term impact of corporate actions and decisions on our shareholders. During the year, the Company paid a dividend of £15,000,000. The Directors have recommended to the shareholder, a payment of a final dividend of £150,000,000.


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 page 68 (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:

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L Hagan
Company Secretary
13 September 2023

National Grid Interconnectors Limited
Directors' Report
For the year ended 31 March 2023

The Directors present their Report and the audited financial statements of the Company for the year ended 31 March 2023.

Future developments

Details of future developments have been included within the Strategic Report on page 3.

Principal risk and uncertainties

Details of principal risks and uncertainties have been included within the Strategic Report on page 1.

Financial risk management

Details of financial risk management have been included within the Strategic Report on page 1.

Dividends

During the year, the Company has paid a dividend of £15,000,000 (2022: £50,000,000). The Directors recommend payment of a final dividend in relation to the current financial year of £15,000,000 (2022: £15,000,000).

Directors

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

| | |
|------------|---|
| S K Lalli | (Appointed 21 July 2022, Resigned 1 September 2023) |
| N Medalova | (Resigned 1 April 2023) |
| M Pisarski | (Appointed 1 September 2023) |
| R Rome | (Appointed 1 May 2023) |
| P J Sandy | (Appointed 1 September 2023) |
| R Sedler | (Appointed 1 April 2022) |
| J A Taylor | (Resigned 21 July 2022) |

Directors' indemnity

National Grid has arranged, in accordance with the Companies Act 2006 and the Articles of Association, 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

These financial statements have been prepared on a going concern basis, which presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. As the Company is part of a larger group it participates in the Group's centralised treasury arrangements and so shares banking arrangements with its subsidiaries.

The Company is expected to generate positive cash flows in the next twelve months. In addition, the Directors expect to be in a position to draw on intercompany loans, should this liquidity be required for the Company to meet its future obligations as they fall due.

National Grid Interconnectors Limited
Directors' Report (continued)
For the year ended 31 March 2023

Events after the reporting period

The Directors have proposed a final dividend for the year ended 31 March 2023 of 166.67p per share that is a total of £150,000,000.

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 2023 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.

National Grid Interconnectors Limited
Directors' Report (continued)
For the year ended 31 March 2023

Statement of Directors' responsibilities

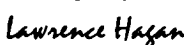
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to 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:

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L Hagan
Company Secretary
13 September 2023

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 2023 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 23.

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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent auditor's report to the members of National Grid Interconnectors Limited (continued)

Other information (continued)

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Company's industry and its control environment, and reviewed the Company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, FRS 101, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty.

Independent auditor's report to the members of National Grid Interconnectors Limited (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

We discussed among the audit engagement team including IT internal specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, internal audit reports and reviewing correspondence with relevant regulatory authorities.

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.

A handwritten signature in black ink, appearing to read 'Lee Highton', with a long horizontal stroke extending to the right.

Lee Highton FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
13 September 2023

National Grid Interconnectors Limited
Profit and loss account
For the year ended 31 March 2023

| | | 2023 | 2022 |
|--|--------------|-----------------|--------------|
| | Notes | £'000 | £'000 |
| Turnover | 2 | 89,303 | 101,472 |
| Other income | 3 | 293,750 | — |
| Total income | | 383,053 | 101,472 |
| Administrative expenses | | (50,838) | (55,946) |
| Operating profit | 4 | 332,215 | 45,526 |
| Interest receivable and similar income | 6 | 6,196 | 486 |
| Interest payable and similar charges | 7 | (376) | (371) |
| Profit before tax | | 338,035 | 45,641 |
| Tax | 8 | (49,861) | (11,371) |
| Profit for the year | | 288,174 | 34,270 |

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

National Grid Interconnectors Limited
Statement of comprehensive income
For the year ended 31 March 2023

| | Notes | 2023 £'000 | 2022 £'000 |
|--|-------|------------------------------|-----------------------------|
| Profit for the year | | 288,174 | 34,270 |
| Other comprehensive income | | | |
| Items that will never be reclassified to profit or loss | | | |
| Net gains in respect of cash flow hedging of capital expenditure | | <u>7</u> | <u>—</u> |
| Total items that will never be reclassified to profit or loss | | <u>7</u> | <u>—</u> |
| Items that may be reclassified subsequently to profit or loss | | | |
| Net losses in respect of cash flow hedges | | (6,812) | (1,053) |
| Transferred to profit and loss account in respect of cash flow hedges | | 3,068 | — |
| Tax on items that may be reclassified subsequently to profit or loss | 8 | <u>935</u> | <u>169</u> |
| Total items that may be reclassified subsequently to profit or loss | | <u>(2,809)</u> | <u>(884)</u> |
| Other comprehensive loss for the year, net of tax | | <u>(2,802)</u> | <u>(884)</u> |
| Total comprehensive income for the year | | <u><u>285,372</u></u> | <u><u>33,386</u></u> |

National Grid Interconnectors Limited
Balance sheet
As at 31 March 2023

| | Notes | 2023 £'000 | 2022 £'000 |
|--|-------|-----------------|-----------------|
| Fixed assets | | | |
| Intangible assets | 10 | 48,235 | 40,422 |
| Property, plant and equipment | 11 | <u>393,726</u> | <u>183,993</u> |
| | | <u>441,961</u> | <u>224,415</u> |
| Current assets | | | |
| Debtors (amounts falling due within one year) | 12 | 310,067 | 98,868 |
| Debtors (amounts falling due after more than one year) | 12 | <u>59</u> | <u>80</u> |
| Total current assets | | <u>310,126</u> | <u>98,948</u> |
| Creditors (amounts falling due within one year) | 14 | (148,693) | (64,330) |
| Net current assets | | <u>161,433</u> | <u>34,618</u> |
| Total assets less current liabilities | | <u>603,394</u> | <u>259,033</u> |
| Creditors (amounts falling due after more than one year) | 15 | (89,353) | (28,694) |
| Provisions for liabilities | 17 | <u>(36,853)</u> | <u>(23,519)</u> |
| Net assets | | <u>477,188</u> | <u>206,820</u> |
| Equity | | | |
| Share capital | 18 | 90,000 | 90,000 |
| Cash flow hedge reserve | 19 | (2,424) | 382 |
| Profit and loss account | | <u>389,612</u> | <u>116,438</u> |
| Total shareholders' equity | | <u>477,188</u> | <u>206,820</u> |

The financial statements set out on pages 12 to 33 were approved by the Board of Directors on 13 September 2023 and were signed on its behalf by:

DocuSigned by:

Rolo Rome

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R Rome
 Director

National Grid Interconnectors Limited
 Company registration number: 3385525

National Grid Interconnectors Limited
Statement of changes in equity
For the year ended 31 March 2023

| | Share capital | Cash flow hedge reserve | Profit and loss account | Total shareholders' equity |
|---|------------------|-------------------------------|-------------------------------|----------------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| At 1 April 2021 | 90,000 | 1,266 | 132,168 | 223,434 |
| Profit for the year | — | — | 34,270 | 34,270 |
| Other comprehensive loss for the year | — | (884) | — | (884) |
| Total comprehensive (loss)/income for the year | — | (884) | 34,270 | 33,386 |
| Equity dividends (note 9) | — | — | (50,000) | (50,000) |
| At 31 March 2022 | 90,000 | 382 | 116,438 | 206,820 |
| Profit for the year | — | — | 288,174 | 288,174 |
| Other comprehensive loss for the year | — | (2,802) | — | (2,802) |
| Total comprehensive (loss)/income for the year | — | (2,802) | 288,174 | 285,372 |
| Equity dividends (note 9) | — | — | (15,000) | (15,000) |
| Cash flow hedges transferred to the statement of financial position, net of tax | — | (4) | — | (4) |
| At 31 March 2023 | 90,000 | (2,424) | 389,612 | 477,188 |

National Grid Interconnectors Limited
Notes to the financial statements
For the year ended 31 March 2023

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

The financial statements of National Grid Interconnectors Limited for the year ended 31 March 2023 were approved by the Board of Directors on 13 September 2023. 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 UK, 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 2022 comparative financial information has also been prepared on this basis.

These financial statements have been prepared on a going concern basis, which presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. As the Company is part of a larger group it participates in the Group's centralised treasury arrangements and so shares banking arrangements with its subsidiaries. The Company is expected to generate positive cash flows in the next twelve months. In addition, the Directors expect to be in a position to draw on intercompany loans, should this liquidity be required for the Company to meet its future obligations as they fall due.

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.

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'.

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2023 that have a material impact on the Company's financial statements.

There are no areas of judgement that are considered to have a significant effect on the amounts recognised in these financial statements

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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 17

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.

Cloud computing arrangements are reviewed to determine if the Company has control of the software intangible asset. Control is considered to exist where the Company has the right to take possession of the software and run it on its own or a third party's computer infrastructure or if the Company has exclusive rights to use the software such that the supplier is unable to make the software available to other customers.

Costs relating to configuring or customising the software in a cloud computing arrangement are assessed to determine if there is a separate intangible asset over which the Company has control. If an asset is identified, it is capitalised and amortised over the useful economic life of the asset. To the extent that no separate intangible asset is identified, then the costs are either expensed when incurred or recognised as a prepayment and spread over the term of the arrangement if the costs are concluded to not be distinct.

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 are amortised on a straight-line basis over their estimated useful economic lives. Amortisation periods for categories of intangible assets are:

Amortisation periods for categories of intangible assets are:

| | |
|----------|--------------------|
| Software | Over 3 to 10 years |
|----------|--------------------|

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

1 Summary of significant accounting policies (continued)

(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 together with an appropriate portion of overheads which are directly linked to the capital work performed; 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 60 |
| Plant and machinery | Up to 100 |
| Motor vehicles and office equipment | Up to 30 |

Right-of-use-assets

The Company leases various properties, land, equipment and cars. 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. 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 lease payments include fixed payments, any variable lease payments dependent on an index or a rate, and any break fees or renewal option costs that the Company is reasonably certain to incur. The discount rate applied is the rate implicit in the lease or, if that is not available, the incremental rate of borrowing for a similar term and similar security. This is determined based on observable data for borrowing rates for the Company, with specific adjustments for the term of the lease and any lease-specific risk premium. 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 profit and loss account 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.

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.

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

1 Summary of significant accounting policies (continued)

(c) Property, plant and equipment (continued)

Right-of-use-assets (continued)

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.

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

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

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and joint arrangements except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference 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 offset 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.

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

1 Summary of significant accounting policies (continued)

(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 reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Non-monetary assets are not retranslated unless they are carried at fair value. 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 a review of solvency and liquidity arrangements and as such the expected credit loss for the year is £nil.

Borrowings, which include interest-bearing loans and overdrafts, are initially recorded at fair value. This normally reflects the proceeds received (net of direct issue costs for liabilities measured at amortised cost). Subsequently, borrowings 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 - IFRS 16

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 and similar security. The lease term takes account of exercising any extension options that are at the Company's option if the Company is reasonably certain to exercise the option and any lease termination options unless the Company is 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 profit and loss account over the lease period using the effective interest rate method.

Derivative financial instruments

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.

The fair value of derivative financial instruments is calculated by taking the present value of future cash flows, primarily incorporating market observable inputs. The various inputs include foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate and inflation curves, the forward rate curves of underlying commodities, and for those positions that are not fully cash collateralised the credit quality of the counterparties.

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

1 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

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. The Company uses the cash flow hedge accounting method which is described further below:

Cash flow hedging of currency risk of capital expenditure and revenues is designated as hedging the exposure to movements in the spot translation rates only. The timing of forecasted transactions is not designated as a hedged risk. Gains and losses on hedging instruments arising from forward points and foreign currency basis spreads are excluded from designation and are recognised immediately in profit or loss, along with any hedge ineffectiveness.

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.

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

1 Summary of significant accounting policies (continued)

(h) Turnover (continued)

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 note 15.

(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.

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.

(j) Equity instruments

An equity instrument is any contract that includes a residual interest in the assets of the Company after deducting all 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

i. General

Provisions for liabilities are recognised where a legal or constructive obligation exists at the balance sheet 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.

ii. 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.

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

1 Summary of significant accounting policies (continued)

(l) Provisions for liabilities (continued)

ii. Decommissioning (continued)

Changes in the provision arising from revised estimates, 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 is included within the profit and loss account as an interest expense.

(m) Share based payments

National Grid issues equity-settled share-based payments to certain employees of the Company. Equity-settled share-based payments are measured at fair value at the date of grant, based on an estimate of the number of shares that will eventually vest. This fair value is recognised on a straight-line basis over the vesting period, as an operating cost and an increase in equity. Payments made by the Company to National Grid in respect of share-based payments are recognised as a reduction in equity.

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.

| | 2023 £'000 | 2022 £'000 |
|-----------------------------------|----------------------|-----------------------|
| IFRS15 turnover - Transmission | 165,801 | 114,297 |
| Non-IFRS15 adjustment (note 1(h)) | <u>(76,498)</u> | <u>(12,825)</u> |
| Total turnover | <u>89,303</u> | <u>101,472</u> |

Geographical analysis of turnover is not provided as the Company's operations are all undertaken in the UK for customers based in the UK.

3 Other income

| | 2023 £'000 | 2022 £'000 |
|--------------------|-----------------------|-----------------|
| Insurance proceeds | <u>293,750</u> | <u>—</u> |

Insurance proceeds relate to the recovery of revenue losses (£144,000,000) and re-build costs incurred (£149,750,000) following the significant fire that occurred at the UK converter station in September 2021.

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

4 Operating profit

| | 2023 | 2022 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Operating profit is stated after (crediting)/charging: | | |
| Foreign exchange (gains)/ losses | (1,729) | 1,163 |
| Amortisation of intangible fixed assets | 1,214 | 584 |
| Impairment of intangible fixed assets | — | 74 |
| Depreciation of property, plant and equipment: | | |
| - Owned assets | 8,260 | 5,891 |
| - Leased assets | 23 | 48 |
| Impairment of tangible fixed assets | — | 22,380 |
| Staff cost recharged from fellow group company | 5,395 | 3,203 |
| Services provided by the Company's auditor | | |
| Audit fees of the Company | <u>58</u> | <u>56</u> |

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

5 Directors and employees

Directors' emoluments

| | 2023 | 2022 |
|----------------------|--------------|--------------|
| | £'000 | £'000 |
| Aggregate emoluments | <u>172</u> | <u>90</u> |

Post-employment benefits are accruing to 1 (2022: 1) Directors under a Group defined benefit scheme and 3 (2022: 3) Director under a defined contribution scheme.

During the year there were 2 (2022: 2) 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:

| | 2023 | 2022 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Total amount of emoluments and amounts receivable under long term incentive schemes | 100 | 45 |
| Group defined benefit pension scheme: | | |
| Accrued pension at end of year | <u>11</u> | <u>—</u> |

During the year, the highest paid Director exercised share options in or received ordinary shares as part of long term incentive plans of the ultimate parent company, National Grid plc.

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

5 Directors and employees (continued)

Staff costs

The Company no longer has any direct employees and now receives a recharge from a fellow subsidiary undertaking equivalent to staff costs for work completed on the Company. This recharge has been reflected within other operating costs.

6 Interest receivable and similar income

| | 2023 | 2022 |
|--|--------------|------------|
| | £'000 | £'000 |
| Interest receivable from immediate parent company | 5,376 | 250 |
| Net gains on derivative financial instruments designated as cash flow hedges | 820 | 236 |
| | <u>6,196</u> | <u>486</u> |

7 Interest payable and similar charges

| | 2023 | 2022 |
|--|------------|------------|
| | £'000 | £'000 |
| Interest payable on bank loans and overdrafts | — | 8 |
| Unwinding of discount on decommissioning provision | 376 | 363 |
| | <u>376</u> | <u>371</u> |

8 Tax

Tax charged to the profit and loss account

| | 2023 | 2022 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Current tax: | | |
| UK corporation tax | 35,206 | 12,233 |
| Adjustments in respect of prior years (i) | 762 | 106 |
| Total current tax | <u>35,968</u> | <u>12,339</u> |
| Deferred tax: | | |
| Origination and reversal of timing differences | 4,296 | 146 |
| Adjustments in respect of prior years | 9,597 | (1,114) |
| Total deferred tax | <u>13,893</u> | <u>(968)</u> |
| Tax charge in the profit and loss account | <u>49,861</u> | <u>11,371</u> |

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

8 Tax (continued)

Tax credited to the statement of other comprehensive income

| | 2023 | 2022 |
|--|---------------------|---------------------|
| | £'000 | £'000 |
| Deferred tax credited on revaluation of cash flow hedges | <u>(935)</u> | <u>(169)</u> |
| Total tax credited to other comprehensive income | <u>(935)</u> | <u>(169)</u> |

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

The tax charge for the year is lower (2022: higher) than the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

| | 2023 | 2022 |
|---|----------------------|----------------------|
| | £'000 | £'000 |
| Profit before tax | <u>338,035</u> | <u>45,641</u> |
| Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2022: 19%) | 64,227 | 8,672 |
| Effect of: | | |
| Expenses not deductible for tax purposes | 345 | 597 |
| Non-taxable income | (28,453) | — |
| Taxation on transfer pricing adjustments | 49 | 61 |
| Impact of change in UK tax rate | 3,334 | 3,049 |
| Adjustments in respect of prior years | 10,359 | (1,008) |
| Total tax charge in the profit and loss account | <u>49,861</u> | <u>11,371</u> |

Factors that may affect future tax charges

In the Spring Budget 2021, the UK Government announced an increase in the main corporation tax rate from 19% to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021. Deferred tax balances as at 31 March 2023 have been calculated at 25%.

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

9 Equity dividends

| | 2023 £'000 | 2022 £'000 |
|--|---------------|---------------|
| Equity - ordinary | | |
| Final paid: 16.7p (2022: 55.6p) per £1 share | <u>15,000</u> | <u>50,000</u> |

The Directors have proposed a final dividend for the year ended 31 March 2023 of 166.67p per share that is a total of £150,000,000.

The proposed final dividend is subject to approval by shareholders passing a written resolution and has not been included as a liability of the Company.

10 Intangible assets

| | Goodwill £'000 | Software under development £'000 | Software £'000 | Total £'000 |
|----------------------------------|-------------------|--|-------------------|----------------|
| Cost | | | | |
| At 1 April 2022 | 32,790 | 5,476 | 3,705 | 41,971 |
| Additions | — | 4,767 | — | 4,767 |
| Transfer | — | (2,312) | 6,572 | 4,260 |
| At 31 March 2023 | <u>32,790</u> | <u>7,931</u> | <u>10,277</u> | <u>50,998</u> |
| Accumulated amortisation | | | | |
| At 1 April 2022 | — | — | (1,549) | (1,549) |
| Amortisation charge for the year | — | — | (1,214) | (1,214) |
| At 31 March 2023 | <u>—</u> | <u>—</u> | <u>(2,763)</u> | <u>(2,763)</u> |
| Net book value | | | | |
| At 31 March 2023 | <u>32,790</u> | <u>7,931</u> | <u>7,514</u> | <u>48,235</u> |
| At 31 March 2022 | <u>32,790</u> | <u>5,476</u> | <u>2,156</u> | <u>40,422</u> |

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

11 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 1 April 2022 | 5,629 | 177,958 | 52,795 | 2,545 | 238,927 |
| Additions | — | — | 222,235 | 41 | 222,276 |
| Disposals | — | — | — | (53) | (53) |
| Transfer | 69,063 | 120,805 | (195,710) | 1,582 | (4,260) |
| At 31 March 2023 | 74,692 | 298,763 | 79,320 | 4,115 | 456,890 |
| Accumulated depreciation | | | | | |
| At 1 April 2022 | (1,617) | (51,010) | — | (2,307) | (54,934) |
| Depreciation charge for the year | (568) | (7,633) | — | (82) | (8,283) |
| Disposals | — | — | — | 53 | 53 |
| Reclassifications | (420) | (1,138) | — | 1,558 | — |
| At 31 March 2023 | (2,605) | (59,781) | — | (778) | (63,164) |
| Net book value | | | | | |
| At 31 March 2023 | 72,087 | 238,982 | 79,320 | 3,337 | 393,726 |
| At 31 March 2022 | 4,012 | 126,948 | 52,795 | 238 | 183,993 |

During the previous year a fire occurred which has resulted in significant asset cost and depreciation impairment being recognised. Assets under construction additions largely reflect the replacement of those assets damaged along with the standard asset refurbishment project which has been completed.

The table below shows the net book value of right-of-use assets included within property, plant and equipment at 31 March 2023 and 31 March 2022, split by category. The associated lease liabilities are disclosed in note 16.

| | Motor Vehicles and office equipment £'000 |
|--|---|
| 31 March 2023 | |
| Net book value at 31 March 2023 | 46 |
| Additions | 41 |
| Disposals | (53) |
| Depreciation charge for year | (23) |
| Depreciation disposal | 53 |

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

11 Property, plant and equipment (continued)

| 31 March 2022 | Motor Vehicles and office equipment £'000 |
|--|--|
| Net book value at 31 March 2022 | 28 |
| Additions | 19 |
| Disposals | (50) |
| Depreciation charge for year | (47) |
| Depreciation disposal | 27 |

12 Debtors

| | 2023 £'000 | 2022 £'000 |
|--|-----------------------|-----------------------|
| Amounts falling due within one year: | | |
| Trade debtors | 450 | 12,073 |
| Amounts owed by fellow subsidiary undertakings | 193 | 2,372 |
| Amounts owed by immediate parent company (i) | 241,234 | 56,342 |
| Other tax and social security | 4,662 | 4,924 |
| Other debtors | 103 | 310 |
| Prepayments and accrued income | 63,425 | 22,847 |
| | <u>310,067</u> | <u>98,868</u> |

(i) Included within amounts owed by immediate parent company are intercompany derivative financial instruments with a fair value of £905,000 (2022: £419,000). 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.

| | 2023 £'000 | 2022 £'000 |
|--|-----------------------|-----------------------|
| Amounts falling due after more than one year: | | |
| Amounts owed by immediate parent company | <u>59</u> | <u>80</u> |

(i) Included within amounts owed by immediate parent company are intercompany derivative financial instruments with a fair value of £59,000 (2022: £80,000). The future expected cash flows from these derivatives are affected by changes in the EUR/GBP exchange rate. The contracts have fixed settlement dates.

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

13 Derivative financial instruments

The fair values of derivative financial instruments are as follows:

| | 2023 | | |
|--|---------------|--------------------|--------------|
| | Assets | Liabilities | Total |
| | £'000 | £'000 | £'000 |
| Amounts falling due within one year | 905 | (1,347) | (443) |
| Amounts falling due after more than one year | 59 | — | 59 |
| | <u>964</u> | <u>(1,347)</u> | <u>(384)</u> |

| | 2022 | | |
|--|---------------|--------------------|--------------|
| | Assets | Liabilities | Total |
| | £'000 | £'000 | £'000 |
| Amounts falling due within one year | 419 | (46) | 373 |
| Amounts falling due after more than one year | 80 | — | 80 |
| | <u>499</u> | <u>(46)</u> | <u>453</u> |

For each class of derivative the notional contract amounts* are as follows:

| | 2023 | 2022 |
|------------------------------------|----------------|---------------|
| | £'000 | £'000 |
| Foreign exchange forward contracts | <u>209,777</u> | <u>68,584</u> |

*The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the balance sheet date.

14 Creditors (amounts falling due within one year)

| | 2023 | 2022 |
|---|----------------|---------------|
| | £'000 | £'000 |
| Borrowings and lease liabilities (note 16) | 37 | 972 |
| Trade creditors | 16,129 | 6,024 |
| Amounts owed to fellow subsidiary undertakings | 7,258 | 9,829 |
| Amounts owed to immediate parent company ⁽ⁱ⁾ | 37,290 | 12,385 |
| Other creditors | 2,100 | 9,659 |
| Contract liabilities and deferred income | 25,628 | 4,415 |
| Accruals | <u>60,251</u> | <u>21,046</u> |
| | <u>148,693</u> | <u>64,330</u> |

⁽ⁱ⁾ Included within amounts owed to immediate parent company are intercompany derivative balances with a fair value of £1,347,000 (2022: £46,000). The future expected cash flows from these derivatives were affected by changes in the EUR/GBP exchange rate. The contracts had fixed settlement dates.

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

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

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.

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

| | 2023 £'000 | 2022 £'000 |
|---|---------------|---------------|
| Accruals and deferred income ⁽ⁱ⁾ | <u>89,353</u> | <u>28,694</u> |

⁽ⁱ⁾ Included within accruals and deferred income is an amount of £89,353,000 (2022: £28,694,000) which relates to excess profits due to be returned under IFA's Use of Revenues framework (refer to note 1(h)).

16 Borrowings and lease liabilities

| | 2023 £'000 | 2022 £'000 |
|--|---------------|---------------|
| Amounts falling due within one year | | |
| Bank overdrafts | — | 969 |
| Lease liabilities | <u>37</u> | <u>3</u> |
| | <u>37</u> | <u>972</u> |

The amount of lease liabilities outstanding as at 31 March 2023 was £37,000 (2022: £3,000).

| | 2023 £'000 | 2022 £'000 |
|---|---------------|---------------|
| Lease liabilities | | |
| Gross lease liabilities are repayable as follows: | | |
| Less than 1 year | <u>37</u> | <u>3</u> |
| | <u>37</u> | <u>3</u> |

| | 2023 £'000 | 2022 £'000 |
|---|---------------|---------------|
| The present value of lease liabilities are as follows: | | |
| Less than 1 year | <u>37</u> | <u>3</u> |
| | <u>37</u> | <u>3</u> |

National Grid Interconnectors Limited
Notes to the financial statements (continued)
For the year ended 31 March 2023

17 Provisions for liabilities

| | Decommissioning £'000 | Deferred taxation £'000 | Total £'000 |
|---|--------------------------|-------------------------------|----------------|
| At 1 April 2022 | 10,687 | 12,832 | 23,519 |
| Charged to the profit and loss account | — | 13,893 | 13,893 |
| Credited to the statement of other comprehensive income | — | (935) | (935) |
| Unwinding of discount | 376 | — | 376 |
| At 31 March 2023 | 11,063 | 25,790 | 36,853 |

Decommissioning

The decommissioning provision relates to costs associated with retiring our interconnector assets onshore and on the seabed where we have a legal obligation to remediate the land or seabed. Current costs are estimated to be £48,733,000 which have been discounted using a real rate of 0.5%.

Deferred tax:

| | 2023 £'000 | 2022 £'000 |
|---|---------------|---------------|
| Accelerated capital allowances | 26,598 | 12,706 |
| Financial Instruments | — | 128 |
| Other short term timing differences | (808) | (2) |
| Deferred tax liability | <u>25,790</u> | <u>12,832</u> |
| | 2023 £'000 | 2022 £'000 |
| Deferred tax liability at 1 April | 12,832 | 13,969 |
| Charged/(credited) to the profit and loss account | 13,893 | (968) |
| Credited to the statement of comprehensive income | (935) | (169) |
| Deferred tax liability at 31 March | <u>25,790</u> | <u>12,832</u> |

There are no other significant unrecognised deferred tax assets or liabilities (2022: £nil).

18 Share capital

| | 2023 £'000 | 2022 £'000 |
|--|---------------|---------------|
| Allotted, called up and fully paid | | |
| 90,000,000 (2022: 90,000,000) ordinary shares of £1 each | <u>90,000</u> | <u>90,000</u> |

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

National Grid Interconnectors Limited
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For the year ended 31 March 2023

19 Other equity reserves

| | Cash flow hedge £'000 |
|---|--------------------------------------|
| At 1 April 2021 | 1,266 |
| Net losses taken to equity | (1,053) |
| Tax | 169 |
| At 31 March 2022 | <u>382</u> |
| Net losses taken to equity | (6,812) |
| Transferred to profit or loss | 3,068 |
| Net gains in respect of cash flow hedging of capital expenditure | 7 |
| Tax | 935 |
| Cash flow hedges transferred to the statement of financial position, net of tax | (4) |
| At 31 March 2023 | <u>(2,424)</u> |

20 Capital and other commitments

| | 2023 £'000 | 2022 £'000 |
|--|-----------------------|-----------------------|
| Contracts placed for future capital expenditure not provided for in the financial statements | <u>16,900</u> | <u>72,500</u> |

21 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.

22 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.

23 Events after the reporting period

The Directors have proposed a final dividend for the year ended 31 March 2023 of 166.67p per share that is a total of £150,000,000.