

**State Grid Europe Limited**  
Registered No. 07844667

**Directors' report and Financial Statements**

**Year ended 31 December 2018**



# STATE GRID EUROPE LIMITED

## DIRECTORS' REPORT

Board of Directors: Hu, Yuhai  
Wang, Ying

The directors present their report and the financial statements of State Grid Europe Limited ("the Company") and the Company and its subsidiary ("the Group") for the year ended 31 December 2018.

### **Results and dividends**

The profit for the year after taxation for the group was EUR 213,805,186 (2017: EUR 186,176,461). The Company has not declared a dividend during the year (2017: nil).

### **Principal activity and review of the business**

State Grid Europe Limited was incorporated on 11 November 2011.

The principal activities of the Company are: (1) to pursue investment opportunities in Europe, (2) to access capital by issuing debt instruments and (3) to hold and manage the Company's current investments.

On 25 May 2012, the Company completed the acquisition of 25% of the share capital of REN-Redes Energeticas Nacionais, SGPS, S.A. (REN), a company engaged in the operating electricity and natural gas transmission grid and listed on the NYSE Euronext Lisbon regulated market.

On 27 November 2014, the Company completed the acquisition of 35% of the share capital of Cassa Depositie Prestiti Reti (CDP RETI), an Italian electric and gas network holding company in which the Group holds a 35% equity interest.

On 26 January 2015, the Company's wholly owned subsidiary, State Grid Europe Development (2014) Public Limited Company, completed the issuance of Euro Bond of EUR 1,000,000,000. The proceeds of this issuance, net of fees and expenses, was used to refinance the Company's indebtedness incurred due to the acquisition of 35% equity interest of CDP RETI.

On 20 June 2017, the Company completed the acquisition of a 24% stake in Independent Power Transmission Operator (IPTO). IPTO is the only transmission operator which owns and operates the national power transmission network in Greece.

On 7 December 2017, the Company engaged the subscription of share capital increase of REN-Redes Energeticas Nacionais, SGPS, S.A.. After the subscription, the Company's share holding at REN remains at 25%.

Investment performance and investment income management are the key financial and performance indicators identified for this company.

# STATE GRID EUROPE LIMITED

## DIRECTORS' REPORT

### **Principal risks and uncertainties**

The Company aims to deliver sustainable value by identifying and responding successfully to risks. Monitoring and accountability for the management of these risks occur through quarterly performance reviews at a group level.

The principal risks and uncertainties facing the Company are:

- **Regulatory risks** - The Company's electric and gas network assets are regulated by the relevant government authorities, and the changes in regulatory environment and demands may affect the Company's investment return. As the regulatory environments continue to evolve, new laws and regulations may be implemented and the Company's operations will be subject to further reviews in areas relating to pricing, costs, safety, compliance and other matters.
- **Credit risk** - The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Company does not provide any guarantees which would expose the Company to credit risk.
- **Political risk**- Political risk is the risk associated with changes that occur to a country's policies governing businesses, as well as external factors that could affect businesses, such as the U.K.'s decision to leave the European Union (hereafter referred to "BREXIT"). Given the company's principal activity, BREXIT has limited impact on the company to the extent that the withholding tax (WHT) of dividends received may be changed if the EU Parent-Subsidiary Directive is not apply to UK company after BREXIT. There is still uncertainty around BREXIT, the company and State Grid International Development Limited group would be prepared to fall back on gaining access to treaty benefits to avoid situations where it would suffer from, or having to bear dividend WHT based on domestic rates per local regulations of the home country where dividend is distributed.

### **Future developments**

As an investment platform, the Company will continue to pursue suitable investment opportunities in Europe in the future. The Company will focus on investment opportunities of regulated energy networks, including mergers, acquisitions and development of greenfield projects. The Company will also explore the opportunities to develop cross-country power interconnections between European countries and their neighbourhood states.

The Company will also continue to access the capital market to explore financing alternatives for its investments.

The directors aim to maintain the management policies which have resulted in the Company's growth since incorporation. They believe that the Company is in a good position to take advantage of any opportunities which may arise in the future.

It is the intention of the directors that the business of the Company will continue for the foreseeable future.

# STATE GRID EUROPE LIMITED

## DIRECTORS' REPORT

### **Directors**

The present directors are listed on page 2 and all served as directors throughout the financial year, except as disclosed below:

Hu Yuhai (appointed on 08 January 2016)

Wang Ying (appointed on 29 December 2016)

Wang Ying is a UK resident and no director was appointed after the year end and up to the date of the report.

### **Directors' indemnity**

The Company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006.

### **Charitable contributions**

The Company has made nil (2017: nil) political donations and nil (2017: nil) charitable donations during the year.

### **Auditor**

In the absence of a notice proposing that the appointment be terminated, KPMG LLP will be deemed to be re-appointed as the Company's auditor for the next year.

# STATE GRID EUROPE LIMITED

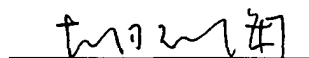
## DIRECTORS' REPORT

### **Directors' statement as to the disclosure of information to the auditor**

The directors who were members of the board at the time of approving the directors' report are listed on page 2. Having made enquiries of fellow directors and of the Company's auditor, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditor is unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

By Order of the Board



Hu Yuhai

For and on behalf of  
State Grid Europe Limited

01 August 2019

Registered Office:  
Level 3, 40 Bank Street  
London, E14 5NR

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

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 group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) 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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STATE GRID EUROPE LIMITED**

### **Opinion**

We have audited the financial statements of State Grid Europe Limited ("the company") for the year ended 31 December 2018 which comprise the group statement of comprehensive income, company statement of comprehensive income, group statement of financial position, company statement of financial position, group statement of changes in equity, company statement of changes in equity, group statement of cash flows, company statement of cash flows and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STATE GRID EUROPE LIMITED (continued)**

### **Directors' report**

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

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

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent 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 they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STATE GRID EUROPE LIMITED (continued)**

### **The purpose of our audit work and to whom we owe our responsibilities**

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.



**James Ledward (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
Chartered Accountants  
Arlington Business Park  
Theale  
Reading  
RG7 4SD

02 August 2019

STATE GRID EUROPE LIMITED

GROUP STATEMENT OF COMPREHENSIVE INCOME  
For the year ended 31 December 2018

	Notes	Year 2018 EUR	Year 2017 EUR
Share of profits of associates	8	230,396,420	216,939,941
Administrative and other expenses		2,993,693	(11,892,651)
Net finance costs	4	(18,647,835)	(18,605,464)
Exchange losses	3	(89,179)	(2,007)
PROFIT BEFORE TAX		<u>214,653,099</u>	<u>186,439,819</u>
Income tax expense	5	(847,913)	(263,358)
PROFIT FOR THE YEAR		<u>213,805,186</u>	<u>186,176,461</u>
OTHER COMPREHENSIVE INCOME		1,475,190	(1,970,560)
Items that will not be reclassified to Profit or Loss (Net of tax):			
Actuarial gains		5,673,690	433,540
Other changes in equity		209,450	142,150
Items that are/may be reclassified to Profit or Loss (Net of tax):			
Decrease/(increase) in hedging reserves		(6,609,850)	1,834,200
Fair value reserve		1,105,400	1,249,250
Exchange rate differences		(602,000)	(1,069,950)
Exchange differences on translating foreign operations		1,728,500	(4,559,750)
Other changes in equity		(30,000)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>215,280,376</u>	<u>184,205,901</u>

All profits and losses included in the total comprehensive income for the year derive from activities of a continuing nature.

The notes on pages 18 to 32 are an integral part of these financial statements.

STATE GRID EUROPE LIMITED

COMPANY STATEMENT OF COMPREHENSIVE INCOME  
For the year ended 31 December 2018

	Notes	Year 2018 EUR	Year 2017 EUR
Dividend income		172,765,255	173,227,029
Other income		182,240	123,547
Administrative and other expenses		2,993,693	(11,892,651)
Finance costs		(18,647,835)	(18,605,464)
Exchange losses		(88,201)	(37)
PROFIT BEFORE TAX		<u>157,205,152</u>	<u>142,852,424</u>
Income tax expense		(847,913)	(263,358)
PROFIT FOR THE YEAR		<u>156,357,239</u>	<u>142,589,066</u>
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>156,357,239</u>	<u>142,589,066</u>

All profits and losses included in the total comprehensive income for the year derive from activities of a continuing nature.

The notes on pages 18 to 32 are an integral part of these financial statements.

STATE GRID EUROPE LIMITED (registered no. 07844667)

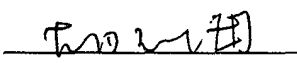
GROUP STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	31 December 2018 EUR	31 December 2017 EUR
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		2,587	640
Investments accounted for using the equity method	8	3,047,872,205	2,988,948,090
Long-term deferred expenses		149,523	-
Total non-current assets		<u>3,048,024,315</u>	<u>2,988,948,730</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	9	95,682,109	4,749,959
Other receivables		56,556	36,030
Total current assets		<u>95,738,665</u>	<u>4,785,989</u>
<b>CURRENT LIABILITIES</b>			
Interest payable	11	(16,578,493)	(16,578,493)
Other payables and accruals	10	(1,337,601,591)	(1,403,609,428)
Total current liabilities		<u>(1,354,180,084)</u>	<u>(1,420,187,921)</u>
NET CURRENT LIABILITIES		<u>(1,258,441,419)</u>	<u>(1,415,401,932)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,789,582,896</u>	<u>1,573,546,798</u>
<b>NON-CURRENT LIABILITIES</b>			
Bonds payable	11	(996,174,910)	(995,419,188)
Total non-current liabilities		<u>(996,174,910)</u>	<u>(995,419,188)</u>
NET ASSETS		<u>793,407,986</u>	<u>578,127,610</u>
<b>EQUITY</b>			
Share capital	12	12,768,438	12,768,438
Other reserve		9,853,180	8,377,990
Retained earnings		770,786,368	556,981,182
SHAREHOLDER'S FUNDS		<u>793,407,986</u>	<u>578,127,610</u>

The financial statements were approved by the Board of Directors and signed on their behalf on 01 August 2019 by:

Director

  
Hu Yuhai

The notes on pages 18 to 32 are an integral part of these financial statements.

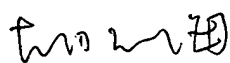
STATE GRID EUROPE LIMITED (registered no. 07844667)

COMPANY STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	31 December 2018 EUR	31 December 2017 EUR
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		2,587	640
Investments in Subsidiary	7	62,570	62,570
Investments in associates	8	2,859,761,443	2,859,761,443
Long-term receivables		938	1,024
Long-term deferred expenses		149,523	-
Total non-current assets		2,859,977,061	2,859,825,677
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	9	95,625,891	4,692,677
Other receivables		56,556	36,030
Total current assets		95,682,447	4,728,707
<b>CURRENT LIABILITIES</b>			
Interest payable	11	(16,578,493)	(16,578,493)
Other payables and accruals	10	(1,337,601,591)	(1,403,609,428)
Total current liabilities		(1,354,180,084)	(1,420,187,921)
<b>NET CURRENT LIABILITIES</b>		<b>(1,258,497,637)</b>	<b>(1,415,459,214)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,601,479,424</b>	<b>1,444,366,463</b>
<b>NON-CURRENT LIABILITY</b>			
Loan payable	11	(996,174,910)	(995,419,188)
Total non-current liability		(996,174,910)	(995,419,188)
<b>NET ASSETS</b>		<b>605,304,514</b>	<b>448,947,275</b>
<b>EQUITY</b>			
Share capital	12	12,768,438	12,768,438
Retained earnings		592,536,076	436,178,837
<b>SHAREHOLDER'S FUNDS</b>		<b>605,304,514</b>	<b>448,947,275</b>

The financial statements were approved by the Board of Directors and signed on their behalf on 01 August 2019  
by:  
Director



Hu Yuhai

The notes on pages 18 to 32 are an integral part of these financial statements.

STATE GRID EUROPE LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY

At 31 December 2018

	Share capital EUR	Other reserve EUR	Retained earnings EUR	Total EUR
At 31 December 2017	<u>12,768,438</u>	<u>8,377,990</u>	<u>556,981,182</u>	<u>578,127,610</u>
Profit for the year	-	-	213,805,186	213,805,186
Other comprehensive income from associates for the year	-	1,475,190	-	1,475,190
Total comprehensive income for the year	<u>-</u>	<u>1,475,190</u>	<u>213,805,186</u>	<u>215,280,376</u>
At 31 December 2018	<u>12,768,438</u>	<u>9,853,180</u>	<u>770,786,368</u>	<u>793,407,986</u>
At 31 December 2016	<u>12,768,438</u>	<u>10,348,550</u>	<u>370,804,721</u>	<u>393,921,709</u>
Profit for the year	-	-	186,176,461	186,176,461
Other comprehensive income from associates for the year	-	(1,970,560)	-	(1,970,560)
Total comprehensive income for the year	<u>-</u>	<u>(1,970,560)</u>	<u>186,176,461</u>	<u>184,205,901</u>
At 31 December 2017	<u>12,768,438</u>	<u>8,377,990</u>	<u>556,981,182</u>	<u>578,127,610</u>

The notes on pages 18 to 32 are an integral part of these financial statements.

STATE GRID EUROPE LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

At 31 December 2018

	Share capital EUR	Retained earnings EUR	Total EUR
At 31 December 2017	<u>12,768,438</u>	<u>436,178,837</u>	<u>448,947,275</u>
Profit for the year	-	156,357,239	156,357,239
Other comprehensive for the year	-	-	-
Total comprehensive income for the year	<u>-</u>	<u>156,357,239</u>	<u>156,357,239</u>
At 31 December 2018	<u>12,768,438</u>	<u>592,536,076</u>	<u>605,304,514</u>

	Share capital EUR	Retained earnings EUR	Total EUR
At 31 December 2016	<u>12,768,438</u>	<u>293,589,771</u>	<u>306,358,209</u>
Profit for the year	-	142,589,066	142,589,066
Other comprehensive for the year	-	-	-
Total comprehensive income for the year	<u>-</u>	<u>142,589,066</u>	<u>142,589,066</u>
At 31 December 2017	<u>12,768,438</u>	<u>436,178,837</u>	<u>448,947,275</u>

The notes on pages 18 to 32 are an integral part of these financial statements.

STATE GRID EUROPE LIMITED  
GROUP STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	Year 2018 EUR	Year 2017 EUR
Operating activities			
Profit before tax		214,653,099	186,439,819
Adjustments for:			
Foreign exchange losses		89,179	2,007
Share of profit from an associate		(230,396,420)	(216,939,941)
Interest expense		18,605,722	18,538,728
Interest expense adjustment		(755,722)	(741,715)
Increase in other receivables		(20,526)	(27,030)
Increase/(decrease) in other payables		(10,171,426)	10,650,427
(Increase)/decrease in long term deferred expenses		(149,523)	-
Net cash outflow from operating activities		(8,145,617)	(2,077,705)
Investing activities			
Investment in PP&E		(1,947)	(640)
Investment in associates		-	(389,970,943)
Dividends received (net of withholding tax paid)		171,917,342	172,963,671
Associated Directors Fees		182,240	123,547
Net cash inflow/(outflow) from investing activities		172,097,635	(216,884,365)
Financing activities			
Increase/(Decrease) in other payables to the immediate parent		(55,836,411)	240,273,784
Increase in bonds payable		755,722	741,715
Interest paid		(17,850,000)	(17,850,000)
Net cash inflow/(outflow) from financing activities		(72,930,689)	223,165,499
NET INCREASE IN CASH AND CASH EQUIVALENTS		91,021,329	4,203,429
Cash and cash equivalents at beginning of year		4,749,959	548,537
Effect of foreign exchange rate changes, net		(89,179)	(2,007)
CASH AND CASH EQUIVALENTS AT END OF YEAR	9	<u>95,682,109</u>	<u>4,749,959</u>

The notes on pages 18 to 32 are an integral part of these financial statements.

STATE GRID EUROPE LIMITED  
COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	Year 2018 EUR	Year 2017 EUR
Operating activities			
Profit before tax		157,205,152	142,852,424
Adjustments for:			
Dividend income received		(172,947,495)	(173,350,576)
Interest expense		18,605,722	18,538,728
Interest expense adjustment		(755,722)	(741,715)
Foreign exchange losses		88,201	37
Increase in other receivables		(20,526)	(27,030)
Decrease in long term receivables		86	71
Increase /(decrease) in other payables		(10,171,426)	10,650,427
Increase in long term deferred expenses		(149,523)	-
Net cash outflow from operating activities		(8,145,531)	(2,077,634)
Investing activities			
Investment in PP&E		(1,947)	(640)
Investment in associates		-	(389,970,943)
Dividends received (net of withholding tax paid)		171,917,342	172,963,671
Associated Directors Fees		182,240	123,547
Net cash inflow/(outflow) from investing activities		172,097,635	(216,884,365)
Financing activities			
Increase/(Decrease) in other payables to parent		(55,836,411)	240,273,784
Increase in loan payable		755,722	741,715
Interest paid		(17,850,000)	(17,850,000)
Net cash inflow/(outflow) from financing activities		(72,930,689)	223,165,499
NET INCREASE IN CASH AND CASH EQUIVALENTS		91,021,415	4,203,500
Cash and cash equivalents at beginning of year		4,692,677	489,214
Effect of foreign exchange rate changes, net		(88,201)	(37)
CASH AND CASH EQUIVALENTS AT END OF YEAR	9	<u>95,625,891</u>	<u>4,692,677</u>

The notes on pages 18 to 32 are an integral part of these financial statements.

## STATE GRID EUROPE LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2018

#### 1. CORPORATE INFORMATION

State Grid Europe Limited (the “Company”) was incorporated as a private company on 11 November 2011. The issued share capital of the Company is GBP10,000,000. Registered office is located at Level 3, 40 Bank Street, London, E14 5NR.

The principal activities of the Company are management, investment and financing.

The immediate parent of the Company is State Grid International Development Limited, and the ultimate holding company is State Grid Corporation of China, whose registered office is located at 86 West Chang An Avenue, Xicheng District, Beijing, China.

The financial statements of State Grid Europe Limited were approved for issue by the Board of Directors on 01 August 2019.

#### 1.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the provisions of the Companies Act 2006.

#### 1.2 ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention. The Group and Company's financial statements are presented in Euro (“EUR”), which is also the Company's functional currency. All values are rounded to the nearest Euro except when otherwise indicated.

#### 1.3 BASIS OF PREPARATION

The financial statements have been prepared on the going concern basis.

Notwithstanding net current liabilities of EUR 1,258,441,419 and EUR 1,258,497,637 of the Group and the Company, respectively, as at 31 December 2018 and operating cash outflows for the year of EUR 8,145,617 and EUR 8,145,531 of the Group and the Company, respectively, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its immediate parent company, State Grid International Development Limited, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on State Grid International Development Limited not seeking repayment of the amounts currently due to them, which at 31 December 2018 amounted to EUR 1,337,072,590 for both the Group and the Company, and providing additional financial support during that period. State Grid International Development Limited has indicated its intention to continue to make available such funds as are needed by the Group and the Company, and that it does not intend to seek repayment of the amounts due at the statement of financial position date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the Group and the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

NOTES TO FINANCIAL STATEMENTS

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1.4 BASIS OF CONSOLIDATION

The Group financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2018. Subsidiaries are consolidated from the date on which control is transferred to the Group, until the date such control ceases.

1.5 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group and Company have applied the following revised IFRSs for the first time for the periods presented, which were Effective for annual periods beginning on or after 1 January 2018.

IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group and the Company does not expect that the adoption of IFRS 9 will have an impact on the classification and measurement of the Company's financial assets and liabilities.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The Group and Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in immaterial allowance for impairment.

IFRS 15 *Revenue from Contracts with Customers*

New standard on accounting for revenue, published by the IASB on 28 May 2014, which replaces IAS 11 and IAS 18. The new standard is valid for all transactions in all sectors and is based on a five-step model: identify the contract with the customer, identify the performance obligations provided for in the contract, determine the transaction price, allocate the transaction price and finally recognise revenue when the performance obligations are satisfied. Performance occurs when control over goods or services underlying the performance obligation is passed to the customer. Control is defined as "the ability to direct the use of and obtain substantially all of the remaining benefits from the asset". The amendment to the new standard was published on 11 September 2015, which postpones the date the principles comes into effect to 01 January 2018.

The adoption of the above-mentioned changes to the standards did not result in any significant impacts on the financial statements of the Group and Company.

1.6 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group and Company have not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements.

IFRS 16 *Leases*

On 13 January 2016 the IASB published the new standard IFRS 16 which governs the accounting for leasing contracts, replacing the previous IAS 17. Among the changes the new standard, overcoming the distinction between operating and financial leasing, bases the accounting presentation on the so-called "right of use" approach, which for the lessee makes the accounting uniform for any type of leasing. At the moment of initial measurement, that is at the date on which the lessor makes the asset available to the lessee, the latter must recognise two asset items with opposite signs: the right to use the asset, among the assets and the payable for the leasing, among the liabilities. IFRS 16 is applicable as from 01 January 2019, but early application is permitted for companies that adopt IFRS 15 (Revenue from contracts with customers). The impact is immaterial as the Group and company does not have material operating leases.

1.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Company has a long term interest of generally not less than 20% of the equity voting rights and has the ability to significantly influence, but not control or jointly control its management, including participation in the financial and operating policy decision.

Investments are initially measured at cost and carried net of any provisions for impairment. The results of an associate are included in profit or loss to the extent of dividends received and receivable. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Financial Instruments (policy applicable from 1 January 2018)

*Recognition and initial measurement*

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Asset

*Classification and subsequent measurement*

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Group and the Company's financial assets are cash and cash equivalents and other receivables. These financial assets are classified as measured at amortised cost.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

*Subsequent measurement and gains and losses*

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

1.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (policy applicable from 1 January 2018) (continued)

Financial Liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Group and Company's financial liabilities are bonds payable, loans payable, interest payable and other payables and accrual. These financial liabilities are classified as measured at amortised cost.

Impairment

Impairment of Financial Assets

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an investment accounted for using the equity method is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

1.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's and Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established.

Foreign currencies

These financial statements are presented in Euros, which is the Group and Company's functional and presentation currency.

Differences arising on settlement or translation of monetary items are recognised in the income statement.

2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

(a) Impairment of investment in associate

Investments in associates are tested for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Group and Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

STATE GRID EUROPE LIMITED

NOTES TO FINANCIAL STATEMENTS

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3 OPERATING PROFIT

Operating profit is stated after charging:

Group	Year 2018 EUR	Year 2017 EUR
Foreign exchange losses	<u>89,179</u>	<u>2,007</u>

4. NET FINANCE COSTS

Group	Year 2018 EUR	Year 2017 EUR
Interest income	(20)	-
Interest expense	18,605,722	18,538,728
Others	42,133	66,736
	<u>18,647,835</u>	<u>18,605,464</u>

5. TAX

Group and Company

(a) Analysis of tax charge

	31 December 2018 EUR
<i>United Kingdom corporation tax:</i>	
Adjustment in respect of prior periods	-
<i>Greece corporation tax:</i>	
Withholding tax in respect of current period	847,913
Total current tax (note 5(b))	<u>847,913</u>

	31 December 2017 EUR
<i>United Kingdom corporation tax:</i>	
Adjustment in respect of prior periods	-
<i>Greece corporation tax:</i>	
Withholding tax in respect of current period	263,358
Total current tax (note 5(b))	<u>263,358</u>

STATE GRID EUROPE LIMITED

NOTES TO FINANCIAL STATEMENTS

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5. TAX (continued)

Group

(b) Factors affecting the tax charge

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 19% since April 2017 and 20% before April 2017. The differences are reconciled below:

	31 December 2018 EUR	31 December 2017 EUR
Profit on ordinary activities before tax	214,653,099	186,439,819
Tax charge on ordinary activities at UK tax rate	(40,784,089)	(35,889,665)
Share of profit in associates not taxable	43,775,320	41,760,939
Other income taxable	(34,626)	(23,783)
Not-deductible Expenses	(3,139,905)	(2,363,367)
(Unrecognised tax losses)/tax losses utilised	183,299	(3,484,124)
Withholding tax in respect of current period	-(847,913)	(263,358)
Total current tax (note 5(a))	<u>847,913</u>	<u>263,358</u>

(c) Tax losses

Company	Year 2018 EUR	Year 2017 EUR
Tax losses brought forward, beginning of period	54,534,275	36,434,932
Tax losses carried forward current year	-	18,099,343
Tax Losses utilised current year	(964,733)	-
Tax Losses carried forward, ending of period	<u>53,569,542</u>	<u>54,534,275</u>

6. DIRECTORS' REMUNERATION

None of the directors received any fees or remuneration for services as directors of the Company during the financial year (31 December 2017: EUR nil).

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NOTES TO FINANCIAL STATEMENTS

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7. INVESTMENT IN A SUBSIDIARY

On 20 November 2014, the Company registered a subsidiary in England and Wales, namely State Grid Europe Development (2014) Public Limited Company, with a registered capital of GBP50,000 which was subsequently paid in 2015. The entity was set up for bond issuance purpose.

Company	31 December 2018 EUR	31 December 2017 EUR
Investment in subsidiary		
50,000 GBP translated at 20 November 2014, rate of exchange of Euro 1.2514/GBP	62,570	62,570

8. INVESTMENT IN ASSOCIATES

Group	2018 EUR	2017 EUR
At 1 January	2,988,948,090	2,557,358,342
Addition	-	389,970,943
Share of profit from associates	230,396,420	216,939,941
Share of other comprehensive income from associates	1,475,190	(1,970,560)
Dividends received	(172,765,255)	(173,227,029)
Other adjustment	(182,240)	(123,547)
At 31 December	3,047,872,205	2,988,948,090

Company – Cost and Net book Value	2018 EUR	2017 EUR
At 1 January	2,859,761,443	2,469,790,500
Addition	-	389,970,943
At 31 December	2,859,761,443	2,859,761,443

On 31 May 2012, the Company completed the acquisition of 25% of the share capital of Redes Energeticas Nacionais, SGPS, S.A. engaged in operating electric and natural gas transmission grid and listed on the Portugal Stock Exchange.

On 27 November 2014, the Company completed the acquisition of 35% of the share capital of Cassa Depositie Prestiti Reti, an Italian electric and gas network holding company. In Italy, CDP RETI holds a 29.85% equity interest in Terna, a 30.10% equity interest in SNAM and a 26.04% equity interest in ITALGAS. Terna is a national electricity transmission company in Italy, the largest independent network operator in Europe and one of the leading operators in the world by km of managed line. SNAM is a national natural gas company in Italy, engaging in regulated businesses such as gas transmission, gas storage and regasification. ITALGAS, previously part of SNAM Group, is the leading Italian natural gas transportation and dispatching operator, and owns almost all the transportation infrastructures in Italy and the third in Europa. In the opinion of the Directors, the value of the investments in associates are not less than the amount at which they are carried in the financial statements.

On 20 June 2017, the Company completed the acquisition of a 24% stake in Independent Power Transmission Operator. IPTO is the only transmission operator which owns and operates the national power transmission network in Greece.

## STATE GRID EUROPE LIMITED

## NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 8. INVESTMENT IN ASSOCIATES (continued)

On 7 December 2017, the Company engaged the subscription of share capital increase of REN-Redes Energeticas Nacionais, SGPS, S.A.. After the subscription, the Company's share holding at REN remains at 25%.

The associated undertakings of the Company at 31 December 2018 and the percentage of equity capital held are set out below. The principal country of operation is generally indicated by the Company's country of incorporation or by its name.

Associated undertaking	Class of shares held	%	Country of incorporation	Principal activity
REN-Redes Energeticas Nacionais, SGPS, S.A.	Ordinary	25%	Portugal	Electric and gas network grid
Cassa Depositi e Prestiti Reti S.p.a.	Ordinary	35%	Italy	Electric and gas network grid
Independent Power Transmission Operator	Ordinary	24%	Greece	Electric transmission network

The following table illustrates the summarised financial information of the Company's associates, extracted from their audited financial statements. The below figures of CDP RETI are inclusive of the non-control interests.

Year 2018			
EUR			
	REN S.p.A.	CDP RETI S.p.A.	IPTO
Assets	5,191,574,000	54,013,006,000	3,112,596,000
Liabilities	3,727,737,000	39,187,573,000	2,084,589,000
Revenues	727,207,000	6,524,477,000	249,236,000
Profit	115,715,000	1,732,892,000	85,868,000

Year 2017			
EUR			
	REN S.p.A.	CDP RETI S.p.A.	IPTO
Assets	5,364,676,000	52,427,839,000	3,738,684,000
Liabilities	3,935,487,000	37,524,706,000	2,771,470,000
Revenues	748,366,000	6,337,629,000	256,489,000
Profit	125,925,000	1,661,322,000	61,737,000

STATE GRID EUROPE LIMITED

NOTES TO FINANCIAL STATEMENTS

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9. CASH AND CASH EQUIVALENTS

Group	31 December 2018 EUR	31 December 2017 EUR
Cash and cash equivalents	<u>95,682,109</u>	<u>4,749,959</u>
Company	31 December 2018 EUR	31 December 2017 EUR
Cash and cash equivalents	<u>95,625,891</u>	<u>4,692,677</u>

Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and Company. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

10. OTHER PAYABLES AND ACCRUALS

Group and Company	31 December 2018 EUR	31 December 2017 EUR
Other payables to the immediate parent	1,337,072,590	1,392,909,001
Other	<u>529,001</u>	<u>10,700,427</u>
	<u>1,337,601,591</u>	<u>1,403,609,428</u>

Other payables to the immediate parent are non-interest-bearing with no fixed terms of repayment. The Company believes that the carrying amounts are a reasonable approximation to the fair value.

11. BONDS, LOAN AND INTEREST PAYABLE

Group	31 December 2018 EUR	31 December 2017 EUR
Bonds payable		
- Bond value	1,000,000,000	1,000,000,000
- Initial issue costs	(6,715,000)	(6,715,000)
- Accumulated accretion	2,889,910	2,134,188
Total	<u>996,174,910</u>	<u>995,419,188</u>
Interest payable	<u>16,578,493</u>	<u>16,578,493</u>

## STATE GRID EUROPE LIMITED

## NOTES TO FINANCIAL STATEMENTS

31 December 2018

## 11. BONDS, LOAN AND INTEREST PAYABLE (continued)

Company	31 December 2018 EUR	31 December 2017 EUR
Loan payable		
- Loan value	1,000,000,000	1,000,000,000
- Initial issue costs	(6,715,000)	(6,715,000)
- Accumulated accretion	2,889,910	2,134,188
Total	996,174,910	995,419,188
Interest payable	16,578,493	16,578,493

On 26 January 2015, The Company entered inter-company loan agreement with State Grid Europe Development (2014) Public Limited Company which is an indirect, wholly owned subsidiary of SGEL. State Grid Europe Development (2014) completed a public issuance of long term guaranteed bonds with a face value of EUR700 million and EUR300 million. All expenses incurred by SGED are borne by SGEL. The details of the guaranteed bonds are listed as below:

- a EUR700 million guaranteed bond will be due in 2022, carries coupon interest at a rate of 1.50% per year, and bears effective interest at a rate of 1.5781% per year; Coupon interests are paid annually on 26 January;
- b EUR300 million guaranteed bond will be due in 2027, carries coupon interest at a rate of 2.45% per year, and bears effective interest at a rate of 2.5516% per year. Coupon interests are paid annually on 26 January.

## 12. SHARE CAPITAL

Group and Company	31 December 2018 EUR	31 December 2017 EUR
Allotted, called up and fully paid		
50,000 ordinary shares of GBP1.00 each translated at 11 November 2011, rate of exchange of Euro 1.169/GBP	<u>58,438</u>	<u>58,438</u>
9,950,000 ordinary shares of GBP1.00 each translated at 18 November 2014, rate of exchange of Euro 1.277/GBP	<u>12,710,000</u>	<u>12,710,000</u>

On 11 November 2011, 50,000 ordinary shares of 1 GBP each for a total nominal value of GBP50,000 were allotted to the immediate parent company at par value.

On 18 November 2014, 9,950,000 ordinary shares of 1 GBP each for a total nominal value of GBP9,950,000 were allotted to the immediate parent company at par value.

## NOTES TO FINANCIAL STATEMENTS

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## 12. SHARE CAPITAL (continued)

*Capital management*

The Group's and Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group and Company manage their capital structure and make adjustments to them in light of changes in economic conditions. To maintain or adjust the capital structure, the Group and Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the year ended 31 December 2018.

The Group and Company monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt is calculated as the total of amount due to the immediate parent, less cash and cash equivalents. Capital includes equity attributable to owners of the Company.

Group	31 December 2018 EUR	31 December 2017 EUR
Other payables and accruals	1,337,601,591	1,403,609,428
Bonds payables	996,174,910	995,419,188
Less: Cash and cash equivalents	(95,682,109)	(4,749,959)
Net debt	2,238,094,392	2,394,278,657
Equity	793,407,986	578,127,610
Net debt and equity	3,031,502,378	2,972,406,267
Gearing ratio	74%	81%

Company	31 December 2018 EUR	31 December 2017 EUR
Other payables and accruals	1,337,601,591	1,403,609,428
Bonds payable	996,174,910	995,419,188
Less: Cash and cash equivalents	(95,625,891)	(4,692,677)
Net debt	2,238,150,610	2,394,335,939
Equity	605,304,514	448,947,275
Net debt and equity	2,843,455,124	2,843,283,214
Gearing ratio	79%	84%

STATE GRID EUROPE LIMITED

NOTES TO FINANCIAL STATEMENTS

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13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's and Company's exposure to credit risk, and liquidity risk arises in the normal course of their business. These risks are managed by the parent company financial management policies and practices described below:

*Credit risk*

The carrying amounts of cash and cash equivalents and other current assets except for prepayments, represent the Group and Company's maximum exposure to credit risk in relation to financial assets. All the Group and Company's cash and cash equivalents are held at major financial institution located in the UK, which management believes are of high credit quality.

*Liquidity risk*

The Group and Company aims to maintain sufficient cash and credit lines to meet their liquidity requirements. The Group and Company finances its working capital requirements through a combination of funds generated from operation and amounts due to a fellow subsidiary.

The maturity profile of the Group's and Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	31 December 2018		
	On demand EUR	2- 5 years EUR	More than 5 year EUR
Interest payable	16,578,493	-	-
Other payables due to immediate parent company	1,337,072,590	-	-
Other payables due to others	529,001	-	-
Bond payable	-	698,373,001	297,801,909

	31 December 2017		
	On demand EUR	2- 5 years EUR	More than 5 year EUR
Interest payable	16,578,493	-	-
Other payables due to immediate parent company	1,392,909,001	-	-
Other payables due to others	10,700,427	-	-
Bond payable	-	697,859,821	297,559,367

## 13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## Company

	31 December 2018		
	On demand EUR	2- 5 years EUR	More than 5 year EUR
Interest payable	16,578,493	-	-
Other payables due to immediate parent company	1,337,072,590	-	-
Other payables due to others	529,001	-	-
Loan payable	-	698,373,001	297,801,909

	31 December 2017		
	On demand EUR	2- 5 years EUR	More than 5 year EUR
Interest payable	16,578,493	-	-
Other payables due to immediate parent company	1,392,909,001	-	-
Other payables due to others	10,700,427	-	-
Loan payable	-	697,859,821	297,559,367

The carrying amounts and fair values of the financial instruments are as follows:

Group	Carrying amounts 2018 EUR	Fair values 2018 EUR	Carrying amounts 2017 EUR	Fair values 2017 EUR
Financial assets:				
Cash and cash equivalents	95,682,109	95,682,109	4,749,959	4,749,959
Other receivables	56,556	56,556	36,030	36,030
Financial liabilities:				
Other payables and accruals	1,337,601,591	1,337,601,591	1,403,609,428	1,403,609,428
Interest payable	16,578,493	16,578,493	16,578,493	16,578,493
Bonds payable	996,174,910	996,174,910	995,419,188	995,419,188

Company:	Carrying amounts 2018 EUR	Fair values 2018 EUR	Carrying amounts 2017 EUR	Fair values 2017 EUR
Financial assets:				
Cash and cash equivalents	95,625,891	95,625,891	4,692,677	4,692,677
Other receivables	56,556	56,556	36,030	36,030
Financial liabilities:				
Other payables and accruals	1,337,601,591	1,337,601,591	1,403,609,428	1,403,609,428
Interest payable	16,578,493	16,578,493	16,578,493	16,578,493
Loan payable	996,174,910	996,174,910	995,419,188	995,419,188

13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a normal transaction between willing parties, other than in a forced or liquidation sale. The fair values of bonds and loans payable are based on the discounted value of future cash flows using applicable rates for similar type of loans and these approximate the carrying amounts. The fair value of other financial assets and liabilities approximate their carrying amounts due to the short term nature and collectability.

14. RELATED PARTY TRANSACTIONS

The Company entered inter-company loan agreement with State Grid Europe Development (2014) Public Limited Company which is an indirect, wholly owned subsidiary of SGEL. State Grid Europe Development (2014) completed a public issuance of long term guaranteed bonds with a face value of EUR700 million and EUR300 million. All expenses incurred by SGED are borne by SGEL.

15. AUDIT FEE

The audit fee for the Company is EUR33,373 (2017: EUR 31,362) excluding taxes and paid by State Grid Europe Limited.