



State Grid Europe Limited

Registered No. 07844667

Strategic report, Directors' report and Financial Statements

Year ended 31 December 2020

STATE GRID EUROPE LIMITED

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STATE GRID EUROPE LIMITED

STRATEGIC REPORT

Principal activity and review of the business

State Grid Europe Limited ("the Company") was incorporated on 11 November 2011.

The principal activities of the Company are: (1) to make investment in the European power & utilities sector and financial market (2) to access capital by adequate financing instruments (3) to hold and manage the Company's current investments.

The profit for the year after taxation for the Company was EUR 170,081,137 (2019: EUR 157,435,398). The increase in profit this year resulted from the growing dividend contributed by the company's investment.

From 2012 to 2017, the Company completed the acquisition of 25% of the share capital of REN-Redes Energeticas Nacionais, SGPS, S.A. (REN), 35% of the share capital of Cassa Depositie Prestiti Reti (CDP RETI), 24% stake in Independent Power Transmission Operator (IPTO).

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

As the Company's EUR700 million guaranteed bond is due to expire in January 2022, the directors expect to issue a new bond in the latter half of 2021. This will be on commensurate terms and for an equal or greater value than the existing bond.

On 17 October 2019, 775,525,500 ordinary shares of 1 GBP each for a total nominal value of GBP775,525,500 were allotted to the immediate parent company at par value in exchange for an extinguishment of debt. This impact resulted in a reduction in other payables of EUR 885,000,000 and a corresponding increase in equity.

Key performance indicators

Investment performance is the key financial and performance indicator identified for this company.

The following table sets out a summary of selected operating information for 2020 and 2019.

	Period ended 31 December 2020 EUR	Period ended 31 December 2019 EUR	Variance %
Net income	170,081,138	157,435,398	8.03
Finance cost	18,903,797	18,672,483	
Income tax expense	-	1,027,175	
EBITDA	188,984,934	177,135,056	6.69

Compliance with Section 172 of the Companies Act

The directors of the Company must act in accordance with a set of general duties in order to promote the success of the Company for the benefit of its members as a whole. These duties are detailed in Section 172 of the Companies Act 2006 and are sections relevant to our business are summarised below along with the actions undertaken by the Board to meet these requirements:

STATE GRID EUROPE LIMITED

STRATEGIC REPORT

Strategic Aims and likely consequences in the long term

The strategy for achieving the Company's objectives is underpinned by investment performance of its underlying associate investments.

The directors also give consideration to the risks facing the business and regularly review these taking the appropriate steps to safeguard the interests of its investments and shareholders.

Employee interests and involvement

The Company recognises that employees are fundamental and core to the business. The success of the business depends on attracting, retaining and motivating employees. The Company provided employees with information on matters of concern to them, consulting them regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Company is encouraged by regular employee meetings with directors.

Business relationships with customers, supplier and other stakeholders

The Company does not have customers or suppliers.

Regular interactions are held with management of the underlying associate investments to gauge investment performance and to keep up to date with latest developments in the sector. The Board are involved in setting the strategy and the subsequent monitoring of performance against this.

The impact of the Company's operations on the community and environment

State Grid Europe Limited is committed to making all reasonable efforts to minimise the impact placed on the environment as a result of business activities. As an organisation we seek to reduce the burden placed on the environment through sustainable business practices by regularly reviewing the environmental aspects and impacts associated with the Company's activities.

The desirability of the company maintaining a reputation for high standards of business conduct

It is the Group's policy to conduct all business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, implementing and enforcing effective systems to counter bribery and corruption.

We also maintain an ongoing dialogue with the Company's immediate owner through formal communication of operational and financial information on a monthly basis, as well as through numerous other interactions periodically through the year. We use these interactions to ensure that both the strategic direction of the Company and the standards we maintain in conducting our business is aligned with the Company's objectives and those of our external stakeholders.

STATE GRID EUROPE LIMITED

STRATEGIC 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.
- Liquidity risk - Liquidity risk could be crucial when associates have no ability to pay dividends due to the company, and the company may not be able to service the debt held by its subsidiary company, SGED. However, the company has confidence this risk is suitably low, even in downside scenarios, for the following reasons: 1) associates' businesses are operated under well-established regulatory frameworks that provide stable and visible cash flows, and dividends from associates have been received on time even during the COVID-19 lockdown period. 2) the Company has sufficient equity 3) the debt held by its subsidiary company SGED is guaranteed by SGID (immediate parent company).
- 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's business. The Company has also considered the impact of dividend withholding tax after Brexit and the impact is considered to be very limited. The company's business operations have continued as normal after the Brexit transition period, the Directors considered that Brexit has not had a significant impact on the company. The Company will pay close attention to potential new rules and changes may take effect at the Company caused by Brexit (for example the UK may enter a new trade/treaty deal with other European countries) and assess the impact continuously.

Statement of Compliance with Streamlined Energy and Carbon Reporting

The Company meets the definition of a low energy user with a minimal carbon footprint in the UK (<40MWh of energy consumption in the period) and consequently no further disclosure has been made.

By Order of the Board

Yu Jun

For and on behalf of
State Grid Europe Limited

20 July 2021

Registered Office:

Level 3, 40 Bank Street
London, E14 5NR

STATE GRID EUROPE LIMITED

DIRECTORS' REPORT

Board of Directors:

Yu, Jun (appointed on 31 March 2021)

Wang, Ying

The directors present their report and the financial statements of State Grid Europe Limited for the year ended 31 December 2020.

Proposed dividends

The Company has declared a dividend of EUR 150,000,000 during the year (2019: EUR 358,183,000).

Customers and suppliers.

As the principal activity of the Company is to make investments, the Company does not have customers or suppliers.

Financial instruments

There are no changes regarding financial instruments during the year.

The Company purchased Industrial and Commercial Bank of China (ICBC) preference shares from secondary market at the fair value of EUR 19,472,315 in 2019. The fair value of the financial asset is based on market prices at the end of the shares quoted in Industrial and Commercial Bank of China Limited (ICBC) at the end of reporting period. These financial assets are not held for short-term trading purposes.

Future developments

The company will continue to pursue appropriate investment opportunities in the European regulated energy networks sector. The company will also continue to provide operating, financing and technology support to the associates and increase their value.

In addition, the company will continue to access the capital market to explore financing alternatives for its investment, and to perform cash management by investing and managing adequate financial assets.

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.

As the Company's EUR700 million guaranteed bond is due to expire in January 2022, the directors expect to issue a new bond in the latter half of 2021. This is expected to be on commensurate terms and for an equal or greater value than the existing bond.

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

STATE GRID EUROPE LIMITED

Directors

The present directors are listed on page 7 and all served as directors throughout the financial year, except as disclosed below:

Li Haixiang (appointed on 5 December 2019, resigned on 31 March 2021)

Wang Ying

Yu, Jun (appointed on 31 March 2021)

Wang Ying is a UK resident.

Directors' indemnity

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

COVID-19

As coronavirus (COVID-19) is having a significant impact on businesses and the economy in UK, the company, therefore, may be impacted by liquidity risk.

Liquidity risk could be crucial when associates have no ability to pay dividends due to the company, and the company may not be able to service the debt held by its subsidiary company, SGED.

However, the company has confidence this risk is suitably low, even in downside scenarios, for the following the reasons: 1) associates' businesses are operated under well-established regulatory frameworks that provide stable and visible cash flows, and dividends from associates have been received on time even during the COVID-19 lockdown period. 2) the Company has sufficient equity 3) the debt hold by its subsidiary company SGED is guaranteed by SGID (immediate parent company).

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the date of signing of these financial statements, please see note 1.3 on page 18 for further details.

Political donations

The Company has made nil (2019: nil) political donations during the year.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office

STATE GRID EUROPE LIMITED

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

The directors who held office at the date of approval of this directors' report confirm that:

- So far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and
- Each director has taken all the steps that he/ she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By Order of the Board



Yu Jun

For and on behalf of
State Grid Europe Limited

20 July 2021

Registered Office:

Level 3, 40 Bank Street

London, E14 5NR

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these 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 international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the 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 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are 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 company and to prevent and detect fraud and other irregularities.

STATE GRID EUROPE LIMITED

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 2020 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, 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 company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- 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 company 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 company or to cease its operations, and as they have concluded that 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 its 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").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

STATE GRID EUROPE LIMITED

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there are no revenue transactions, only limited dividend income.

We did not identify any additional fraud risks.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted outside the normal course of business.

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Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Company is subject to other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

STATE GRID EUROPE LIMITED

Strategic report and directors' report

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

Our responsibility is to read the strategic report and 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 strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have 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, 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 these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, 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 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 company or to cease operations, or have no realistic alternative but to do so.

STATE GRID EUROPE LIMITED

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

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.

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.



Alexander Chong (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

66 Queen Square,

Bristol,

BS1 4BE

20 July 2021

STATE GRID EUROPE LIMITED

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Statement of comprehensive income

For the year ended 31 December 2020

	Notes	Year 2020 EUR	Year 2019 EUR
Dividend income		190,925,365	178,313,043
Other income		1,495,483	1,494,834
Administrative and other expenses		(3,716,389)	(2,735,206)
OPERATING PROFIT		188,704,459	177,072,671
Financial expenses	4	(18,903,797)	(18,672,483)
Exchange gain	3	280,475	62,385
PROFIT BEFORE TAX		170,081,137	158,462,573
Income tax expense	5	-	(1,027,175)
PROFIT FOR THE YEAR		170,081,137	157,435,398
OTHER COMPREHENSIVE INCOME			
Items will not be reclassified to P&L:			
Net change in fair value of financial assets at FVOCI		(931,140)	73,595
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		169,149,997	157,508,993

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

The notes on pages 24 to 26 are an integral part of these financial statements.

STATE GRID EUROPE LIMITED

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Statement of financial position

At 31 December 2020

	Notes	31 December 2020 EUR	31 December 2019 EUR
NON-CURRENT ASSETS			
Property, plant and equipment		17,483	22,063
Investment in subsidiaries	8	62,570	62,570
Investment in associates	9	2,859,761,443	2,859,761,443
Financial assets	15	18,541,174	19,472,315
Long-term deferred expenses		92,697	118,391
Total non-current assets		2,878,475,367	2,879,436,782
CURRENT ASSETS			
Cash and cash equivalents	10	24,145,944	95,879,477
Other receivables		20,888	31,512
Total current assets		24,166,832	95,910,989
CURRENT LIABILITIES			
Interest payable	12	(16,578,338)	(16,578,493)
Other payables and accruals	11, 13	(579,553,703)	(672,193,852)
Total current liabilities		(596,132,041)	(688,772,345)
NET CURRENT LIABILITIES		(571,965,209)	(592,861,356)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,306,510,158	2,286,575,426
NON-CURRENT LIABILITY			
Loan payable	12	(997,729,654)	(996,944,919)
Total non-current liability		(997,729,654)	(996,944,919)
NET ASSETS		1,308,780,504	1,289,630,507
EQUITY			
Share capital	14	897,768,438	897,768,438
Other reserve		(857,545)	73,595
Retained earnings		411,869,611	391,788,474
SHAREHOLDER'S FUNDS		1,308,780,504	1,289,630,507

The notes on pages 17 to 38 are an integral part of these financial statements

The financial statements were approved by the Board of Directors and signed on their behalf on 20 July 2021 by:

Director

Yu Jun



STATE GRID EUROPE LIMITED

STATE GRID EUROPE LIMITED

Statement of changes in equity

At 31 December 2020

	Share capital EUR	Other reserve EUR	Retained earnings EUR	Total EUR
At 31 December 2019	897,768,438	73,595	391,788,474	1,289,630,507
Profit for the year	-	-	170,081,137	170,081,137
Net change in fair value of financial assets at FVOCI	-	(931,140)	-	(931,140)
Total comprehensive (loss)/ income for the year	-	(931,140)	170,081,137	169,149,997
Distribution to shareholders			(150,000,000)	(150,000,000)
At 31 December 2020	897,768,438	(857,545)	411,869,611	1,308,780,504

	Share capital	Other reserve	Retained earnings	Total
At 31 December 2018	12,768,438	-	592,536,076	605,304,514
Profit for the year	-	-	157,435,398	157,435,398
Net change in fair value of financial assets at FVOCI	-	73,595	-	73,595
Total comprehensive income for the year	-	73,595	157,435,398	157,508,993
Share capital issue	885,000,000			885,000,000
Distribution to shareholders			(358,183,000)	(358,183,000)
At 31 December 2019	897,768,438	73,595	391,788,474	1,289,630,507

The notes on pages 17 to 38 are an integral part of these financial statements

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Statement of cash flows

For the year ended 31 December 2020

	Notes	Year 2020 EUR	Year 2019 EUR
Operating activities			
Profit for the year		170,081,137	158,462,573
Adjustments for:			
Dividend Income received		(190,925,365)	(178,313,043)
Dividends received (net of withholding tax paid)		190,925,365	177,285,868
Other income		(433,123)	(432,474)
Investment income from financial assets		(1,062,360)	(1,062,360)
Interest expense		18,634,735	18,620,009
Foreign exchange gains		(280,475)	(62,385)
(Increase) / Decrease in other receivables		(17,626)	25,982
Decrease in other payables		-	(529,001)
Decrease in long term deferred expenses		27,321	31,132
Net cash inflow from operating activities		186,949,609	174,026,301
Investing activities			
Investment in PP&E		4,580	(19,476)
Investment income from financial assets		1,062,360	1,062,360
Acquisition of financial assets		-	(19,398,720)
Associated Directors Fees		433,123	432,474
Net cash inflow from investing activities		1,500,063	1,475,358
Financing activities			
(Decrease) / Increase in other payables to parent		(40,430,679)	17,938,262
Dividends paid		(202,183,000)	(156,000,000)
Interest paid		(17,850,000)	(17,850,000)
Net cash outflow from financing activities		(260,463,679)	(175,310,458)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(72,014,007)	191,201
Cash and cash equivalents at beginning of year		95,879,477	95,625,891
Effect of foreign exchange rate changes, net		280,474	62,385
CASH AND CASH EQUIVALENTS AT END OF YEAR	9	24,145,944	95,879,477

The notes on pages 17 to 38 are an integral part of these financial statements.

STATE GRID EUROPE LIMITED

STATE GRID EUROPE LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE INFORMATION

State Grid Europe Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK, incorporated as a private company on 11 November 2011. The registered number is 07844667 and the registered address is Level 3, 40 Bank Street, London, E14 5NR. The issued share capital of the Company is GBP785,525,500.

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

The immediate parent of the Company is State Grid International Development Limited, whose registered office is located at Suite 1304, 13F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong, and the ultimate holding company is State Grid Corporation of China, whose registered office is located at 15 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 20 July 2021.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

1.1 STATEMENT OF COMPLIANCE

The Company financial statements have been prepared and approved by the directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements

1.2 ACCOUNTING CONVENTION

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: certain financial assets measured at fair value. The Company's financial statements are presented in Euro ("EUR"), which is also the Company's functional currency.

1.3 BASIS OF PREPARATION

As at 31 December 2020, the Company's Statement of financial position had net current liabilities amounting to EUR571,965,209 (31 December 2019: EUR592,861,356). The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

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NOTES TO FINANCIAL STATEMENTS

31 December 2020

1.3 BASIS OF PREPARATION (continued)

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

Those forecasts are dependent on the company's immediate parent company State Grid International Development Limited ("SGID") not seeking repayment of the amounts currently due to it by the Company, which at 31 December 2020 amounted to EUR579,553,703, and providing additional financial support during that period. This includes the fact that its fellow subsidiary's EUR700,000,000 guaranteed bond is due for repayment in January 2022. Whilst the subsidiary expects to renew a new bond, if it were either unable to or chose not to renew the bond, SGID has indicated that it would provide additional support during the period, including in respect of repayment of the bond if required.

SGID has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet 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 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.

1.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective date 01 January 2021)

The amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* is to assist companies in providing useful information to investors about the effects of interest rate benchmark reform on financial statements.

The main proposed amendments relate to:

- modifications—a company would not derecognise or adjust the carrying amount of financial instruments for modifications required by interest rate benchmark reform, but would instead update the effective interest rate to reflect the change in the interest rate benchmark;
- hedge accounting—a company would not discontinue its hedge accounting solely because of replacing the interest rate benchmark if the hedge meets other hedge accounting criteria; and
- disclosures—a company would disclose information about new risks arising from the interest rate benchmark reform and how it manages the transition to alternative benchmark rates.

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NOTES TO FINANCIAL STATEMENTS

31 December 2020

1.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments

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 assets

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI 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.

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.

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; 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.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Investments in associates and subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

STATE GRID EUROPE LIMITED

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NOTES TO FINANCIAL STATEMENTS

31 December 2020

1.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets, (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

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.

Equity investments at FVOCI - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial Liabilities

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

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.

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NOTES TO FINANCIAL STATEMENTS

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1.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

Impairment of Financial Assets

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, financial assets (preference shares) 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, 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.

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NOTES TO FINANCIAL STATEMENTS

31 December 2020

1.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. For income tax arising on dividends, the related tax is recognised in the income statement, statement of other comprehensive income, or in equity consistently with the transactions that generated the distributable profits.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

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 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 Company's functional and presentation currency.

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

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NOTES TO FINANCIAL STATEMENTS

31 December 2020

1.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividend payable

Article 34 of the Company's Articles of Association allows the Company to pay interim dividends if the directors have made a recommendation as to its amount.

Under Companies Act 2006 (the "2006 Act"), a company is not permitted to make a distribution except out of profits available for the purpose (being its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated realised losses, so far as not previously written off in a reduction or reorganisation of capital duly made).

The Company shall carefully consider the profitability since the date of the last annual accounts, a more up to date set of accounts drawn up to a more recent date that includes those later realised profits in order to assess whether the Company's profits available for distribution had been eroded since that date otherwise than by the making of distributions. The Company shall carefully consider the effect of the dividend would have on the Company's ability to pay its debts as they fall due, having regard to the entirety of the Company's businesses and the actual and contingent liabilities (present and future) inherent in that business.

When the distribution of dividend is approved by the Board of Directors, the Company entails the recording of a payable in the financial statements for the period.

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 investments in associates

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 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.

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3 Expenses and Auditor's remuneration

Included in profit/loss are the following:

	Year	Year
	2020	2019
	EUR	EUR
Foreign exchange gains	<u>280,475</u>	<u>62,385</u>
Auditor's remuneration	<u>42,320</u>	<u>35,126</u>

4 NET FINANCE COSTS

	Year	Year
	2020	2019
	EUR	EUR
Interest income	(60)	(54)
Interest expense	18,892,856	18,620,009
Others	<u>11,001</u>	<u>52,528</u>
	<u>18,903,797</u>	<u>18,672,483</u>

5 TAX

(a) Analysis of tax charge

	Year	Year
	2020	2019
	EUR	EUR
United Kingdom corporation tax		
Current tax	—	—
Greece corporation tax		
Withholding tax in respect of current period	—	1,027,175
Total current tax (note 5(b))	—	<u>1,027,175</u>

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NOTES TO FINANCIAL STATEMENTS

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5 TAX (continued)

(b) Factors affecting the tax charge

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%. The differences are reconciled below:

	31 December 2020	31 December 2019
	EUR	EUR
Profit on ordinary activities before tax	170,081,137	158,463,573
Tax charge on ordinary activities at UK tax rate	32,315,416	30,107,889
Dividend income not taxable	(36,275,819)	(34,081,327)
Non-recognised deductible temporary differences	3,144,739	3,103,087
Expenses not deductible	-	25,234
Unrecognised tax losses	815,664	845,117
Withholding tax in respect of current period	==	1,027,175
Total tax (note 5(a))	==	1,027,175

(c) Tax losses

	Year	Year
	2020	2019
	EUR	EUR
Tax losses brought forward, beginning of period	57,974,930	53,526,946
Tax losses carried forward current year	4,562,506	4,447,984
Tax Losses utilised current year	-	-
Tax Losses carried forward, ending of period	62,537,436	57,974,930

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK corporation tax as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020, Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the company's future tax charge. The UK Budget Announcement on 3 March 2021 stated that the corporation tax would increase to 25% (effective 1 April 2023), this increase has not yet been substantively enacted. The UK Budget Announcement on 3 March 2021 stated that the corporation tax would increase to 25% (effective 1 April 2023), this increase was substantively enacted on 14 May 2021 will increase the company's future current tax charge accordingly and increase the unrecognised deferred tax asset at 31 December 2020.

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NOTES TO FINANCIAL STATEMENTS

31 December 2020

5 TAX (continued)

After fully considered the company's current business and operation, the company is of view that it is not prudent to recognize deferred tax asset at this point in time. The Company considers the operating strategy of the preference shares (see note 14) is not for short-term trading purposes, thus deferred tax liabilities are not recognised.

(d) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items because it is not probable that future taxable profit will be available against which the Company can use the benefits therefrom. Of the tax losses, €61,282,466 (2019: €44,930,856) relate to losses restricted through the corporate interest restriction and are not available to offset against future profits.

	2020	2020	2019	2019
	EUR	EUR	EUR	EUR
	Gross amount	Tax effect	Gross amount	Tax effect
Tax losses	62,537,436	11,882,113	57,974,930	11,015,237
	<u>62,537,436</u>	<u>11,882,113</u>	<u>57,974,930</u>	<u>11,015,237</u>

6 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analyzed by category, was as follows:

	Number of employees	
	2020	2019
Director	2	2
Administrations	5	5
	<u>7</u>	<u>7</u>

The aggregate payroll costs of these persons were as follows:

	2020	2019
	€'000	€'000
Wages and salaries before tax	1,522	1,259
Social security costs	117	93
	<u>1,639</u>	<u>1,352</u>

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NOTES TO FINANCIAL STATEMENTS

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6 Staff numbers and costs (continued)

The administrations include the expatriate employees who are responsible for managing business activities in London office as well as supporting Europe investment. The total employee costs incurred are EUR 1,638,952 (2019: EUR 1,351,604), including staff salaries and social security costs, these costs are borne by the Company.

7 DIRECTORS' REMUNERATION

The total directors' fee for the company and its wholly owned subsidiary State Grid Europe Development (2014) Public Limited Company during the financial year is GBP 15,000 and are borne by the company.

8 INVESTMENT IN SUBSIDIARIES

Summary of results and financial position

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 (50,000 ordinary shares of 1 GBP each for a total nominal value of GBP50,000) which was subsequently paid in 2015. The entity was set up for bond issuance purposes.

Registered address

Level 3 40 Bank Street, London, United Kingdom, E14 5NR

Company

31 December 2020

31 December 2019

EUR

EUR

Investment in subsidiary

50,000 GBP translated at 20 November 2014, rate of

exchange of Euro 1.2514/GBP

62,570

62,570

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9 INVESTMENT IN ASSOCIATES

	2020	2019
Cost	EUR	EUR
At 1 January	2,859,761,443	2,859,761,443
At 31 December	<u>2,859,761,443</u>	<u>2,859,761,443</u>

On 31 May 2012, the Company completed the acquisition of 25% of the share capital of Redes Energéticas 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 Depositi e 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 Europe.

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.

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

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.

The associated undertakings of the Company at 31 December 2020 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 Energéticas 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 (IPTO)	Ordinary	24%	Greece	Electric transmission network

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NOTES TO FINANCIAL STATEMENTS

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9 INVESTMENT IN ASSOCIATES (continued)

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-controlling interests.

Year 2020			
	EUR		
	REN S.p.A.	CDP RETI S.p.A.	IPTO
Assets	5,248,658,000	62,349,413,000	3,082,042,000
Liabilities	3,840,958,000	46,589,837,000	1,716,845,000
Revenues	758,333,000	7,471,431,000	286,674,000
Profit	109,249,000	1,973,926,000	84,938,000
Year 2019			
	EUR		
	REN S.p.A.	CDP RETI S.p.A.	IPTO
Assets	5,305,305,000	57,500,604,000	2,932,201,000
Liabilities	3,859,160,000	42,088,898,000	1,602,295,000
Revenues	786,763,000	6,900,526,000	249,778,000
Profit	118,899,000	1,911,691,000	105,593,000

Impairment testing

The entity tests its investment portfolio annually for impairment and calculates each investment's recoverable amount with reference to the specific investment's value in use. In the current period, the Company has performed value in use testing specifically for the REN S.p.A. investment in the current period, of which the remainder of this disclosure relates. In 2019, no indicators of impairment were noted in the comparative year.

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NOTES TO FINANCIAL STATEMENTS

31 December 2020

9 INVESTMENT IN ASSOCIATES (continued)

	2020	2019
Recoverable amount	544,498,974	N/A
Investment carrying value	426,959,443	N/A
Headroom	117,539,531	N/A

The key assumptions used in the VIU calculations are shown below:

	2020	2019
Dividend per share	€0.171	N/A
Growth rate applied beyond approved forecast period	1.3%	N/A
Discount rate	6.3%	N/A

The growth rates used in the value in use calculation reflect the Director's expected growth in dividend inflows into perpetuity and equate to consumer price index inflation.

Sensitivity analysis for the REN investment in the current period has been performed as follows whereby key assumptions were sensitised to indicate the respective percentage reduction in net present value as a result. Compared to the recoverable amount of 544,498,974, the sensitivity analysis shows the following movements.

	Movement in Headroom
	2020
+0.5% Discount rate	-9.04%
-0.5% Discount rate	+11.05%
-1% perpetuity growth rate	-13.66%
-5% Dividend per share	-5.00%

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10 CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
	EUR	EUR
Cash and cash equivalents	<u>24,145,944</u>	<u>95,879,477</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 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.

11 OTHER PAYABLES AND ACCRUALS

	31 December 2020	31 December 2019
	EUR	EUR
Dividend payable	150,000,000	202,183,000
Other payables to the immediate parent	429,553,703	470,010,852
Other	-	-
	<u>579,553,703</u>	<u>672,193,852</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.

For further information on Dividend payable, please refer to Note 12.

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NOTES TO FINANCIAL STATEMENTS

31 December 2020

12 BONDS, LOAN AND INTEREST PAYABLE

	31 December 2020	31 December 2019
	EUR	EUR
Loan payable		
- Loan value	1,000,000,000	1,000,000,000
- Initial issue costs	(6,715,000)	(6,715,000)
- Accumulated accretion	4,444,654	3,659,919
	<hr/>	<hr/>
Total	997,729,654	996,944,919
	<hr/>	<hr/>
Interest payable	16,578,338	16,578,493
	<hr/>	<hr/>

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 the Company. SGED 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 the Company. The details of the guaranteed bonds are listed as below:

- a EUR700 million guaranteed bond will be due in January 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 January 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.

The bond shall be repayable by the Company on 26 January 2022 in respect of EUR 700 million guaranteed bond and on 26 January 2027 in respect of EUR 300 million guaranteed bond, or as otherwise agreed between the SGEL and the company.

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NOTES TO FINANCIAL STATEMENTS

31 December 2020

13 DIVIDEND PAYABLE

Article 34 of the Company's Articles of Association allows the Company to pay interim dividends if the directors have made a recommendation as to its amount.

Under Companies Act 2006 (the "2006 Act"), a company is not permitted to make a distribution except out of profits available for the purpose (being its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated realised losses, so far as not previously written off in a reduction or reorganisation of capital duly made).

The Company has considered carefully the Company's profits available for distribution, and the effect of the dividend would have on the Company's ability to pay its debts as they fall due, having regard to the entirety of the Company's businesses and the actual and contingent liabilities (present and future) inherent in that business.

Pursuant to the authority given by Article 34 of the Company's Articles of Association and section 291 of the Companies Act 2006, on 28th of December 2020, the Company's Board of Directors approved the distribution of a dividend of EUR150,000,000.00 to be paid to the sole member of the Company. It was noted that, since it was proposed that the dividend may not be paid immediately, the Company will undertake a further assessment of profitability and cashflow, and decide when to make the dividend payment.

	31 December 2020	31 December 2019
	EUR	EUR
Dividend payable	<u>150,000,000</u>	<u>202,183,000</u>

14 SHARE CAPITAL

Company	31 December 2020	31 December 2019
	EUR	EUR
Allotted, called up and fully paid		
50,000 ordinary shares of GBP1.00 each 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 at 18 November 2014, rate of exchange of Euro 1.277/GBP	<u>12,710,000</u>	<u>12,710,000</u>
775,525,500 ordinary shares of GBP1.00 each at 17 October 2019, rate of exchange of Euro 1.141/GBP	<u>885,000,000</u>	<u>885,000,000</u>

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NOTES TO FINANCIAL STATEMENTS

31 December 2020

14 SHARE CAPITAL (continued)

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.

On 17 October 2019, 775,525,500 ordinary shares of 1 GBP each for a total nominal value of GBP775,525,500 were allotted to the immediate parent company at par value, in exchange for extinguishment of debt owed to the immediate parent company of the same value.

Capital management

The 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.

	31 December 2020	31 December 2019
	EUR	EUR
Dividend payable	150,000,000	202,183,000
Other payables and accruals	429,553,703	470,010,852
Bonds payable	997,729,654	996,944,919
Less: Cash and cash equivalents	(24,145,944)	(95,879,477)
Net debt	1,553,137,413	1,573,259,294
Equity	1,308,780,504	1,289,630,507
Net debt and equity	2,861,917,917	2,862,889,801
Gearing ratio	54%	55%

The Company's objectives when managing capital are to safeguard the Company'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 Directors manage the capital structure and make adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Directors 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 2020.

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NOTES TO FINANCIAL STATEMENTS

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15 Financial assets

	31 December 2020	31 December 2019
Financial assets measured at fair value through other comprehensive income	EUR	EUR
List of financial assets, at fair value		
Preference shares of ICBC	18,541,174	19,472,315
	<u>18,541,174</u>	<u>19,472,315</u>

The above financial asset is measured at fair value through other comprehensive income as the Company considers the operating strategy of this asset is not for short-term trading purpose.

During the year, the fair value loss in respect of the Company's listed financial asset was recognized in other comprehensive income amounted to EUR931,140 (2019: gain of EUR73,595).

The fair values of listed financial assets are based on market prices at the end of the shares quoted in Industrial and Commercial Bank of China Limited (ICBC) at the end of reporting period. The ISIN number is XS1142380820.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The 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 Company's maximum exposure to credit risk in relation to financial assets. All the Company's cash and cash equivalents are held at major financial institution, which management believes are of high credit quality.

Liquidity risk

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

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16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

	31 December 2020		
	Less than 1 year	1- 5 years	More than 5 year
	EUR	EUR	EUR
Dividend payable	150,000,000	-	-
Interest payable	16,578,338	-	-
Other payables due to immediate parent company	429,553,703	-	-
Loan payable	-	699,423,778	298,305,718
	31 December 2019		
	Less than 1 year	1- 5 years	More than 5 year
	EUR	EUR	EUR
Dividend payable	202,183,000	-	-
Interest payable	16,578,493	-	-
Other payables due to immediate parent company	470,010,852	-	-
Loan payable	-	698,894,279	298,050,640

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

Company:	Carrying amounts	Fair values	Carrying amounts	Fair values
	2020	2020	2019	2019
	EUR	EUR	EUR	EUR
Financial assets:	18,541,174	18,541,174	19,472,315	19,472,315
Cash and cash equivalents	24,145,944	24,145,944	95,879,477	95,879,477
Other receivables	20,888	20,888	31,512	31,512
Financial liabilities:				
Dividend payable	150,000,000	150,000,000	202,183,000	202,183,000
Other payables and accruals	429,553,703	429,553,703	470,010,852	470,010,852
Interest payable	16,578,338	16,578,338	16,578,493	16,578,493
Loan payable	997,729,654	1,043,264,000	996,944,919	1,051,693,000

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NOTES TO FINANCIAL STATEMENTS

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16 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.

17 RELATED PARTY TRANSACTIONS

The Company holds an inter-company loan agreement with State Grid Europe Development (2014) Public Limited Company (SGED), which is an indirect, wholly owned subsidiary of the Company. SGED 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 the Company, including the interest payment of EUR 17,850,000 (2019: EUR 17,850,000) which is directly paid to the bondholders.

The amount of liability payable owed to SGID has been reduced to EUR 429,553,703 (2019: EUR 470,010,852) during the current financial year. An exemption has been taken with respect to disclosure of transactions with wholly owned subsidiaries.

Outstanding related party balances are as follows:

	31 December 2020	31 December 2019
	EUR	EUR
Amounts due to fellow subsidiary (State Grid Europe Development (2014) Public Limited Company)		
-Long-term payables	997,729,654	996,944,919
-Interest payable	16,578,338	16,578,493
	<hr/>	<hr/>
	31 December 2020	31 December 2019
	EUR	EUR
Amounts due to parent company (State Grid International Development Limited)		
-Dividend payable	150,000,000	202,183,000
-Other payables	429,553,703	470,010,832
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NOTES TO FINANCIAL STATEMENTS

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17 RELATED PARTY TRANSACTIONS (continued)

Interest expense of EUR18,892,856 was paid in the period to the Company's fellow subsidiary (2019: EUR 18,620,009).

The total directors' fee for the company and its wholly owned subsidiary State Grid Europe Development (2014) Public Limited Company during the financial year is GBP 15,000 and are borne by the company.