

BritNed Development Limited

Annual Report

and Financial Statements

For the year ended 31 December 2018

Company registration number: 4251409

BritNed Development Limited

Strategic Report
for the year ended 31 December 2018

The Directors present their strategic report on BritNed Development Limited ('the Company') for the year ended 31 December 2018.

The Company is a single entity, domiciled in the UK and registered in England and Wales. The address of the registered office is:

1-3 Strand
London
WC2N 5EH

Review of the business

The Company's principal activity is the operation of a sub-sea interconnector link between the electricity networks of Great Britain and the Netherlands.

The revenue of the Company is generated based on the price spread between the countries. This is one of the Company's principal risks, as when the price spread between the two countries converges, the revenue will also decrease.

The weakened British Pound has led to GBP prices falling. In the Netherlands, gas and carbon prices and continued worries about the supply situation in Belgium has led to increases in prices. This has resulted in narrower price spreads and, as a result, revenue generated has decreased. Revenue has fallen to €106.6m compared to €145.7m in 2017. The financial position of the Company continues to be strong, with profits continuing to be projected for the next few years in line with the current market spread trends.

A large focus for BritNed over the last couple of years has been around Brexit planning to ensure contingency plans are in place to ensure that regulators and other involved authorities will not take decisions that are detrimental to the unique situation of BritNed. The Directors continue to monitor the developments of the UK exiting the European Union.

The other principal risk facing the Company is the failure of the cable and therefore no flow of electricity would be possible, and thus no revenue would be generated. An asset management and replacement plan is in place to mitigate the risk of this occurring. In addition, property damage and business interruption insurance is held to enable the business to recover financial losses.

BritNed have been in litigation with the contractors of the cable, ABB. Following a trial in 2018, BritNed were awarded damages of €15 million (including interest) which was received in November 2018. Both parties are appealing the outcome and as a result an appeal hearing has been scheduled for July 2019. Note 2 explains how this receipt has been recognised within the financial statements.

Results

The profit for the financial year was €61.4m (2017: €89.8m).

Financial position

The financial position of the Company is presented in the balance sheet. Total equity funds at 31 December 2018 were €453.5m (2017: €460.4m) comprising total non-current assets of €432.8m (2017: €447.9m), other non-current liabilities of €1.7m (2017: €1.8m), deferred tax liabilities of €10.9m (2017: €11.1m) and net current assets of €33.3m (2017: €25.4m).

BritNed Development Limited

Strategic Report (continued)
for the year ended 31 December 2018

Key performance indicators

The following key performance indicators are noted:

	2018	2017	Definition, method of calculation and analysis
Revenue and growth in revenue (€m / %)	€ 106.6 / (27%)	€ 145.7 / (30)%	Year on year sales growth expressed as a percentage. The year on year decrease is a result of a lower market spread.
Number of unplanned outages Bipole / Monopole	2 / 7	1 / 0	Number of outages in one year for Bipole and Monopole. In 2018 there were a number of issues with the valve cooling system and weather related. A mitigation plan is now in place to rectify the valve cooling system issues. Despite these issues, 2018 availability was 98.3% vs 97.8% in 2017.
SHES incidents (LTIs)	-	-	Number of safety incidents in one year. In both years none to be reported.

Future developments

For the foreseeable future the Directors believe the Company will continue its principal activity of the operation of a sub-sea interconnector link between the electricity networks of Great Britain and the Netherlands.

The Strategic Report was approved by the Board and signed by its order by:

Megan Barnes
Company Secretary
May 2019

BritNed Development Limited
Directors' Report
for the year ended 31 December 2018

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2018.

Future developments

Details of future developments have been included within the Strategic Report on page 2.

Dividends

The Directors approved and paid dividends of €68.3m (2017: €96.7m) during the year.

Financial risk management

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

Liquidity risk

The Company finances its operations through a combination of retained profits and cash generated by the business to ensure that the Company has sufficient funds available for current operations and future activities.

Credit risk

Credit risk is defined as the risk that a counterparty will not meet its obligations, leading to a financial loss for the Company. The credit risk on trade receivables is very limited as all material credit risks are secured by means of Letters of Credit or cash deposits in business accounts.

Foreign exchange risk

To the extent that the Company enters into transactions in currencies different to that of the Company's functional currency, there is an exposure to movement in exchange rates. The Company does not participate in economic hedging but does perform currency swaps with National Grid Holdings One plc, an entity wholly owned by National Grid plc.

Directors

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

Alexander Hartman
Guido Fricke
Nick Sides
Jonathan Butterworth

BritNed Development Limited

Directors' Report (continued) for the year ended 31 December 2018

Directors' indemnities and insurance

National Grid has arranged, in accordance with the Companies Act 2006 and the Articles of Association, qualifying third party indemnities against financial exposure that National Grid Directors may incur in the course of their professional duties. Alongside these indemnities, National Grid places Directors' and Officers' liability insurance for each National Grid Director.

Qualifying third party indemnity was in force during the financial year and at the date of approval of the financial statements.

To extend a similar indemnity to the Directors of BritNed Development Limited not employed by National Grid, BritNed Development Limited has placed its own third party Directors' and Officers' insurance.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the Directors are required to:

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

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors 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.

BritNed Development Limited
Directors' Report (continued)
for the year ended 31 December 2018

Going concern

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

Modern Slavery Act

In accordance with The Modern Slavery Act 2015, the Company has adopted and approved the Statement on the prevention of slavery and human trafficking. A copy of the Statement is available on the Company's website.

Disclosure of information to auditors

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors themselves are aware of that information.

Independent Auditors

During the year, the Board of BritNed Development Limited appointed PricewaterhouseCoopers LLP as its auditors who are deemed to be reappointed in accordance with Section 487(2) of the Companies Act 2006.

The Directors' Report was approved by the Board and signed by its order by:

Megan Barnes
Company Secretary
May 2019

Registered office:
1-3 Strand
London
WC2N 5EH
Registered in England and Wales
Company registration number: 4251409

BritNed Development Limited

Independent auditors' report to the members of BritNed Development Limited

Report on the audit of financial statements

Opinion

In our opinion, BritNed Development Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2018; the income statement, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

BritNed Development Limited

Independent auditors' report to the members of BritNed Development Limited (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 4, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also 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.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Richard French (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
May 2019

BritNed Development Limited

Income statement
for the year ended 31 December 2018

	Notes	2018 (€m)	2017 (€m)
Revenue	4	106.6	145.7
Administrative Expenses	5	(30.1)	(32.3)
Operating profit		76.5	113.4
Finance income	5	0.1	0.4
Profit before income tax		76.6	113.8
Income Tax	6	(15.2)	(24.0)
Profit for the year		61.4	89.8

The results reported above relate to continuing activities.

There are no recognised gains and losses for the financial years other than those included above. Accordingly, no separate statement of other comprehensive income is presented.

The notes on pages 12 to 24 form part of these financial statements.

BritNed Development Limited

Balance Sheet as at 31 December 2018

	Notes	2018 (€m)	2017 (€m)
Assets			
Non-Current Assets			
Property, plant and equipment	7	432.4	447.3
Intangible assets	8	0.4	0.6
		432.8	447.9
Current assets			
Trade and other receivables	9	17.9	18.1
Cash and cash equivalents		59.6	42.7
		77.5	60.8
Total assets		510.3	508.7
Equity and liabilities			
Non-current liabilities			
Other non-current liabilities	11	1.7	1.8
Deferred tax liabilities	12	10.9	11.1
		12.6	12.9
Current liabilities			
Trade and other payables	10	44.2	35.4
		44.2	35.4
Total liabilities		56.8	48.3
Equity			
Ordinary Shares	13	113.8	113.8
Retained earnings	13	339.7	346.6
Total equity		453.5	460.4
Total equity and liabilities		510.3	508.7

The notes on pages 12 to 24 form part of these financial statements.

The financial statements on pages 8 to 24 were approved by the Board of Directors on 10th May 2019 and signed on its behalf by:

Guido Fricke
Director

Nick Sides
Director

BritNed Development Limited

Statement of changes in equity for the year ended 31 December 2018

	Notes	Share capital (€m)	Retained earnings (€m)	Total (€m)
Balance as at 1 January 2017	13	113.8	353.5	467.3
Profit for the year		-	89.8	89.8
Dividends	13	-	(96.7)	(96.7)
Balance as at 31 December 2017		113.8	346.6	460.4

	Notes	Share capital (€m)	Retained earnings (€m)	Total (€m)
Balance as at 1 January 2018	13	113.8	346.6	460.4
Profit for the year		-	61.4	61.4
Dividends	13	-	(68.3)	(68.3)
Balance as at 31 December 2018		113.8	339.7	453.5

The notes on pages 12 to 24 form part of these financial statements.

BritNed Development Limited

Cash flow statement for the year ended 31 December 2018

	Notes	2018 (€m)	2017 (€m)
Cash flows from operating activities			
Profit before tax		76.6	113.8
<i>Adjustment for:</i>			
Depreciation and amortisation of assets	7,8	15.3	15.8
<i>Changes in working capital:</i>			
Decrease / (Increase) in trade and other receivables	9	0.2	(5.1)
Increase / (Decrease) in trade and other payables	10	11.4	(2.0)
Cash generated from operations		103.5	122.5
Tax paid		(18.1)	(28.4)
Net cash generated from operating activities		85.4	94.1
Cash flows from investment activities			
Purchase of tangible and intangible fixed assets	7,8	(0.2)	(0.3)
Net cash flows used in investing activities		(0.2)	(0.3)
Cash flows from finance activities			
Dividends paid to equity holders of the Company	13	(68.3)	(96.7)
Net cash flows used in financing activities		(68.3)	(96.7)
Net increase / (decrease) in cash and cash equivalents		16.9	(2.9)
Cash and cash equivalents at beginning of year		42.7	45.6
Cash and cash equivalents at end of year		59.6	42.7

The notes on pages 12 to 24 form part of these financial statements.

BritNed Development Limited

Notes to the financial statements for the year ended 31 December 2018

1 Accounting policies

(a) Basis of preparation

These financial statements have been prepared on the going concern basis in accordance with applicable International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the Companies Act 2006. They have been prepared on a historical cost basis and are presented in Euros and rounded to the nearest million (€000,000) except when otherwise indicated. The Euro is the currency of the primary economic environment in which the Company operates. Accounting policies have been applied consistently.

The preparation of financial statements requires management to make accounting estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

(b) Going concern

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

(c) Revenue recognition

Revenue comprises the value of interconnector capacity sold excluding value added tax and other sales taxes. It largely comprises explicit revenue net of curtailment amounts and implicit revenues net of use it or sell it compensations. Implicit revenue is also shown as the net of sales and purchases of energy as the Company is deemed to be acting as an agent rather than principal. Other revenue reflects the value of the frequency response service, participation in the GB Capacity Market and other minor ancillary services such as Intertrip services excluding value added tax and other sales taxes.

BritNed provide capacity to flow electricity capacity between the Netherlands and the UK. This is a distinct service as the customer benefits from the capacity flowed between the UK and the Netherlands. No other service or goods are provided with the capacity. The price is set through an auction and sold per MWH, therefore there is no variable consideration and no adjustment would be made to the price sold through the auction.

Explicit Auction Revenue is recognised over time for annual/quarterly/monthly auctions and is recognised over the period when the capacity is delivered. Implicit Auction Revenue is sold for the day ahead therefore is recognised on the day it is sold for.

The Capacity Mechanism is a yearly agreement BritNed sign up to to provide capacity in any stress event during that year. The revenue from this is recognised over the period of the year it relates to.

Revenue is therefore recognised over time and is already in line with IFRS15.

BritNed Development Limited

Notes to the financial statements (continued) for the year ended 31 December 2018

1 Accounting policies (continued)

(d) Property, plant and equipment and depreciation

Property, plant and equipment are included in the balance sheet at cost less accumulated depreciation. Cost includes payroll and other costs incurred which are directly attributable to the construction of tangible fixed assets.

No depreciation is provided on assets in the course of construction. Property, plant and equipment are depreciated on a straight line basis at the rate estimated to write off the book value over the estimated useful economic life, which is reviewed on a regular basis. Estimated useful economic lives are between 15 and 40 years for plant and machinery, 3 years for fixtures and furniture and 40 years for freehold property.

(e) Development costs held as intangible assets

Development expenditure is recognised as an intangible fixed asset where the project is considered to be technically and commercially viable, resources exist to complete the development and the recovery of project costs is reasonably assured. Such development expenditure is amortised on a straight-line basis over the expected period of benefit commencing from when the development is brought into use. The amortisation period for development assets is 7 years.

(f) Capital Management

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 benefits for other stakeholders and to ensure the Company continues to operate with no debt.

The Company manages cash as capital and can adjust the capital structure by adjusting the amount of dividends paid to shareholders.

The Company monitors capital on the basis of retained cash. During 2018, the Company's strategy, which has remained unchanged from 2017, was to maintain a consistent level of cash to meet its obligations.

(g) Collateral

Cash and cash equivalents includes cash deposits held at call with banks. In the balance sheet, cash collateral held by third parties is shown within other amounts receivable in current assets.

(h) Foreign currencies

Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign exchange currencies are retranslated at closing exchange rates. Gains and losses arising on retranslation of monetary assets and liabilities are included in the income statement.

(i) European Union Grant Funding

The Company received project funding from the European Union during the construction phase of the interconnector. European Union grant funding that relates to specific capital expenditure is treated as deferred income which is then credited to the income statement over the useful life of the interconnector.

BritNed Development Limited

Notes to the financial statements (continued) for the year ended 31 December 2018

1 Accounting policies (continued)

(j) Provisions

Provisions are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

(k) Taxation

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided for using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor the taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

BritNed Development Limited

Notes to the financial statements (continued) for the year ended 31 December 2018

1 Accounting policies (continued)

(I) New standards, amendments and interpretations not yet adopted

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following new or revised standards and interpretations, which are relevant to the Company, with an effective date for the financial periods beginning on or after the dates disclosed below.

IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases – lessees will have to recognise a lease liability reflecting future lease payments and 'right-of-use' assets	1 January 2019

The Company adopted IFRS 9 from 1 January 2018 and the classification and measurement basis for its financial assets and liabilities has been unchanged. No material impact on profit for future periods is expected.

The Company adopted IFRS 15 from 1 January 2018 and has carried out a review of existing contractual arrangements as part of this process.

IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. Variable consideration is included in the transaction price if it is highly probable that there will be no significant reversal of the cumulative revenue recognised when the uncertainty is resolved.

The Directors Report there has been no material impact on the Company's revenue streams.

The Company is working towards implementation of IFRS16 on 1 January 2019. IFRS16 is expected to change the measurement and disclosure in respect of borrowings in the financial statements. The Company has carried out an assessment of existing lease contracts as part of this process.

As at the reporting date, the Company has cancellable operating lease commitments of €8,600,000, see note 14. On adoption of IFRS16 the Company expects to recognise right-of-use assets and a corresponding lease liability of approximately €29,745,000 on 1 January 2019. The Company expects that profit before tax will reduce by approximately €616,000 for 2019 as a result of adopting the new rules.

BritNed Development Limited

Notes to the financial statements (continued) for the year ended 31 December 2018

2 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

a) Critical judgements

Capped return on investment

The Company is subject to a capped return on its investment in the interconnector asset in relation to the exemption from article 6(6) of the EC regulation 1228/2003.

The position of the Company in relation to the capped return on investment requires judgement. At this time, profits are below the capped level and there is no clear view that profits will exceed the maximum allowed returns in the future.

Long term performance forecasting is inherently difficult and subjective in any interconnector business. Revenue forecasts are dependent on factors such as the supply and demand for power across Europe, future levels of interconnection, generation mix and wider energy policies as well as legislative changes.

At this time, as no present obligation exists and there is no certainty surrounding a future obligation, no adjustments have been made. This judgemental area will continue to be reviewed and updated as and when necessary.

Legal Claim

As noted in the Strategic Report, BritNed have been in litigation with the contractors of the cable, ABB. Following a trial in 2018, BritNed were awarded damages of €15,033,515 (including interest) which were received in November 2018. Both parties are appealing the outcome and as a result, an appeal hearing has been scheduled for July 2019.

Due to the uncertainty of the appeal outcome a judgement has been made to defer this on the balance sheet as a liability until a final decision on the claim appeal is made and greater clarity of the ultimate outcome is known. This will be reviewed again following the outcome of the appeal.

b) Key accounting estimates

Useful economic life

Depreciation is calculated using the straight-line depreciation method to allocate costs to the assets' residual values over their estimated useful lives. The depreciation of the cable is calculated over a 40 year useful economic life.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any changes is accounted for prospectively.

BritNed Development Limited

Notes to the financial statements (continued) for the year ended 31 December 2018

3 Directors and employees

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid or TenneT group undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements.

There were no employees of the Company during the year (2017: none).

4 Revenue

	2018 (€m)	2017 (€m)
Net explicit revenue	76.2	115.2
Net implicit revenue	22.7	16.0
Other revenue	7.7	14.5
Total	106.6	145.7

5 Administrative expenses

5.1 Expenses by nature

Administrative expenses can be broken down as follows:

	2018 (€m)	2017 (€m)
Depreciation	15.1	15.0
Amortisation	0.2	0.8
Personnel costs	4.9	5.1
Operating lease rentals	2.1	1.7
Foreign exchange gains	0.1	0.7
Insurance	3.3	3.7
Other costs	4.4	5.3
Total Administrative Expenses	30.1	32.3

5.2 Auditors' remuneration

During the year the Company obtained the following services from the independent auditors:

	2018 (€'000)	2017 (€'000)
Audit of the financial statements	52.6	55.3
Non audit services - tax compliance	2.6	1.6
Total auditors' remuneration	55.2	56.9

BritNed Development Limited

Notes to the financial statements (continued) for the year ended 31 December 2018

5.3 Finance Income and Expenses

	2018 (€m)	2017 (€m)
Interest receivable and similar income	0.2	0.4
Interest payable and similar charges	(0.1)	-
Net finance income	0.1	0.4

6 Income Tax Expense

	2018 (€m)	2017 (€m)
Current tax:		
UK corporation tax	6.5	9.9
UK corporation tax adjustment in respect of prior years	(0.6)	-
Overseas corporation tax	9.5	14.2
Total current tax	15.4	24.1
Deferred tax:		
UK deferred tax	(0.2)	(0.1)
Total deferred tax (note 12)	(0.2)	(0.1)
Total Tax charge	15.2	24.0

The tax charge for the year is higher (2017: higher) than the standard rate of corporation tax in the UK for the year of 19% (2017: 19.25%).

	2018 (€m)	2017 (€m)
Profit before income tax	76.6	113.8
Profit before income tax multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	14.6	21.9
Effect of:		
Permanent items	0.4	0.3
Unrelieved foreign tax	0.8	1.8
Adjustments in respect of prior years	(0.6)	-
Total tax charge for the year	15.2	24.0

Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 were enacted on 26 October 2015. A further reduction in the UK corporation tax rate to 17% from 1 April 2020 was enacted during 2017 and has resulted in a decrease to UK deferred tax liabilities.

BritNed Development Limited

Notes to the financial statements (continued) for the year ended 31 December 2018

7 Property, plant and equipment

	Freehold property	Plant and Machinery	Fixtures and fittings	Total
	(€m)	(€m)	(€m)	(€m)
Cost				
At 31 December 2017	73.8	473.8	0.1	547.7
Additions	-	0.2	-	0.2
At 31 December 2018	73.8	474.0	0.1	547.9
Accumulated Depreciation				
At 31 December 2017	12.4	87.9	0.1	100.4
Depreciation for the year	1.9	13.2	-	15.1
At 31 December 2018	14.3	101.1	0.1	115.5
Net Book value:				
At 31 December 2017	61.4	385.9	-	447.3
At 31 December 2018	59.5	372.9	-	432.4

8 Intangible assets

	Software (€m)	Work in Progress (€m)	Total (€m)
Cost:			
At 31 December 2017	4.6	0.1	4.7
Net Additions/Disposals	-	-	-
At 31 December 2018	4.6	0.1	4.7
Amortisation and impairment			
At 31 December 2017	4.1	-	4.1
Amortisation for the year	0.2	-	0.2
At 31 December 2018	4.3	-	4.3
Net Book value:			
At 31 December 2017	0.5	0.1	0.6
At 31 December 2018	0.3	0.1	0.4

BritNed Development Limited
Notes to the financial statements (continued)
for the year ended 31 December 2018

9 Trade and other receivables

Trade and other receivables can be broken down as follows:

	2018 (€m)	2017 (€m)
Trade receivables	2.5	2.2
Amounts owed by group undertakings (see note 16)	3.9	4.9
Other amounts receivable	10.1	8.2
Prepayments and accrued income	1.4	2.8
Total	17.9	18.1

Amounts owed by group undertakings are unsecured, interest free and due on demand.

10 Trade and other payables

Trade and other payables can be broken down as follows:

	2018 (€m)	2017 (€m)
Trade payables	2.4	1.7
Other creditors	15.0	-
Amounts owed to group undertakings (see note 16)	2.2	2.9
Corporation tax payable	15.4	18.0
Accruals and deferred income	9.2	12.8
Total	44.2	35.4

Amounts owed to group undertakings are unsecured, interest free and due on demand.

11 Other non-current liabilities

	2018 (€m)	2017 (€m)
Deferred grant income	1.7	1.8
Total	1.7	1.8

The Company received project funding from the European Union during the construction phase of the interconnector. European Union grant funding that relates to specific capital expenditure is treated as deferred income which is then credited to the income statement over the useful life of the interconnector.

BritNed Development Limited
Notes to the financial statements (continued)
for the year ended 31 December 2018

12 Deferred tax liabilities

	Accelerated tax depreciation (€m)
Deferred tax liabilities	
Deferred tax liabilities at 1 January 2018	11.1
Credited to income statement	(0.2)
At 31 December 2018	10.9

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

13 Equity attributable to owners of the Company

	2018 (€m)	2017 (€m)
Allotted, called up and fully paid		
1 (2017: 1) "A" share of £1	-	-
1 (2017: 1) "B" share of £1	-	-
284,500,000 (2017: 284,500,000) "C" shares of 0.2 euro each	56.9	56.9
284,500,000 (2017: 284,500,000) "D" shares of 0.2 euro each	56.9	56.9
	113.8	113.8
Retained earnings		
Reserves	278.3	256.8
Profit for the year	61.4	89.8
	339.7	346.6
	453.5	460.4

The A and B shares are equity shares and rank pari passu in all respects. The C and D shares are also equity shares and rank pari passu in all respects.

Dividend distribution

In 2018, the Company distributed a €68.3 million common dividend (€0.12 per share) to its ordinary shareholders.

	2018	2017
Dividend (€m)	68.3	96.7
Dividend Per Share (€)	0.12	0.17

BritNed Development Limited

Notes to the financial statements (continued) for the year ended 31 December 2018

14 Lease commitments

Operating lease commitments

The Company has entered into lease commitments for the land of the two converter stations in the Isle of Grain and Maasvlakte and for office building and apartments. The future minimum lease payable under non-cancellable leases are as follows:

	2018 (€m)	2017 (€m)
Falling due before 1 year	0.7	0.7
Between 2 and 5 years	2.8	1.7
After more than 5 years	5.1	3.0
Total	8.6	5.4

15 Financial assets and financial liabilities

Assets at amortised cost (€m)	2018 (€m)	2017 (€m)
Trade and other receivables excluding prepayments	16.5	15.3
Cash and cash equivalents	59.6	42.7
Total	76.1	58.0

Liabilities at amortised cost (€m)	2018 (€m)	2017 (€m)
Trade and other payables excluding non-financial liabilities	35.0	22.6
Total	35.0	22.6

(a) Trade and other receivables

Trade receivables and other receivables are amounts due from customers for services performed in the normal course of business.

Due to the short-term nature of the trade receivables, their carrying amount is assumed to be the same as their fair value.

Information about the exposure to credit risk, foreign exchange risk and liquidity risk can be found in the Directors' Report on page 3.

(b) Trade and other payables

Trade payables are unsecured, interest free and due on demand.

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

BritNed Development Limited

Notes to the financial statements (continued) for the year ended 31 December 2018

16 Related parties

The Company has the following related parties:

Parent Companies

During the year, the Company was a joint venture between National Grid Interconnector Holdings Limited and NLink International B.V. with each party holding 50% of the issued share capital.

The ultimate parent undertaking of National Grid Interconnector Holdings Limited is National Grid plc which is incorporated in Great Britain, and the ultimate parent undertaking of NLink International B.V. is TenneT Holding B.V. which is incorporated in the Netherlands.

Balances with related parties at 31 December 2018, together with the aggregate recharge made to and from related parties during the year are shown in the table below.

	Recharged in the year to 31/12/18	Included within Creditor balance at the year end 31/12/18	Included within Debtor balance at the year end 31/12/18
	€m	€m	€m
Recharged from National Grid Electricity Transmission (NGET) plc	(0.3)	1.9	-
Recharged from Thamesport Interchange Limited	0.5	-	-
Recharged from National Grid Insurance Company (Isle of Man) Limited	3.1	-	0.7
Recharged from TenneT TSO B.V.	(0.1)	(0.1)	3.2
Recharged from EPEX Spot S.E.	1.1	0.3	-
Total	4.3	2.2	3.9

	Recharged in the year to 31/12/17	Included within Creditors at the year end 31/12/17	Included within Debtors at the year end 31/12/17
	€m	€m	€m
Recharged from National Grid Interconnectors Limited	-	1.0	-
Recharged from National Grid Electricity Transmission plc	(8.5)	1.2	1.9
Recharged from National Grid Insurance Company (Isle of Man) Limited	3.5	-	0.8
Recharged from TenneT TSO B.V.	1.1	0.1	2.2
Recharged from EPEX	1.1	0.6	-
Total	(2.8)	2.9	4.9

BritNed Development Limited

Notes to the financial statements (continued) for the year ended 31 December 2018

16 Related parties (continued)

BritNed perform currency swaps with National Grid Holdings One plc an entity wholly owned by National Grid plc. There are no open swaps at year end, the total value of swaps during 2018 was €411.4m (2017: €300.7m).

National Grid plc has arranged qualifying third party indemnities against financial exposure that National Grid Directors may incur in the course of their professional duties. Alongside these indemnities, National Grid places Directors' and Officers' liability insurance for each National Grid Director. No recharges were made to National Grid for these services.

17 Ultimate parent undertaking and controlling party

Copies of the consolidated financial statements which include the results of BritNed Development Limited can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH and TenneT Holdings B.V., Utrechtseweg 310, PO Box 718, NL6800 AS Arnhem, the Netherlands. BritNed Development Limited is owned in equal shares by National Grid Interconnector Holdings Limited and NLink International B.V..

The ultimate parent and controlling Companies are National Grid plc and TenneT Holdings B.V.. The immediate parent Companies are National Grid Interconnector Holdings Limited and NLink International B.V..

The largest and smallest groups which include the Company and for which consolidated financial statements are prepared are headed by National Grid plc which is registered in England and Wales and TenneT Holdings B.V. and NLink International B.V. which are registered in the Netherlands.