The Narragansett Electric Company

d/b/a National Grid

INVESTIGATION AS TO THE PROPRIETY OF PROPOSED TARIFF CHANGES

Filing Requirements

Book 4 of 4

November 27, 2017

Submitted to:
Rhode Island Public Utilities Commission
RIPUC Docket No. 4770

Submitted by:

nationalgrid

2.5(c)(6)

Index and Responses to the Commission's
Rules on Practice and Procedure
November 2017

Section 2.5(c)(6) Annual reports to stockholders for the last three years.

Provided are the annual reports to stockholders for fiscal years ending March 31, 2015, 2016, and 2017.

nationalgrid

Connecting to life

Annual Report and Accounts 2014/15

National Grid Annual Report and Accounts 2014/15, interactive PDF

The functionality of this PDF is outlined below.
Please note that tablet users will find a reduced functionality.

Key:

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- Print
- Search

Online
For a full search facility, please go to the pdf of our Annual Report and Accounts 2014/15 in the investor relations section of our website (www.nationalgrid.com) and use a word search.

About National Grid

Our job is to connect people to the energy they use, safely. We are at the heart of one of the greatest challenges facing our society – delivering clean energy to support our world long into the future.

Financial highlights

Adjusted operating profit[1]
£3,863m
+5%
2013/14: £3,664m

Adjusted earnings per share[1]
58.1p
+9%
2013/14: 53.5p[2]

Operating profit
£3,780m
+1%
2013/14: £3,735m

Earnings per share
53.6p
-18%
2013/14: 65.7p[2]

Group return on equity
11.8%
+4%
2013/14: 11.4%

Regulated assets
£37.0bn
+7%
2013/14: £34.7bn

Cash generated from operations
£5,350m
+21%
2013/14: £4,419m

Ordinary dividends
42.87p
+2%
2013/14: 42.03p

24,274
Employees

£3.5bn
Capital investment

0.13IFR
Best overall group safety performance to date

7.3
Greenhouse gas emissions (million tonnes carbon dioxide equivalent)

75%
Best employee engagement score to date

Our principal operations

UK Electricity Transmission
We own and maintain the high voltage electricity transmission network in England and Wales, balancing supply with demand on a minute-by-minute basis.

See page 28

UK Gas Transmission
All gas in the UK passes through National Grid's national transmission system on its way to consumers.

See page 29

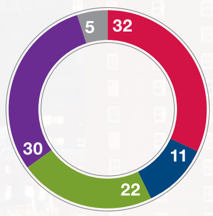
UK Gas Distribution
We own and operate four of the eight regional gas distribution networks in Great Britain.

See page 30

US Regulated
We own and operate an electricity transmission network and electricity and gas distribution networks serving consumers across the northeastern US.

See pages 33–35

Adjusted operating profit %



- UK Electricity Transmission
- UK Gas Transmission
- UK Gas Distribution
- US Regulated
- Other activities

1. Excludes the impact of exceptional items, remeasurements and stranded cost recoveries. See page 186 for more information about these adjusted profit measures.
2. Comparative earnings per share (EPS) data has been restated for the impact of the scrip dividend issues.

Our financial results are reported in sterling. The average exchange rate, as detailed on page 87, was $1.58 to £1 in 2014/15 compared with the average rate of $1.62 to £1 in 2013/14. Except as otherwise noted, the figures in this Report are stated in sterling or US dollars. All references to dollars or $ are to the US currency.

Important notice
This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For a description of factors that could affect future results, please refer to the full cautionary statement on the inside back cover and to the risk factors section on pages 173 to 176.

Acting responsibly
We have won Business in the Community's highest award, Responsible Business of the Year 2014. This accolade acknowledges all of our efforts in getting involved with the things that really matter to us and to society, and doing the right things in the right way.

Chairman's statement

It's been a challenging year for the energy sector. Energy policies in the UK and US have continued to evolve against a backdrop of political uncertainty, seeking an acceptable balance between affordability to consumers, security of supply and sustainability considerations.

In focus:

The Board is proposing a recommended full-year dividend of

42.87p

(2013/14: 42.03p)

In the UK, we saw debate around the cost of living lead to a sharper focus on the costs of energy and the competitiveness of energy markets. This focus has included an Energy and Climate Change Select Committee inquiry into energy network costs, as well as an investigation by the Competition and Markets Authority into the supply and acquisition of energy in Great Britain.

In the UK, Electricity Market Reform (EMR) was implemented successfully, and we saw developments in significant interconnector projects (see page 27). In the US, there were mid-term US congressional and gubernatorial elections and debate continued on essential infrastructure, resilience and sustainability.

Transparency

In January we announced our decision to stop publishing formal Interim Management Statements (IMSs), following the changes in legislation that removed this requirement. Mandatory requirements to publish information can frequently provide an unnecessary focus on matters of little relevance to a long-term business such as National Grid.

Alongside our major announcements at the half year and full year we will continue to provide updates covering market and Company developments.

We also continue to provide commentary on both our IFRS reported results and underlying economic (regulatory) performance, including reconciliations between the key metrics for both results. To help explain this more fully, we have increased the commentary on our regulatory performance on page 23, and have included further analysis of our regulatory performance by segment on page 100. We support the development of an accounting standard for rate-regulated activities, which would reduce the need for additional explanations of our results, and submitted a response to the IASB's project in January this year.

Dividend

The Board has recommended an increase in the final dividend to 28.16 pence per ordinary share ($2.1866 per American Depositary Share). If approved, this will bring the full-year dividend to 42.87 pence per ordinary share ($3.3584 per American Depositary Share), an increase of 2.0% over the 42.03 pence per ordinary share in respect of the financial year ending 31 March 2014.

In August 2014 we began a share buyback programme designed to operate alongside our scrip dividend option, which we offered for the interim dividend and will offer again for the full-year dividend. The buyback programme, which operates under authorities granted at our 2014 AGM, is designed to balance shareholders' appetite for the scrip dividend option with our desire to operate an efficient balance sheet with appropriate leverage.

Effective governance

In July 2014, John Pettigrew, who joined the Board in April 2014, became Executive Director, UK and Nick Winser and Maria Richter both stepped down from the Board.

Philip Aiken stepped down from the Board in February 2015 before his appointment as Balfour Beatty's new Chairman. He was a National Grid Non-executive Director for six years and played an important role in chairing our Safety, Environment and Health Committee. Following Philip's departure, Paul Golby was appointed as chairman of the Safety, Environment and Health Committee, as well as a member of the Audit Committee. Paul remains a member of the Nominations and Remuneration Committees.

Tom King stepped down from the Board and left the Company on 31 March 2015. He was succeeded by Dean Seavers, who joined the Company in December 2014 and, following a thorough handover, joined the Board as Executive Director, US with effect from 1 April 2015.

John and Dean's appointments bring fresh perspective, experience and challenge to our Board. Dean joined us after a career that has included business leadership roles of major divisions within GE, United Technologies and Tyco. In particular, he has led major change and performance improvement programmes that have improved operational efficiency and customer satisfaction – important priorities for our US business.

I would like to thank Nick, Tom, Philip and Maria for their commitment to the Board and the very valuable contribution they have made.

National Grid's UK regulated entities appointed Catherine Bell and Clive Elphick as Non-executive Directors with effect from 1 April 2014. The appointment of two Non-executive Directors is a new requirement promoted by Ofgem, which has termed the appointments Sufficiently Independent Directors. The arrangements are designed to enhance the financial ring-fencing conditions that already exist in the companies' licences.

Responsible business

At National Grid, we believe that what we do and how we do it are equally important. In July 2014, National Grid was named Responsible Business of the Year 2014 by Business in the Community (BITC). To win this award we had to demonstrate how we operate responsibly in everything we do, and how we are improving the outcomes for society through our work.

I was delighted that the judging panel commended our long-term vision based on trust and connectivity. They noted our foresight in using technology and innovation to develop solutions that protect our employees, customers and wider society; and recognised our appetite to inspire others.

In the UK, we are in discussions with the Living Wage Foundation about the opportunity to become a fully accredited Living Wage employer. We can confirm that all our UK employees fulfil the criteria for accreditation. We are also working through the Living Wage Charter to understand the impact it would have on our supply chain, including the companies our suppliers use as sub-contractors, should we decide to adopt it.

As you can read on page 17, we are adding new KPIs to our reporting, so we can more fully reflect the issues that really matter to the Company and our stakeholders. For our 2014/15 Report, we have included workforce diversity as a new KPI and you can read more about our approach to this on pages 18 and 19, as well as progress in relation to our Board diversity policy on page 58.

You can find more information about our approach to being a responsible business, including our Total Contribution Report, on our website.

Looking ahead

We will face both opportunities and challenges over the coming year. For example, in the UK Ofgem has concluded its Integrated Transmission Planning and Regulation project. As part of this, the System Operator is expected to undertake a number of new advisory roles. We have a long track record in successfully managing potential conflicts of interest from our System Operator role and will work closely with Ofgem to make sure this continues.

In the US we expect to file important applications for new rate plans – you can read more about this on page 169. We will continue to work with policymakers, customers, and stakeholders to transform the energy industry through initiatives in Massachusetts, New York, and Rhode Island (see pages 33 to 35).

We must adapt to developments in corporate governance requirements. For example, the updated UK Corporate Governance Code enhances the quality of information investors can expect to receive about the long-term health and strategy of listed companies, and encourages companies to be more transparent about risk management and internal control.

Finally, I am confident that our people will continue to help make National Grid a company we can all be proud of and I thank all our employees for their hard work and commitment to our success.

Peter Gershon

Sir Peter Gershon

Corporate Governance
pages 42–75

The 2014 Chairman's Awards: Sir Peter presents an award of merit for innovation to the US team responsible for restoration following the Mohawk Valley floods.

Chief Executive's review

I'm really proud of our performance this year. Overall, our businesses in both the UK and US achieved a strong operating performance.

In focus:

Employee engagement score

75%
(2013/14: 71%)

In the UK, there has been a lot of public focus on how secure and reliable our energy supply is, particularly on tighter margins between electricity supply and demand in the winter. Despite tighter margins than previous years, we were able to operate the system without calling upon our additional reserve. This was because of stronger than expected plant availability, mild weather, healthy wind output and consistent interconnector imports from France and the Netherlands.

We also tendered the two new balancing services for additional reserves of supply. Although these additional reserves were not used, this was a sensible precaution in case of colder weather or a series of unexpected plant shutdowns.

In the US, we saw an extremely harsh and prolonged period of plunging temperatures and record levels of snowfall in parts of New England, particularly in February and March. Again, our network resilience held up well. We have invested millions of dollars in both our electricity and gas infrastructure to improve resilience and help reduce the impact of service interruptions.

In December 2014 we received an award for excellence in energy efficiency from Platts Global Energy. Platts commended us for ongoing initiatives to upgrade equipment, reduce emissions, and improve safety and network efficiency. And in March 2015, the Edison Electric Institute presented us with its Emergency Recovery Award for our power restoration efforts following the severe ice storm in northern New York in December 2013.

Safety

Safety remains a hugely important priority for us. Regrettably, there were two fatalities during the year – a member of the public in the UK who fell when climbing on one of our pipelines, and a contractor at our Rhode Island gas distribution business. Despite these incidents, we achieved our best-ever Group safety performance during 2014/15. We can never be complacent about our performance and must continually strive to improve.

Our operations

We have continued to provide good value and reliability for customers while keeping our element of bills as low as possible.

We are totally committed to providing the best value we can for our customers, investors and other stakeholders, so we're working hard to make sure we are being as efficient as possible in everything we do. To help achieve this, we have continued to develop a way of working we call 'Performance Excellence', which you can read about on page 27. We also reorganised our UK business to increase clarity around what we do and who is accountable.

In the US, we finally completed the stabilisation work on our new financial systems (see page 34). This fixed a number of long-standing problems, such as inefficient payroll processing, which had previously required expensive manual interventions. Long term, the robust data we can produce with the new systems is an essential foundation to the future performance improvements and regulatory filings that we need for profitable growth in the US.

It is increasingly recognised in the US that investment levels in some areas will need to rise compared with the earlier part of this decade, and we have seen increased activity this year, making it our highest ever year of US investment.

In December 2014 the NYPSC approved $200 million gas infrastructure investment in Long Island to speed up the replacement of ageing pipe and extend the use of natural gas to more customers.

The NYPSC also published the results of the regulatory audit of our New York gas companies. These audits are a regular feature of the New York regulatory process. The audit was broadly supportive of our performance and structure and, as is usual, made some helpful recommendations for further improvement. We have responded with an implementation plan to provide these benefits on behalf of New York customers.

As you can read on pages 18 and 19, our customer satisfaction scores were mixed. We exceeded our UK electricity and gas transmission targets. However, we did not meet our US targets and I recognise this is an area in which we must improve.

Responsible Business of the Year

As Sir Peter has described in his statement, National Grid was named Responsible Business of the Year 2014, which is BITC's top award. I am extremely proud of this achievement, which is terrific recognition of how we are running a responsible and sustainable business, bringing long-term benefits to society. Although BITC is a UK body, the award was given to the entire Company and recognises the excellent work we're doing across our entire service area in the UK and US.

For example, in the UK we are completing a test line for the T-pylon at our training academy. It is smaller than the existing lattice towers and provides communities with added choice. Our property business entered into a new arrangement with the Berkeley Group to develop a number of our sites in London and the surrounding area. The first phase of investments could lead to the development of over 7,000 new homes, including affordable housing, alongside schools and public spaces.

Our EmployAbility programme provides supported internship opportunities for students with additional learning needs. Now into its second year, we have extended the programme and will continue to do this across more of our UK sites.

We are helping schools, parents and children see engineering as a modern, dynamic, desirable sector with a great future. Our careers education programmes in the UK include Careers Lab, an initiative we developed that has now been taken up by BITC. It links working professionals with schools to bring the world of work to life for secondary school children. Our US initiatives include partnering with seven local community colleges to deliver energy utility technology training programmes that are designed to equip people for jobs in the energy industry. We are doing a great deal of work in this area, as you can read on page 24.

All this is business as usual for us – the BITC recognition is not the result of any special new initiative we have done to win the award. But it would not have been possible without the efforts of our employees. I was delighted to see that the results of our 2015 employee opinion survey – a good measure of how satisfied employees are with their employer – included an engagement score of 75% – our highest since we started conducting Group-wide employee opinion surveys.

I would like to thank all our people for making a positive impact, through their work for National Grid, their volunteering and fundraising achievements, and by getting involved in activities that really matter to us and to society.

Priorities for 2015/16

Safety: continue to build on our strong performance so we can achieve a consistent world-class safety performance;

Customers and stakeholders: improve the service we provide for our customers and continue to build trust among our stakeholders;

Performance Excellence: focus on being efficient in our end-to-end processes so we can continue to improve our overall performance and efficiency; and

Regulatory filings: prepare and file applications for new rate plans in New York, Long Island and Massachusetts.

Steve Holliday

Principal operations
pages 27–36

Our people
pages 24–25

Careers Lab links working professionals with schools to bring the world of work to life for secondary school children. See page 24.

Operating environment

The UK economy has been recovering steadily in the past year, with 2.6% economic growth, falling unemployment and falling inflation.

Growth in the fourth quarter of 2014, however, dropped to 0.5% as sluggish eurozone growth depressed exports and wider geopolitical events increased the perceived risk of investment. In the US, employment levels have continued to rise. The Federal Reserve ended its quantitative easing programme of bond purchases, though treasury yields continue to be at or near historical lows. GDP increased 2.4% in 2014, although growth in the first quarter of 2015 was only 0.2%.

Below, we highlight our main market drivers and the impact they have on our business.

Market driver	Impact
Changing energy mix **Changing fuel costs and environmental programmes are affecting traditional electricity generation** UK In February 2015 DECC announced the results of the first Contracts for Difference (CfD) auction allocation rounds, with wind technology making up the bulk of contracted generation. Continued support for solar PV through Feed in Tariffs (FiTs) and the Renewables Obligation contributed to growth in installed solar PV. Older fossil fuel plants continue to face the challenge of environmental regulations while the new nuclear plant at Hinkley received State Aid approval from the European Commission in October 2014. US In the US, shale gas development has continued to keep national wholesale prices low. Environmental Protection Agency regulations have led to generator retirements or increased costs for compliance. Renewables are growing their share of electricity generation and account for a significant amount of newly installed capacity. Distributed generation, such as rooftop solar, has grown substantially in our service territory.	**This could lead to significant network investment opportunities** UK Increasing deployment of large-scale wind, large-scale solar PV and nuclear will require more investment in transmission networks to connect new plant and reinforce the network. Variable output from solar PV and wind makes balancing demand and supply more challenging. More interconnection between the UK and adjacent European markets will deliver net benefits to the UK. US Lower national wholesale gas prices have increased the amount of gas used for electric generation, causing constraints into the northeast US. Oil to gas conversions will continue as gas maintains its price advantage. New interstate gas pipeline capacity is needed to overcome growing gas demand. The electric transmission system will need upgrades and rebalancing due to generation retirements and to connect new renewable sources. Increasing amounts of distributed generation, particularly solar, will require investment in the electric distribution network.
Energy policy **Sustainability, security of supply and affordability underpin EU policy** Against a difficult economic and financial background, the EU's energy policy is underpinned by sustainability, security of supply and affordability. In October 2014 the EU heads of state agreed the EU's 2030 Climate Change and Energy Framework. This includes a 40% reduction target for carbon emissions, alongside other objectives for renewables, energy efficiency and interconnections. Negotiations for a new international agreement on climate change continued at the twentieth session of the Conference of Parties (COP20) in Lima in December 2014. Nations are looking to the Paris worldwide conference in 2015 as the next opportunity to work out a new climate change deal. Finally, the creation of a 'genuine energy union' was highlighted as one of the main priorities of the new European Commission, which took office in November 2014.	**Policy decisions can affect our investment needs and compliance obligations** Greater levels of market integration, interconnection and renewable generation are fundamental to achieving the EU's policy objectives. While European developments present challenges, the significant level of investment required will create opportunities for growth. For example, potential future interconnector opportunities include connections between the UK and France, Ireland, Denmark and Iceland. Such opportunities would help the EU achieve its interconnection targets. See page 27 for more information about our interconnector projects.
UK energy policies are attracting investment and there is significant political focus on reducing costs for consumers Energy policy continues to evolve from the Climate Change Act 2008, which commits the UK Government to reducing UK greenhouse gas emissions to at least 80% lower than a 1990 baseline by 2050. The Energy Act 2013 implements the main aspects of EMR, and puts in place measures to attract the investment needed. The run-up to the General Election in May 2015, saw a sharp focus on the costs of energy and the competitiveness of energy markets.	**National Grid is central to the delivery of EMR and active on driving down costs** National Grid has been performing its role as delivery body for the Government on EMR, as described on page 39. The focus on the cost of energy is important to National Grid. We are working hard to highlight to our stakeholders how the RIIO regulatory framework is helping us to reduce costs for consumers while creating incentives for vital investment.

Market driver	Impact
US policy is evolving to meet environmental and energy diversity goals In the US, many federal level developments have been through federal agency regulations and Presidential executive orders. At a state level, energy policy continues to evolve in the northeastern US, driven by interest in promoting energy efficiency, maintaining reliability and deploying renewable technologies that help meet environmental and energy diversity goals.	**Options for increased renewable and distributed generation are being explored** In the US, the impact on natural gas dependency has resulted in an evaluation of the best way of increasing fuel diversity through renewable and distributed generation resources. We continue to support movement towards a clean energy economy; and support additional measures to increase America's energy productivity.
Regulation **Infrastructure investment needs must be balanced with affordability** Regulators acknowledge that there is a significant need for infrastructure investment. However, affordability continues to be a primary concern. Ageing gas mains can be riskier to use and can contribute to greenhouse gas emissions through leaks. Regulators and policymakers are asking utilities to put plans in place to strengthen their networks' ability to withstand the effects of severe weather.	**We must accommodate customers' cost concerns and also provide safe, up-to-date systems** We must accommodate our customers' affordability concerns while fulfilling our obligations to provide safe and reliable services and upgrading our systems. Investment is required for new connections, to meet the challenges of changing supply and demand patterns, and to replace ageing infrastructure in the UK and US.
UK regulators want greater efficiency and innovation In the UK, the regulatory focus during the year has been on the RIIO price controls which give greater focus to incentives and innovation than the previous regulatory regime. We continue to be engaged in the debate on the regulatory approach to electricity transmission investment, stemming from the projected increase in offshore wind generation and interconnection.	**This is driving them to favour more market competition** In the UK, competition is already in place for offshore development and Ofgem has stated its intent to retain the option of using greater competition for certain large onshore projects. For more information about network efficiency and innovation, see pages 27 to 31.
In the UK, Ofgem is reviewing the arrangements for planning and delivering Britain's transmission networks We are facing new challenges from an ageing infrastructure and a changing energy mix. Technical developments and innovation also mean that there could be opportunities to coordinate and integrate those investments. The Integrated Transmission Planning and Regulation (ITPR) project is looking at long-term challenges such as ageing infrastructure, the changing energy mix, technical developments and innovation, to assess whether the regulatory arrangements currently in place are sufficient to ensure coordination and efficiency in the future planning of electricity transmission.	**We need to make sure the network is planned in an economic, efficient and coordinated way** Ofgem has proposed enhancing our role as System Operator (SO) so that the SO has a greater role in system planning. No organisation is currently responsible for taking an overarching view of system development, so opportunities for coordination can potentially be missed. We are working with Ofgem to develop the framework for how the system will be planned and how assets will be managed.
US regulators are focused on system modernisation and integration of new distributed energy resources State officials in Massachusetts and New York have approved gas system investment programmes to accelerate replacement of ageing infrastructure. The Massachusetts Grid Modernization proceeding and New York's Reforming the Energy Vision effort both focus on deploying advanced electric grid capabilities to improve reliability, more fully exploit distributed energy resources, and provide new opportunities for customers to control their energy use.	**Investments to modernise networks and integrate distributed resources will offer new options and value to customers** We are expanding gas system enhancement investment programmes and are developing electric grid modernisation plans. Through our regulatory efforts and stakeholder engagement we are seeking to create a regulatory framework that integrates distributed energy resources into the electric grid in a way that is cost effective and delivers benefits to customers.
In the US, FERC is reforming transmission planning and promoting competition in the transmission industry FERC issued Order 1000 in 2011 to improve transmission planning and increase competition in the transmission industry. Policies to comply with the Order took effect in New York and New England in 2014 and 2015, respectively.	**Competitive transmission planning provides opportunities for us** Order 1000 has opened our service territory to competition from non-incumbent transmission developers and also created opportunities for us to compete for transmission projects outside of our current geographic footprint.
Innovation and technology **Performance improvements and cost declines have led to continued growth in new technologies** Distributed generation of solar power has grown significantly due to price declines and tax incentives. Energy storage is growing in the US as certain states set goals and other utilities announce investment plans for storage capacity. The UK hit a record high for wind generation in 2014 of 28 terawatt hours (TWh), 15% greater than the previous year. Plug-in electric vehicle sales in the US and worldwide grew, even as gasoline prices dropped throughout the past year.	**Further investment in electricity distribution networks may be necessary to integrate these new technologies** Investment in renewable energy continues to grow. Regulatory proceedings are underway to enhance the value of distributed resources to the grid and give customers more control over their energy use. These could require significant network investment in order to integrate new and variable resources and provide customers with more information on their usage.

What we do – Electricity

The electricity industry connects generation sources to homes and businesses through transmission and distribution networks. Companies that pay to use transmission networks buy electricity from generators and sell it to consumers.

System operator

As system operator (SO) for England and Wales, we coordinate and direct electricity flows onto and over the transmission system, balancing generation supply and user demand. Where necessary, we pay sources of supply and demand to increase or decrease their generation or usage.

We have the same role for the two high voltage electricity transmission networks in Scotland and we are SO for the offshore electricity transmission regime.

Our charges for SO services in the UK are subject to a price control approved by Ofgem. System users pay us for connection, for using the system and balancing services.

As electricity transmission SO, our price control includes incentives to minimise the costs and associated risks of balancing the system through buying and selling energy, as well as procuring balancing services from industry participants.

In the US, similar services are provided by independent system operators.

1 Generation

Generation is the production of electricity from fossil fuel and nuclear power stations, as well as renewable sources such as wind and solar. In the US, we own and operate 50 fossil fuel-powered stations on Long Island and 4.6 MW of solar generation in Massachusetts. We do not own or operate any electricity generation in the UK.

We sell the electricity generated by our plants on Long Island to LIPA under a long-term power supply agreement. The contract allows us to recover our efficient operating costs and provides a return on equity on our investment in the generation assets.

For solar generation, we recover our costs and a reasonable return from customers in Massachusetts through a solar cost adjustment factor. This is added to the electricity rate, net of revenues earned from the solar assets.

2 Interconnectors

Transmission grids are often interconnected so that energy can flow from one country or region to another. This helps provide a safe, secure, reliable and affordable energy supply for citizens and society across the region. Interconnectors also allow power suppliers to sell their energy to customers in other countries.

Great Britain is linked via interconnectors with France, Ireland, Northern Ireland and The Netherlands. National Grid owns part of the interconnectors with France and The Netherlands. We are also now entering the construction phase for two new interconnectors, between the UK and Belgium and Norway. We are continuing to work on developing additional interconnector projects, which we believe will deliver significant benefits to consumers. These include opportunities for interconnection with Iceland, Denmark and a further link with France.

We also jointly own and operate a 224 kilometre interconnector between New England in the US and Canada.

We sell capacity on our UK interconnectors through auctions and on our US interconnector through wholesale markets and bilateral contracts.

3 Transmission

Transmission systems generally include overhead lines, underground cables and substations. They connect generation and interconnectors to the distribution system.

We own and operate the transmission network in England and Wales. We operate but do not own the Scottish networks. We are also working in a joint venture with Scottish Power Transmission to construct an interconnector to reinforce the GB transmission system between Scotland and England and Wales.

In the US, we jointly own and operate transmission facilities spanning upstate New York, Massachusetts, New Hampshire, Rhode Island and Vermont.

4 Distribution

Distribution systems carry lower voltages than transmission systems over networks of overhead lines, underground cables and substations. They take over the role of transporting electricity from the transmission network, and deliver it to consumers at a voltage they can use.

We do not own or operate electricity distribution networks in the UK.

In the US, our distribution networks serve around 3.5 million customers in upstate New York, Massachusetts and Rhode Island.

5 Supply

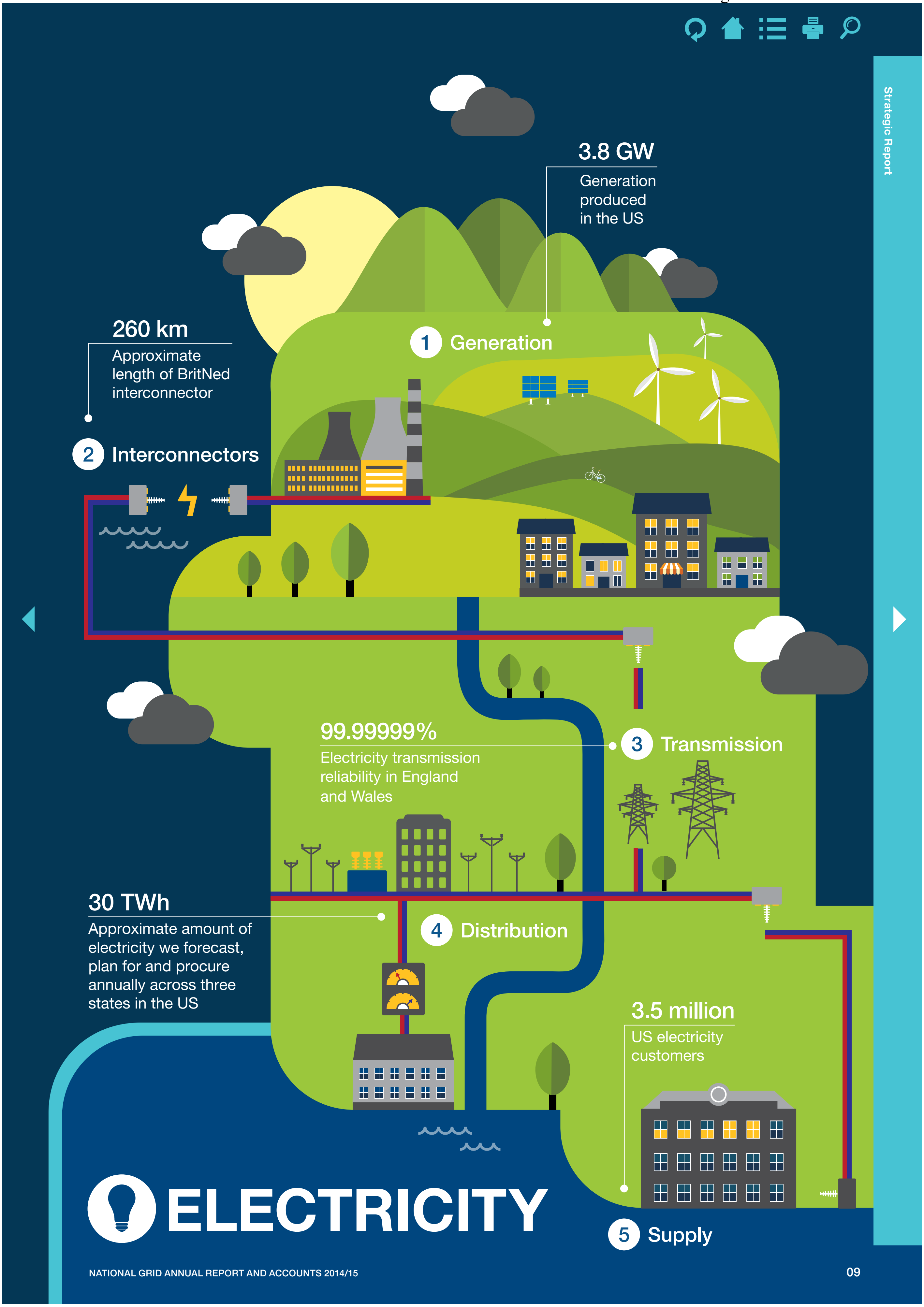
The supply of electricity involves buying electricity and selling it on to customers. It also involves customer services, billing and the collection of customer accounts.

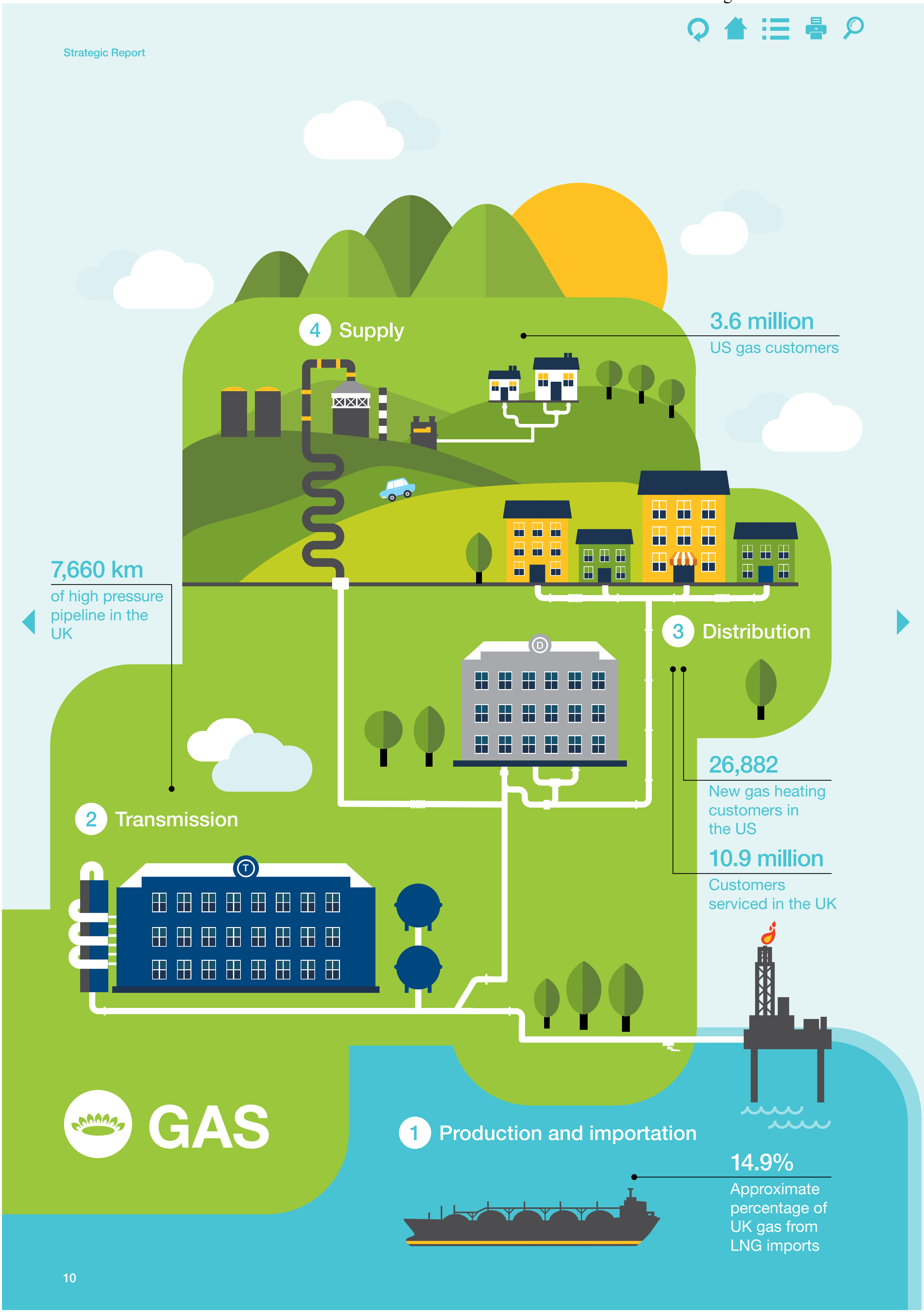
We do not sell electricity to consumers in the UK.

All our customers in the US can select a competitive supplier for the supply component of electricity utility services. Where customers choose National Grid, they pay us for distribution and electricity costs. Where they choose to buy electricity from third parties, they pay us for distribution only and pay the third-party supplier for the electricity. Our base charges for electricity supply are calculated to recover the purchased power costs.

Our business model
pages 12–13

Overhead line replacement in our US business, page 35.


Strategic Report
3.8 GW
Generation produced in the US
1 Generation
260 km
Approximate length of BritNed interconnector
2 Interconnectors
99.99999%
Electricity transmission reliability in England and Wales
3 Transmission
30 TWh
Approximate amount of electricity we forecast, plan for and procure annually across three states in the US
4 Distribution
3.5 million
US electricity customers
5 Supply
ELECTRICITY
NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15
09


4 Supply
3.6 million
US gas customers
7,660 km
of high pressure pipeline in the UK
3 Distribution
26,882
New gas heating customers in the US
10.9 million
Customers serviced in the UK
2 Transmission
GAS
1 Production and importation
14.9%
Approximate percentage of UK gas from LNG imports

What we do – Gas

The gas industry connects producers, processors, storage, transmission and distribution network operators, as well as suppliers to industrial, commercial and domestic users.

System operator

As system operator we are responsible for the high pressure gas National Transmission System (NTS) in Great Britain. We have responsibility for the residual balancing activities on the NTS and for keeping the physical system within safe operating limits.

Our price control, set by Ofgem, includes incentives that aim to maintain and improve our daily operational efficiency and are subject to renegotiation at set intervals.

1 Production and importation

Gas used in the UK is mainly sourced from gas fields in the North and Irish seas, piped from Europe and imported as LNG.

There are seven gas reception terminals, three LNG importation terminals and three interconnectors connecting Great Britain via undersea pipes with Ireland, Belgium and the Netherlands. Importers bring LNG from the Middle East, the Americas and other places.

Gas used in the US is produced mainly in North America. We import LNG from a number of countries.

We do not produce gas in either the UK or US.

In the UK, we own and operate Grain LNG, an importation terminal and storage facility at the Isle of Grain in Kent, which charges customers under long-term contracts for various services. These include access to our importation terminal, storage facilities and capacity rights.

In the US, we own and operate LNG storage and vaporisation facilities, as well as an LNG storage facility in Providence, Rhode Island, where we store gas for third parties for a fee. We also buy gas directly from producers and LNG importers for resale to our customers.

2 Transmission

The transmission systems generally include pipes, compressor stations and storage facilities, including LNG storage. They connect production through terminals to the distribution systems.

In the UK, gas enters the transmission system through importation and reception terminals and interconnectors and may include gas previously held in storage.

Compressor stations located along the network play a vital role in keeping large quantities of gas flowing through the system, particularly at times of high demand.

The gas transmission system has to be kept constantly in balance, which is achieved by buying, selling and using stored gas. This means that, under normal circumstances, demand can be met.

We are the sole owner and operator of gas transmission infrastructure in Great Britain.

In the US, we hold a minority interest in two interstate pipelines: Millennium Pipeline Company and Iroquois Gas Transmission System. Interstate pipelines are regulated by the Federal Energy Regulatory Commission (FERC).

3 Distribution

In the UK, gas leaves the transmission system and enters the distribution networks at high pressure. It is then transported through a number of reducing pressure tiers until it is finally delivered to consumers.

There are eight regional gas distribution networks in the UK, four of which are owned by National Grid. In the US, gas is delivered by the interstate pipeline companies to local distribution networks. Each local distribution company has a geographically defined service territory and is the only local distribution company within that territory. Local distribution companies are regulated by the relevant local state's utility commission.

Our networks deliver gas to 10.9 million consumers in the UK and 3.6 million customers in the US.

4 Supply

Pipeline shippers bring gas from producers to suppliers, who in turn sell it to customers.

We do not supply gas in the UK. However, we own National Grid Metering, which provides meters and metering services to supply companies, under contract.

In the UK, customers pay the supplier for the cost of gas and for its transportation. We transport the gas through our network on behalf of shippers, who pay us transportation charges.

In the US, gas distribution companies, including National Grid, sell gas to consumers connected to their distribution systems.

In most cases in the US, where customers choose National Grid, they pay us for distribution and gas costs. Where they choose to buy gas from third parties, they pay us for distribution only and pay the third-party supplier for the gas and upstream transportation capacity.

Also in the US, except for residential consumers in Rhode Island, customers may purchase their supply from independent providers with the option of billing for those purchases to be provided by us.

Our business model
pages 12–13

UK Gas Transmission
page 29

Our business model

How we generate long-term value.

Our business

Our strategy is to be a recognised leader in the development and operation of safe, reliable and sustainable energy infrastructure, to meet the needs of our customers and communities and to generate value for our investors.

We own and operate gas and electricity transmission and distribution infrastructure in the UK and northeastern US. Our principal operations are:

- UK Electricity Transmission
- UK Gas Transmission
- UK Gas Distribution
- US Regulated
- Other activities (such as Grain LNG, Interconnectors and Metering)

We aim to maintain a clear and consistent strategy over the long term to provide stable returns to our investors and consistent levels of service to our customers and communities.

Our vision and strategy: pages 14–15
Principal operations: pages 27–36

Our transmission and distribution businesses operate as regulated monopolies. Regulators safeguard customers' interests by setting the level of charges we are allowed to pass on.

In the UK, we have one regulator for our businesses: Ofgem. In the US, for the areas in which we operate, we are regulated by the relevant state regulators and FERC.

Our value proposition

We are a long-term, asset-based business. Our operations are regulated, which means we create value for our stakeholders through predictable revenue streams and cash flows.

Revenue

Most of our revenue is set in accordance with our regulatory agreements. This is referred to as our 'allowed revenue' and is calculated based on a number of factors. These include:

- investment in network assets;
- performance against incentives;
- return on equity and cost of debt; and
- customer satisfaction scores.

You can find more information about calculating our allowed revenue under our UK and US regulatory agreements on pages 20 to 23.

Our allowed revenue gives us a level of certainty over future revenues if we continue to meet safety and reliability targets, as well as the efficiency and innovation targets included in the RIIO licence agreements in our UK regulated businesses.

Investment

We invest efficiently in our networks to deliver strong regulated asset growth over the long term. This allows us to continue generating revenue growth and growth in our regulated asset base. This in turn generates additional cash flows and allows us to continue reinvesting in our networks and providing sustainable dividends to our shareholders.

The foundations of our business model

Our people, being a responsible business, and encouraging innovation are at the heart of our business model and are reflected in our strategy.

Our people

Our business is built on our people. We work hard to make sure that we keep them as safe as possible as well as providing an inclusive culture and encouraging development.

Our people: pages 24–25

These cash flows are then reinvested to provide future growth, or returned to shareholders.

Cash flow

Our ability to convert revenue to cash is an important factor in the ongoing reinvestment in our business. Securing low-cost funding, carefully managing our cash flows and efficient development of our networks are essential to maintaining strong sustainable returns for our shareholders. Cash generation is underpinned by agreeing appropriate regulatory arrangements.

This approach is critical to the sustainability of our business. By challenging our investment decisions, we continue to deliver reliable, cost-effective networks that benefit our customers. The way in which our investment is funded is also an important part of our business. The long-term, sustainable nature of our assets and our credit ratings help us secure efficient funding from a variety of sources.

Our stakeholders

Our stakeholders include customers, the communities in which we operate, shareholders, governments and regulators.

We create value for our **customers and communities** by:

- operating safely, reliably and sustainably;
- focusing on affordability to reduce the impact on customer bills;
- delivering essential services that meet the needs of our customers;
- providing emergency services; and
- engaging with the communities in which we operate.

We create value for our **shareholders** by:

- making sure our regulatory frameworks maintain an acceptable balance between risk and return;
- operating within our regulatory frameworks as efficiently as possible;
- maximising incentives to make the most of our allowed returns;
- careful cash flow management and securing low-cost funding;
- disciplined investment in our networks and non-regulated assets; and
- protecting our reputation.

Using our knowledge and expertise, we engage widely in the energy policy debate to help guide future policy direction. We also work with our regulators to help them develop the frameworks within which we can meet the changing energy needs of the communities we serve.

How our strategy creates value: pages 14–15

Being a responsible business

Doing the right thing is a responsibility we take seriously. Our environmental, financial and social responsibilities are fundamental to the way we work and how we manage our impact on the communities in which we operate.

Principal operations: pages 27–36 and KPIs: pages 16–19

Innovation

Thinking differently and challenging the norms allow our people to develop innovative and more efficient ways of delivering our services and maintaining our networks.

Principal operations: pages 27–36

Our vision and strategy

Our vision describes our intentions and aspirations at the highest level. Our strategic objectives set out what we believe we need to achieve to deliver our vision and be recognised as a leader in the development and operation of safe, reliable and resilient energy infrastructure.

Strategic objective	Description	How we deliver
Deliver operational excellence	**Achieve world-class levels of safety, reliability, security and customer service.**	Our customers, communities and other stakeholders demand safe, reliable and secure supply of their energy. This is reflected in our regulatory contracts where we are measured and rewarded on the basis of meeting our commitments to customers and other stakeholders. Pursuing excellence in all our operational processes will allow us to manage our assets efficiently, deliver network improvements quickly and provide services that meet the changing demands of our customers.
Engage our people	**Create an inclusive, high-performance culture by developing all our employees.**	It is through the hard work of our employees that we will achieve our vision, respond to the needs of our stakeholders and create a competitive advantage. Encouraging engaged and talented teams that are in step with our strategic objectives is vital to our success. Our presence within the communities we serve, the people we work with and our opportunities to grow both individually and as a business are all important to making National Grid a great place to work.
Stimulate innovation	**Promote new ideas to work more efficiently and effectively.**	Our commitment to innovation allows us to run our networks more efficiently and effectively and achieve our regulatory incentives. Across our business, we explore new ways of thinking and working to benefit every aspect of what we do. Embedding innovation and new technology into our operations helps us deliver continuous improvements in the quality and cost of our services.
Engage externally	**Work with external stakeholders to shape UK, EU and US energy policy.**	Policy decisions by regulators, governments and others directly affect our business. We engage widely in the energy policy debate, so our position and perspective can influence future policy direction. We also engage with our regulators to help them provide the right mechanisms so we can deliver infrastructure that meets the changing needs of our stakeholders.
Embed sustainability	**Integrate sustainability into our decision making to create value, preserve natural resources and respect the interests of our communities.**	Our long-term sustainability strategy sets our ambition to deliver these aims and to embed a culture of sustainability within our organisation. That culture will allow us to make decisions that protect and preserve natural resources and benefit the communities in which we operate. We remain committed to our targets of a 45% reduction in Scope 1 and 2 greenhouse gas emissions by 2020 and 80% by 2050.
Drive growth	**Grow our core businesses and develop future new business options.**	We continue to maximise value from our existing portfolio, while exploring and evaluating opportunities for growth. Making sure our portfolio of businesses maintains the appropriate mix of growth and cash generation is necessary to meet the expectations of our shareholders. We review investment opportunities carefully and will only invest where we can reasonably expect to earn acceptable returns. Combining this disciplined approach with operational and procurement efficiencies gives us the best possible opportunity to drive strong returns and meet our commitments to investors.

Relevant KPIs

- Employee IFR
- Network reliability
- Customer satisfaction

See pages 16–19

- Employee engagement index
- Workforce diversity

See pages 18–19

- Value added
- Network reliability

See pages 16–19

- Customer satisfaction

See pages 18–19

- Greenhouse gas emissions

See pages 18–19

- Regulated asset growth
- Adjusted EPS

See pages 16–17

Our vision

Connecting you to your energy today, trusted to help you meet your energy needs tomorrow.

How our strategy creates value

Our vision and strategic objectives explain what is important to us, so we can meet our commitments and deliver value.

Customer and community value

Safety and reliability – we strive to provide reliable networks safely, which is essential to safeguard our customers, employees and the communities in which we operate.

Affordability – we strive to provide services efficiently, which helps to reduce the amount of money consumers have to pay for their energy.

Customer service – providing essential services that meet the needs of our customers and communities is a crucial part of the value they expect from us.

Sustainability – we strive to protect the environment and preserve resources for current and future generations.

Emergency services – we provide telephone call centres, coordinate the response to gas emergencies, and respond to severe weather events.

Community engagement – we listen to the communities we serve and work hard to address concerns about the development of our networks. Our employees volunteer for community-based projects and we support educational initiatives in schools.

Shareholder value

Regulatory frameworks – operating within sound regulatory frameworks provides stability. Making sure these frameworks maintain a balance between risk and return underpins our investment proposition.

Reputation – our approach to safety and our reliability record underpin our reputation. These are crucial factors that contribute towards positive regulatory discussions and help us pursue new business opportunities.

Efficient operations – efficient capital and operational expenditure allows us to deliver network services at a lower cost and reduces working capital requirements.

Maximising incentives – if we perform well against our incentives, and deliver the outputs our customers and regulatory stakeholders require, we can make the most of our allowed returns.

Funding and cash flow management – securing low-cost funding and carefully managing our cash flows help us maintain strong returns for our investors.

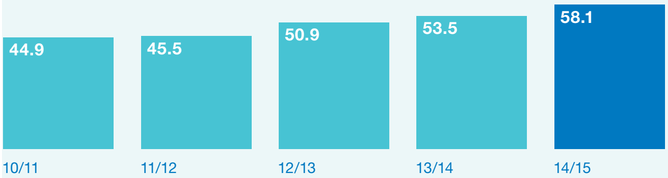
Disciplined investment – we can increase our revenue and earnings by investing in both regulated and non-regulated assets. This helps us deliver attractive returns for our shareholders.

rformance indicators

and non-financial metrics,
we measure Group performance.

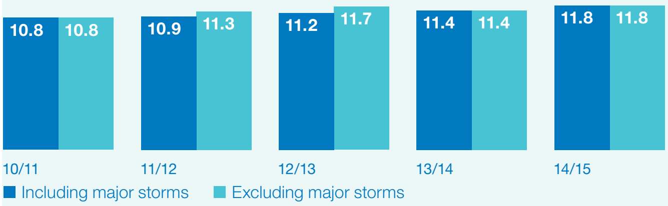
Our performance

Adjusted EPS pence[1]

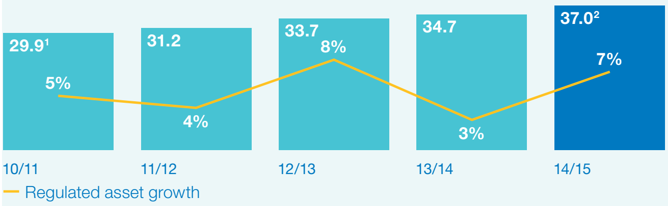


1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

Group return on equity %

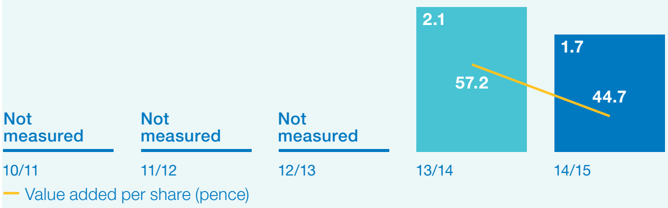


Total regulated assets and regulated asset growth £bn

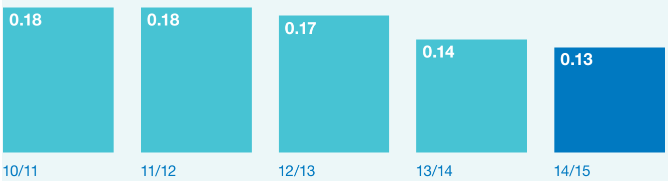


1. US base rate calculated as at 31 December 2010 in this year.
2. Estimated figure until the conclusion of the regulatory reporting cycle.

Value added £bn



Employee lost time injury frequency rate per 100,000 hours worked



We are adding new KPIs to better reflect the issues that matter most to our Company and our stakeholders. For this 2014/15 Report, we have included information about workforce diversity, as set out on pages 18 and 19. We aim to include two further new KPIs in our 2015/16 Report. These relate to community engagement and investment in education, skills and capabilities. Executive remuneration is linked to some of our KPIs.

Commentary		Target
For the year ended 31 March 2015, adjusted earnings attributable to equity shareholders increased by £174 million to £2,189 million. This increase in earnings resulted in an adjusted earnings per share of 58.1 pence, an increase of 9% on 2013/14. The earnings increase was driven by a £199 million increase in adjusted operating profit. With the exception of our UK Gas Distribution business, we saw increases in adjusted operating profit across all of our business segments.	Overall adjusted net finance costs reduced by £75 million across the Group which was broadly offset by a higher adjusted tax charge of £114 million reflecting the increase in profits across the Group. See page 20	The adjusted EPS target set as part of executive remuneration for APP was more than met with 100% of maximum achieved (see page 70).
Group RoE has increased during the year to 11.8%, from 11.4% in 2013/14. The UK regulated businesses delivered good returns of 13.7% in aggregate in the second year of their new price controls, including the assumed 3% long run average RPI inflation.	US returns of 8.4% were slightly down on last year, reflecting the additional costs incurred on gas leak repair and compliance and the increased level of rate base growth since 2013. See page 21	The Group RoE target set as part of executive remuneration for APP was more than met with 100% of maximum achieved (see page 70).
Our regulated assets have increased by 7% (£2.3 billion) to £37.0 billion. This reflects the continued high levels of investment in our networks in both the UK and US, together with the impact of the stronger US dollar. The rate of growth at constant currency was 3%.	The UK regulatory asset value (RAV) increased by £0.5 billion, reflecting significant capital expenditure, together with inflation, although at 0.9% RPI, this has had a smaller impact than in recent years. US rate base has increased by £1.8 billion this year. Of this, £1.2 billion was due to foreign exchange movements increasing the rate base reported in sterling. Excluding foreign exchange, rate base increased by £0.6 billion, reflecting a record year of US investment. See page 21	No specific target. Our overall aim is to increase regulated asset growth above the underlying rate of inflation.
Value added in the year was lower than 2013/14, primarily due to the impact of lower RPI on UK regulated asset growth. RPI inflation for March 2015 was 0.9% compared with 2.5% in March 2014 and National Grid's long run assumption of 3%.	Of the £1.7 billion value added in 2014/15, £1,271 million was paid to shareholders as cash dividends and £335 million as share repurchases (offsetting the scrip issuance during the year), with £79 million retained in the business. See page 21	No specific target. Our overall aim is to sustainably grow value added over the long term while maintaining performance of our other financial KPIs.
In the UK we maintained a world-class employee safety performance during 2014/15, with an employee injury frequency rate of 0.09. Our US business improved its safety performance, with an employee injury frequency rate of 0.15.	Overall, our Company-wide injury frequency rate of 0.13 is better than last year and means that we bettered our target of 0.15. However, we did not meet our ambition to reach a world-class level by 2015. See UK Principal operations: pages 27–31 and US Principal operations: pages 33–35	We achieved our Company-wide employee IFR target of 0.15.

key performance indicators continued

Our performance

tworks.

	Performance					Measure	Target
	10/11	11/12	12/13	13/14	14/15		14/15
UK Electricity Transmission	99.9999	99.999999	99.99999	99.99999	**99.99999**	%	**99.9999**
UK Gas Transmission	100	100	100	100	**100**	%	**100**
UK Gas Distribution	99.999	99.999	99.999	99.999	**99.999**	%	**99.999**
Electricity transmission – US	99.969	99.960	99.958	99.957	**99.942**	%	**–**
Electricity distribution – US	99.997	99.977	99.980	99.980	**99.969**	%	[1]

1. Targets are set individually by each of our US jurisdictions.

UK
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	Performance					Measure	Target
	10/11	11/12	12/13	13/14	14/15		14/15
UK Electricity Transmission	n/a	n/a	n/a	7.4	**7.4**	Score out of 10	6.9[1]
UK Gas Transmission	n/a	n/a	n/a	7.2	**7.6**	Score out of 10	6.9[1]
UK Gas Distribution	n/a	n/a	n/a	8.2	[2]	Score out of 10	8.3[1]
US Gas distribution – Residential	2nd	3rd	3rd	2nd	**4th**	Quartile ranking	To improve
US Gas distribution – Commercial	4th	3rd	4th	4th	**4th**	Quartile ranking	To improve
US Electricity – Residential	3rd	3rd	3rd	2nd	**3rd**	Quartile ranking	To improve
US Electricity – Commercial	2nd	2nd	3rd	2nd	**2nd**	Quartile ranking	To improve

1. Figures represent our baseline targets set by Ofgem for reward or penalty under RIIO.
2. Under RIIO-GD1, our customer satisfaction results are now reported on an annual basis, rather than quarterly, which was how we reported them under our previous price control. We will publish the results on our website in the summer as part of our commitment to our stakeholders, and in our Annual Report and Accounts for 2015/16.

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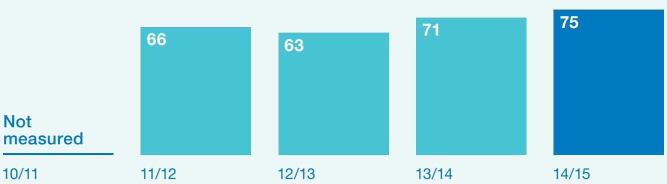
Employee engagement index %



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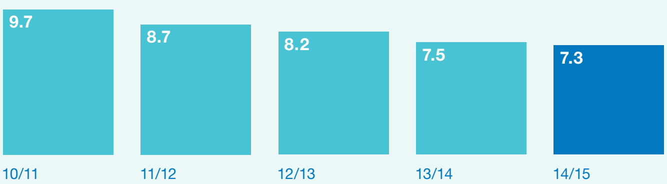
Greenhouse gas emissions million tonnes carbon dioxide equivalent



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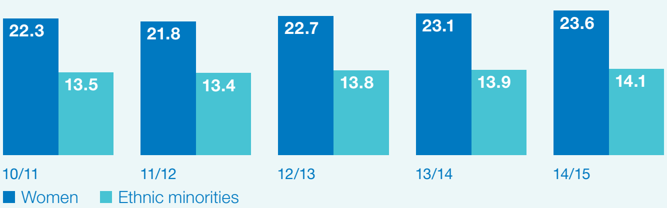
Workforce diversity %



Commentary		Target
We aim to deliver reliability by: planning our capital investments to meet challenging demand and supply patterns; designing and building robust networks; risk-based maintenance and replacement programmes; and detailed and tested incident response plans. In the UK, our networks performed well. Despite tighter winter margins than previous years, we were able to operate the system without calling upon our additional reserve.	In the US, despite low temperatures and record levels of snowfall in parts of New England our network resilience held up well. We invested millions of dollars in both our electricity and gas infrastructure to improve resilience and help reduce the impact of service interruptions. See UK Principal operations: pages 27–31 and US Principal operations: pages 32–35	We achieved our targets, which are set out in the table for our UK networks, and are set individually for each of our US jurisdictions.
Our customer satisfaction KPI comprises seven components: Ofgem's UK electricity transmission, gas transmission and gas distribution customer satisfaction scores; and four J.D. Power and Associates customer satisfaction surveys in the US. We have exceeded the two UK electricity and gas transmission targets; the outcome for the third UK KPI component will be published later this year (see note opposite).	In the US, we did not achieve our targets. Customers were concerned about higher-than-normal winter bills as a result of electricity commodity price increases and higher gas usage due to cold weather. In an effort to rebuild trust and customer satisfaction, we put in place a customer outreach and education programme that focused on energy saving solutions and bill management. See UK Principal operations: pages 27–31 and US Principal operations: pages 32–35	Our targets for each business area are set out in the table. We achieved our UK transmission targets, but did not achieve our US targets.
We measure employee engagement through our employee opinion survey. The results of our 2015 survey, which was completed by 83% of our employees, have helped us identify specific areas where we are performing well and those areas we need to improve. Our engagement index has risen by four points to 75%, our highest engagement score since we started conducting Group-wide employee opinion surveys. Managers receive a scorecard that aims to	create greater leadership accountability and we produce survey reports and action plans at Company, regional, business unit, function and team levels. See Our people: pages 24–25	We achieved our target of increasing engagement compared with the previous year.
Our Scope 1 and 2 greenhouse gas emissions (excluding electricity transmission and distribution line losses) for 2014/15 equate to 7.3 million tonnes carbon dioxide equivalent; a 63% reduction against our 1990 baseline. These emissions are equivalent to an intensity of around 478 tonnes per £million of revenue. We measure and report our greenhouse gas emissions in accordance with the World Resources Institute and World Business Council on Sustainable Development	Greenhouse Gas Protocol: Corporate Accounting and Reporting Standard (Revised Edition) for all six Kyoto gases, using the operational approach for emissions accounting. Those Scope 1 and 2 emissions are independently assured against the international standard ISO 14064-3 Greenhouse Gas assurance protocol. A copy of this statement of assurance is available on our website.	Our target, described on the facing page, is in progress.
During 2014/15, the percentage of both women and ethnic minorities in our workforce increased slightly. For more details about the breakdown by gender at different levels of the organisation, as well as information relating to subsidiary directors, see page 25. During 2014/15 we were recognised as a Times Top 50 Employer for Women for 2015 and reached the Gold level in our benchmarking with both Race for	Opportunity and Opportunity Now. In the UK and US, our Employee Resource Groups continue to support our business goals and inclusion and diversity initiatives. See Our people: pages 24–25	No specific target set. We aim to develop and operate a business that has an inclusive and diverse culture.

Financial review

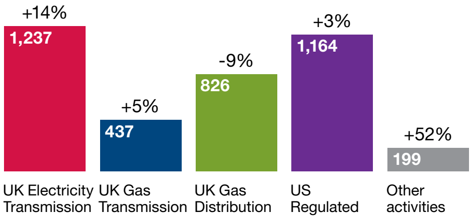
We have delivered another year of strong financial performance in the UK and solid performance in the US with record investment levels.

Additional commentary on financial KPIs

Adjusted operating profit

Adjusted operating profit for the year ended 31 March 2015 was £3,863 million, up £199 million (5%) from last year. With the exception of our UK Gas Distribution business, we saw increases in operating profit in all of our business segments.

Adjusted operating profit by segment £m



For the year ended 31 March 2015, adjusted operating profit in the UK Electricity Transmission segment increased by £150 million. Net regulated income after pass-through costs was £230 million higher, principally reflecting increases in allowed transmission owner revenues this year and a £43 million benefit relating to legal settlements. This was partly offset by under-recoveries of allowed revenue in the year of £89 million compared with under-recoveries of £60 million in the prior year. Regulated controllable costs were £14 million higher due to inflation, organisational change costs and additional tower maintenance costs. Depreciation and amortisation was £33 million higher reflecting the continued capital investment programme, and other costs were £4 million higher than prior year.

UK Gas Transmission adjusted operating profit increased by £20 million to £437 million. Net regulated income after pass-through costs was £42 million higher due to earned gas permit and constraint management incentives. In addition, under-recoveries of allowed revenue in the year of £18 million were £3 million favourable to last year's under-recoveries of £21 million. Partially offsetting the revenue gains, regulated controllable costs were £8 million higher, including additional system operator costs relating to EU work. Other operating costs were also £17 million higher, including decommissioning costs of the Avonmouth LNG plant.

UK Gas Distribution adjusted operating profit decreased to £826 million from £904 million in 2013/14. Net regulated income after pass-through costs was £11 million lower, reflecting changes in allowed revenues for repex expenditure. Timing differences reduced net revenues by a further £16 million, with £13 million over-recoveries in 2014/15 compared with a £29 million over-recovery in the prior year. Regulated controllable costs were £22 million higher primarily due to inflation and organisational change costs. Depreciation and amortisation was £15 million higher reflecting the continued capital investment programme, and other costs were £14 million higher than prior year, including provision for additional asset protection costs.

Within our US Regulated businesses, adjusted operating profit increased by £39 million to £1,164 million. The stronger dollar increased operating profit in the year by £30 million. Excluding the impact of foreign exchange, net regulated income increased by £81 million, reflecting increased revenue allowances under the Niagara Mohawk three year rate plan and other regulated revenue increases, partially offset by the impact of the end of LIPA management services agreement (MSA) in December 2013. In addition, over-recoveries of allowed revenues in the year of £30 million were £20 million favourable to last year's over-recoveries of £10 million. Regulated controllable costs increased by £17 million excluding the impact of foreign exchange, as a result of increased gas leak and compliance work and additional costs incurred to improve data quality to bring regulatory filings up to date. This was partly offset by the removal of costs associated with the LIPA MSA activities. Following last year's exceptionally cold winter, bad debt costs were £62 million higher excluding the impact of foreign exchange. There were no major storms affecting our operations in the years ended 31 March 2014 and 2015.

Adjusted operating profit in Other activities was £68 million higher at £199 million. Operating profit in the French interconnector was £18 million higher as a result of strong auction revenues this year. In the US, corporate and other activities losses were £63 million lower, mainly as a result of the completion of the enterprise resource planning system stabilisation in the first half of the year.

Adjusted earnings

For the year ended 31 March 2015, adjusted net finance costs were £75 million lower than 2013/14 at £1,033 million, mainly as a result of lower average gross debt through the year, lower RPI rates in the UK and refinancing debt at lower rates.

The adjusted tax charge was £114 million higher than 2013/14. This was mainly due to higher profits before tax and the non-recurrence of one-off items that benefited the prior year. As a result of this, the effective tax rate for 2014/15 was 24.2% (2013/14: 22.5%).

The earnings performance described above has translated into adjusted earnings of £2,189 million, up £174 million on last year. This equates to adjusted earnings per share (EPS) of 58.1 pence, up 4.6 pence (9%) on 2013/14.

Scrip restatement

In accordance with IAS 33, all EPS and adjusted EPS amounts for comparative periods have been restated as a result of shares issued via scrip dividends.

Measurement of financial performance

We describe and explain our results principally on an adjusted basis and explain the rationale for this on page 186. We present results on an adjusted basis before exceptional items, remeasurements and stranded cost recoveries. See page 186 for further details and reconciliations from the adjusted profit measures to IFRS, under which we report our financial results and position.

Use of adjusted profit measures
page 186

Commentary on the consolidated income statement
page 87

Commentary on results of our principal operations by segment
pages 99–100

This section provides additional commentary on our KPIs and other performance metrics we use to monitor our business performance. Analysis of our financial performance and position as at 31 March 2015, including detailed commentary on the performance of our operating segments, is located in the financial statements. However, this analysis still forms part of our Strategic Report financial review. See page 77 for further information. See pages 187 to 189 for commentary on our financial performance and position for the year ended 31 March 2014 compared with 31 March 2013. We have also included analysis of our UK regulated financial performance by segment on page 100.

A reconciliation between reported operating profit and adjusted operating profit is provided below. Further commentary on movements in the income statement is provided on page 87.

£m	Year ended 31 March 2015	2014	2013
Total operating profit	**3,780**	**3,735**	**3,749**
Exceptional items	–	(55)	84
Remeasurements – commodity contracts	83	(16)	(180)
Stranded cost recoveries	–	–	(14)
Adjusted operating profit	**3,863**	**3,664**	**3,639**
Adjusted net finance costs	(1,033)	(1,108)	(1,124)
Share of post-tax results of joint ventures	46	28	18
Adjusted taxation	(695)	(581)	(619)
Attributable to non-controlling interests	8	12	(1)
Adjusted earnings	**2,189**	**2,015**	**1,913**
Adjusted EPS (pence)	58.1	53.5	50.9

Group return on equity (RoE)

We measure our performance in generating value for our shareholders by dividing our annual return by our equity base.

Group RoE has increased during the year to 11.8%, from 11.4% in 2013/14. During the year, the UK regulated businesses delivered good returns of 13.7% in aggregate in the second year of their new price controls (2013/14: 12.7%), including the assumed 3% long-run average RPI inflation. US returns (on a higher average equity ratio than the UK) of 8.4% were down on last year, reflecting the additional costs incurred on gas mains repair and emergency leak response and the increased level of rate base growth since 2013. Overall, other activities in the Group delivered a good performance, including an improved result from the French interconnector and lower US corporate costs following the completion of the enterprise resource planning system stabilisation during the year. Treasury performance also helped the result, partly assisted by lower RPI accretions on the Group's index-linked debt. Together, these helped to offset the headwind from lower cost of debt allowances under the tracker within the new UK price controls.

Regulated asset growth

In total our UK regulated asset value (RAV) and US rate base increased by £2.3 billion (7%) to £37.0 billion. This reflects the continued high levels of investment in our networks in both the UK and US, together with the impact of the stronger US dollar. The rate of growth at constant currency was 3%.

The UK RAV increased by £0.5 billion, reflecting significant capital expenditure, together with inflation, although at 0.9% RPI, this has had a smaller impact than in recent years. UK RAV growth also included capitalised efficiencies or 'performance RAV' of £111 million this year.

US rate base has increased by £1.8 billion this year. Of this, £1.2 billion was due to foreign exchange movements increasing the rate base reported in sterling. Excluding foreign exchange, rate base increased by £0.6 billion, reflecting a record year of US investment.

Value added

Our dividend is an important part of returns to shareholders along with growth in the value of the asset base attributable to equity investors. These are reflected in the value added metric that underpins our approach to sustainable decision-making and long-term incentive arrangements.

Overall value added in the year was £1.7 billion or 44.7 pence per share as set out below:

£bn at constant currency	Year ended 31 March 2015	2014	Change
UK regulated assets[1]	25.5	25.2	+0.3
US regulated assets[1]	13.5	12.6	+0.9
Other invested capital	1.6	1.7	-0.1
Total assets	**40.6**	**39.5**	**+1.1**
Dividend paid			+1.3
Share buyback			+0.3
Movement in goodwill			–
Net debt	(23.9)	(22.9)	-1.0
Value added			**+1.7**
Value added per share			**44.7p**

1. Includes assets held outside RAV and rate base.

Value added in the year was lower than 2013/14 (£2.1 billion or 57.2 pence per share), primarily led by the impact of lower RPI on UK regulated asset growth. RPI inflation for March 2015 was 0.9% compared with 2.5% in March 2014 and National Grid's long-run assumption of 3.0%. Of the £1.7 billion value added in 2014/15, £1,271 million was paid to shareholders as cash dividends and £335 million (excluding £3 million of transaction costs) as share repurchases (offsetting the scrip issuance during the year), with £79 million retained in the business.

The Board is confident that growth in assets, earnings and cash flows, supported by improving cash efficiency and an exposure to attractive regulatory markets, should help the Group to maintain strong, stable credit ratings and a consistent prudent level of gearing, while delivering attractive returns for shareholders.

Other performance measures

UK regulated return on equity

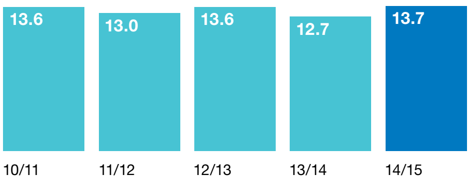
The UK RoE has increased 100bps to 13.7%, reflecting particularly strong incentive performance in the Gas Transmission business and further outperformance against our totex targets in Electricity Transmission, achieved through efficiencies within the capital investment programme. This performance represents 360bps outperformance over allowed returns. Our UK RoE does not include the impact of legal settlement benefits of £56 million. If these were included UK RoE would increase by 60bps to 14.3%.

Reconciliation of adjusted profit measures
page 186

Commentary on statement of financial position
page 91

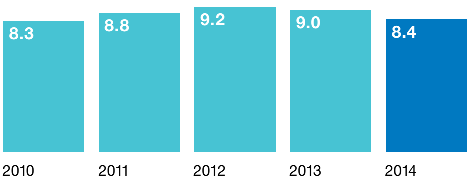
Financial review continued

UK return on equity %



US regulated return on equity
The US RoE has decreased 60bps to 8.4%, reflecting the additional costs incurred this year as a result of the severe winter weather and the additional gas mains leak investigation and repair work required, together with rate base growth.

US return on equity[1] %



1. Calculated on a calendar year basis.

Cash generated from operations
Cash generated from operations was £5,350 million (2013/14: £4,419 million). Changes in working capital improved by £360 million over the prior year, principally in the US (£441 million) due to the collection of high winter 2014 billings and other settlements including Superstorm Sandy reinsurance claims and LIPA receipts. Cash outflows relating to exceptional items were £133 million lower, as the prior year included reorganisation costs in the UK and LIPA MSA transition costs in the US.

Net debt and credit metrics
Our net debt levels will continue to grow for the next few years as we fund our capital investment programmes and enhance our networks. We continue to borrow at attractive rates when needed and the level of net debt remains appropriate for our business.

During 2014/15, net debt has increased by £2.7 billion. This is predominantly due to movements in foreign exchange rates as the US dollar strengthened against sterling. Gross borrowings are relatively consistent year on year, reflecting the current year net refinancing of maturities and bond repurchases, while cash and investment levels have been actively managed down.

With the commencement of the RIIO price controls in 2013 and the slow down in our planned near-term UK capital investment programme as the industry assesses the impact of Electricity Market Reform, we reviewed and restructured the Group debt portfolio. The review resulted in a £924 million bond repurchase programme, of which £295 million was achieved through a cash tender offer for five bonds. The net repurchase cost of £131 million has been presented as exceptional finance costs in the income statement, as noted on page 104.

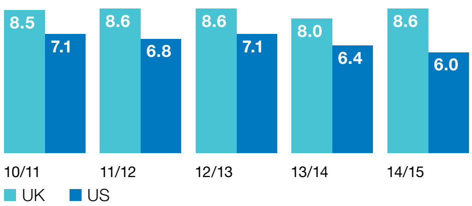
A key measure we use to monitor financial discipline is retained cash flow divided by adjusted net debt (RCF/net debt). This is a measure of the operating cash flows we generate, before capital investment but after dividends paid to shareholders, compared with the level of debt we hold. The principal adjustment made to net debt is to include pension deficits. RCF/net debt was 11.2% for the year (2013/14: 10.5%; 2012/13: 11.4%). For the current year we have used this measure to actively manage scrip uptake through buying back shares when supported by sufficient headroom. Deducting the cost of buying back these shares reduces RCF/net debt to 9.9% for the year.

Our long-term target range for RCF/net debt is to exceed 9.0%, which is consistent with the A3 rating threshold used by Moody's, the rating agency.

We additionally monitor interest cover, which is a measure of the cash flows we generate compared with the net interest cost of servicing our borrowings. Interest cover for the year was 5.1 times (2013/14: 4.1 times; 2012/13: 3.9 times). Our target long-term rate for interest cover is in excess of 3 times.

Return on capital employed
RoCE provides a performance comparison between our regulated UK and US businesses and is one of the measures that we use to monitor our portfolio of businesses. The table below shows our RoCE for our businesses over the last five years:

Return on capital employed %



The UK RoCE has increased from 8.0% to 8.6% in 2014/15. This reflects the strong incentive performance in Gas Transmission and further totex outperformance in Electricity Transmission, together with one-off benefits of legal settlements in the year.

US RoCE has decreased by 40bps in the year to 6.0%, as a result of the additional maintenance to improve reliability and safety and bring regulatory filings up to date, together with rate base growth driven by capital expenditure spend.

Capital expenditure
For the year ended 31 March 2015, capital expenditure of £3,470 million was at a similar level to last year, with reductions in spend in UK Electricity Transmission being offset by increases in capital spend in our US Regulated businesses.

The reduction in spend in UK Electricity Transmission reflected delays in the manufacture of cable for the Western HVDC link and a reduced level of overhead line work, with a number of projects having completed over the last two years. In addition

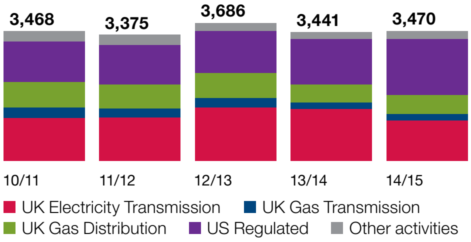
Commentary on the consolidated cash flow statement
page 93

Commentary on borrowings
page 125

we continue to look for innovative ways to reduce total expenditure (totex) under our RIIO regulatory arrangements while still delivering agreed outputs.

Within our US Regulated businesses, capital expenditure was higher year on year reflecting higher levels of mains replacement work, gas system reinforcement and growth spend, electricity capacity spend and progress on the New England East-West Solution (NEEWS) electricity transmission project.

Capital expenditure £m



Dividend growth

We remain committed to our dividend policy to grow the dividend at least in line with the rate of average RPI inflation each year for the foreseeable future.

During the year we generated £2.1 billion of business net cash flow after our capital expenditure programmes. This has enabled the growth of the dividend in line with average RPI, being 2.0% (2013/14: 2.9%; 2012/13: 4.0%), taking into account the recommended final dividend of 28.16 pence.

During the year, the Company has repurchased shares in the market with the overall goal being to reduce the dilutive effect of the scrip as much as possible to the extent that is consistent with maintaining the Group's strong financial position as reflected in its credit rating.

Regulatory financial performance

Timing and regulated revenue adjustments

As described on pages 166 to 172, our allowed revenues are set in accordance with our regulatory price controls or rate plans. We calculate the tariffs we charge our customers based on the estimated volume of energy we expect will be delivered during the coming period. The actual volumes delivered will differ from this estimate. Therefore, our total actual revenue will be different from our total allowed revenue. These differences are commonly referred to as timing differences.

If we collect more than the allowed level of revenue, the balance must be returned to customers in subsequent periods, and if we collect less than the allowed level of revenue we may recover the balance from customers in subsequent periods. In the US, a substantial portion of our costs are pass-through costs (including commodity and energy efficiency costs) and are fully recoverable from our customers. Timing differences between costs of this type being incurred and their recovery through revenue are also included in timing.

The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are final.

Our operating profit for the year includes a total estimated in-year under-collection of £64 million (2013/14: £42 million under-collection). Our closing balance at 31 March 2015 was £27 million under-recovered.

In the UK, there was a cumulative under-recovery of £177 million at 31 March 2015 (2014: under-recovery of £83 million). All other things being equal, the balance will start to be recovered from customers in the year ending 31 March 2016.

In the US, cumulative timing over-recoveries at 31 March 2015 were £150 million (2014: £117 million over-recovery). The majority of that balance will be returned to customers next year.

In addition to the timing adjustments described above, as part of the RIIO price controls in the UK, outperformance against allowances as a result of the totex incentive mechanism, together with changes in output-related allowances included in the original price control, will almost always be adjusted in future revenue recoveries, typically starting in two years' time.

Our current IFRS revenues and earnings include these amounts that will need to be repaid or recovered in future periods. Such adjustments will form an important part of the continuing difference between reported IFRS results and underlying economic performance based on our regulatory obligations.

For our UK regulated businesses as a whole, regulated revenue adjustments totalled £174 million in the year (2013/14: £106 million). This is based on our estimates of: work carried out in line with allowances; in expectation of future allowances; or work avoided altogether – either as a result of us finding innovative solutions or of the need being permanently removed.

In the US, accumulated regulatory entitlements to future revenue net of over- or under-recoveries amounted to £1,528 million at 31 March 2015 (2014: £1,024 million). These entitlements cover a range of different areas, with the most significant being environmental remediation and pension assets, as well as deferred storm costs.

All regulatory entitlements are recoverable (or repayable) over different periods, which are agreed with the regulators to match the expected payment profile for the liabilities. As at 31 March 2015, these extend until 2071.

Major storms

Despite the very cold winter across much of the US including record snowfall in parts of New England, there were no major storms in 2014/15 or 2013/14.

UK regulation
pages 166–167

US regulation
pages 168–172

Our people

If we are to achieve our strategic objectives, we need to make sure our employees have the right skills and capabilities.

In focus:

1.8m

Number of engineers, technicians and crafts people needed in the UK over the period 2012–2022.

7

Number of US local community colleges with whom we partner to deliver utility technology training programmes.

Safeguarding the future

There is a significant skills challenge facing the engineering profession in the UK. Research by EngineeringUK has highlighted a need for 1.8 million engineers, technicians and crafts people over the period 2012–2022. Around 60% of all new jobs in this period will need science, technology, engineering and maths (STEM) qualifications, yet not enough school children succeed in these areas.

There is a similar challenge in the US where the number of scientists and engineers needed to meet growth and net replacement needs between 2012 and 2022 is 2.3 million, including 1.2 million in the computer occupations and more than 540,000 engineers.

We are helping schools, parents and children see engineering as a modern, dynamic, desirable career with a great future. Our employees act as education ambassadors who volunteer their time for a range of activities in the classroom and at science and engineering fairs, most notably on STEM enrichment, careers education and work experience programmes.

Our careers education programmes in the UK include Careers Lab, an initiative we developed that was taken up by the charity Business in the Community in November 2014. It links working professionals from a range of sectors with schools to bring the world of work to life for secondary school children. A further initiative is the 'Engineer Your Future' exhibition at London's Science Museum, which opened in December 2014 and explores engineering challenges through interactive games and digital experiences.

During 2014/15, we have expanded our residential work experience programme (balanced 50/50 between girls and boys) to include a non-residential programme for students aged 16–19 who are in sixth form or college and do not have an existing relationship with an employer.

This year, we invested nearly £900,000 in our education outreach, bringing benefits to 70 schools and more than 9,000 students who receive at least one hour of STEM/careers experience with our education ambassadors. We expect this to grow considerably in the UK through Careers Lab.

In the US, we continue to partner with seven local community colleges to deliver energy utility technology training programmes, designed to equip people for jobs in the energy industry. These programmes currently focus on future line workers. We plan to expand them to include technical skills for the gas industry.

We are continuing our partnership with the Center for Energy Workforce Development on its 'energy industry fundamentals', and we work with veterans through the US Troops to Energy Jobs programme. This is designed to help veterans make the transition from military service to the energy/utility industry.

We completed the fifth year of our Engineering Pipeline Program. This is a developmental programme designed to inspire promising students to become engineers and provide them an opportunity for fast tracked employment with National Grid.

We are working with the State University of New York and its network of colleges and universities. The aim is to prepare students for careers in the energy and utilities industry by improving the educational opportunities available to them. We expect this partnership to increase the volume of qualified entry-level candidates looking to join National Grid.

Our US work experience opportunities include six to eight week summer internships for college students, so they can gain work experience with National Grid. A number of these interns start their journey into the energy industry through our Engineering Our Future programme and go on to join our Company.

In the UK, we offer summer internships and also 12 month industrial placements to undergraduates in their penultimate year. These programmes offer students the opportunity to experience the culture, working and ethical practices of National Grid before they make the all-important decision to join the organisation as graduates.

Building skills and expertise

During 2014/15, we have worked on boosting the capabilities of our employees in the areas of Performance Excellence (see page 27), stakeholder engagement, customer focus and contract management. We see these capabilities as being crucial in helping us improve our performance and meet regulatory and customer expectations.

More than 900 employees have attended our Performance Excellence programmes; more than 650 employees have attended our stakeholder engagement and customer focus programmes; and around 250 employees have attended our contract management programmes.

Our executive team and senior leaders in the UK and US are participating in a programme to develop performance leadership skills. To prepare for our future engineering skills needs, we have built a T-pylon development facility at our Eakring learning centre in the UK.

We remain committed to investing in our people, providing the training and other support necessary for them to build, maintain and operate our networks safely and reliably, and this year we provided more than one million learner hours of training across our UK and US businesses.

Promoting an inclusive and diverse workforce

We aim to develop and operate our business with an inclusive and diverse culture, with equal opportunity to all in recruitment, career development, training and reward. This applies to all employees regardless of race, gender identity, nationality, age, disability, sexual orientation, religion and background. Our policies support the attraction and retention of the best people, improve effectiveness, deliver superior performance and enhance our success.

In the UK we were recognised as a Times Top 50 Employer for Women for 2015 and reached the Gold level in our benchmarking with both Race for Opportunity and Opportunity Now during 2014. Both these campaigns also recognised us as a Top 10 private sector employer. Our Employee Resource Groups (ERGs) continue to support our business goals and participate in events that encourage students to consider careers needing STEM qualifications.

In the US, our ERGs support our business goals and ambitions. They are at the forefront of our inclusion and diversity initiatives – including our commitment to hire veterans and people with disabilities, as well as our efforts to promote understanding of unconscious bias.

The table below shows the breakdown by gender at different levels of the organisation. We have included information relating to subsidiary directors, as this is required by the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We define 'senior management' as those managers who are at the same level, or one level below our Executive Committee. It also includes those who are directors of subsidiaries, or who have responsibility for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company, and are employees of the Company.

	Financial year ended 31 March 2015				
	Male	Female	Total	Male %	Female %
Our Board	8	3	11	72.7	27.3
Senior management	183	58	241	75.9	24.1
Whole Company*	18,554	5,720	24,274	76.4	23.6

* This measure is also one of our Company KPIs. See pages 18 and 19 for more information.

Health and wellbeing

Among our programmes for 2014/15 we have worked to address the stigma and discrimination associated with mental health. We signed the UK Government-led 'Time to Change' pledge and have trained a further 92 employees in mental health first aid. We have also helped more than 4,000 of our employees and our service providers' staff understand their 'heart age' and run a weight-loss campaign that raised more than £4,000 for Macmillan Cancer Support.

In the US we have refreshed our soft tissue injury programme, aimed at helping reduce muscular skeletal disorders. Our employee opinion survey results continue to show that employees have a growing awareness of our wellbeing programmes.

Volunteering

Our employees continue to support our local communities, sharing their time and expertise on a range of skills-based volunteering and fundraising activities.

In the UK we raised over £500,000 for good causes and provided over 9,000 hours of support to community projects. Our support of City Year now includes a new mentoring programme in Birmingham and we launched 'Good Leaders', a programme that shares our leadership expertise with the charity sector. In the US, our Power to Serve employee volunteering programme supports our stewardship and safety principles. It seeks to acknowledge existing community service, as well as to create new volunteer opportunities for employees.

Human rights

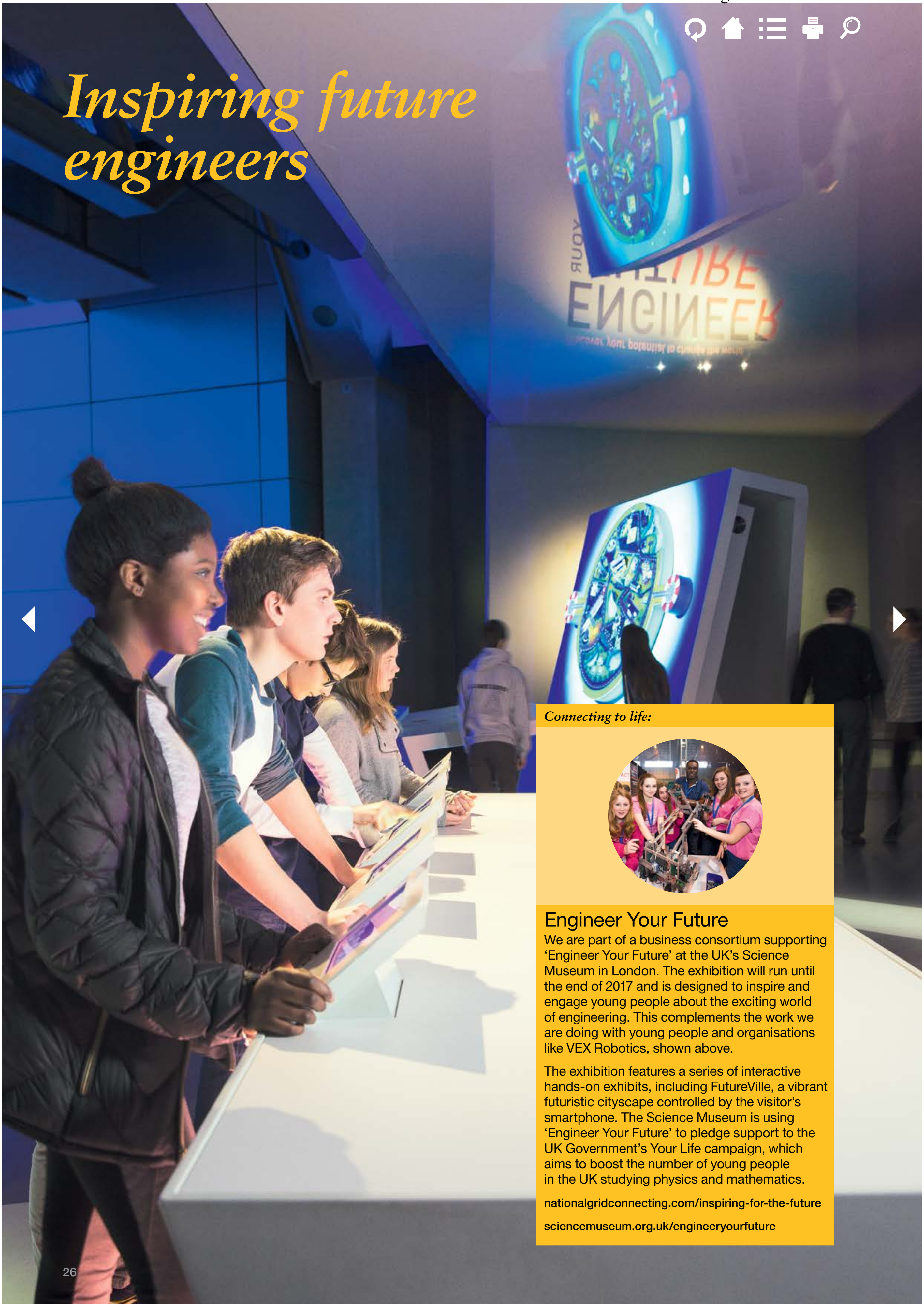
Respect for human rights is incorporated into our employment practices and our values. See page 185 for more information.

KPIs
pages 16–19

Board diversity
page 58

National Grid UK employees 'Chased the sun' across Britain and raised £4,000 for our UK employee chosen charity, Macmillan Cancer Support.

Inspiring future engineers



Connecting to life:

Engineer Your Future

We are part of a business consortium supporting 'Engineer Your Future' at the UK's Science Museum in London. The exhibition will run until the end of 2017 and is designed to inspire and engage young people about the exciting world of engineering. This complements the work we are doing with young people and organisations like VEX Robotics, shown above.

The exhibition features a series of interactive hands-on exhibits, including FutureVille, a vibrant futuristic cityscape controlled by the visitor's smartphone. The Science Museum is using 'Engineer Your Future' to pledge support to the UK Government's Your Life campaign, which aims to boost the number of young people in the UK studying physics and mathematics.

nationalgridconnecting.com/inspiring-for-the-future

sciencemuseum.org.uk/engineeryourfuture

Principal operations

Overview of our UK operational businesses during 2014/15

Progress during 2014/15

World-class safety

0.09
employee injury frequency rate

Our KPIs pages 16–19

Our customers and stakeholders

Providing the best service we can is a priority for us.

Our KPIs pages 16–19

Our networks

We continued to invest in new infrastructure and update our existing networks to deliver energy safely and reliably to our customers.

Our KPIs pages 16–19

Electricity Transmission page 28

Gas Transmission page 29

Gas Distribution page 30

Innovation

In projects across our regulated businesses.

£22m
invested to deliver network reliability

We also received Network Innovation Competition awards totalling over £12.5m for our Gas Transmission and Electricity Transmission businesses.

Read more pages 28–29

Our UK regulated businesses delivered a strong financial performance in the second year of RIIO. We aim to create value for our stakeholders by focusing on performance and making sure our processes are as efficient as they can be (see 'Performance Excellence' below). Savings generated in the first two years of RIIO will reduce future customer bills by around £200 million.

We have also established a new organisational structure to give stakeholders a clearer picture of how our activities are organised and delivered.

We have responded to concerns about the cost of energy and the security of the UK's energy supply. In evidence to parliamentary inquiries we have explained our role, the services we provide and what those services cost. We have also been working with stakeholders in Europe to plan for the future impact of European Union energy policy on our business.

Our non-regulated businesses have been focused on getting the best value from our existing portfolio and exploring opportunities for future growth. For further information see page 36. We have also signed two new interconnector agreements: with Elia, the Belgian Transmission System Operator, for an electricity interconnector between the UK and Belgium; and with Statnett, the Norwegian Transmission System Operator, for NSN Link, the first interconnector between the UK and Norway. These agreements signal the start of the construction phases of these projects.

Principal risks

As described in the Internal controls and risk management section (pages 38 to 41), we identify, monitor and manage risks at various levels within our Company. The key risks our UK business faces are organised into a UK regional risk profile which is regularly reviewed by UK senior leadership. The main risk themes currently featured in this profile are:

- the risk of changes to the complex political and regulatory agenda for UK and European energy policy development and their potential implications for our business;
- challenges associated with making sure the data required to deliver business processes and regulatory requirements is complete, accurate and consistent;
- the impact of changes in our business structure and processes on our ability to continue to perform under RIIO; and
- continued management of safety, security and network resilience.

System Operator (SO) progress

Our SO role is described on pages 08 and 11.

The UK faces tightening capacity margins between supply and demand for the next three years. Helping the market to make the right decisions to maintain security of supply has been an important theme in our role as SO during 2014/15.

Following a number of generation plant outages over the winter, the two new balancing services developed to provide additional reserves were tendered as a precaution. Although these additional reserves were not used this year, they have also been tendered to procure additional capacity for winter 2015/16 when margins are predicted to tighten further.

We have continued to work with stakeholders to develop and implement EMR. We completed pre-qualification and auctions for the Capacity Market and the Contract for Difference (CfD) feed-in tariff regime. The capacity market auction this year procured additional capacity ready for the first year of delivery in 2018/19. Contracts were signed with 25 applicants following the first auction for CfD.

We have led the development of changes to the gas transmission regulatory framework that will help customers plan their long-term projects through an improved way of reserving capacity. We have also developed a new framework that adds current system operation knowledge to long-term predictions about the future energy landscape. This helps us plan for the right services and products to operate the system in the future.

Priorities for the year ahead

Our role as SO is set to evolve during 2015/16, following the conclusion of Ofgem's Integrated Transmission Planning and Regulation project. As part of this, the SO is expected to undertake a number of new advisory roles. We have a long track record in successfully managing potential conflicts of interest from our SO role and will work closely with Ofgem to make sure this continues.

We will also be engaging further with the industry, aiming to increase opportunities for demand-side participation within the GB market.

Performance Excellence

Performance Excellence is an approach that will help us to achieve our Company objectives by looking for improvements to all of our processes. It aims to save time and make us more efficient so we can deliver better value for our customers and stakeholders – from new ideas that improve processes, to introducing equipment that does things more effectively. For example, in our UK Gas Distribution business, regional Performance Excellence teams are working with our operational teams to identify their common challenges and find the right solutions. As a result we have introduced a new helpdesk service for our Gas Distribution field force. This new service means technology problems are resolved more quickly, helping them to be more productive and better meet customer needs. See page 35 to read more about Performance Excellence in the US.

Principal operations continued

UK Electricity Transmission

In focus:

Electricity transmitted across our network

291,041 GWh

What we do

We own the electricity transmission system in England and Wales. Our networks comprise approximately 7,200 kilometres (4,470 miles) of overhead line, 1,500 kilometres (932 miles) of underground cable and 336 substations.

Market context

Although demand for electricity is generally increasing around the world, in the UK it is expected to remain broadly flat over the next five to 10 years.

Changes in the sources and characteristics of generation connecting to our network, such as wind and nuclear generation, mean we need to respond by developing the way we balance and operate our network to accommodate these sources.

Over the last two years, some generators have delayed their connection dates to the network and this means our future investment profile for electricity transmission is flatter than in previous years. However, we are ready to respond to connection dates when we need to. We will continue to renew our network to deliver the network reliability our customers require as efficiently as possible.

What we've achieved during 2014/15

The full tunnel network on our London Power Tunnels project has been completed, and the remaining works programme is forecast to complete ahead of schedule and under budget. We have also completed the development of a £164 million asset replacement and customer connection project for Wimbledon.

We made progress on substation and cable construction work for several new Network Rail connections, as well as Crossrail connections in London. These connections are required to support the national railway electrification programme from 2015 to 2017.

We achieved a significant engineering milestone, installing the first ever series compensation device on the UK network. This device, which adds capacity to a transmission circuit, can increase power flows from Scotland. With both National Grid and Scottish Power series compensation in service, the Scotland-England boundary capacity is expected to increase by 1 GW.

We have continued to develop the innovative T-pylon and are considering where it could be offered alongside other connection options when developing new transmission circuits. The first T-pylon has been installed at our Eakring training facility.

Our Visual Impact Provision (VIP) project gathered pace. Our policy to make use of the £500 million allowance under RIIO to mitigate the visual impact of our overhead lines in National Parks and Areas of Outstanding Natural Beauty was agreed with Ofgem. A stakeholder advisory group, including representatives of organisations with a national focus on our natural heritage, is helping us choose which transmission lines should be prioritised and how the fund should be allocated.

We agreed an RPI-linked bank loan facility of £1.5 billion with the European Investment Bank (EIB). This is the largest ever single loan by the EIB and is now available to fund capital investment in National Grid Electricity Transmission plc.

We also deployed new tools and systems to our field workforce, winning the Mobile Innovation category at the SAP UK Quality Awards.

Samantha Webb is one of National Grid's UK overhead line apprentices, training at our Eakring facility in Nottinghamshire.

Priorities for the year ahead

Safety: Make sure our suppliers and employees manage their safety performance when working near our transmission assets. This includes seeking evidence that they are using effective safety management systems.

Maintenance: Establish a programme to change the way we plan and deliver all work on our assets by balancing risk, performance and delivery costs.

Hinkley Point C connection: Continue to progress the regulatory submissions needed for the Hinkley Point C connection project to secure the funding for delivery.

Visual Impact Provision: Through our VIP project we will identify the final locations where the visual impact of our networks will be reduced.

Data and technology: Continue to improve how we define and capture the network data that helps us make better decisions on our assets and respond more quickly to customer demand for new connections.

UK Gas Transmission

In focus:

40 times

The gas national transmission system operates at pressures up to 94barg – around 40 times the pressure of an everyday car tyre.

What we do

We own and operate the gas national transmission system in Great Britain, with day-to-day responsibility for balancing supply and demand. Our network comprises approximately 7,660 kilometres (4,760 miles) of high pressure pipe and 24 compressor stations. In 2014/15 the gas throughput across the system was over 80 billion cubic metres.

Market context

The UK's gas market and sources of gas are changing. Domestic demand has fallen over the last five years and a significant increase is not expected in future years. The UK continental shelf (UKCS) now makes up less than half our total gas supply, with the remainder coming from Norway, continental Europe, or further afield via shipped imports of LNG.

Overall, supply capacity now exceeds peak demand by more than 25%, giving our customers significant flexibility over which sources of gas they choose to meet demand. Newer sources of supply, such as LNG importation terminals and storage sites, can respond to demand more quickly than traditional UKCS supplies. Our network therefore needs to be able to respond to changing day-to-day supply and demand patterns.

We also need to prepare for an uncertain energy landscape in the long term. UK reliance on imported gas supplies will vary depending on the level of gas supply from the UKCS and the development of indigenous gas sources.

We are working closely with our customers and stakeholders to meet these operational challenges. We are focused on continuing to develop our network and services to meet their needs safely, reliably and efficiently.

What we've achieved in 2014/15

We delivered a strong safety performance, particularly in our operations business where we have achieved 24 months (from April 2013) without a single lost time injury suffered by our employees or contractors.

We reached record levels of compressor availability in our network. Operational availability was at 100% several times during the winter, with an average of 96%. This is a rise of 7% on the average for winter 2013/14. It follows targeted investment in our fleet of compressors and improvements to our planning process, maintenance and repair methods.

We received £5.7 million from Ofgem following a successful bid in the Network Innovation Competition for designing and building a robotic device that can inspect below-ground pipework at high pressure installations. The device will help us to better assess asset condition, so we can focus expenditure where it is needed, benefiting gas consumers.

To meet the stricter environmental limits imposed by the Industrial Emissions Directive (IED), our larger gas turbines will need modifying or replacing. We have sought feedback from our stakeholders on the impact of the IED, adapting our proposed solutions in response. This has helped us develop investment options to make sure the network can meet the future needs of our customers and operate as efficiently as possible.

Our new Gas National Control Centre visitor walkway at Warwick helps explain the role of our network and how it serves the UK's gas requirements.

Priorities for the year ahead

Safety: Sustain and improve our safety performance by implementing a new safety culture improvement programme across UK Gas Transmission.

Reliability: Build on improvements we have made this year in compressor availability, extending this across other critical assets in our network to further improve the service we deliver to our customers.

Efficiency: Continue improving end-to-end processes and deliver greater value for customers by being more efficient. Where we create additional capacity, we will look to insource some maintenance work and increase specialist pipeline services for customers.

Innovation: Use the innovation opportunities available through the Network Innovation Competition and Network Innovation Allowance funding. This will help us to create value for customers and the industry, and to achieve our RIIO-T1 commitments.

Emissions compliance projects: Continue work on existing emissions compliance projects and secure funding for continued works over the remainder of the RIIO-T1 period and beyond.

Principal operations continued

UK Gas Distribution

In focus:

Gas consumption in our networks was 260 TWh in 2014/15.

We manage the National Gas Emergency number (0800 111 999) on behalf of all gas distribution networks.

We handled nearly 2.4 million calls during 2014/15 across the emergency number, enquiry lines, appliance repair helpline and meter enquiry service.

What we do

We own and operate four gas distribution networks comprising approximately 131,000 kilometres (82,000 miles) of pipeline. We transport gas from the national transmission system to around 10.9 million consumers on behalf of 37 shippers.

Market context

We manage our networks to keep our customers safe and warm. We are incentivised through RIIO to operate efficiently and deliver services that our customers and stakeholders value.

Ofgem is able to make comparisons across all eight networks. It establishes outputs they are expected to deliver so that we all maintain a safe and reliable network; make a positive contribution to sustainability and protect the environment; provide connections to supply new consumers and support new gas entry points into the network; meet their social obligations; and provide an agreed standard of service to consumers and other stakeholders.

We collaborate with the industry on issues that are common to all networks and customers, such as innovation, safety and the future of networks to deliver outcomes that customers value.

Gas remains an important part of the current and future energy mix and we are working with our customers and stakeholders to develop our networks to accommodate gas from new sources, such as bio-methane.

What we've achieved during 2014/15

We believe we are making progress towards our ambition to be the best gas distribution business in Britain by 2017. We understand where we need to focus to deliver our RIIO outputs and deliver better customer service.

We are investing in our networks to make sure we meet customer and stakeholder needs. This includes replacing approximately 1,450 kilometres of old metal pipelines with more durable materials as part of our mains replacement programme developed with the HSE and Ofgem. In London, we have replaced around 300 kilometres of iron mains, including projects in Battersea and around the City.

We have also completed ten commercial bio-methane connections, more than any other UK gas distribution network, including the first 100% food waste plant and the first commercial sewerage connection with Severn Trent Water.

Overall, we have delivered successfully against our targets to deliver world-class levels of safety performance across our combined field workers and contractor workforce. In terms of cable strikes and injuries to members of the public, although we have missed our targets, we have increased our efforts to make improvements. We have also used innovative technology that has helped reduce excavation volumes, so we can minimise disruption. We have also been helping stakeholders such as landowners and the construction industry understand how we protect pipelines and how they can operate safely around them.

During 2014/15, we were recognised by Ofgem as the best performing gas distribution network in understanding our customer and stakeholder needs for the previous year. Our focus in this area has seen over 1,200 fuel poor customers benefiting from an alternative, more affordable method of heating their homes since we have connected them to our gas networks.

However, against a backdrop of increased customer complaints across the industry, our volumes have also increased. To help improve this, a particular focus this year has been on simplifying the process for customers who want to connect to our networks by improving our website experience and providing them with a single point of contact.

We have invested in new mobile technology for our field workforce to increase productivity and provide our supervisors with real-time information. This has also helped improve employee engagement scores and the desire to drive better outcomes for our customers; our field workforce now compares favourably with industry benchmarks.

Priorities for the year ahead

Improve our safety performance by further reducing cable strikes, injuries to members of the public and preventing third-party encroachment. This will continue to be an important area of focus.

Continue to use innovative technology to deliver better services that reduce the impact on customers' bills and minimise disruption caused by our work.

Improve our customers' experience of planned replacement work projects by working with our partners to improve our processes, data capture and how we communicate and engage with our customers.

Continue to work with government and industry on setting out the vision for the future role of gas in the UK's energy mix and policies that support this role, while considering how domestic smart meters can create value for customers.

Motivate and equip our workforce with the tools and knowledge they need to deliver the services and outcomes our customers value, while increasing productivity.

Capital investment in the pipeline

Connecting to life:

London gas mains replacement

We are investing nearly £1 billion over an eight year period to 2021 in London's gas distribution network. In particular, we're replacing and upgrading more than 2,500 kilometres of gas mains. The work will provide vital infrastructure, supporting London's economic growth by continuing to provide a safe and reliable gas supply.

We own and maintain more than 20,000 kilometres of gas distribution pipeline under London's streets. Our use of innovative technologies, like Core&Vac keyhole technology, helps us to keep disruption to a minimum, allowing the City to go about its daily business while we improve the network for the future.

nationalgrid.com/LondonGasMainsReplacement

A network fit for the future

Connecting to life:

Improved reliability for Aquidneck Island

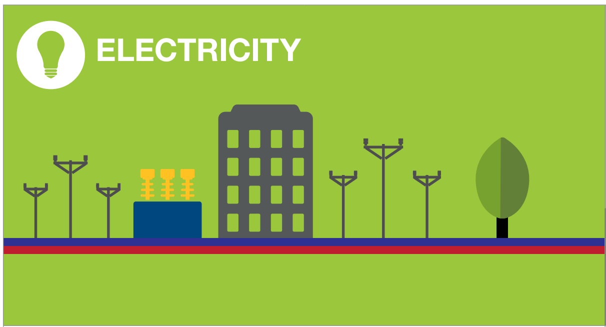
The electrical system that serves Aquidneck Island, part of the State of Rhode Island, is antiquated and currently stretched to its limits. The forecasted future demand peaks at 167 MW, which is 20 MW more than the current system can deliver. Our customers, like Judy Crosby of Island Books, rely on power for their livelihood.

The $93 million Aquidneck Island Reliability Project will bring more reliable power to the nearly 32,000 homes and businesses in Portsmouth, Middletown and Newport. The project includes two state-of-the-art substations, reconfiguration of two transmission lines, local distribution work, and retirement of five substations on the island.

onislandngrid.com

Principal operations continued
US Regulated

What we do and where we do it



We jointly own and operate transmission facilities across upstate New York, Massachusetts, New Hampshire, Rhode Island and Vermont. We own and operate electricity distribution networks in upstate New York, Massachusetts and Rhode Island.

We own and operate gas distribution networks across the northeastern US located in upstate New York, New York City, Long Island, Massachusetts and Rhode Island.

In focus:

3.5m
electricity consumers in New England and upstate New York.

16bn
standard cubic metres of gas that we forecast, plan for and procure annually.

3.6m
consumers receive services from our gas distribution networks, including 26,882 new gas heating customers in 2014/15.

30 TWh
of electricity we forecast, plan for and procure annually across three states.

169km
(105 miles) of underground cable, 520 transmission substations and 644 distribution substations we operate in New England and upstate New York.

14,355km
(8,920 miles) of electricity transmission system are owned and operated by National Grid.

15 year PSA
We own and operate 50 fossil fuel-powered units on Long Island that together provide approximately 3,800 MW of power under contract to LIPA. Our Power Supply Agreement (PSA) with LIPA is for 3,634 MW of capacity, comprising eight dual fuel (gas/oil-fired) steam units at three sites, 11 dual fuel combustion turbine units, and 27 oil-fired combustion turbine/diesel units. Under a separate contract with LIPA, four dual fuel combustion turbine units provide an additional 160 MW of capacity.

Market context
In the US, regulators are focused on system modernisation and the integration of new distributed energy resources. In 2014 we introduced Connect21, our thinking on advancing America's natural gas and electricity infrastructure beyond its 20th century limitations, and creating a more customer-centric, resilient, agile, efficient and environmentally sound energy network. We are working with policymakers, customers and stakeholders to transform the energy industry through initiatives such as Grid Mod in Massachusetts, Reforming the Energy Vision (REV) in New York, and Gas and Electric Infrastructure Safety and Reliability (ISR) plans in Rhode Island.

Principal operations continued

US Regulated continued

Principal risks

As described in the Internal controls and risk management section (pages 38 to 41), we identify, monitor and manage risks at various levels within our Company. The key risks our US business faces are organised into a US regional risk profile which is regularly reviewed by the US senior leadership. The main risk themes currently featured in this profile are:

- our ability to manage data integrity and systems improvements required to deliver core business processes and regulatory requirements;
- our ability to recover costs through existing rate-making mechanisms and to influence the development of the future US utility business model;
- our ability to enhance our US business structure and end-to-end processes to support an evolved jurisdictional performance environment; and
- safety performance and network reliability, security and resilience.

What we've achieved

During 2014/15, we delivered a solid performance and continued with high levels of investment in our networks. As described on pages 18 and 19, we achieved our reliability KPI targets but we still have work to do if we are to improve our customer satisfaction target scores.

We finally completed the stabilisation work on our new enterprise resource planning system. This fixed a number of long-standing problems, such as inefficient payroll processing, which had previously required expensive manual interventions. Long term, the data we can produce with the new systems are an essential foundation to the future performance improvements and regulatory filings that we need for profitable growth in the US.

In 2010, the Massachusetts Department of Public Utilities (MADPU) approved a power purchase agreement between National Grid and Cape Wind for a proposed large-scale, offshore wind farm in Nantucket Sound. In 2014, Cape Wind did not satisfy certain critical milestone deadlines set out in the power purchase agreement and did not post collateral to extend the deadlines in the power purchase agreement. As a result, the power purchase agreement was terminated in January of 2015. We continue to believe the solution to New England's energy challenge is a diversity of energy sources, which is why we support renewable projects consistent with our goal of reducing emissions while minimising the cost impact on our customers.

In a joint programme with Earth Networks, we purchased 55 Weatherbug stations to donate to our communities in Massachusetts, New York and Rhode Island. These stations provide customers with more localised weather information and we use them to better prepare for and respond to storms. They also contribute to STEM education in giving free real-time local weather data to schools and emergency responders.

We continue to invest more in reinforcing the electricity distribution system and also in replacing gas mains. The NYPSC approved $414 million gas infrastructure investment in Long Island to speed up the replacement of ageing pipe and extend the use of natural gas to more customers.

The NYPSC also published the results of the regulatory audit of our New York gas companies. These audits are a regular feature of the New York regulatory process. The audit was broadly supportive of our performance and structure and, as is usual, made some recommendations for further improvement. It specifically recommended stronger local leadership and a number of more cost-effective and customer-focused operational enhancements. We have responded with an implementation plan to provide these benefits on behalf of New York customers.

Last year, regulatory audits in New York also identified an unacceptable number of violations of the regulations relating to our gas operations. To improve our regulatory compliance performance, we are investing in compliance monitoring systems, adding compliance personnel, and enhancing our training and safety protocols.

Our regulators and customers have heightened expectations around safety and compliance for all gas utilities. We are committed to doing everything we can to meet their expectations and making sure sufficient resources are dedicated to support this priority.

Building on performance improvements in 2013/14, we saw a reduction in safety incidents in 2014/15. In the past year, there has been a 7% reduction in the number of injuries requiring medical attention and a 26% reduction in the number of cases requiring employees to stay out of work. These reductions result from programmes and initiatives based on risk areas, improved incident investigations and root cause analysis. There is still much work to do as we strive for zero injuries. Soft tissue injury prevention, safety observations, road traffic collisions and slips, trips and falls will remain a focus for us in 2015/16.

Each of our jurisdictions has projects under way to develop economic and environmental health in three ways: by driving economic growth; providing cleaner energy; and advancing innovative technologies. We have highlighted some of our 2014/15 achievements below.

Massachusetts

We are preparing to file a grid modernisation plan – a blueprint for the modernisation of the electric system – with MADPU in August 2015.

We have announced plans to build, own, and operate an additional 16 MW of solar generation, bringing total solar capabilities in the state to 21 MW.

As of late 2014, we had installed 39.9 miles of new gas mains and added more than 8,400 new natural gas customers.

Our Sustainability Hub in Worcester, MA.

New York

We are helping to shape new energy policy in the state through our REV filings. REV is aimed at transforming the electricity energy industry and regulatory practices in New York State.

We are adding new electricity capacity and infrastructure to RiverBend, Buffalo, a former industrial brownfield that is bringing growth and jobs to the state. Companies including Solar City and Soraa will bring investment, much needed jobs, and new and advanced energy technologies that could make this region a hub for energy development regionally, nationally and internationally.

We are negotiating a power purchase agreement with ReEnergy under which we intend to purchase excess energy from a 55 MW biomass generating facility at Fort Drum in Watertown. This will be the largest renewable energy project in the history of the US Army.

We have begun a two year plan to replace ageing pipes and expand the use of natural gas on Long Island and the Rockaway Peninsula to more than 20,000 new customers. This accelerates the replacement of ageing pipes from the current 50-mile requirement to 95 miles by 2016.

We are partnering with New York City to accelerate the phase out of heavy oils in around 800 buildings. Since the programme's launch in 2011, we have converted over 500 heavy oil buildings. We continue our efforts to convert the few remaining clean heat eligible buildings on Staten Island.

Rhode Island

The $93 million Aquidneck Island Reliability Project, known as OnIsland, will bring more reliable power to the nearly 32,000 homes and businesses in Portsmouth, Middletown, and Newport. The project includes two substations, reconfiguration of two transmission lines, local distribution work, and retirement of five substations on the island.

We have been working with Toray Plastics, one of the largest employers in the state, on customised energy solutions. In 2014 the company opened its second cogeneration system at its 70-acre campus in North Kingstown and we supported them with an energy efficiency incentive of $15.9 million.

We are building a new state-of-the-art substation to replace the existing ageing infrastructure at the current South Street Substation, which powers downtown Providence. This coincides with a $206 million redevelopment of South Street Landing that will turn the vacant former South Street Power Station into teaching and administrative space for Brown University, Rhode Island College and the University of Rhode Island.

FERC

We are part of a joint venture to form New York Transco. This aims to construct, own, and operate incremental electric transmission assets in New York State to improve reliability and reduce congestion. It is initially pursuing five projects that support public policy objectives and provide broad-based benefits across the state. New York Transco filed with FERC in December 2014 for rate recovery and cost allocation for proposed transmission projects, estimated at $1.7 billion.

We have joined Spectra Energy's $3 billion proposed Access Northeast pipeline project that aims to significantly increase natural gas capacity to generators in New England. Our three New England electric distribution companies have established memoranda of understanding with project developers to explore the development of an innovative tariff that would enable them to take capacity from the pipeline and release it into the market as needed to mitigate wholesale electricity price spikes.

In December 2014, we announced we had joined forces with Anbaric Transmission to develop large-scale HVDC transmission projects to deliver a combination of domestic wind energy and Canadian hydropower to New England load centres. We are currently developing a 1,000 MW hybrid land and sea HVDC project from northern Maine to Greater Boston and a 400 MW underground HVDC project from upstate New York to Vermont under Lake Champlain.

We are working with Eversource Energy in implementing the Greater Boston and New Hampshire Solution to address critical grid reliability needs. We will be investing approximately $190 million in the Solution for new infrastructure in southern New Hampshire, northern Massachusetts, and the Greater Boston area. We expect the Solution to be in service by 2019.

Priorities for the year ahead

We continue our Connect21 journey with these four priorities for 2015/16: Performance Excellence; local operating model; talent and capabilities; and future energy networks.

Performance Excellence: We will improve the way we work as teams to become more efficient, innovative, and responsive to our customers' needs in end-to-end processes that include: meter to cash; emergency response; deliver gas and electric; maintain gas and electric; and operate gas and electric.

Local operating model: We will continue to drive greater accountability and customer service by delivering the services and obligations expected by the 14 operating companies and four jurisdictions that comprise our US business – at a cost and performance level agreed upon by each jurisdiction's management team.

Talent and capabilities: We will provide employees with the tools and resources they need to achieve the performance measures required by our customers and shareholders.

Future energy networks: We will update and create new electricity and gas networks through design, operational, and regulatory innovations.

Upgrading the power lines in Rhode Island.

Principal operations continued

Other activities

In focus:

14.9%

Approximate percentage of UK gas from LNG imports, up from 9.7% in 2013/14.

Grain LNG

Grain LNG is one of three LNG importation facilities in the UK. It operates under long-term contracts with customers and provides importation services of ship berthing, temporary storage and re-gasification in to the national transmission system.

This year, we have continued to explore developments to our LNG services to increase revenue, including the potential to offer ship reloading.

We have started a ship cool-down service. This process helps ships that have been out of service or having maintenance to reload full LNG cargo.

In 2015/16, we will also commission and launch our LNG road tanker loading facility. This will provide tankered LNG to off-grid customers and operators of heavy goods vehicles.

Interconnectors

The England-France interconnector (IFA) is a 2,000 MW HVDC link between the French and British transmission systems with ownership shared between National Grid and Réseau de Transport d'Electricité. The interconnector's availability continued to improve this year following a significant valve replacement programme. Average availability for 2014/15 was 90.62%, up from 83.84% in 2013/14. A substantial proportion of the flow continues to be in the import direction, from France to Great Britain.

BritNed is a joint venture between National Grid and TenneT, the Dutch transmission system operator. It owns and operates a 1,000 MW HVDC link between England and the Netherlands. As with IFA, a substantial proportion of the flow is in the import direction from the Netherlands to Great Britain.

Throughout 2014/15, both IFA and BritNed have operated as part of the North West Europe market region. The creation of this region is part of the ongoing development of the EU's Internal Energy Market. IFA and BritNed have entered this region voluntarily ahead of the introduction of new EU-wide rules for cross-border electricity trading.

IFA and BritNed are also involved in the next phase of this regional market that will cover the intraday market timescale (currently it only covers the day ahead timescale). Intraday markets help market participants adjust their positions better over short time periods.

National Grid's Priya Talwar and Susan McDonald join the winner of the 2015 Queen Elizabeth Prize for Engineering, Dr Bob Langer. National Grid is a founding donor of the prize, and continues to support its efforts to celebrate the achievements of engineering, and its impact on humanity.
qeprize.org

Metering

National Grid Metering (NGM) provides installation and maintenance services to energy suppliers in the regulated market in Great Britain. It maintains an asset base of around 14.1 million domestic, industrial and commercial meters.

The domestic traditional gas metering business continues to operate in its role as the National Metering Manager, pending the start of the smart metering mass roll-out. This role means customers have a point of contact if they require a meter up until the start of the smart metering roll-out. Tariff caps agreed with Ofgem as part of this role, which took effect on 1 April 2014, will continue to apply until at least the end of the transition to smart metering.

Customer satisfaction scores for NGM remain positive for both its domestic, and industrial and commercial businesses, but we continue to work with our customers on areas for improvement. In our industrial and commercial business we have implemented new software that allows remote customer self-serve access for some services and is expected to improve efficiency. We are also responding to the rapidly changing non-domestic sector by exploring additional products and services.

UK Property

National Grid Property is responsible in the UK for the management, clean-up and disposal of surplus sites, most of which are former gas works. During 2014/15, we entered into a joint venture with the Berkeley Group, known as 'St William', to develop surplus land for residential use in London and the South East. We have also sold 42 sites and exchanged on several high-profile land disposal agreements with joint venture partners. Our holder demolition and contaminated land clean-up programmes are progressing well, and we are in the process of retendering our estate management outsourcing agreement.

Xoserve

Xoserve delivers transactional services on behalf of all the major gas network transportation companies in Great Britain, including National Grid. Xoserve is jointly owned by National Grid, as majority shareholder, and the other gas distribution network companies. Xoserve celebrated its 10 year anniversary as a company on 1 May 2015.

US non-regulated businesses

Some of our US businesses are not subject to state or federal rate-making authority. These include interests in some of our LNG road transportation, some gas transmission pipelines (our minority equity interests in these are not regulated) and certain commercial services relating to solar installations, fuel cells and other new technologies.

Corporate activities

Corporate activities comprise central overheads, Group insurance and expenditure incurred on business development.

Putting our surplus land to good use

Connecting to life:

St William Homes

In November, we announced the creation of St William Homes LLP, a joint venture with the Berkeley Group. St William will transform acres of former industrial land owned by National Grid in London and the UK's South East region, into homes and amenities for local communities.

The sites, like the one shown here at Battersea, South West London, have potential to provide over 14,000 homes over the next 10–15 years. In its first phase, St William aims to regenerate 84 acres of land, develop more than 7,000 new homes, including over 2,000 affordable homes. Development at this scale would also deliver 5,500 jobs, two new schools and 22 acres of public open space.

At our Battersea Gasholder site, we have recovered and donated decorative, heritage crests to our neighbours, the Battersea Dogs and Cats Home, shown above.

berkeleygroup.co.uk/property-developers/st-william

Internal control and risk management

The Board is committed to protecting and enhancing our reputation and assets, while safeguarding the interests of our shareholders. It has overall responsibility for the Company's system of risk management and internal control.

National Grid is exposed to a variety of uncertainties that could have a material adverse effect on the Company's financial condition, our operational results, our reputation, and the value and liquidity of our shares.

The Board oversees risk management, and, as part of this role, it reviews the main elements of our process and sets and monitors risk appetite. Risk appetite establishes the amount of uncertainty the Company may seek or accept at any given time when pursuing our strategic objectives.

The Board regularly reviews our internal controls and risk management processes. This year specific consideration was given to the guidance in the new UK Corporate Governance Code 2014 (the New Code) which applies to the Company in the next fiscal year and refinements to our processes will be introduced, as appropriate, over the coming year.

Risk management approach

Our Company-wide corporate risk management process provides a framework through which we can consistently identify, assess and prioritise, manage, monitor and report risks, as shown in the diagram below. The process is designed to support the delivery of our vision and strategy as described on pages 14 and 15.

Our process involves a continuous cycle of bottom-up review and reporting and top-down review and feedback.

All our business functions participate in the bottom-up risk management process. They identify the main risks to achieving their objectives and the actions being taken to manage and monitor them. They assess each risk by considering the potential 'worst case credible' financial and reputational impacts and how likely the risk is to materialise. The risks we identify are collated in risk registers and are reported at functional and regional levels of the Company. The risk registers also describe the adequacy of our existing risk controls.

An important feature of our risk management process is that each business function owns and is responsible for managing its particular risks. A central risk management team acts as an advisory function and also provides independent challenge and review. This team partners with the business functions through nominated risk liaisons and collaborates with assurance teams and specialists, such as internal audit and compliance management, to sense check risk information.

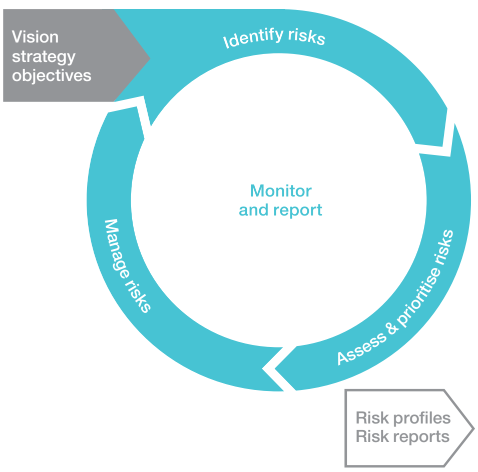
Regional senior management regularly review and debate the outputs of the bottom-up process and agree the prioritisation of the risks. The main risks for the UK and US businesses are highlighted in regional risk profiles and reported to the Chief Executive through quarterly performance reports. An overview of current risk themes for the UK and US businesses is provided on pages 27 and 34 respectively.

Our main strategic uncertainties or 'principal risks' for the Company are developed through top-down discussions with the Executive leadership team. These risks are reported and debated with the Executive Committee and Audit Committee every six months.

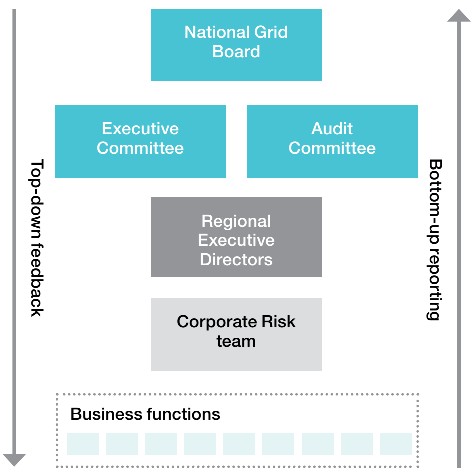
The Board participates in an annual risk workshop to make sure that the principal risks remain closely aligned to our strategic aims and that no important risks (or combination of risks) are being overlooked. In addition, the Board considers emerging risks (uncertainties that are still developing and sit outside the principal risks profile) together with our strategy team's annual long-term update.

The outcomes from each level of the risk review process are fed back to the relevant teams and incorporated as appropriate into the next cycle of our ongoing process as shown below.

Risk management process



Feedback and reporting



Our principal risks

Accepting that it is not possible to identify, anticipate or eliminate every risk that may arise and that risk is an inherent part of doing business, our risk management process aims to provide reasonable assurance that we understand, monitor and manage the main uncertainties that we face in delivering our objectives.

This includes consideration of inherent risks, which exist because of the nature of day-to-day operations in our industry, and financial risks, which exist because of our financing activities. An overview of the key inherent risks we face is provided on pages 173 to 176, as well as an overview of our key financial risks, which is incorporated within the Notes to our consolidated financial statements on pages 94 to 158.

Our corporate risk profile contains the principal risks that the Board considers to be the main uncertainties currently faced by the Company as we endeavour to achieve our strategic objectives. An overview of these risks is provided below, together with examples of the relevant controls and current mitigating actions we are taking.

Strategic objective	Risk description	Example of mitigations
Drive growth	Failure to identify and execute the right opportunities to deliver our growth strategy. Failure to sufficiently grow our core business and have viable options for new business over the longer term would negatively affect the Group's credibility and jeopardise the achievement of intended financial returns. Our ability to achieve our ambition for growth is subject to a wide range of external uncertainties, including the availability of potential investment targets and attractive financing and the impact of competition for onshore transmission in both the UK and US; and internal uncertainties, such as the performance of our operating businesses and our business planning model assumptions.	• We regularly monitor and analyse market conditions, competitors and their potential strategies, the advancement and proliferation of new energy technologies, as well as the performance of our Group portfolio. We are also looking to access new sources of finance and capabilities through partnering. • We have internal processes for reviewing and approving investments in new businesses, disposals of existing ones and organic growth investment opportunities. These processes are reviewed regularly to make sure our approach supports our short- and long-term strategies. We undertake due diligence exercises on investment or partnering opportunities and carry out post-investment reviews to make sure we learn lessons for the future.
Engage externally	Inability to influence future energy policy. Policy decisions by regulators, governments and others directly affect our business. We must engage widely in the energy policy debate, making sure our position and perspective help to shape future policy direction.	• In the UK, we are continuing to work closely with DECC and Ofgem on Electricity Market Reform (EMR) plans. We successfully implemented the first Capacity Market Auction and Contracts for Difference Allocation process and are working with the Regulator to finalise the enduring EMR Business Plan to ensure we continue to deliver value under RIIO. We continue to maintain strong relationships with government, engage in consultations, and develop comprehensive stakeholder communication plans. The Board is also continuing to monitor the increasing public debate around the cost, availability, security and sustainability of UK energy supplies. • In the US, we are engaging our external stakeholders about the role of the utility company of the future, under the banner of Connect21. We believe this conversation will help shape the regulatory and fiscal regime in the US in the future. Regulatory proceedings related to utility of the future have been launched in New York (Reforming the Energy Vision) and Massachusetts (Grid Modernization) and our Connect21 aligns well with them. We are continuing to strengthen our jurisdictional focus and are improving our rate case filing capabilities so our businesses can continue to earn a fair and reasonable rate of return. Our rate filings include structural changes where appropriate, such as revenue decoupling mechanisms, capital trackers, commodity-related bad debt true-ups and pension and other post-employment benefit true-ups, as described on pages 169 and 172. • We maintain and monitor a reputation 'watch list' at both Company and regional levels to support awareness and proactive management of issues that could cause us reputational harm.

Internal control and risk management continued

Strategic objective	Risk description	Example of mitigations
Engage our people	Inability to secure the business capacity, appropriate leadership capability and employee engagement levels required to deliver our vision and strategy. It is through the high-quality work of our employees that we will achieve our vision, respond to the changing needs of our stakeholders and create a competitive advantage. Obtaining and fostering an engaged and talented team that has the knowledge, training, skills and experience to deliver on our strategic objectives is vital to our success. We must attract, integrate and retain the talent we need at all levels of the business.	• We have identified the core capabilities that align with our strategic ambition and defined our set of leadership standards. • We have filled key leadership roles with a mix of internal and external hires. • We are involved in a number of initiatives to help secure the future engineering talent required (see page 24). • We continue to develop our succession plans for key roles, including leadership. • We continue to actively promote inclusion and diversity. • We monitor employee engagement and formally solicit employee opinions via a Company-wide employee survey annually.
Deliver operational excellence	Failure to achieve levels of financial performance required to meet regulatory requirements. The Group operates under a number of regulatory regimes and we must maintain the performance levels required. Failure to achieve the agreed returns could damage our reputation and threaten future growth opportunities and regulatory arrangements.	• We have a US strategy focused on safety and reliability, customer responsiveness, stewardship and cost competitiveness. Performance measures are tracked and reported monthly. US jurisdictional presidents continue to develop strong relationships with local regulators and communities. A Performance Excellence framework is firmly established to deliver sustainable and innovative performance improvements. • The UK operating model implemented in 2013 to support our performance under RIIO is now established and we continue to roll out our Performance Excellence framework across the business. We actively engage with local communities and non-governmental actors. • We monitor network reliability and customer satisfaction as KPIs, as described on pages 18 and 19.
	Failure to deliver appropriate information systems and data integrity. The Company is increasingly reliant on technology to support and maintain our business-critical processes. We must be able to rely on the performance of these systems and the underlying data to demonstrate the value of our business to our shareholders, and to meet our obligations under our regulatory agreements, and comply with agreements with bond holders and other providers of finance.	• We implemented a new US enterprise resource planning system at the end of 2012. After a significant effort to combat programme difficulties, the system is now stabilised and enhancements to drive business value are under way. • We are undertaking a programme to strengthen identified weaknesses in US controls over financial reporting. • We are implementing a global information management framework focusing on data integrity and security. • We completed a data assurance programme last year and actions to improve our data quality and integrity processes based on the results are being managed by the business functions.
	We experience a catastrophic/major cyber security breach. Due to the nature of our business we recognise that our critical national infrastructure (CNI) systems may be a potential target for cyber threats. We must protect our business assets and infrastructure and be prepared for any malicious attack.	• We use industry best practices as part of our cyber security policies, processes and technologies. • We continually invest in cyber strategies that are commensurate with the changing nature of the security landscape. This includes collaborative working with DECC and the Centre for Protection of National Infrastructure (CPNI) on key cyber risks and development of an enhanced CNI security strategy and our involvement in the US with developing the National Institute of Standards and Technology Cyberspace Security Framework.
	Failure to prevent a significant process safety event. Safety is paramount. Some of the assets owned and operated by National Grid are inherently hazardous and process safety incidents, whilst extremely unlikely, can occur.	• We continue to commit significant resources and financial investment to maintain the integrity of our assets and we strive to continuously improve our key process safety controls. • We continue to implement our Group-wide process safety management system to ensure a robust and consistent framework of risk management exists across our higher hazard asset portfolio.

Strategic objective	Risk description	Example of mitigations
Deliver operational excellence continued	Our objective is to be an industry leader in managing the process safety risks from our assets to protect our employees, contractors and the communities in which we operate. We operate in compliance with local legislation and regulation. In addition we identify and adopt good practices for safety management.	• We are developing a suite of risk models to assess the risk of specific asset types and support targeted investment to reduce risk. • We monitor a mix of leading and lagging process safety indicators and test the effectiveness of our controls with periodic audits.

Our internal control process

We have a number of processes to support our internal control environment. These processes are managed by dedicated specialist teams, including risk management, ethics and compliance management, corporate audit and internal controls, and safety, environment and health. Oversight of these activities is provided through regular review and reporting to the appropriate Board committees as outlined in the Corporate Governance section on pages 42 to 59.

Reviewing the effectiveness of our internal control and risk management

Each year the Board reviews the effectiveness of our internal control systems and risk management process covering all material systems, including financial, operational and compliance controls, to make sure they remain robust. The latest review covered the financial year to 31 March 2015 and the period to the approval of this Annual Report and Accounts. It included:

- the Certificate of Assurance for noting following consideration by the Audit Committee to provide overall assurance around the effectiveness of our risk management and internal controls systems;
- where appropriate, assurance from our committees, with particular reference to the reports received from the Audit, and Safety, Environment and Health Committees on reviews undertaken at their meetings; and
- assurances about the certifications required under Sarbanes-Oxley as a result of our US reporting obligations.

The Board evaluated the effectiveness of management's processes for monitoring and reviewing internal control and risk management, noting that no significant failings or weaknesses had been identified by the review and confirmed that it was satisfied the systems and processes were functioning effectively.

Our internal control and risk management processes comply with the Turnbull guidance on internal control and the requirements of the UK Corporate Governance Code and the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

They are also the basis of our compliance with obligations set by the Sarbanes-Oxley Act 2002 and other internal assurance activities. The New Code, published in September 2014, contained changes related to risk management. These changes have been reviewed against our risk management and internal control systems and processes. Refinements will be implemented, as appropriate, over the coming year.

Internal control over financial reporting

We have specific internal mechanisms to govern the financial reporting process and the preparation of the Annual Report and Accounts. Our financial controls guidance sets out the fundamentals of internal control over financial reporting, which are applied across the Company.

Our financial processes include a range of system, transactional and management oversight controls. In addition, our businesses prepare detailed monthly management reports that include analysis of their results along with comparisons to relevant budgets, forecasts and prior year results. These are presented to and reviewed by senior management within our Finance function.

These reviews are supplemented by quarterly performance reviews, attended by the Chief Executive and Finance Director which consider historical results and expected future performance and involve senior management from both operational and financial areas of the business.

Each month the Finance Director presents a consolidated financial report to the Board.

As part of our assessment of financial controls in the prior year, we identified a number of weaknesses in our US financial control framework. We are making progress in remediating these weaknesses. For more information, including our opinion on internal control over financial reporting, see page 173.

The Strategic Report was approved by the Board of Directors on 20 May 2015 and signed on its behalf by:

Alison Kay
Group General Counsel & Company Secretary
20 May 2015

Corporate Governance contents

Dear Shareholders,

Our Board is responsible for shaping the culture, values and ethics of National Grid, both within the boardroom and across the organisation, by setting the tone from the top and establishing high standards of behaviour.

The changes introduced in 2014 to the UK Corporate Governance Code and the Financial Reporting Council guidance on risk management have highlighted the need for the Board to consider if the current risk management and internal control practices and culture of the Company support the spirit of the changes, not just the letter.

The updates to the New Code have been considered by the Board and refinements approved so we can report on compliance next year as required. It is the intention of the Board that any changes to the frequency and level of reporting received by the Board and Audit Committee in relation to risk management, compliance and internal control as a result of these updates, will also add value to the business.

A review of our compliance procedures is also underway to make sure that we continue to develop and improve our compliance with external reporting obligations. In order to further develop our internal assurance programme, we formed the Engineering Assurance Committee to promote the application of common, consistent, engineering assurance methodologies across the Company.

The Board received an in-depth presentation on security and cyber security which provided a framework for discussion around the threats we face and the effectiveness of our strategy to mitigate the inherent risks. We have made a significant investment over the last five years to improve our capabilities in this area so we can adapt to and address an ever-changing threat landscape. Following this session, we agreed that responsibility for making sure we have an effective process for managing cyber security risk should be delegated to the Audit Committee. You can read more about this on page 50. The Board will continue to receive an annual in-depth presentation on information systems and security, including cyber security.

This year, in addition to Nick Winser and Maria Richter stepping down at the 2014 AGM, we have said goodbye to Philip Aiken and Tom King and have welcomed John Pettigrew and Dean Seavers as Executive Directors in the UK and US respectively. In my role as Chairman and leader of the Board I am responsible for ensuring effectiveness in all aspects of its role. This includes promoting effective relationships and open communication between Directors and encouraging active engagement by all members. This is particularly important as the membership of the Board changes and new relationships are formed. I am pleased to report that the positive outcome of the Board and Committee evaluation process reflects this effectiveness. You can read more about this on page 46 and the rigorous selection process prior to Dean's appointment on page 58.

Clear and concise communications with our shareholders remain a focus for the Board and we hope that the overview of our business model on page 12 helps to articulate how we create value for you, our shareholders, as well as our other stakeholders.

Sir Peter Gershon
Chairman

Our Board

Sir Peter Gershon CBE FREng (68)
Chairman
N (ch)
3 years' tenure

Steve Holliday FREng (58)
Chief Executive
F
14 years' tenure^

Andrew Bonfield (52)
Finance Director
F, S
4 years' tenure

Nora Mead Brownell (68)
Non-executive Director
N, R, S
2 years' tenure
Independent

Jonathan Dawson (63)
Non-executive Director
F, N, R (ch)
2 years' tenure
Independent

Therese Esperdy (54)
Non-executive Director
A, F (ch), N
1 year's tenure
Independent

Paul Golby CBE FREng (64)
Non-executive Director
A, N, R, S (ch)
3 years' tenure
Independent

Ruth Kelly (47)
Non-executive Director
A, F, N
3 years' tenure
Independent

John Pettigrew (46)
Executive Director, UK
1 year's tenure

Dean Seavers (54)
Executive Director, US
Under 1 year's tenure

Mark Williamson (57)
Non-executive Director and Senior Independent Director
A (ch), N, R
2 years' tenure
Independent

Key
A Audit Committee
F Finance Committee
N Nominations Committee
R Remuneration Committee
S Safety, Environment and Health Committee
(ch) Chairman of committee
^ Including National Grid Group plc
Tenure as at 31 March 2015
Charts and membership are as at 20 May 2015

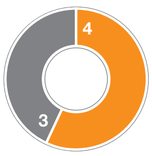
Board gender

Women Men

Executive and Non-executive Directors

Executive
Non-executive

Non-executive Director tenure



0–3 years 3+ years

Corporate Governance continued

Governance framework

Compliance statement
The Board considers that it complied in full with the provisions of the UK Corporate Governance Code 2012 (the Code) during the financial year being reported, see page 53 for our explanation in relation to external audit tendering.

This report explains the main features of the Company's governance structure to give a greater understanding of how the main principles of the Code have been applied. The report also includes items required by the Disclosure and Transparency Rules. The index on page 59 sets out where to find each of the disclosures required in the Directors' Report and in respect of Listing Rule 9.8.4, together with the Board's sign-off on the report.

UK Corporate Governance Code 2014
The new UK Corporate Governance Code 2014 (the New Code) applies to the Company for the next financial year, 2015/16. In March, the Board considered the current governance arrangements and approved refinements to support compliance with the New Code. Details will be provided in the 2015/16 Annual Report and Accounts.

Fair, balanced and understandable
The requirement for Directors to state that they consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable remains a key consideration in the drafting and review process. The coordination and review of the Annual Report follows a well-established and documented process, which is conducted in parallel with the formal audit process undertaken by the external auditors and the review by the Board and its committees (of relevant sections).

This process gives the Board comfort that all material statements are accurate and that the Annual Report gives sufficient prominence to negative as well as positive information. The drafting and assurance process supports the Audit Committee and Board's assessment of the overall fairness, balance and clarity of the Annual Report and the Directors' statement on page 78.

Our Board

Our current Board membership is set out on the previous page, with biographical details of Directors on pages 178 to 179. The Directors in place during the year are set out on page 49, together with details of Board meeting attendance. Committee membership during the year and attendance at meetings is set out in each of the individual committee reports later in this report. For further details about the Directors' service contracts and letters of appointment, see page 67 of the Directors' Remuneration Report.

Role of our Board
Our Board is collectively responsible for the effective oversight of the Company and its businesses. It also determines the strategic direction, business plan, objectives and governance structure that will help achieve the long-term success of the Company and deliver sustainable shareholder value.

The Board sets the risk appetite for the Company and takes the lead in areas such as safeguarding the reputation of the Company and financial policy, as well as making sure we maintain a sound system of internal control and risk management (see pages 38 to 41).

The Board's full responsibilities are set out in the matters reserved for the Board, which were updated in January 2015. These are available on our website, together with other governance documentation.

Our Chairman is responsible for the leadership and management of the Board and its governance. He ensures the Board is effective in its role by promoting a culture of openness and debate, facilitating the effective contribution of all Directors and helping to maintain constructive relations between Executive and Non-executive Directors.

Our Chief Executive is responsible for the executive leadership and day-to-day management of the Company, to ensure the delivery of the strategy agreed by the Board. Through his leadership of the Executive Committee, he demonstrates commitment to safety, operational and financial performance.

Our Senior Independent Director acts as a sounding board for the Chairman and serves as an intermediary for the other Directors, as well as shareholders when required.

Independent of management, **our Non-executive Directors** bring diverse skills and experience, vital to constructive challenge and debate. Exclusively, they form the Audit, Nominations and Remuneration Committees, and have an important role in developing proposals on strategy.

Examples of Board focus during the year:
Board strategy session. In addition to time allocated during the year at Board meetings, in January the Board took part in a half-day interactive strategy session, involving a combination of full Board discussions and breakout groups. The Board considered questions raised by the business plan and recent strategic analysis, future opportunities for the Company including business development, mergers and acquisitions and how our core capabilities could be exploited.

The Board found the additional session extremely useful and suggested that further regular updates and discussions would help consolidate its thinking, in particular in relation to the development of a longer-term perspective on potential growth in other geographical areas.

European energy policy. The Board received updates on how changes in the EU will affect and influence the UK energy policy, including Electricity Market Reform, support for interconnectors and Carbon Capture and Storage.

The 2014 UK Winter Outlook. This annual publication confirmed that the Company was in a strong position in respect of gas in the UK, with no heightened concerns, but for electricity, margins were expected to be tight. Updates to the Board confirmed that the UK business had a good understanding of the issues and risks. A robust mitigation strategy, agreed with the UK Government, was approved and implemented.

Interconnector projects. In January, the Board received a presentation on Great Britain's interconnector market and our pipeline of opportunities, including an overview of our two most advanced projects; potential new links to Belgium and Norway. Following feedback provided, the Board approved the final investment decision in relation to the Belgium interconnector in February 2015 and the interconnector with Norway in March 2015.

Emerging risks. The Board received a risk update paper including an overview of the framework that has been developed to track emerging risks and the resulting opportunities and/or threats. Additionally, the Board received an update on three themes that had emerged from the 2014 risk workshop to make sure that we were sufficiently prepared for 'black swan' events (catastrophic events of extremely high impact and extremely low likelihood).

Updates will continue to be provided to the Board on a regular basis, as appropriate.

Risk workshop. The Board participated in a risk workshop that included an update on the changes introduced by the New Code, the annual risk appetite review and an in-depth review of the current risk profile of the Company. At the workshop, it was agreed that the evaluation of risk appetite should permeate through to the evaluation of all new projects and further work was required in relation to the risk appetite definitions and the Company's risk profile.

Safety updates. Safety is discussed at every Board meeting. The Board receives safety updates in the Chief Executive's report and supplementary to this, the Safety, Environment and Health (SEH) Committee chairman provides an oral summary of matters considered at Committee meetings.

Annual talent management review. The Board noted the progress of the development of capacity, capability and the talent pipeline and the accelerated development programme, which had resulted in long-term career plans being put in place and graduates moving through the Company more speedily than in the past.

Examples of expected Board focus for next year:
- regular reviews of safety activities;
- mid-term review of our progress and performance under RIIO;
- continued detailed review of strategy and financing;
- key US rate case filings;
- regulatory compliance;
- implications of the Integrated Transmission Planning and Regulation project on our activities;
- review of the political situation following the UK general election and the impact on energy policy in the UK and EU;
- refined reporting to strengthen our assessment and monitoring of internal control and risk management following the updates to the New Code;
- reviews into UK and US regulation and the major projects in the UK;
- the 2015 UK Winter Outlook; and
- results of the 2015 employee opinion survey.

Board composition

The successful delivery of our strategy depends upon attracting and retaining the right talent. This starts with having a high-quality Board. Balance is an important requirement for the composition of the Board, not only in terms of the number of Executive and Non-executive Directors, but also in terms of expertise and backgrounds.

While traditional diversity criteria such as gender and ethnicity are important, we also value diversity of skills, experience, knowledge and thinking styles. You can read about our Board diversity policy in the Nominations Committee report on page 58.

Following the conclusion of the 2014 AGM we said goodbye to Maria Richter and Nick Winser from the Board. Additionally, Philip Aiken stepped down with effect from 25 February 2015 and Tom King from 31 March 2015. We welcomed John Pettigrew as Executive Director, UK on 1 April 2014 and Dean Seavers as Executive Director, US with effect from 1 April 2015.

Director induction and development

As our internal and external business environment changes, it is important to make sure that Directors' skills and knowledge are refreshed and updated regularly. Our Chairman is responsible for the ongoing development of all Directors.

To strengthen the Directors' knowledge and understanding of the Company, Board meetings regularly include updates and briefings on specific aspects of the Company's activities. In January the Board participated in a strategy session; see the previous page.

Updates on corporate governance and regulatory matters are also provided at Board meetings, with details of development and training opportunities for Directors available in our online document library.

Additionally, the Non-executive Directors are expected to visit at least one operational site annually. In 2014 this included visits in the UK to the LNG terminal on the Isle of Grain, the gas distribution control centre, and the customer centre and emergency dispatch based in Hinckley. And in the US, the Directors met with management of the Independent System Operator New England and visited the Brooklyn Queens Interconnect project, a Long Island power station, and other major projects and stakeholders in New York City. Visits to the Long Island power plants and the Western Link project are among those planned for 2015. These visits provide the opportunity for Directors to meet local management teams and discuss aspects of the business with employees.

With the agreement of the Board, Executive Directors gain experience of other companies' operations, governance frameworks and boardroom dynamics through non-executive appointments. The fees for these positions are retained by the individual. See page 67 for more details.

The Board in action

Thinking styles session

Following on from the thinking styles session supported by an external consultant held in 2014, the Board undertook a second session in February 2015.

The session was specifically designed to encourage diverse thinking within the boardroom. New Board members were invited to give their thoughts on how the Company operates. The session covered the benefits of thinking styles for different types of discussion and ways in which the diverse capability that exists within the Board could be harnessed to maximise its effectiveness. The session also reviewed the progress made since the 2014 session.

A thinking styles action has been included in the action plan resulting from this year's Board evaluation; see page 47.

Directors' induction programme

Following Dean's appointment to the Board, the Chairman, Chief Executive and Group General Counsel & Company Secretary arranged a comprehensive induction programme. The programme has been tailored based on his experience and background and the requirements of his role.

Dean's induction programme has included a meeting with our external legal advisors to discuss the duties and requirements of being a listed company director in the UK. He has also held one-to-one meetings with his fellow Directors and senior management, and attended visits to operational sites to build his understanding of the Company and its businesses in the UK and US. His induction will continue over the coming months and will include further operational site visits.

Details of Therese and John's induction programmes were provided in last year's Annual Report and Accounts. These programmes have continued over the year.

Corporate Governance continued

Board and committee evaluation

As shown in the diagram below, we are in the third year of our evaluation cycle. This year an internal Board performance evaluation was conducted. The evaluation was 'upward facing' with questionnaires completed by non-Board members on the Executive Committee and regular attendees and presenters at Board meetings.

Board and committee evaluation cycle

Year 1 – 2012/13
Externally facilitated evaluation
– conducted by independent consultants

Year 2 – 2013/14
Internal review
– using open questions to the Board from the Chairman

Year 3 – 2014/15
Internal review
– upward-facing evaluation with questions completed by non-Board members on the Executive Committee and regular attendees/presenters at the Board and its committees

The questions asked covered the following areas:
- time and focus for agenda items;
- the direction/guidance received to support the preparation of papers and presentations;
- coverage by presenters on key topics;
- values and behaviours displayed by the Board and the experience of attending Board meetings;
- level of challenge and questioning by the Directors; and
- diversity of thinking styles present on the Board.

The responses were collated into a confidential and non-attributable report which was presented to the Board in February. At this meeting, the Board considered the report and discussed its performance generally over the past year. The Board confirmed that it had worked well together as a unit, discharged its duties and responsibilities effectively over the year; and worked effectively with the Board committees.

Following this meeting, a draft action plan was prepared and considered by the Board in March. At this meeting, the Board agreed a number of actions for the forthcoming year, as set out below. Progress against these actions will be monitored throughout the year by the Board.

Environment
Optimise the boardroom layout to create a more inclusive environment for members and presenters.
Responsibility: Board members/Group General Counsel & Company Secretary
Continue to create a more open boardroom atmosphere and culture.
Responsibility: Chairman/Board members

Board discussions
Maximise the effectiveness of Board discussions.
Responsibility: Chairman/Executive Directors/Group General Counsel & Company Secretary
Use a diversity of thinking styles.
Responsibility: Chairman/Board members

Board focus
Continue to manage the strategy agenda.
Responsibility: Chairman/Chief Executive/Group General Counsel & Company Secretary

Progress against last year's actions has been monitored through the year and a commentary against each action is set out opposite.

Committee evaluation
An evaluation of committee performance was also conducted by the chairman of each of the Board committees, as well as the Executive Committee. The process broadly followed that conducted by the Board with questionnaires being completed by regular attendees and presenters at the respective committee meetings. The process followed by the Nominations Committee was slightly different; see 'The Committee in action' box on page 57 for more details.

Following consideration of the results of the evaluation, each committee concluded that it had operated effectively throughout the year and agreed an action plan to further improve performance. Copies of each committee's action plan were provided to the Board and it confirmed that it agreed that each committee had operated effectively.

Progress against the action plans will be monitored through the year by the respective committee and the Board.

Non-executive Director independence

The independence of the Non-executive Directors is considered at least annually along with their character, judgement, commitment and performance on the Board and relevant committees. The Board took into consideration the Code and indicators of potential non-independence, including length of service.

At year end, all of the Non-executive Directors, with the exception of the Chairman, have been determined by the Board to be independent.

Director performance

At a private meeting of the Non-executive Directors, Mark Williamson, as Senior Independent Director, led a review of Sir Peter's performance. The Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman and the arrangements he has in place, given he is also chairman of a FTSE 250 company and the Aircraft Carrier Alliance. They concluded that Sir Peter's performance continued to be effective.

Sir Peter met each Director individually to discuss their contribution, performance over the year and training and development needs. Following these meetings, Sir Peter confirmed to the Nominations Committee that he considered that each Director demonstrated commitment to the role and their performance continued to be effective.

Following recommendations from the Nominations Committee the Board considers all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties. Therefore, in accordance with the Code, all Directors will seek election or re-election at the 2015 AGM as set out in the Notice of Meeting.

Area	Actions from last year's review	Commentary
Decision making	All important matters requiring approval are to be brought to the Board for early input before a decision is needed. Responsibility: Chairman and Chief Executive	Sir Peter Gershon and Steve Holliday have regularly reviewed the forward business schedule with the Group General Counsel & Company Secretary over the year. The schedule is also included with the papers for each Board meeting to ensure Directors are aware of forthcoming topics for discussion. Following the thinking styles session in February 2015, the schedule was also reviewed to consider if any items could be brought forward early to allow Directors to contribute to thinking and direction at a preliminary stage of the debate.
Board discussions	Greater clarity about the scope of Board discussions to be provided in advance and Board members to be encouraged to question if not clear. Responsibility: Chairman	The Company Secretariat team engaged with external specialists in effective reporting to support the development of the information that goes to the Board. The new reporting framework has resulted in clearer, more concise papers, which has supported improved Board discussion and decision making. Following the successful implementation of the new reporting framework at Board level it has also been rolled out to the Board committees and the Executive Committee.
Degree of challenge	The Executive Directors to speak to the Chairman about what would make them feel more comfortable to challenge and debate, both with the Non-executive Directors and with their fellow Executive Directors at Board meetings. Responsibility: Executive Directors	In February, the Board reviewed progress against the 2013/14 action plan and noted that all Executive Directors felt empowered to input freely at Board meetings and that there was open and honest dialogue. The Chairman will continue to monitor this on an ongoing basis.
Board focus	A number of topics were identified that Directors felt needed additional focus by the Board at its meetings, for example cyber risk and the UK political landscape. Ways to improve the focus on each of these topics were discussed at the March 2014 Board meeting and specific actions were agreed and allocated. Responsibility: various Board members	The Board has taken into account the need for additional focus in certain areas and this has been reflected in the meeting agendas. **Strategy:** several papers focusing on strategy and growth have been received by the Board over the year in addition to the Board strategy session. Topics included: review of the UK gas market; US and other market opportunities; exploitation of core capabilities; expansion in and outside our core geographies; and a general update on the interconnectors. **Political risk:** political updates are provided in the Chief Executive's report to the Board as appropriate. Additional papers on the politics of UK and US energy and a general update on politics in Europe have been presented to the Board and updates will continue to be provided as appropriate. **Cyber risk:** an update on cyber risk and security went to the Board and Audit Committee in September. At this meeting, the Board decided that responsibility for making sure there is an effective process for managing cyber security risk should be undertaken by the Audit Committee. The Board is scheduled to receive an in-depth presentation in November 2015. **Relationship with UK and US regulators:** updates on the meetings that take place between our Chairman and the Chairman of Ofgem are provided to the Board. Updates on US regulation and the meetings that take place with the US regulators are also provided to the Board in the Chief Executive's report.
Effectiveness of the Board	Actions to improve Board effectiveness were proposed, for example: continue to improve the quality of Board papers; make sure in-depth items for Board consideration highlight the important issues to be discussed; and encourage reporting from management that incorporates more input from the Executive Directors. Responsibility: Chairman, Chief Executive and Group General Counsel & Company Secretary as appropriate	The new reporting framework described above will also help improve the effectiveness of the Board. As part of the new framework, executive owners of papers on the Board agenda have a greater input in to and ownership for the preparation of papers. Management are encouraged to meet with the executive owner at the start of the drafting process to discuss the framework for the paper and owners are required to review and sign off on the final paper prior to submission to the Board or committee.

Corporate Governance continued

Investor engagement

We believe it is important to maintain effective channels of communication with our debt and equity institutional investors and individual shareholders. This helps us to understand their views about the Company and allows us to make sure they are provided with timely and appropriate information on our strategy, performance, objectives, financing and other developments.

Institutional investors

We carry out a comprehensive engagement programme for institutional investors and research analysts. This includes meetings, presentations, webinars, attendance at investor conferences across the UK and US, and holding road shows in major investor centres across Europe, the US and Asia Pacific.

The programme provides the opportunity for our current and potential investors to meet with executive and operational management.

In the past year, our engagement programme has focused on clarifying our Group growth expectations and explaining to investors how we expect the Company to continue to perform under the RIIO price controls in the UK. These areas of focus have been reflected in our regular results presentations as well as in more detail during an investor seminar at our Castle Donington site.

In addition to these engagement activities, we also held a stewardship meeting in July last year. The event provided major investors with an understanding of our performance and an insight into the operation of our Board with a particular focus on the work of our Remuneration and Audit Committees. The event also provided the opportunity for attendees to ask questions and meet members of the Board and for our Non-executive Directors to further develop their understanding of our shareholders' views and concerns. A copy of the presentation given on the day is available in the Investors section of our website.

Sir Peter also contacted our major shareholders in April 2015 to offer them the opportunity to meet him or the chairman of the Remuneration Committee, Jonathan Dawson, to discuss the Board changes that have taken place during the year and the associated remuneration arrangements.

The Board receives regular feedback on investor perceptions and opinions about the Company. Specialist advisors and the Director of Investor Relations provide updates on market sentiment.

Each year, the Board receives the results of an independent audit of investor perceptions. Interviews with key investors were carried out to establish their views on the performance of the business and management. The findings and recommendations of the audit were discussed in depth by the Board.

Debt investors

Over the last year representatives from our treasury team, together with other senior managers from across the business, have met with debt investors in Europe, Canada and the US to discuss various topics such as the full-year results.

We also communicate with our debt investors through regular announcements and the debt investor section of our website. This contains bond prospectuses, credit ratings, materials relating to the retail bond issued in 2011 and subsidiary year-end reports. The website also contains information about the long-term debt maturity profile, so investors can see our future refinancing needs.

Individual shareholders

Engagement with individual shareholders, who represent more than 95% of the total number of shareholders on our share register, is led by the Group General Counsel & Company Secretary. Shareholders are invited to learn more about the Company through the exhibits at our AGM and the shareholder networking programme.

The shareholder networking programme includes visits to UK operational sites and presentations by senior managers and employees over two days. UK resident shareholders can apply to take part online via the Investors section of our website.

Annual General Meeting (AGM)

Our AGM will be held on Tuesday 21 July 2015 at The International Convention Centre in Birmingham and broadcast via our website. The Notice of Meeting for the 2015 AGM, available on our website, sets out in full the resolutions for consideration by shareholders, together with explanatory notes and further information on the Directors standing for election and re-election.

How our Board operates

The Chairman sets the Board's agenda in line with its responsibilities as set out in the matters reserved for the Board. Consideration is also given to the main challenges and opportunities facing the Company, making sure adequate time is available to discuss all items, including strategic issues.

To support discussion and decision making, Board and committee members receive papers sufficiently in advance of meetings so that they can prepare for and consider agenda items. Additionally, the Chairman holds a short meeting with the Non-executive Directors before each Board meeting to discuss the focus of the upcoming meeting as well as afterwards to share feedback and discuss the dynamics of the meeting. Similarly, the Chief Executive holds a short meeting with the Executive Directors and other senior management in attendance and shares the feedback from these meetings with the Chairman.

As set out in the table of actions from last year's Board and committee evaluation process, during the year we engaged external specialists to review our current papers and develop a new reporting framework for the Board and its committees. This has resulted in clearer more concise reports, allowing more time for discussion and questions.

Board membership and attendance

Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2015.

Name	Attendance
Sir Peter Gershon	10 of 10
Steve Holliday	10 of 10
Andrew Bonfield	10 of 10
Tom King[1]	10 of 10
John Pettigrew	10 of 10
Nora Mead Brownell	10 of 10
Jonathan Dawson	10 of 10
Therese Esperdy	10 of 10
Paul Golby	10 of 10
Ruth Kelly	10 of 10
Mark Williamson	10 of 10
Nick Winser[2]	3 of 3
Philip Aiken[3]	9 of 9
Maria Richter[2]	3 of 3

1. Tom King stepped down from the Board with effect from 31 March 2015.
2. Nick Winser and Maria Richter stepped down from the Board with effect from 28 July 2014.
3. Philip Aiken stepped down from the Board on 25 February 2015.

Dean Seavers was appointed to the Board with effect from 1 April 2015.

Committee membership during the year and attendance at meetings is set out in each of the individual committee reports later in this report.

Should any Director not be able to attend a Board or committee meeting, the Chairman and committee chairman are informed and the absent Director is encouraged to communicate opinions and comments on the matters to be considered.

Our Board and its committees

The Board delegates authority to its committees to carry out certain tasks on its behalf, so that it can operate efficiently and give the right level of attention and consideration to relevant matters.

The role and responsibilities of the committees are set out in their respective terms of reference, available on our website. The committee structure, delegation and reporting lines are set out in the diagram below.

In addition to the vertical lines of responsibility and reporting, the committees communicate and work together where required. For example, on some risk matters the SEH Committee collaborates with the Audit Committee. These lines of communication are shown in the diagram below.

Committee agendas and schedules of items to be discussed at future meetings are prepared in line with the terms of reference of each committee and take account of other topical matters.

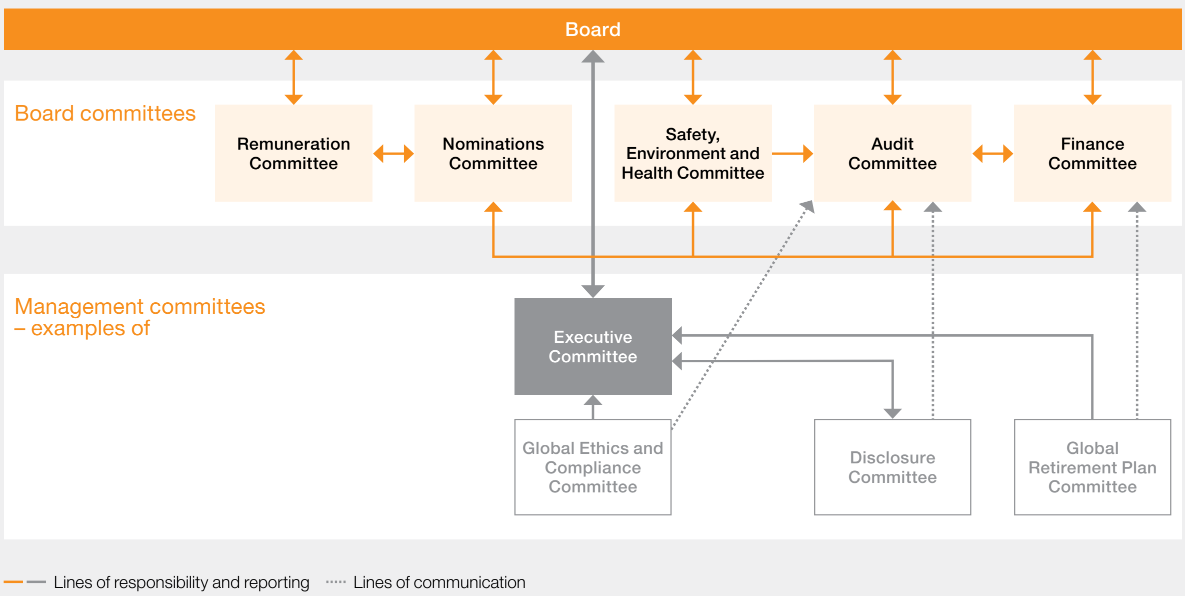
At committee meetings, items are discussed and, as appropriate, matters are endorsed, approved or recommended to the Board by the committee. Following meetings, the chairman of each committee provides the Board with a summary of the main decisions and discussion points so the non-committee members are kept up to date.

Below the Board committees are a number of management committees, including the Executive Committee.

The Executive Committee has responsibility for making management and operational decisions about the day-to-day running of the Company. Further information on some of the management committees, including the membership and operation of the Executive Committee, is set out on pages 58 and 59.

Reports from each of the Board committees together with details of their activities during the year, are set out on the following pages.

Board and committee interactions



Corporate Governance continued

Audit Committee

Mark Williamson
Non-executive Director

Role
Oversees the Company's financial reporting, and internal controls and their effectiveness, together with the procedures for identifying, assessing and reporting risks. It also oversees the services provided by the external auditors and their remuneration.

Review of the year
Challenging management on the action they are taking to continue to improve the US financial controls environment has remained a focus for the Committee over the past 12 months. Although there is work still to do, I am pleased to report we are now seeing steady progress in this area.

The US leadership team has been strengthened with the appointment of a new US Chief Financial Officer (CFO). The Finance Director and the US CFO have continued to keep the Committee up to date on progress with regular reports throughout the year on further proposed improvements and priorities.

The past year has also seen two other key appointments – a new Head of Corporate Audit (approved by the Committee in accordance with its terms of reference) and a new Head of Assurance. The Committee has received reports from both individuals on their initial observations of their respective functions and proposed changes and priorities for the year.

Following the delegation by the Board for oversight of risk management in relation to cyber security, the Committee received its first update from internal (corporate) audit on the process for identifying, mitigating, monitoring and responding to cyber security risks in March.

The Committee has been briefed on the changes to the regulatory environment, in particular the audit tender regulations published by the Financial Reporting Council, the implications of the Competition and Market Authority Order and the final European Commission regulations. We discussed and considered the timing of a tender for the external audit and agreed that an audit tender process should be run later this year. See page 53 for further details.

Committee membership has also undergone some changes. Maria Richter stepped down from the Board at the 2014 AGM. In 2015 we have said goodbye to Philip Aiken and welcomed Paul Golby and Therese Esperdy to the Committee in February and April respectively. I would like to thank Phil for his contribution and support to the Committee over the last six years. We are looking forward to working with Paul and Therese over what will be another busy year.

Significant issues
The most significant issue the Audit Committee considered in relation to the financial statements during the year were the US financial controls. The Committee also considered the presentation of exceptional items, the treatment of the liability management programme costs and accounting for agreed legal settlements. More detail is provided later in the report.

Other matters reviewed
Examples of other matters the Audit Committee reviewed:

The new Group consolidation system. Regular progress updates on the implementation which is expected to go live later this year.

Lessons learnt from the March 2014 year-end audit. The Committee noted the detailed plans produced by management and the external auditors to deliver a more efficient March 2015 year-end process, including the timing of certain audit testing and the approach to subsidiary statutory and regulatory accounts.

Sarbanes-Oxley Act 2002 testing and attestations. The Committee received regular updates on the status of testing and considered the impact of deficiencies reported at the May 2014 meeting. During the year, the Company adopted the revised framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Subsequently, a review of all internal controls of financial reporting was undertaken to ensure compliance with the updated framework. See page 41 for the Company's statement on the effectiveness of internal control over financial reporting.

Accounting for rate regulated activities. The Committee endorsed management's response to the discussion paper issued by the International Accounting Standards Board in September 2014 and believe that guidance should be introduced that results in the IFRS financial statements of the Company more closely reflecting its economic performance and position.

Fair, balanced and understandable. The requirement of the Code to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable in the context of the applicable accounting standards and confirmed this view to the Board.

Interim Management Statements (IMS). The Board's decision to cease the publication of an IMS and the impact on the traditional role of the Committee. Depending on the content of future market updates, the Committee will review these prior to publication.

Cyber security risk management. A paper from internal (corporate) audit on the status of our cyber security risk management and external good practice in September 2014. In setting the scope of its new responsibilities, the Committee considered the level of assurance currently provided by internal (corporate) audit and other assurance providers and the frequency and extent of information received. Subsequently, the Committee's terms of reference were amended to include this additional responsibility in relation to the review of the governance processes over cyber security risk and the Committee now receives a regular update from the Head of Corporate Audit.

Risk management. Half-yearly updates on the management of key risks faced by the Company including changes to the corporate risk profile to reflect Executive Committee risk management discussions.

Committee membership and attendance table
Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2015. Biographical details and experience of Committee members are set out on pages 178 and 179.

Name	Attendance
Mark Williamson (chairman)	8 of 8
Paul Golby[1]	1 of 1
Ruth Kelly	8 of 8
Philip Aiken[2]	7 of 7
Maria Richter[3]	4 of 4

1. Paul Golby joined the Committee on 25 February 2015.
2. Philip Aiken stepped down from the Board with effect from 25 February 2015.
3. Maria Richter stepped down from the Board with effect from 28 July 2014.
Therese Esperdy was appointed to the Committee with effect from 22 April 2015.

Experience
The Board has determined that Mark:
- has recent and relevant financial experience;
- is a suitably qualified audit committee financial expert within the meaning of the SEC requirements; and
- is independent within the meaning of the New York Stock Exchange listing rules.

Financial reporting
The Committee monitors the integrity of the Company's financial information and other formal documents relating to its financial performance and makes appropriate recommendations to the Board before publication.

An important factor in the integrity of financial statements is making sure that suitable and compliant accounting policies are adopted and applied consistently on a year-on-year basis and across the Company. In this respect, the Committee also considers the estimates and judgements made by management when accounting for non-standard transactions, including the treatment of exceptional items. Two examples of these are set out below.

These considerations are supported by input from other assurance providers such as the group controls, risk management and ethics and compliance teams, the business separation compliance officer, internal (corporate) audit and the SEH Committee, as well as our external auditors. In addition, the Committee also considers reports of the Disclosure Committee. See page 59 for more information on the role of the Disclosure Committee.

The Committee reviews and approves the external audit plan annually (see page 53) and, as part of this, considers the significant risks upon which the external auditors will focus their audit. The independent auditors' report (pages 79 to 84) highlights areas of focus, including some of the issues that the Committee discussed during the year.

Other risks, including the accuracy and valuation of treasury derivative transactions, accounting for pension obligations, accuracy of capital expenditure, revenue recognition and valuation of environmental provisions were not considered in detail by the Committee during the year as nothing significant arose that warranted Committee attention.

Summarised below are the issues which attracted the most focus, and time, of the Committee in relation to the financial statements during the year.

US financial controls. The Committee has continued to devote a significant amount of time challenging management on the action they are taking to continue to improve the US finance control environment. There has been continued focus on embedding the enterprise resource planning system in the US and the benefits this system now brings. The Committee has received regular updates from management on progress against the measures taken to remediate US financial control deficiencies.

In October, a new US CFO was appointed to lead the US finance team. She initiated a granular review of the US finance function to understand the current service levels and key learnings from prior initiatives, including the successes as well as initiatives that did not fully achieve their goals.

The outputs from this review were incorporated into a new US finance function initiative which is intended to address the root cause of issues identified by the review and simplify and standardise processes.

In January 2015, the Committee received a presentation on the initiative to understand the approach being taken, the stages involved and the underlying issues that the initiative was aiming to resolve. Management sought input and feedback from the Committee on the direction, focus and timing of the proposed initiative. The Committee discussed the proposal and asked questions about the initiative before approving the approach. Regular updates will be provided to the Committee through the year so that progress can be monitored.

During the year, the Committee challenged management in the US on its regulatory filing obligations, noting that due to the system implementation issues, not all filings were made on time. Management presented and, during the course of the year, delivered on a detailed plan to complete the filings and remediate the process. All regulatory filings are now up to date and management communicated with the regulators throughout the process.

Presentation of exceptional items. At the half year and year end, the Committee examined an analysis of items to be classified as exceptional to make sure the items did not include income or costs relating to the underlying business performance.

In particular, the Committee considered the treatment of the liability management programme costs at the year end. Management proposed that the costs associated with the debt redemptions should be treated as exceptional as they were one-off, significant and outside the ordinary course of business. To include this cost in underlying finance costs would otherwise distort users' understanding of the business performance. This proposal was in line with the exceptional items accounting policy in the Annual Report and Accounts and the historical treatment of debt redemption costs.

The Committee agreed that the classification of this item was appropriate. See note 4 footnote 8 on page 104.

Corporate Governance continued

Accounting for agreed legal settlements. During the year, the Company reached negotiated settlement agreements in a legal case. The Company was awarded a total of £113 million (including allowance for legal costs incurred). Due to the size of the impact on the income statement, the Committee agreed with management's decision that this was not considered to be exceptional for the year. The Committee reviewed and challenged the classification of the settlements and agreed that £56 million be recognised in the income statement in the year, with the remainder credited to property, plant and equipment. Management is waiting for confirmation from Ofgem of the regulatory treatment of these awards under RIIO.

Confidential reporting procedures and whistleblowing

The integrity of the financial statements is further supported by the confidential reporting and whistleblowing procedures we have in place. The Committee reviews these procedures once a year to make sure that complaints are treated confidentially and that a proportionate, independent investigation is carried out in all cases.

Internal (corporate) audit

The corporate audit function provides independent, objective assurance to the Audit, SEH and Executive Committees on whether our existing control and governance frameworks are operating effectively in order to meet our strategic objectives. Assurance work is conducted and managed in accordance with the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing and Code of Ethics.

To keep the Committee informed of trends identified from the assurance work and to update on the progress against the corporate audit plan, the Head of Corporate Audit reports to the Committee at least twice each year. These reports present information on specific audits, as appropriate, summarise common control themes arising from the work of the team and update on progress with implementing management actions. Where control issues are identified, senior leaders may be invited to attend Committee meetings to provide a commentary around the actions they are taking to improve the control environment within their area of responsibility.

In order to meet the responsibility and objectives set out in the Corporate Audit Charter, audits of varying types and scopes are performed as part of the annual corporate audit plan. The audit plan is based on a combination of risk-based and cyclical reviews, together with a small amount of work that is mandated, typically by US regulators.

Inputs to the audit plan include risk registers, corporate priorities, external research of emerging risks and trends and discussions with senior management to ensure that the plan aligns with the Committee and Company's view of risk. The audit plan is considered and approved by the Committee annually.

External audit

The Committee is responsible for overseeing relations with the external auditors, including the approval of fees, and makes recommendations to the Board on their appointment and reappointment. Details of total remuneration to auditors for the year, including audit services, audit-related services and other non-audit services, can be found in note 3(e) of the consolidated financial statements on page 102.

Auditor independence and objectivity

The independence of the external auditors is essential to the provision of an objective opinion on the true and fair view presented in the financial statements.

Auditor independence and objectivity is safeguarded by a number of control measures, including:

- limiting the nature and value of non-audit services performed by the external auditors;
- ensuring that employees of the external auditors who have worked on the audit in the past two years are not appointed to senior financial positions within the Company in line with our internal code;
- monitoring the changes in legislation related to auditor objectivity and independence to help ensure we remain compliant;
- providing a business conduct helpline that employees can use to report any concerns, including those relating to the relationships between Company personnel and the external auditor;
- the rotation of the lead engagement partner at least every five years;
- PwC's internal independence rules and processes which have been designed to exceed professional standards and focus on both personal independence and scope of services;
- independent reporting lines from PwC to the Committee and the opportunity to meet with the Committee independently; and
- an annual review by the Committee of the structures, policies and practices in place to make sure the external auditors' objectivity and independence is maintained.

A new lead engagement partner will be appointed for the 2015/16 financial year following the completion of the current lead audit partner's tenure.

Non-audit services provided by the external auditors
In accordance with our policy, non-audit services provided by the external auditors above a threshold of £50,000 require approval in advance by the Committee.

Below this threshold, all requests are approved in advance by the Finance Director and do not require Committee pre-approval. This reduces the administrative burden on the Committee. A full list of all Committee and Finance Director approved non-audit work requests is presented to the Committee annually to ensure the Committee is aware of all non-audit services provided.

Additionally, the Committee receives quarterly reports from management on non-audit services and other consultants' fees to monitor the types of services being provided and fees incurred.

Approval for the provision of non-audit services is given on the basis the service will not compromise independence and is a natural extension of the audit or if there are overriding business or efficiency reasons making the external auditors most suited to provide the service. Certain services are prohibited from being performed by the external auditors, as required under the Sarbanes-Oxley Act 2002.

Total non-audit services provided by PwC during the year ended 31 March 2015 were £0.9 million (2014: £1.7 million), which comprised 7% (2014: 13%) of total audit and audit-related fees (see note 3(e)).

Total audit and audit-related fees include the statutory fee and fees paid to PwC for other services that the external auditors are required to perform, for example regulatory audits and Sarbanes-Oxley Act attestation. Non-audit fees represent all other services provided by PwC not included in the above.

Non-audit services provided by PwC in the year included tax compliance services in territories other than the US (£0.4 million), the significant majority of which relates to the UK.

The Committee considered that tax compliance services were most efficiently provided by the external auditors, as much of the information used in preparing computations and returns is derived from audited financial information. In order to maintain the external auditors' independence and objectivity, management reviewed and considered PwC's findings and PwC did not make any decisions on behalf of management.

Audit quality
To maintain audit quality and provide comfort on the integrity of financial reporting, the Committee reviews and challenges the proposed external audit plan including the scope and materiality to make sure that PwC have identified all key risks and developed robust audit procedures and communication plans.

The Committee also considers PwC's response to accounting, financial control and audit issues as they arise, and meets with them at least annually without management present, providing the external auditors with the opportunity to raise any matters in confidence.

Auditor appointment
An annual review is conducted by the Committee of the level and constitution of the external audit and non-audit fees and the effectiveness, independence and objectivity of the external auditors.

The annual review includes consideration of:

- audit quality and the external audit process globally;
- the auditors' performance and delivery against the audit plan;
- the expertise of the firm and our relationship with them including the level of challenge; and
- the results of online questionnaires completed by the Chairman, Committee members, Executive Directors and senior representatives from the finance team. The questions focused on: the quality of service; sufficiency of resources; planning and execution of the audit; communication and interaction; and overall satisfaction. No material issues were identified.

Following this year's annual review, the Committee was satisfied with the effectiveness, independence and objectivity of the external auditors, and recommended to the Board their reappointment for a further year. A resolution to reappoint PwC and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2015 AGM.

Audit tender
PwC have been the Company's external auditors since the merger with Lattice Group plc in 2002, having been the incumbent external auditors of both the merging parties and the audit contract has not been put out to tender since then. Their performance has been reviewed annually by the Committee since that time.

The Committee discussed the implications of the Competition and Market Authority Order requiring FTSE 350 companies to hold an audit tender every 10 years as well as the final European Commission (EC) regulations, which came into EU legislation in June 2014. The Committee noted that based on the EC transitional arrangements, the final year in which PwC can be appointed as the Group's auditors is for the year ended 31 March 2020.

At its meeting in May 2015, the Committee considered the timing of a potential tender for the external audit. The Committee considered the continued US financial controls improvement programme and the services we currently receive from other external audit firms that may be considered in a tender process. It concluded that, firstly, in order to ensure an orderly transition and secondly, to ensure compliance with the EC regulations on the provision of prohibited services, an audit tender process will be run later this year for the audit of the year ending 31 March 2018. PwC will not be invited to tender.

No representatives from PwC were present during the Committee's discussion of the options for a tender of the external audit.

There are no contractual obligations restricting our choice of external auditors and we have not entered into any auditor liability agreement.

Corporate Governance continued

Risk management and internal control

The Audit Committee monitors the effectiveness of the risk management and internal control processes during the year through the biannual reports it receives and reports to the Board on the outcome. The review covers all material controls, including financial, operational and compliance controls. Please see page 41 for further details about the review of effectiveness.

In support of our compliance with the New Code, reporting to the Audit Committee on risk management and internal control has been reviewed by the Board and refinements will be adopted for the financial year 2015/16.

Details of our internal control systems, including those relating to the financial reporting process, can be found on pages 38 to 41 and page 173.

Risk management

The Executive Committee discusses the principal risks faced by the Company and updates the corporate risk profile every six months. The approved profile is subsequently shared with the Audit Committee, along with US and UK regional risk profiles, as part of our continuous risk management process.

To continuously improve and remain at best practice levels, the risk management team reviews risk process standards, emerging trends and concepts being driven by the main consultancy firms and seeks to apply these as appropriate. The standards issued by the COSO and the international risk standard ISO 31000 continue to inform the principles of our risk management process.

During the year, we adopted the revised framework issued by the COSO for our internal controls over financial reporting. This introduced specific principles to cover fraud risk assessment and information technology. We also reviewed the procedures for the identification, assessment, mitigation and reporting of risks.

Further details of our risk management systems can be found on pages 38 to 41 and our risk factors are described in full on pages 173 to 176.

Compliance management

Compliance management has been integrated into a new Global Assurance team which incorporates ethics, risk management, licence management and records management with a view to improving visibility and reporting in all areas.

Biannual reports to the Committee focus on compliance with external legal obligations and regulatory commitments. During the year, the Committee requested that additional detail be added to the reports against each of the actual or potential non-compliance items identified to show the person responsible and provide a summary of the actions being taken to resolve the actual or potential non-compliance.

The Committee also received annual reports on the Company's anti-bribery procedures and whistleblowing procedures and reviewed their adequacy. It noted that no material instances of non-compliance had been identified.

Going concern

Our going concern process is an extension of our business planning process, and is further supplemented by our annual budget and other liquidity risk management controls. Our five year business plan and one year budget were reviewed and approved by the Board at its meetings in November 2014 and March 2015 respectively. The Finance Committee provides ongoing oversight of our liquidity policy, which requires us to maintain sufficient liquidity for a rolling 12 month period.

Given our business model, current regulatory clarity and other factors impacting our operating environment, and the robustness of our business planning process and scenario analysis, we have concluded the going concern assessment period is the five years ending 31 March 2019, in line with our business plan. We will reassess this period annually in light of developments in our operating environment, business model and strategic priorities.

Our business plan considers the significant solvency and liquidity risks involved in delivering our business model in light of our strategic priorities. The business plan models a number of upside and downside scenarios, derived from the risks and opportunities identified, and determines the impact these would have on our results and financial position over the five year period. In addition, we have reviewed and challenged a number of worst case scenarios and their possible remediation.

Our business model calls for significant capital investment to maintain and expand our network infrastructure. To deliver this, our business plan highlights that we will need to access capital markets to raise additional funds from time to time. We have a long and successful history in this regard. Our business plan also models various KPIs used by lenders and credit rating agencies in assessing a company's credit worthiness. These models indicate that we should continue to have access to capital markets at commercially acceptable interest rates throughout the five year period. To monitor and control risks around access to capital markets, we have policies and procedures in place to help mitigate, as far as possible, any risk of a change in our credit ratings and other credit metrics.

Having made enquiries and reviewed management's assessment of the going concern assumption, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the period of the going concern assessment. For this reason, the Directors are satisfied that, at the time of approving the financial statements, it is appropriate to continue to adopt the going concern basis in preparing the consolidated and individual financial statements of the Company.

More detail on our financial risks, including liquidity and solvency, is provided in note 30 to the consolidated financial statements. There have been no major changes to the Group's significant liquidity and solvency risks in the year.

Finance Committee

Therese Esperdy
Committee chairman

Role
Sets policy and grants authority for financing decisions, credit exposure, hedging and foreign exchange transactions, guarantees and indemnities subject to the risk appetite approved by the Board. It also approves other treasury, tax, pension funding and insurance strategies and, if appropriate, recommends these to the Board.

Review of the year
My first eight months as chairman have been busy but enjoyable. In July, we said goodbye to Maria Richter who stepped down from the Board. I would like to thank her for her contribution to the Committee and for her guidance and support during the handover period.

As part of my induction to the Board and before taking over as chairman of the Committee, I met employees involved in the work of the Committee from finance, treasury, tax, pensions and insurance in the UK and US. I also had several opportunities to meet the wider UK and US tax, insurance and treasury teams which has furthered my understanding of our treasury operations.

This year, we continued to focus on funding plans to take into account international debt market conditions. The Committee reviewed and agreed a liability management programme which resulted in the repurchase of £0.9 billion of bonds.

The Committee also received regular updates on negotiations in relation to the European Investment Bank (EIB) loan before agreeing the £1.5 billion loan agreement with the EIB in November 2014.

We also considered the financial headroom policy. During the financial crisis, the Committee approved a policy to hold 12 months of liquidity and a minimum sum as cash or liquid assets. The Committee noted that the Group's liquidity was monitored on a regular basis both internally and externally and took into consideration the sources of liquidity. In light of the improved access to liquidity the Committee approved a simplification of the policy.

External advisors have presented to the Committee throughout the year, including a credit rating agency on their methodology and an update from insurance brokers on the global property insurance market, including the current trading environment, market selection, new risks, client trends and the future outlook for insurance.

For the year ahead, we will focus on our funding needs, liquidity management, alternative sources of funding and pensions investment strategy.

Matters considered
Examples of matters the Committee considered during the year include:

- funding requirements and financing for the business plan;
- setting and reviewing treasury policies;
- treasury performance updates provided at each meeting;
- UK and US tax updates;
- US energy procurement activities;
- annual update on the electricity and gas trading activities in the UK;
- credit rating agencies' view on the Company;
- foreign exchange policy;
- interest rate risk management;
- the draft going concern statement for the half and full-year results prior to consideration by the Audit Committee and Board;
- pensions updates, including funding of the Company's pension deficits; and
- insurance renewal strategy.

Committee membership and attendance
Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2015.

Name	Attendance
Therese Esperdy[1] (chairman)	4 of 4
Steve Holliday	4 of 4
Andrew Bonfield	4 of 4
Jonathan Dawson	4 of 4
Ruth Kelly	4 of 4
Maria Richter[2]	2 of 2

1. Chairman from 28 July 2014.
2. Maria Richter stepped down from the Board with effect from 28 July 2014.

The Committee in action
Evaluation of Committee performance
The Committee performance evaluation process this year was an upward facing process undertaken by non-Committee members and regular attendees/presenters. This was in line with the process adopted by the other committees (except the Nominations Committee).

The Committee concluded that it had operated effectively throughout the year and agreed an action plan for 2015/16 to further improve performance.

An update on the evaluation including the draft Committee action plan was reported to the Board in May 2015. Progress against the action plan will be monitored through the year by the Committee and the Board.

Corporate Governance continued

Safety, Environment and Health Committee

Paul Golby
Committee chairman

Role

The Committee reviews the strategies, policies, initiatives, risk exposure, targets and performance of the Company and, where appropriate, of its suppliers and contractors in relation to safety, environment and health. It monitors the resources we use for compliance and driving improvement in these areas and reviews investigations into major incidents.

Review of the year

Following Philip Aiken's departure from the Board at the end of February, I have taken over as chairman of the Committee. I have been a member of the Committee for the last three years and over this time we have seen the Company make significant progress in process safety management and the safety performance of both the UK and US businesses, with the US closing the gap on the UK in terms of employee and contractor LTIs. I hope to see further progress in these areas going forwards.

We welcomed Andrew Bonfield to the Committee at the beginning of the year. Andrew is a member of the Chief Financial Officers Leader Group of the Accounting for Sustainability (A4S) project, which challenges organisations to demonstrate the commercial rationale for incorporating sustainability into decision making and to manage the related risks and opportunities. He also chairs the Company's Engineering Assurance Committee, which now reports on a six monthly basis to the Committee.

We have continued to focus on process safety and establishing a safety management system across both our UK and US businesses. We have spent time looking at the risks relating to our US LNG assets and the measures being introduced to address these (see 'The Committee in action' below).

Following a fatality involving a contractor at our Rhode Island gas distribution business, we spent time with senior local management considering the causes of the incident and how best to ensure that safety procedures are understood and complied with at all times, by both employees and contractors.

In terms of environmental matters, we have continued to monitor our strategy and approach to sustainability. In particular, we have looked at how we are working with governments and bodies such as the US Environmental Protection Agency to influence regulations that directly impact on our business.

We also considered the Health and Wellbeing strategy and the work being done on data management, improved line management training and providing support and guidance to employees to address levels of absenteeism.

Matters considered

Examples of matters the SEH Committee reviewed during the year include:

- ongoing monitoring of safety performance and significant incidents in both the US and the UK;
- lessons learnt and steps taken following a fatality of a member of the public in the UK in April 2014 and a contractor fatality in the US in November 2014;
- in-depth reviews of incidents in both the UK and US gas businesses where failure to follow due process led to high pressure releases placing the employees involved in potential danger;
- compliance with US gas pipeline safety regulations in the light of new regulations and evolving enforcement policies by our regulators;
- review of the role and set up of the Engineering Assurance Committee which was formed last year to promote the application of common, consistent, engineering assurance methodologies across the Company;
- conclusion of a review of the interfaces between our IT systems and safety processes;
- the use of bars in the UK gas distribution business for the break up and removal of gas mains below 6" in diameter, looking at safety issues and available alternatives; and
- climate change strategy, including performance against emissions targets and carbon budgets.

Committee membership and attendance

Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2015.

Name	Attendance
Paul Golby (chairman)[1]	5 of 5
Andrew Bonfield	4 of 5
Nora Mead Brownell	5 of 5
Philip Aiken[2]	5 of 5

1. Chairman from 25 February 2015.
2. Philip Aiken stepped down from the Board with effect from 25 February 2015.

The Committee in action

US LNG assets

As part of its focus on process safety and the management of major hazard assets, the Committee has spent time with the US business looking at the risks surrounding its LNG assets, as a number of these assets are located close to areas that have pockets of relatively dense population.

The Committee considered the possible risk reduction measures for two key sites, Commercial Point in Massachusetts and Providence in Rhode Island, where the risk levels had been established to be highest. Philip Aiken visited both sites and members of the Committee received additional training on LNG process safety risks and the relevant risk assessment methodologies.

Over the following 12 months the Committee, through regular reports, oversaw the implementation of the measures proposed, including the installation of automatic shutdown mechanisms which was completed at these plants in June 2014. The Committee also reviewed the proposed timetable for dike redesign and construction to improve containment of LNG escapes in the event of an incident and recommended completion be brought forward by several months.

Nominations Committee

Sir Peter Gershon
Committee chairman

Role

Responsible for considering the structure, size and composition of the Board and committees, and succession planning. It also identifies and proposes individuals to be Directors and executive management reporting directly to the Chief Executive, and establishes the criteria for any new position.

Review of the year

Succession planning continues to be an important responsibility of this Committee, and is reflected in the time spent on the topic this year. The process of building a strong and effective Board requires a good balance of continuity and refreshment.

As described in my foreword to the Corporate Governance report, during the year we have undertaken a rigorous recruitment process to select Dean Seavers as a successor to Tom King, a key appointment to the Board. Details of our process are included later in this report on page 58.

Balance is an important consideration in recruitment, not only in terms of the number of Executive and Non-executive Directors, but also in terms of the range of expertise and backgrounds. In setting the specification of the role, we reviewed the existing skills, experience and diversity of the Board, including diversity of thinking styles, and identified areas that were essential or highly desirable in potential candidates.

The fit with current membership and how the individuals combine to add value was also taken in to account in the decision making process. Dean brings valuable skills and experience that complement the existing Board members and provides a fresh perspective and challenge to Board discussions.

Last year we set out eight measurable objectives to support our Board diversity policy. We have conducted our annual review of the policy and I am pleased to report that we are on track against the objectives we set.

We currently have 27.3% women on our Board and 24.1% in our senior management population. We have included examples of how the Company supports women throughout our businesses on page 25.

Following the changes in Board membership, the composition of the committees was also reviewed. Paul Golby has become chairman of the SEH Committee and joined the Audit Committee as a member in place of Philip Aiken to maintain continuity between the two committees.

The Committee also considers succession planning over the long-term, for both Executive and Non-executive positions, to ensure that we have the right mix of skills and experience as the Company evolves and so that change can be effectively managed.

Matters considered

Examples of matters the Nominations Committee considered during the year include:

- Director appointments and leavers, see page 58 for details of the Executive Director appointment process;
- Board and committee membership following changes to the composition of the Board;
- the executive succession planning focusing on the identification, development and readiness of successors to the Executive Committee in particular;
- review of Sir Peter's performance as Chairman, led by Mark Williamson, the SID;
- the proposed structure for the UK business;
- feedback on the key issues to be covered by the talent update paper to the Board to provide focus for the discussion; and
- the Committee's performance; see 'The Committee in action' below.

Committee membership and attendance

Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2015.

Name	Attendance
Sir Peter Gershon (chairman)	5 of 5
Nora Mead Brownell	5 of 5
Jonathan Dawson	5 of 5
Therese Esperdy	5 of 5
Paul Golby	5 of 5
Ruth Kelly	5 of 5
Mark Williamson	5 of 5
Philip Aiken[1]	4 of 4
Maria Richter[2]	1 of 1

1. Philip Aiken stepped down from the Board with effect from 25 February 2015.
2. Maria Richter stepped down from the Board with effect from 28 July 2014.

The Committee in action

Evaluation of Committee performance

The Nominations Committee performance evaluation process took a slightly different approach to the evaluations for the Board and other committees. Committee members were asked to provide feedback on how effectively it had dealt with the main topics considered in the last year and its duties and responsibilities; how it had worked together as a unit; and the strengths and weaknesses of the Committee and how these could be addressed by the action plan.

Following consideration of the Committee's performance over the year and the above questions, the Committee concluded that it had operated effectively throughout the year and agreed an action plan for 2015/16, which included refinements to the appointment process of future non-executive and executive directors to make sure that we continuously improve our robust approach, including briefings for Non-executive Directors on their role in the selection and appointment of executive directors.

Additionally, the time spent discussing senior executive succession planning will be reviewed to make sure that Committee input continues to be provided, as appropriate, to support senior appointments.

An update on the evaluation including the draft Committee action plan was reported to the Board in May 2015.

Corporate Governance continued

Appointment process

Executive Director

The recruitment process undertaken for the appointment of Dean Seavers was formal, rigorous and transparent. The Nominations Committee appointed Korn Ferry as the search consultancy, and the following process was undertaken:

- with input from the Committee members, a role and person specification was prepared;
- Korn Ferry conducted initial searches, meeting eight potential candidates and shortlisted three candidates;
- a series of interviews of the shortlisted candidates were conducted by Sir Peter Gershon, Steve Holliday, Andrew Bonfield, Mark Williamson, Nora Mead Brownell and Mike Westcott (the Group Human Resources Director);
- following a review of the combined ratings from all the interviewers, the Nominations Committee selected two candidates for further consideration;
- final interviews with the two candidates were carried out by Steve Holliday, Nick Winser, John Pettigrew, Nora Mead Brownell and members of the Executive Committee;
- following discussion, the Nominations Committee recommended Dean Seavers as its preferred candidate for appointment to the Board, noting that all members had met Dean; and
- the Board approved the appointment as recommended.

In addition to providing external search consultancy services to the Company, Korn Ferry also provided IT consultancy, e-learning services and coaching for senior management.

John Pettigrew was appointed to the Board with effect from 1 April 2014. A description of the process undertaken in relation to his appointment was provided in the 2013/14 Annual Report and Accounts.

Board diversity and the Davies Review

At National Grid, we believe that creating an inclusive and diverse culture supports the attraction and retention of talented people, improves effectiveness, delivers superior performance and enhances the success of the Company.

Our Board diversity policy promotes this and reaffirms our aspiration to meet and exceed the target of 25% of Board positions being held by women by 2015, as set out by Lord Davies.

We currently have 27% women on our Board and 22% women on our Executive Committee. The number of women in senior management positions and throughout the organisation is set out on page 25 along with examples of the initiatives to promote and support inclusion and diversity throughout our Company.

During the year, the Committee reviewed the Board diversity policy and progress made against the objectives which were approved to support the implementation of the policy as set out below:

The Board aspires to exceed the target of 25% of Board positions to be held by women by 2015.
Objective met – we currently have 27% women on our Board.
All Board appointments will be made on merit, in the context of the skills and experience that are needed for the Board to be effective.
Objective met – John Pettigrew and Dean Seavers were appointed on merit.
We will only engage executive search firms who have signed up to the Voluntary Code of Conduct on gender diversity.
Objective met – Korn Ferry are signed up to the code.
Where appropriate, we will assist with the development and support of initiatives that promote gender and other forms of diversity among our Board, executive and other senior management.
Objective met – see page 25 for further details.
Where appropriate, we will continue to adopt best practice in response to the Davies Review.
Ongoing – as appropriate.
We will review our progress against the Board diversity policy annually.
Objective met – ongoing.
We will report on our progress against the policy and our objectives in the Annual Report and Accounts along with details of initiatives to promote gender and other forms of diversity among our Board, Executive Committee and other senior management.
Objective met – ongoing.
We will continue to make key diversity data, both about the Board and our wider employee population, available in the Annual Report and Accounts.
Objective met – ongoing.

Progress against the objectives and the policy will continue to be reviewed annually and reported in the Annual Report and Accounts.

Executive Committee

Led by the Chief Executive, the Executive Committee oversees the safety, operational and financial performance of the Company. It is responsible for making day-to-day management and operational decisions it considers necessary to safeguard the interests of the Company and to further the strategy, business objectives and targets established by the Board.

It approves expenditure and other financial commitments within its authority levels and discusses, formulates and approves proposals to be considered by the Board.

The Committee in action

During the year, the Executive Committee reviewed and discussed a proposed joint venture with the Berkeley Group. The strategic aim was to unlock value in our surplus London property portfolio and transform redundant land to help meet the current housing and commercial needs of London.

The proposal was initially presented to the Committee for consideration. Feedback was provided, with requests for further information and clarification on aspects of the proposal. Committee members then worked closely with management and specialist teams to develop the proposal.

The proposal returned to the Committee for review and was approved for recommendation to the Board. Following presentation and review at its November meeting, the Board gave final approval of the arrangement. The joint venture, called St William Homes, was formally announced in November.

The nine Committee members have a broad range of skills and expertise, which are updated through training and development. Some members also hold external non-executive directorships, giving them valuable board experience.

The Committee officially met 12 times this year, but the members interact much more regularly. Those members of the Committee who are not Directors regularly attend Board and committee meetings for specific agenda items. This means that knowledge is shared and every member is kept up to date with business activities and developments.

1 Steve Holliday, Committee chairman
2 Andrew Bonfield, Finance Director
3 Stephanie Hazell, Group Strategy & Corporate Development Director
4 Alison Kay, Group General Counsel & Company Secretary (see page 179 for her biography)
5 David Lister, Chief Information Officer
6 George Mayhew, Group Corporate Affairs Director
7 John Pettigrew, Executive Director, UK
8 Dean Seavers, Executive Director, US (joined the Committee on 1 April 2015 to replace Tom King)
9 Mike Westcott, Group Human Resources Director

Membership stated as at 1 April 2015.

Management committees

To help make sure we allocate time and expertise in the right way, the Company has a number of management committees, which include the Disclosure Committee, Global Ethics and Compliance Committees and the Global Retirement Plan Committee. These management committees provide reports, where relevant, to the appointing committee in line with our governance framework on the responsibilities they have been delegated.

Disclosure Committee

The role of the Disclosure Committee is to assist the Chief Executive and the Finance Director in fulfilling their responsibility for overseeing the accuracy and timeliness of the disclosures made – whether in connection with our presentations to analysts, financial reporting obligations or other material stock exchange announcements, including the disclosure of price sensitive information.

This year the Committee met to consider the announcements of the full and half year results and the July 2014 Interim Management Statement (IMS) and reported on the matters arising to the Audit Committee. In doing so it spent time considering the Company's disclosure obligations relating to identified weaknesses in internal controls over financial reporting in the US, and whether these should be considered material for the Company as a whole, and the process for the publication of unaudited year-end financial results.

The Committee also considered the Company's disclosure obligations relating to delays in cable manufacturing and the consequential impact on capital expenditure for the West Coast HVDC Link as well as the accounting treatment and disclosure for agreed legal settlements.

Following the removal of the requirement to publish an IMS, the Committee will review the investor newsletters prior to publication to the extent they contain updated technical guidance on the Company's performance or other price-sensitive information.

The Committee also reports the results of its evaluation of the effectiveness of the Company's disclosure controls to the Audit Committee.

The Committee is chaired by the Finance Director and its members are the Group General Counsel & Company Secretary, the Global Tax and Treasury Director, the Group Financial Controller, the Director of Investor Relations, the Head of Corporate Audit and the Deputy Group General Counsel, with other attendees as appropriate.

Index to Directors' Report and other disclosures (starting on page indicated)

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Listing, and Disclosure and Transparency rules, comprising pages 06 to 75 and 164 to 191, was approved by the Board and signed on its behalf by:

Alison Kay
Group General Counsel & Company Secretary
Company number 4031152
20 May 2015

Directors' Remuneration Report

Jonathan Dawson
Committee chairman

Annual statement from the Remuneration Committee chairman

Overview

Last year, over 96% of shareholders voted to approve a new remuneration policy for National Grid. Although the policy is not subject to shareholder vote again this year, we have reprinted it on pages 62 to 68 for ease of reference. The new policy followed an extensive review by the Remuneration Committee to assess how the remuneration framework needed to change to reflect developments in National Grid's business – the introduction of a new eight year regulatory framework in the UK (RIIO), and the continued evolution of our US business.

National Grid's shareholder returns are earned progressively through two main contributing factors. First, through careful management of long-term assets and their financing; and second, by building for future returns through a substantial, continuing and well-executed programme of long-term capital investment in regulated and non-regulated operations. Our aim was to make sure that shareholders' and executives' longer-term interests are clearly aligned through properly focused incentive plans and by requiring executives to have a significant shareholding in the Company. In summary, we concluded that:

- there should be a significant weighting towards longer-term incentives and longer-term shareholding exposure for senior management through a reduction in the potential maximum Annual Performance Plan (APP) level, and an increase in the potential maximum Long Term Performance Plan (LTPP) level;
- the bulk of remuneration should be paid in National Grid shares;
- senior executives should be required to have a significant mandatory shareholding (500% of pre-tax salary for the CEO and 400% for other Executive Directors) and that no shares could be sold (except for meeting the tax on vesting) until the mandatory shareholding level was attained;
- shares that vested under the LTPP, following the three year performance measurement period, had to be retained for a further two years, irrespective of whether the mandatory shareholding level had been attained; and
- the metrics for LTPP performance should change to Return on Equity (RoE) and value growth. RoE provides a measurement of management's performance in generating profit from the business, and value growth captures management's longer-term performance in creating shareholder value.

We were clear that the new arrangements must only deliver higher rewards when executives had achieved a commensurately stronger performance. We believe that we have set threshold, target and stretch levels of performance accordingly. We also wanted to make sure that our commitment to increasing the annual dividend by at least RPI for the foreseeable future – an important element in shareholders' total return – was linked to executive remuneration. The Committee, therefore, made it explicit that it had the power to reduce LTPP vesting if the Company failed to honour the dividend commitment, irrespective of the level of vesting resulting from the performance against the LTPP targets set by the Committee.

The Remuneration Committee believes that the policy endorsed last year by shareholders is fully aligned with the Company's strategy and with the experience of shareholders in general. It also believes that, based on our appraisal of performance against our demanding targets to date, the policy is not inflationary compared with previous arrangements. We will, however, continue to reassess remuneration policy and targets for future awards so that we can remain confident they are still meeting the objectives set by the Committee.

Performance for the year

APP

National Grid has achieved another year of strong financial performance in the UK and solid performance in the US with record investment levels. The financial measures for the APP were adjusted EPS and either Group RoE, UK or US RoE depending on role. At 60.6 pence, the adjusted EPS figure for APP was up 6.3 pence (12%) on 2013/14. The EPS figure used for the APP calculation differs slightly to the reported EPS figure of 58.1 pence as it is adjusted for the impact of timing and actuarial assumptions on pensions and other post-employment benefits (OPEB). Group RoE was 11.8%, ahead of last year's 11.4% result. Our UK RoE was 14.3%, including the benefit of a legal settlement referred to in the report of the Audit Committee on page 52. In the US, our RoE was 8.4%, which was slightly down on last year. As a result, in respect of financial metrics for the APP (representing 70% of the value of the award), we have made awards of between 50% and 100% of the maximum potential to the Executive Directors. The balance of the APP award is represented by performance against personal objectives set by the Remuneration Committee. As a result, we have made APP awards to the Executive Directors of between 64% and 119% of salary. Details of each Executive Director's APP award are set out on page 70. This is the first year of the new policy for maximum APP payments, with the maximum being reduced from 150% of salary (for the 2013/14 awards) to 125%.

LTPP

2014 was the first year in which the maximum potential for the LTPP awarded during the year was increased in line with the new remuneration policy from 225% to 350% of salary for the Chief Executive and 200% to 300% of salary for the other Executive Directors. This is a three year plan and the performance outcomes will only be determined in July 2017. In 2014/15, Group RoE and value growth were both on target in relation to the 2014 LTPP parameters, with UK RoE around stretch, and US RoE below threshold.

The LTPP that vested during 2014/15 was that awarded in 2011. This included three performance measures: adjusted EPS; relative total shareholder return (TSR); and UK and US returns. The EPS measure vested at 31%, reflecting EPS growth just above the threshold target for this measure. The TSR measure vested at 98.3%, which reflects an annualised return to shareholders of 18.9% over the period. The UK and US returns measures are expected to vest at 100% and 25.9% respectively, reflecting strong operational performance in the UK, including the first two years of RIIO, and the impact of rate base growth and higher winter related costs in the US. As a result, the 2011 LTPP vested at between 46% and 66% for the Executive Directors. Details of each Executive Director's vested LTPP are set out on pages 70 and 71.

Future targets

Details of future targets and historical performance are disclosed each year in respect of the LTPP. Details of historical performance against targets are disclosed each year in respect of the APP. We provide these details on pages 70 to 72 and page 74. Taking account of this year's performance, as well as the challenges ahead, after careful consideration the Committee has decided to retain the same weighting of performance metrics and the same targets for the 2015 LTPP as last year and the same framework of metrics for the 2015/16 APP awards. The Committee believes that the targets for these metrics set appropriately demanding levels for executive performance. For the 2015 LTPP, the maximum payout will require an average annual Group RoE of 12.5% and an average annual value growth of 12% over the three year performance period. We will again review performance against metrics next year to judge whether any changes should be made to the weighting of the metrics or to the targets underlying the incentive in future awards.

Executive Director shareholdings

Executive Directors are now required to build up and hold a significant shareholding in the Company (500% of gross salary for the CEO and 400% for the other Executive Directors). Steve Holliday's current shareholding is significantly above his shareholding requirement. The other Executive Directors, due to their relatively short time in the role, have not yet reached their increased level of shareholding requirement. On current projections, Andrew Bonfield and John Pettigrew should reach their required shareholding in 2017 and 2018 respectively. As Dean Seavers was only appointed to the Board on 1 April 2015, he is expected to take somewhat longer to reach his required shareholding.

Executive Director changes

Nick Winser stepped down from the Board at the 2014 AGM and will leave the Company at the end of July 2015 when his role will be redundant. Details of his termination payments are summarised on page 72. In October last year, it was announced that Tom King would also leave the Company at the end of March 2015 and would be succeeded as an Executive Director and President of National Grid's US business by Dean Seavers. Tom King's termination payments are also detailed on page 72. I confirm that all such payments to Nick Winser and to Tom King are in line with approved policy.

Dean Seavers joined the Company on 1 December 2014, and joined the Board on 1 April 2015, with a starting salary of US$1,000,000. He will be eligible for a prorated APP in respect of 2014/15 and also received an award of 300% of salary in respect of the 2014 LTPP. In addition to his starting package, he also received compensation for bonuses from his former employer that have been foregone amounting to US$250,000 paid on joining and a further US$250,000 to be paid one year later. He is a member of the US Defined Contribution Core Plan with Company contributions based on a percentage of salary and his APP award and a 401(k) plan match. All of these arrangements are in line with the approved policy on recruitment remuneration.

Salaries

For the year ahead, the Committee has awarded a salary increase of just below 1% to both Steve Holliday and Andrew Bonfield which is less than the 1.9% annual salary budget agreed for the 2015 managerial salary review in the UK. Dean Seavers will not receive any salary increase from 1 June 2015 which reflects the decision to have a 0% annual salary budget for the 2015 managerial salary review in the US.

John Pettigrew joined the Board on 1 April 2014 with a starting salary of £475,000 and he did not receive any salary increase from 1 June 2014. In line with the policy on recruitment remuneration, his salary was set below the market rate for equivalent roles. In the report last year, the Committee indicated that it would exercise its discretion in line with the policy to increase his salary towards market level by way of future increases in excess of those awarded to the wider workforce and inflation, subject to his performance. The Committee has decided to award him a 7% increase in salary from 1 June 2015 with further above inflation increases planned in the future to bring him closer to the market rate for his role, subject to his ongoing performance.

Conclusion

The Committee considers that the remuneration earned last year by Executive Directors is a fair reflection of the value achieved for shareholders. Their remuneration is, however, in a transitional phase since the APP outturn reflects a lower maximum potential (125% of salary versus 150% previously) while the level of LTPP vesting reflects both the previous policy limits and also the previous bases of measurement. This transitional phase will continue until 2017 when the last element of the 2013 LTPP finally vests and the 2014 LTPP (under the new policy) matures. We will report in detail on each element during this period to give shareholders as clear a view as is possible about the underlying performance of the new policy. This year the Committee is not seeking any changes to remuneration policy, so the only shareholder vote on remuneration is an advisory vote on the Directors' Remuneration Report (Resolution 16). We believe we have correctly and fairly implemented the approved policy during the past year. We also believe that, while it is too early to be definitive, the new incentive arrangements that we initiated last year are beginning to prove their merits. On behalf of the Committee, I commend this report to you and ask for your support for the resolution at the Annual General Meeting.

Directors' remuneration policy – approved by shareholders in 2014

The full Directors' remuneration policy approved for three years from the date of the 2014 AGM held on 28 July 2014 is shown on pages 62 to 68 for ease of reference only. **A shareholder vote on remuneration policy is not required in 2015.** Please note that the information shown has been updated to take account of the fact that the policy is now approved and current rather than proposed. The tables showing the total remuneration opportunity on page 68 have also been updated to take account of Board departures and joiners and June 2015 salary levels. A copy of the remuneration policy is available on the Company website at investors.nationalgrid.com/reports/2013-14 (pages 60 to 66).

There may be circumstances from time to time when the Committee will consider it appropriate to apply some judgement and exercise discretion in respect of the approved policy. This ability to apply discretion is highlighted where relevant in the policy, and the use of discretion will always be in the spirit of the approved policy.

The Committee will honour any commitments made to Directors before the policy outlined in this report came into effect.

Our peer group

The Committee benchmarks its remuneration policy against appropriate peer groups annually to make sure we remain competitive in the relevant markets. The primary focus for reward benchmarking is the FTSE 11-40 for UK-based Executive Directors and general industry and energy services companies with similar levels of revenue for US-based Executive Directors. These peer groups are considered appropriate for a large, complex, international and predominantly regulated business.

Directors' Remuneration Report continued

Approved policy table – Executive Directors

Salary Purpose and link to strategy: to attract, motivate and retain high-calibre individuals, while not overpaying.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Salaries are targeted broadly at mid-market level. They are generally reviewed annually. Salary reviews take into account: • business and individual contribution; • the individual's skills and experience; • scope of the role, including any changes in responsibility; and • market data in the relevant comparator group.	No prescribed maximum annual increase. Any increases are generally aligned to salary increases received by other Company employees and to market movement. Increases in excess of this may be made at the Committee's discretion in circumstances such as a significant change in responsibility; progression in the role; and alignment to market level.	Not applicable.

Benefits Purpose and link to strategy: to provide competitive and cost-effective benefits to attract and retain high-calibre individuals.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Benefits provided include: • company car or a cash alternative (UK only); • use of a driver when required; • private medical insurance; • life assurance; • personal accident insurance; • opportunity to purchase additional benefits under flexible benefits schemes available to all employees; and • opportunity to participate in the following HM Revenue & Customs (UK) or Internal Revenue Service (US) tax advantaged all-employee share plans: Sharesave: UK employees may make monthly contributions from net salary for a period of 3 or 5 years. The savings can be used to purchase shares at a discounted price, set at the launch of each plan period. Share Incentive Plan (SIP): UK employees may use gross salary to purchase shares. These shares are placed in trust. Incentive Thrift Plans (401(k) plans): US employees may participate in these tax-advantaged savings plans. They are DC pension plans in which employees can invest their own and Company contributions. Employee Stock Purchase Plan (ESPP) (423(b) plan): eligible US employees may purchase ADSs on a monthly basis at a discounted price. Other benefits may be offered at the discretion of the Committee.	Benefits have no pre-determined maximum, as the cost of providing these varies from year to year. Participation in tax approved all-employee share plans is subject to limits set by the relevant tax authorities from time to time.	Not applicable.

Pension Purpose and link to strategy: to reward sustained contribution and assist attraction and retention.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Pension for a new Executive Director will reflect whether they are internally promoted or externally appointed. If internally promoted: • retention of existing DB benefits without enhancement, except for capping of pensionable pay increases following promotion to Board; or • retention of existing UK DC benefits or equivalent cash in lieu; or • retention of existing US DC benefits plus 401(k) plan match, provided through 401(k) plan and non-qualified plans. If externally appointed: • UK DC benefits or equivalent cash in lieu; or • US DC benefits plus 401(k) plan match. Andrew Bonfield, John Pettigrew and Dean Seavers are treated in line with the above policy. Steve Holliday and Nick Winser are provided with final salary pension benefits. For service prior to 1 April 2013, pensionable pay is normally the base salary in the 12 months prior to leaving the Company. For service from 1 April 2013 increases to pensionable pay are capped at the lower of 3% or the increase in inflation. The pension scheme rules allow for indexed prior salaries to be used for all members. They participate in the unfunded scheme in respect of benefits in excess of the Lifetime Allowance. Tom King participated in a qualified pension plan and in an Executive Supplemental Retirement Plan. These plans were non-contributory, cash balance and final average pay plans. Tom's benefits included compensation to buy out entitlements from his former employer that were lost on recruitment to National Grid. In line with market practice, pensionable pay for UK-based Executive Directors includes salary only and for US-based Executive Directors it includes salary and APP award.	UK DB: a maximum pension on retirement, at age 60, of two thirds final capped pensionable pay or up to one thirtieth accrual. On death in service, a lump sum of four times pensionable pay and a two thirds dependant's pension is provided. UK DC: annual contributions of 30% of salary. Life assurance provision of four times pensionable salary and a spouse's pension equal to one third of the Director's salary are provided on death in service. US DB: an Executive Supplemental Retirement Plan provides for an unreduced pension benefit at age 62 (at age 55 in Tom King's case). For retirements at age 62 with 35 years of service, the pension benefit would be approximately two thirds of pensionable pay. Upon death in service, the spouse would receive 50% of the pension benefit (100% if the participant died while an active employee after the age of 55). US DC: 9% of base salary plus APP with additional 401(k) plan match of up to 4%.	Not applicable.

Directors' Remuneration Report continued

Annual Performance Plan — Purpose and link to strategy: to incentivise and reward the achievement of annual financial and strategic business targets and the delivery of annual individual objectives.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Performance metrics and targets are agreed at the start of each financial year. Performance metrics are aligned with strategic business priorities. Targets are set with reference to the budget. Awards are paid in June. For APP awards made in 2013/14, 50% of any award was deferred into shares in the Deferred Share Plan (DSP). The DSP has no performance conditions and vests after three years, subject to continued employment. These shares are subject to forfeiture for leavers in certain circumstances. The DSP has been discontinued for APP awards made in respect of years from 2014/15. Instead 50% of awards are paid in shares, which (after any sales to pay tax) must be retained until the shareholding requirement is met, and in any event for two years after receipt. Awards are subject to clawback and malus provisions.	The maximum award is 125% of salary.	A significant majority of the APP is based on performance against corporate financial measures, with the remainder based on performance against individual objectives. Individual objectives are role specific. The Committee may use its discretion to set measures that it considers appropriate in each financial year and reduce the amount payable, taking account of significant safety or customer service standard incidents, environmental and governance issues. The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100% respectively.

Long Term Performance Plan — Purpose and link to strategy: to drive long-term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Awards of shares may be granted each year, with vesting subject to long-term performance conditions. The performance metrics have been chosen as the Committee believes they reflect the creation of long-term value within the business. Targets are set each year with reference to the business plan. Awards are subject to clawback and malus provisions. Notwithstanding the level of award achieved against the performance conditions, the Committee may use its discretion to reduce the amount vesting, and in particular will take account of compliance with the dividend policy.	The maximum award for the CEO is 350% of salary and it is 300% of salary for the other Executive Directors. For awards made between 2011 and 2013, the maximum award for the CEO was 225% of salary and 200% for the other Executive Directors.	For awards between 2011 and 2013 the performance measures and weightings were: • adjusted EPS (50%) measured over three years; • TSR relative to the FTSE 100 (25%) measured over three years; and • UK or US RoE relative to allowed regulatory returns (25%) measured over four years. From 2014, the performance measures are: • value growth and Group RoE (for the CEO and Finance Director); and • value growth, Group RoE and UK or US RoE (for the UK and US Executive Directors respectively).

LTPP table continued opposite

Long Term Performance Plan continued — Purpose and link to strategy: to drive long-term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
For awards granted from 2014, participants must retain vested shares (after any sales to pay tax) until the shareholding requirement is met, and in any event for a further two years after vesting.		All are measured over a three year period. The weightings of these measures may vary year to year, but would always remain such that the value growth metric would never fall below a 25% weighting and never rise above a 75% weighting. Between 2011 and 2013, 25% of the award vested at threshold and 100% at stretch, with straight-line vesting in between. From 2014, only 20% vests at threshold.

Approved policy table – Non-executive Directors (NEDs)

Fees for NEDs — Purpose and link to strategy: to attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
NED fees (excluding those of the Chairman) are set by the Executive Committee in conjunction with the Chairman; the Chairman's fees are set by the Committee. Fee structure: • Chairman fee; • basic fee, which differs for UK- and US-based NEDs; • committee membership fee; • committee chair fee; and • Senior Independent Director fee. Fees are reviewed every year and are benchmarked against those in companies of similar scale and complexity. NEDs do not participate in incentive or pension plans and, with the exception of the Chairman, are not eligible to receive benefits. The Chairman is covered by the Company's private medical and personal accident insurance plans and receives a fully expensed car or cash alternative to a car, with the use of a driver, when required. There is no provision for termination payments.	There are no maximum fee levels. The benefits provided to the Chairman are not subject to a predetermined maximum cost, as the cost of providing these varies from year to year.	Not applicable.

Directors' Remuneration Report continued

Shareholding requirement
The requirement of Executive Directors to build up and hold a relatively high value of National Grid shares ensures they share a significant level of risk with shareholders and their interests are aligned.

From 2014/15, Executive Directors are required to build up and retain shares in the Company. The level of holding required is 500% of salary for the CEO and 400% of salary for the other Executive Directors.

Unless the shareholding requirement is met, Executive Directors will not be permitted to sell shares, other than to pay tax or in exceptional circumstances.

Differences in remuneration policy for all employees
The remuneration policy for the Executive Directors is designed with regard to the policy for employees across the Company as a whole. However, there are some differences in the structure of remuneration policy for the senior executives. In general, these differences arise from the development of remuneration arrangements that are market competitive for our various employee categories. They also reflect the fact that, in the case of the Executive Directors, a greater emphasis tends to be placed on performance-related pay in the market, in particular long-term performance-related pay.

All employees are entitled to base salary, benefits and pension. Many employees are eligible for an APP award based on Company and/or individual performance. Eligibility and the maximum opportunity available is based on market practice for the employee's job band. In addition, around 350 senior management employees are eligible to participate in the LTPP.

The Company has a number of all-employee share plans that provide employees with the opportunity to become, and to think like, a shareholder. These plans include Sharesave and the SIP in the UK and the 401(k) and 423(b) plans in the US. Further information is provided on page 62.

Consideration of remuneration policy elsewhere in the Company
In setting the remuneration policy, the Committee considers the remuneration packages offered to employees across the Company. As a point of principle, salaries, benefits, pensions and other elements of remuneration are benchmarked regularly to ensure they remain competitive in the markets in which we operate. In undertaking such benchmarking, our aim is to be at mid-market level for all job bands, including those subject to union negotiation.

As would be expected, we have differences in pay and benefits across the business which reflect individual responsibility and there are elements of remuneration policy which apply to all, for example, flexible benefits and share plans.

When considering annual salary increases, the Committee reviews the proposals for salary increases for the employee population generally, as it does for any other changes to remuneration policy being considered. This will include a report on the status of negotiations with any trade union represented employees.

The Company includes in its annual employee opinion survey questions on the appropriateness of the pay arrangements within the Company. It does not specifically invite employees to comment on the Directors' remuneration policy but any comments made by employees are noted.

Policy on recruitment remuneration
Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment, and in particular will take account of the appointee's skills and experience as well as the scope and market rate for the role.

Where appropriate, salaries may be set below market level initially, with the Committee retaining discretion to award increases in salary in excess of those of the wider workforce and inflation to bring salary to a market level over time, where this is justified by individual and Company performance.

Benefits consistent with those offered to other Executive Directors under the approved remuneration policy in force at the time of appointment will be offered, taking account of local market practice. The Committee may also agree that the Company will meet certain costs associated with the recruitment, for example legal fees, and the Committee may agree to meet certain relocation expenses or provide tax equalisation as appropriate.

Pensions for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment.

Ongoing incentive pay (APP and LTPP) for new Executive Directors will be in accordance with the approved remuneration policy in force at the time of appointment. This means the maximum APP award in any year would be 125% of salary and the maximum LTPP award would be 300% of salary (350% of salary for a new CEO).

For an externally appointed Executive Director, the Company may offer additional cash or share-based payments that it considers necessary to buy out current entitlements from the former employer that will be lost on recruitment to National Grid. Any such arrangements would reflect the delivery mechanisms, time horizons and levels of conditionality of the remuneration lost.

In order to facilitate buy-out arrangements as described above, existing incentive arrangements will be used to the extent possible, although awards may also be granted outside of these shareholder-approved schemes if necessary and as permitted under the Listing Rules.

For an internally appointed Executive Director, any outstanding variable pay element awarded in respect of the prior role will continue on its original terms.

Fees for a new Chairman or Non-executive Director will be set in line with the approved policy in force at the time of appointment.

Service contracts and policy on payment for loss of office

In line with our policy, all Executive Directors have service contracts which are terminable by either party with 12 months' notice.

The contracts contain provisions for payment in lieu of notice, at the sole and absolute discretion of the Company. Such payments are limited to payment of salary only for the remainder of the notice period. In the UK such payments would be phased on a monthly basis, over a period no greater than 12 months, and the Executive Director would be expected to mitigate any losses where employment is taken up during the notice period. In the US, for tax purposes the policy is to make any payment in lieu of notice as soon as reasonably practicable, and in any event within two and a half months of the later of 31 December and 31 March immediately following the notice date.

In the event of a UK Director being made redundant, statutory compensation would apply and the relevant pension plan rules may result in the early payment of an unreduced pension.

On termination of employment, no APP award would generally be payable and any DSP awards would generally lapse. However, the Committee has the discretion to deem an individual to be a 'good leaver', in which case an APP award would be payable on the termination date, based on performance during the financial year up to termination, and DSP awards would vest on the termination date. Examples of circumstances in which a Director would be treated as a 'good leaver' include redundancy, retirement, illness, injury, disability and death. Any APP award would be prorated and would be subject to performance achieved against the objectives for that year.

On termination of employment, outstanding awards under the share plans will be treated in accordance with the relevant plan rules approved by shareholders. Share awards would normally lapse. 'Good leaver' provisions apply at the Committee's discretion and in specified circumstances, including redundancy, retirement, illness, injury, disability and death, where awards will be released to the departing Executive Director or, in the case of death, to their estate. Long-term share plan awards held by 'good leavers' may vest subject to performance measured at the normal vesting date and are prorated. Such awards would vest at the same time as for other participants.

The Chairman's appointment is subject to six months' notice by either party; for the other Non-executive Directors, notice is one month. No compensation is payable to Non-executive Directors if required to stand down.

Copies of Directors' service contracts and letters of appointment are available to view at the Company's registered office.

Dates of Directors' service contracts/letters of appointment

	Date of service contract/appointment
Executive Directors	
Andrew Bonfield	1 November 2010
Steve Holliday	1 April 2006
John Pettigrew	1 April 2014
Dean Seavers	1 December 2014 (appointed as Executive Director 1 April 2015)
Non-executive Directors	
Nora Mead Brownell	1 June 2012
Jonathan Dawson	4 March 2013
Therese Esperdy	18 March 2014
Sir Peter Gershon	1 August 2011
Paul Golby	1 February 2012
Ruth Kelly	1 October 2011
Mark Williamson	3 September 2012

Please note that the information shown above is different to that contained in the approved policy as it has been updated to take account of Board departures and joiners during the year.

External appointments

The Executive Directors may, with the approval of the Board, accept one external appointment as a non-executive director of another company and retain any fees received for the appointment. Experience as a board member of another company is considered to be beneficial personal development, that in turn is of value to the Company.

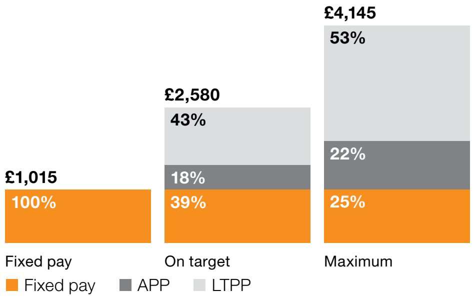
Directors' Remuneration Report continued

Total remuneration opportunity

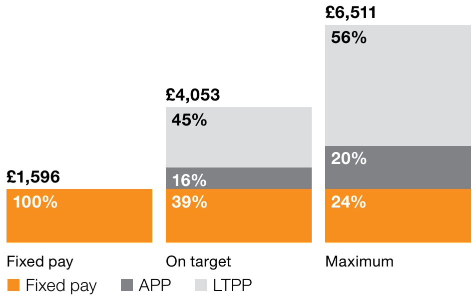
The total remuneration for each of the Executive Directors that could result from the remuneration policy in 2015 under three different performance levels – below threshold (when only fixed pay is receivable), on target and maximum – is shown below.

Note that the information shown below is different to that contained in the approved policy as it has been updated to take account of Board departures and joiners during the year, and also to reflect the impact of the policy on 2015 remuneration, rather than 2014.

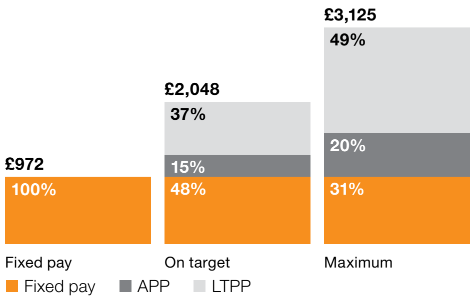
Andrew Bonfield £'000



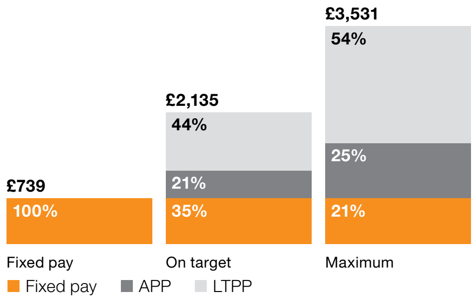
Steve Holliday £'000



John Pettigrew £'000



Dean Seavers £'000



1. 'Fixed pay' for Andrew Bonfield, Steve Holliday and John Pettigrew consists of salary, pension and benefits in kind as provided under the remuneration policy. 'Fixed pay' for Dean Seavers consists of salary, the part of his pension that is aligned with salary (see footnote 4 below) and benefits in kind as provided under the remuneration policy.
2. Salary is that to be paid in 2015/16, taking account of the increases that will be effective from 1 June 2015 shown on page 74.
3. Benefits in kind are as shown in the single total figure of remuneration table for 2014/15 on page 69, except for Dean Seavers for whom benefits in kind are assumed to be $37,000.
4. Pension is as shown in the single total figure of remuneration table for 2014/15 on page 69, except for Andrew Bonfield for whom pension is shown as 30% of salary and Dean Seavers, for whom pension is shown as 13% of salary plus 13% of APP. This is made up of a 9% Core Plan contribution and a 4% Company match to his 401(k) plan. The element of Dean's pension that is aligned with salary is shown within 'Fixed pay' and the element of his pension that is aligned with APP is shown within 'APP'.
5. APP calculations are based on 125% of salary for the period 1 April 2015 to 31 March 2016. For Dean Seavers, APP also includes the part of his pension that is aligned with APP (see footnote 4 above).
6. LTPP calculations are based on awards with a face value at grant of 350% of 1 June 2015 salary for Steve Holliday and 300% of 1 June 2015 salary for all other Executive Directors. They, therefore, exclude future share price movement.
7. LTPP and APP payout is 50% for on target performance and the maximum is 100% for achieving stretch performance.
8. Dean Seaver's remuneration opportunity has been converted at $1.58:£1.

Statement of consideration of shareholder views

The Committee considers all feedback received from shareholders throughout the year. While the Committee understands that not all shareholders' views will be the same, we consult with our larger shareholders on a regular basis to understand their expectations with regard to executive remuneration issues and any changes in shareholder views in this regard. In 2013/14, we consulted larger shareholders on the proposed changes to remuneration policy. Shareholders were supportive of the direction of change proposed, particularly increasing holding periods for awards and retention thresholds. Several responses suggested a number of small changes and where possible the Committee reflected these changes in the proposals that were approved at the 2014 AGM.

Annual report on remuneration
Statement of implementation of remuneration policy in 2014/15

Role of Remuneration Committee

The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and the other members of the Executive Committee and for setting the remuneration policy for the Chairman. The aim is to align remuneration policy to Company strategy and key business objectives and ensure it reflects our shareholders', customers' and regulators' interests.

Members of the Committee

All members of the Committee are independent. Committee membership during the year and attendance at meetings is set out below:

Member	Attendance
Jonathan Dawson	6 of 6
Nora Mead Brownell	6 of 6
Paul Golby	6 of 6
Mark Williamson	6 of 6

The Committee's activities during the year

Meeting	Main areas of discussion
April	Benchmarking data review for Executive Directors and Executive Committee members Framework for the 2014/15 APP and 2014 LTPP Executive Directors' shareholdings 2014 Directors' Remuneration Report Terms of reference and code of conduct for advisors to the Committee
May	Annual salary review and LTPP proposals for Executive Directors and Executive Committee 2013/14 APP financial outturns and individual performance and confirmation of awards APP targets for 2014/15 financial year
September	Remuneration package for new US Executive Director (Dean Seavers) and exit arrangements for incumbent (Tom King)
November	Update on corporate governance and disclosure issues and review of AGM outcome Review of 2014 LTPP and 2014/15 APP metrics
February	Benchmarking data review for Executive Directors and Executive Committee remuneration Framework for the 2015 LTPP 2015 Directors' Remuneration Report Committee evaluation
March	Metrics and targets for APP framework for 2015/16 Review of objectives for CEO and direct reports for APP 2015/16

Single total figure of remuneration – Executive Directors (audited information)

The following table shows a single total figure in respect of qualifying service for 2014/15, together with comparative figures for 2013/14:

	Salary £'000		Benefits in kind £'000		APP £'000		LTPP/PSP £'000		Pension £'000		Total £'000	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
Andrew Bonfield	**727**	712	**58**	55	**854**	790	**1,300**	1,418	**218**	214	**3,157**	3,189
Steve Holliday	**1,021**	1,000	**40**	35	**1,210**	1,169	**2,051**	2,179	**523**	418	**4,845**	4,801
Tom King	**748**	715	**35**	23	**484**	595	**1,051**	1,732	**589**	1,111	**2,907**	4,176
John Pettigrew	**475**	–	**18**	–	**527**	–	**408**	–	**451**	–	**1,879**	–
Nick Winser	**182**	546	**5**	12	**205**	704	**693**	1,177	**85**	212	**1,170**	2,651
Total	**3,153**	2,973	**156**	125	**3,280**	3,258	**5,503**	6,506	**1,866**	1,955	**13,958**	14,817

1. Base salaries were last increased on 1 June 2014. At this time Andrew Bonfield, Steve Holliday and Tom King all received salary increases of 2.5%, in line with the salary increase given to other employees of the Company. John Pettigrew joined the Board on 1 April 2014 and was not given a salary increase at 1 June 2014. Nick Winser was not given a salary increase at 1 June 2014, as he was stepping down from the Board at the 2014 AGM. Tom King's annual salary was converted at $1.58:£1 in 2014/15 and $1.62:£1 in 2013/14.
2. Benefits in kind include private medical insurance, life assurance, either a fully expensed car or a cash alternative to a car and the use of a driver when required. For Andrew Bonfield, Steve Holliday and John Pettigrew, it also includes the benefits of Sharesave options granted during the year. For Andrew Bonfield, a cash allowance in lieu of pension contributions is included within pension rather than benefits in kind.
3. The APP value for 2013/14 is the full award before the 50% mandatory deferral into the DSP.
4. A portion of the 2011 LTPP award vested in July 2014, with the remainder due to vest in July 2015. The above value is based on the share price (855 pence) on the vesting date (1 July 2014) for that portion that vested on 1 July 2014, and the average share price over the three months from 1 January 2015 to 31 March 2015 (899 pence) for that portion due to vest on 1 July 2015. In the prior year the 2010 PSP award vested and entered a retention period which ended in June 2014. The above valuation is based on the share price (744 pence) on the vesting date (1 July 2013).
5. The pension figure for Tom King is based on his accrued benefit at date of leaving. Tom is required to take his benefit from age 55 (2016) and, under the provisions of the plan, his pension will be reduced for early payment.
6. John Pettigrew was appointed to the Board on 1 April 2014, and hence his single total figure of remuneration for 2013/14 was £nil.
7. Nick Winser stood down from the Board on 28 July 2014. His salary, benefits in kind and APP for 2014/15 shown above are prorated to reflect qualifying service between 1 April and 28 July 2014 during which time Nick was a member of the Board. The 2011 LTPP for 2014/15 shown above is not prorated, as this relates to the three-year period ended 30 June 2014, prior to Nick standing down from the Board. The 2011 LTPP only includes the EPS and TSR portion that vested during the year. The RoE portion is not included as Nick was not a Director at the end of the year. The RoE portion will be disclosed in the 2015/16 Remuneration Report under payments to past Directors. The pension for 2014/15 shown above represents pension earned by Nick over the full year to 31 March 2015, as required by BIS disclosure regulations.

Directors' Remuneration Report continued

Performance against targets for APP 2014/15 (audited information)

APP awards are earned by reference to the financial year and paid in June. The APP awards earned in 2014/15 were:

				Proportion of salary									
			Proportion of max	Andrew Bonfield		Steve Holliday		Tom King		John Pettigrew		Nick Winser	
Financial measures	**Target**	**Actual**	**achieved**	**Max**	**Actual**	**Max**	**Actual**	**Max**	**Actual**	**Max**	**Actual**	**Max**	**Actual**
Adjusted EPS (p/share)	54.7	60.6	100%	43.75%	43.75%	43.75%	43.75%	43.75%	43.75%	43.75%	43.75%	43.75%	43.75%
Group RoE (%)	11.2	11.8	100%	43.75%	43.75%	43.75%	43.75%	–	–	–	–	–	–
UK RoE (%)	13.7	14.3	83.33%	–	–	–	–	–	–	43.75%	36.46%	43.75%	36.46%
US RoE (%)	9.0	8.4	0%	–	–	–	–	43.75%	0%	–	–	–	–
Individual objectives		See below		37.5%	30%	37.5%	31%	37.5%	21%	37.5%	30.8%	37.5%	32.5%
Totals				125%	117.5%	125%	118.5%	125%	64.75%	125%	111.04%	125%	112.71%
APP awarded					**£854,029**		**£1,209,687**		**£484,464**		**£527,440**		**£205,132**

1. In relation to the financial measures, threshold, target and stretch performance pays out at 0%, 50% and 100% respectively and on a straight-line basis in between threshold and target performance and target and stretch performance.
2. Adjusted EPS is amended for the impact of timing and actuarial assumptions on pensions and OPEBs.
3. The UK RoE comprises the reported 13.7% plus a discretionary adjustment of 60bps to include the benefit of a one-off legal settlement.
4. Nick Winser's APP award for 2014/15 is prorated to reflect the period between 1 April and 28 July 2014 when he was a member of the Board.

Individual objectives

The individual performance objectives of the Executive Directors and Executive Committee for 2014/15 were set by reference to the Company's overall strategic priorities for the year including building on our strong safety performance; the drive for business growth in the UK and US; delivery of operational excellence and improvement in overall Company performance and service to customers; promotion of new ideas to work more efficiently and effectively; strengthening the talent pipeline and keeping all our people fully engaged; working with external stakeholders to shape energy policy and embed sustainability into our decision making to preserve natural resources and focus on environmental issues. Measureable levels of threshold, target and stretch performance are agreed, paying out at 0%, 50% and 100% respectively. The following table indicates the primary area of focus of the individual performance objectives of the Executive Directors for 2014/15, together with their overall performance against these objectives:

	Andrew Bonfield	Steve Holliday	Tom King	John Pettigrew	Nick Winser
Safety		●	●	●	●
Business growth		●	●	●	●
Capability development	●	●	●	●	●
Stakeholder relations	●		●	●	●
Employee engagement	●	●	●	●	●
Financial strategy	●				
Operational excellence	●	●	●	●	●
Customer experience			●	●	
Group strategy		●			
Proportion of maximum achieved:	**80%**	**82.7%**	**56%**	**82.2%**	**86.6%**

1. The scoring for Nick Winser is for the period between 1 April and 28 July 2014 when he was a member of the Board.

2014/15 LTPP performance (audited information)

The LTPP value included in the 2014/15 single total figure relates to vesting of the conditional LTPP award granted in 2011. Part of the award – that dependent on performance over the three years ending 31 March 2014 for the EPS measure (50% weighting) and over the three years ending 30 June 2014 for the TSR measure (25% weighting) – vested on 1 July 2014. The remaining 25% weighting of the 2011 LTPP relates to the RoE measure. This is made up of the UK RoE measure for the UK Executive Directors, the US RoE measure for the US Executive Director and both the UK RoE measure and the US RoE measure in equal weightings for the CEO and Group Finance Director. The UK RoE measure is measured over the four years ending 31 March 2015 and the US RoE measure is measured over the four years ending 31 December 2014. However, the award does not vest until four years after the grant date, i.e. until 1 July 2015. The performance achieved against the performance targets, including the expected vesting percentage for the RoE measures, was:

Performance measure	**Threshold – 25% vesting**	**Maximum – 100% vesting**	**Actual/expected vesting**	**Actual/expected proportion of maximum achieved**
TSR ranking (25% weighting)	Ranked at median of the comparator group (FTSE 100)	7.5 percentage points or more above median	7.33 percentage points above median	98.3%
Adjusted EPS (50% weighting)	EPS growth exceeds RPI increase by 3 percentage points	EPS growth exceeds RPI increase by 8 percentage points or more	Exceeded RPI increase by 3.4 percentage points	31.0%
UK RoE (12.5% weighting for the CEO and Group Finance Director; 25% weighting for the UK Executive Director)	RoE is equal to the average allowed regulatory return	RoE is 2 percentage points or more above the average allowed regulatory return	Exceeded average allowed regulatory return by 3.1 percentage points	100%
US RoE (12.5% weighting for the CEO and Group Finance Director; 25% weighting for the US Executive Director)	RoE is 1 percentage point below the average allowed regulatory return	RoE is 1 percentage point or more above the average allowed regulatory return	0.98 percentage points below the average allowed regulatory return	25.9%

The amounts vesting under the 2011 LTPP during the year and included in the 2014/15 single total figure are as follows:

	Original number of share awards in 2011 LTPP	Overall vesting percentage (including expected vesting percentage for RoE measure)	Number of awards vesting (including expected vesting for RoE measure)	Dividend equivalent shares	Total value of awards vesting (including expected vesting for RoE measure) and dividend equivalent shares (£'000)
Andrew Bonfield	229,463	55.81%	128,063	21,722	1,300
Steve Holliday	362,148	55.81%	202,115	34,284	2,051
Tom King	45,537 (ADSs)	46.55%	21,196 (ADSs)	2,881 (ADSs)	1,051
John Pettigrew	61,212	65.07%	39,832	6,951	408
Nick Winser	174,986	53.43%	70,121	10,949	693

1. The above valuation is based on the share price (855 pence:$68.47) on the vesting date (1 July 2014) for the EPS and TSR elements of the award, and the average share price over the three months from 1 January 2015 to 31 March 2015 (899 pence:$70.33) for the RoE element of the award. The valuation for Tom King is converted at $1.58:£1.
2. Tom King's awards are over ADSs and each ADS represents five ordinary shares.
3. For Nick Winser, the valuation excludes the RoE element of the award.

Total pension benefits (audited information)

The table below provides details of the Executive Directors' pension benefits:

	Total contributions to DC-type pension plan £'000	Cash in lieu of contributions to DC-type pension plan £'000	Accrued DB-type pension at 31 March 2015 £'000 pa	Increase in accrued DB-type pension over year £'000 pa	Reduction in salary due to FPS £'000	Increase/ (decrease) in any lump sum £'000	Value of pension benefit calculated using BIS methodology £'000	Normal retirement date
Andrew Bonfield	–	218	–	–	–	–	218	17/08/2027
Steve Holliday	–	–	546	29	61	1	523	26/10/2016
Tom King	8	–	581	29	–	–	589	01/01/2027
John Pettigrew	–	–	143	21	28	63	451	26/10/2031
Nick Winser	–	–	297	6	27	(6)	85	06/09/2020

1. The UK-based Executive Directors participate in FPS, a salary sacrifice arrangement. Under FPS, the individual's salary is reduced by an amount equal to the employee pension contribution that would have been paid into the scheme. An equivalent contribution is paid into the scheme by the employer.
2. For Steve Holliday, in addition to the accrued DB-type pension at 31 March 2015 above, there is an accrued lump sum entitlement of £127,000 as at 31 March 2015. The increase to the accumulated lump sum, net of inflation, was £1,000 in the year to 31 March 2015.
3. For Nick Winser, in addition to the accrued DB-type pension at 31 March 2015 above, there is an accrued lump sum entitlement of £316,000 as at 31 March 2015. The accumulated lump sum reduced by £6,000 in the year to 31 March 2015, after allowing for inflation.
4. For John Pettigrew, in addition to the accrued DB-type pension at 31 March 2015 above, there is an accrued lump sum entitlement of £428,000 as at 31 March 2015. The increase to the accumulated lump sum net of inflation was £63,000 in the year to 31 March 2015.
5. For Tom King, the exchange rate as at 31 March 2015 was $1.49:£1 and as at 31 March 2014 was $1.67:£1. Through Tom King's participation in the 401(k) plan in the US (a DC arrangement) the Company made contributions worth £8,076.
6. For Steve Holliday, John Pettigrew and Nick Winser, the increase in accrued DB-type pension over the year shown above is net of inflation, as UK pensions in payment or deferment increase in line with inflation. For Tom King, the increase in accrued DB-type pension over the year shown above does not allow for inflation, as US pensions in payment or deferment do not increase in line with inflation.
7. In accordance with BIS methodology, the pension benefit for Andrew Bonfield is calculated as the aggregate of contributions made to a DC-type pension plan (£nil) and cash in lieu of contributions to a DC-type pension plan (£218,000). In accordance with BIS disclosure regulations, the pension benefit for Steve Holliday, Tom King, John Pettigrew and Nick Winser is calculated as the increase in accrued DB-type pension over the year shown above multiplied by 20 plus the increase or less the decrease in the lump sum shown above, less the reduction in salary due to FPS plus total contributions made to DC-type pension plans. Each element is calculated separately and rounded to produce the numbers in the table above.
8. There are no additional benefits in the event of early retirement.

Single total figure of remuneration – Non-executive Directors (audited information)

The following table shows a single total figure in respect of qualifying service for 2014/15, together with comparative figures for 2013/14:

	Fees £'000		Other emoluments £'000		Total £'000	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
Philip Aiken	**84**	88	**–**	–	**84**	88
Nora Mead Brownell	**91**	88	**–**	–	**91**	88
Jonathan Dawson	**96**	84	**–**	–	**96**	84
Therese Esperdy	**91**	3	**–**	–	**91**	3
Sir Peter Gershon	**488**	475	**16**	17	**504**	492
Paul Golby	**81**	76	**–**	–	**81**	76
Ruth Kelly	**79**	76	**–**	–	**79**	76
Maria Richter	**33**	101	**–**	–	**33**	101
Mark Williamson	**118**	99	**–**	–	**118**	99
Total	**1,161**	1,090	**16**	17	**1,177**	1,107

1. Sir Peter Gershon's other emoluments comprise private medical insurance, cash in lieu of a car and the use of a driver when required.

LTPP (conditional award) granted during the financial year (audited information)

LTPP	Basis of award	Face value '000	Proportion vesting at threshold performance	Number of shares	Performance period end date
Andrew Bonfield	300% of salary	£2,189	20%	248,470	June 2017
Steve Holliday	350% of salary	£3,588	20%	407,138	June 2017
Tom King	300% of salary	$3,561	20%	47,668 (ADSs)	June 2017
John Pettigrew	300% of salary	£1,425	20%	161,720	June 2017
Nick Winser	0% of salary	£nil	n/a	n/a	n/a

1. The face value of the awards is calculated using the share price at the date of grant (29 July 2014) (£8.8115 per share and $74.7032 per ADS).

Directors' Remuneration Report continued

Performance conditions for LTPP awards granted during the financial year (audited information)

	Weighting				Conditional share awards granted – 2014	
Performance measure	Andrew Bonfield	Steve Holliday	Tom King	John Pettigrew	Threshold – 20% vesting	Maximum – 100% vesting
Group RoE	50%	50%	25%	25%	11.0%	12.5% or more
UK RoE				25%	1 percentage point above the average allowed regulatory return	3.5 percentage points or more above the average allowed regulatory return
US RoE			25%		90% of the average allowed regulatory return	105% or more of the average allowed regulatory return
Value growth	50%	50%	50%	50%	10.0%	12.0% or more

DSP (conditional award) granted during the financial year (audited information)

The 2014 award (granted 17 June 2014) is the final DSP award that will be made and relates to the 2013/14 award made under the previous remuneration policy.

DSP	Basis of award	Face value '000	Number of shares	Release date
Andrew Bonfield	50% of APP value	£395	47,048	17 June 2017
Steve Holliday	50% of APP value	£585	69,653	17 June 2017
Tom King	50% of APP value	$482	6,566 (ADSs)	17 June 2017
John Pettigrew	33% of APP value	£120	14,350	17 June 2017
Nick Winser	50% of APP value	£352	41,924	17 June 2017

1. The face value of the awards is calculated using the share price at the date of grant (17 June 2014) (£8.3922 per share and $73.4150 per ADS).
2. The award made in 2014/15 is 50% of the 2013/14 APP value except for John Pettigrew.
3. The award made in 2014/15 for John Pettigrew is 33% of the 2013/14 APP value to reflect his terms before his appointment to the Board on 1 April 2014.

Conditions for DSP awards granted during the financial year

DSP awards are subject only to continuous employment.

Payments for loss of office (audited information)

Payments made to Directors for loss of office during 2014/15 were as follows:

	Description	Amount
Tom King	Payment in lieu of notice.	$692,388 paid in April 2015.
	Remuneration Committee exercised its discretion to award 'good leaver' status for outstanding 2011, 2012, 2013 and 2014 LTPP awards and DSP awards. Date of leaving: 31 March 2015.	86,043 awards remain outstanding, having been prorated for time served during the performance period (LTPP awards: 2011: 11,385; 2012: 40,200; 2013: 22,542; 2014: 11,916). Awards remain subject to performance conditions, measured at normal performance measurement date. DSP awards vest on the termination date (DSP awards: 2012: 11,332 (ADSs); 2013: 7,119 (ADSs); 2014: 6,566 (ADSs)).
Nick Winser	Statutory redundancy payment.	£11,925 payable in August 2015.
	Remuneration Committee exercised its discretion to award 'good leaver' status for outstanding 2011, 2012 and 2013 LTPP awards and DSP awards.	295,047 awards remain outstanding, having been prorated for time served during performance period (LTPP awards: 2011: 43,746; 2012: 154,049; 2013: 97,252). Awards remain subject to performance conditions, measured at normal performance measurement date. DSP awards vest on the termination date (DSP awards: 2012: 39,682; 2013: 33,741; 2014: 41,924).
	Immediate payment of accrued pension benefits from date of leaving.	£715,000 lump sum payable in August 2015.
	In accordance with the scheme rules, and as for all scheme members, there is no enhancement to or reduction of the accrued benefits for redundancy leavers.	£24,000 residual pension payable monthly from 1 August 2015 increasing annually with inflation.
	Option to exchange pension for lump sum payable at date of leaving. Stepped down from the Board at 2014 AGM on 28 July 2014. Date of leaving: 31 July 2015.	The lump sum and residual pension figures are subject to final member option confirmation and may vary depending on the changes in inflation at date of leaving.

Payments to past Directors (audited information)

There were no payments made to past Directors during 2014/15.

Shareholder dilution

Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive share-based incentives will not exceed 5% in any 10 year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any 10 year period. The Committee reviews dilution against these limits regularly and under these limits the Company, as at 31 March 2015, had headroom of 4.12% and 7.95% respectively.

Statement of Directors' shareholdings and share interests (audited information)

The Executive Directors are required to build up and hold a shareholding from vested share plan awards. Deferred share plan awards are not taken into account for these purposes until the end of the deferral period. Shares are valued for these purposes at the 31 March 2015 price, which was 865 pence per share ($64.61 per ADS) except for Nick Winser whose shares are valued at the 28 July 2014 share price of 879 pence per share.

The following table shows how each Executive Director complies with the shareholding requirement and also the number of shares owned by the Non-executive Directors, including connected persons. For Philip Aiken, Maria Richter and Nick Winser, the shareholding is as at the date they stepped down from the Board. For all others it is as at 31 March 2015.

Directors	Share ownership requirements (multiple of salary)	Number of shares owned outright (including connected persons)	Number of shares held as a multiple of current salary	Number of options granted under the Sharesave Plan	Conditional share awards subject to performance conditions (LTPP 2011, 2012, 2013 and 2014)	Conditional share awards subject to continuous employment (DSP 2012, 2013 and 2014)
Executive Directors						
Andrew Bonfield	400%	172,166	204%	5,443	713,728	147,904
Steve Holliday	500%	1,086,725	917%	3,524	1,142,170	202,704
Tom King	400%	111,610	608%	–	144,894	25,017
John Pettigrew	400%	138,562	252%	5,994	292,779	40,370
Nick Winser	400%	506,519	815%	–	356,540	115,347
Non-executive Directors						
Philip Aiken	–	4,900	n/a	–	–	–
Nora Mead Brownell	–	5,000	n/a	–	–	–
Jonathan Dawson	–	25,179	n/a	–	–	–
Therese Esperdy	–	0	n/a	–	–	–
Sir Peter Gershon	–	79,450	n/a	–	–	–
Paul Golby	–	2,500	n/a	–	–	–
Ruth Kelly	–	800	n/a	–	–	–
Maria Richter	–	14,357	n/a	–	–	–
Mark Williamson	–	4,726	n/a	–	–	–

1. The salary used to calculate the value of shareholding is the gross annual salary as at 31 March 2015, except for Nick Winser whose calculation is made on gross annual salary as at 28 July 2014.
2. Andrew Bonfield and John Pettigrew have not yet met the increased shareholding requirement. They are expected to reach the required shareholding in 2017 and 2018 respectively.
3. Tom King's holdings and awards are shown as ADSs and each ADS represents five ordinary shares.
4. On 31 March 2015 Andrew Bonfield held 5,443 options granted under the Sharesave plan. 3,421 options were granted at a value of 445 pence per share, and they can be exercised at 445 pence per share between April 2016 and September 2016. 2,022 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020.
5. On 31 March 2015 Steve Holliday held 3,524 options granted under the Sharesave plan. 1,502 options were granted at a value of 599 pence per share, and they can be exercised at 599 pence per share between April 2017 and September 2017. 2,022 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020.
6. On 31 March 2015 John Pettigrew held 5,994 options granted under the Sharesave plan. 1,252 options were granted at a value of 599 pence per share, and they can be exercised at 599 pence per share between April 2019 and September 2019. 3,034 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020. On 1 April 2015, he exercised a Sharesave option over 1,708 shares at the option price of 455.06 pence per share for expiration in September 2015 at a gain of £6,997.
7. For Andrew Bonfield, the number of conditional share awards subject to performance conditions is as follows: LTPP 2011: 57,365; LTPP 2012: 213,095; LTPP 2013: 194,798; LTPP 2014: 248,470. The number of conditional share awards subject to continuous employment is as follows: DSP 2012: 55,150; DSP 2013: 45,706; DSP 2014: 47,048.
8. For Steve Holliday, the number of conditional share awards subject to performance conditions is as follows: LTPP 2011: 90,537; LTPP 2012: 336,702; LTPP 2013: 307,793; LTPP 2014: 407,138. The number of conditional share awards subject to continuous employment is as follows: DSP 2012: 75,933; DSP 2013: 57,118; DSP 2014: 69,653.
9. For Tom King, the number of conditional awards over ADSs subject to performance conditions is as follows: LTPP 2011: 11,385; LTPP 2012: 44,616; LTPP 2013: 41,225; LTPP 2014: 47,668. The number of conditional awards over ADSs subject to continuous employment is as follows: DSP 2012: 11,332; DSP 2013: 7,119; DSP 2014: 6,566.
10. For John Pettigrew, the number of conditional share awards subject to performance conditions is as follows: LTPP 2011: 15,303; LTPP 2012: 52,395; LTPP 2013: 63,361; LTPP 2014: 161,720. The number of conditional share awards subject to continuous employment is as follows: DSP 2012: 11,679; DSP 2013: 14,341; DSP 2014: 14,350.
11. For Nick Winser, the number of conditional share awards subject to performance conditions is as follows: LTPP 2011: 43,746; LTPP 2012: 163,412; LTPP 2013: 149,382. The number of conditional share awards subject to continuous employment is as follows: DSP 2012: 39,682; DSP 2013: 33,741; DSP 2014: 41,924.
12. The normal vesting dates for the conditional share awards subject to performance conditions are 1 July 2015; 1 July 2015 and 1 July 2016; 1 July 2016 and 1 July 2017; and 1 July 2017 for the LTPP 2011, LTPP 2012, LTPP 2013 and LTPP 2014 respectively. The normal vesting dates for the conditional share awards subject to continuous employment are 14 June 2015, 13 June 2016 and 17 June 2017 for the DSP 2012, DSP 2013 and DSP 2014 respectively.
13. Non-executive Directors do not have a shareholding requirement.
14. In April and May 2015 a further 35 shares were purchased on behalf of Steve Holliday and a further 34 shares on behalf of Andrew Bonfield and John Pettigrew via the Share Incentive Plan (an HMRC approved all-employee share plan), thereby increasing their beneficial interests. There have been no other changes in Directors' shareholdings between 1 April 2015 and 20 May 2015.

External appointments and retention of fees

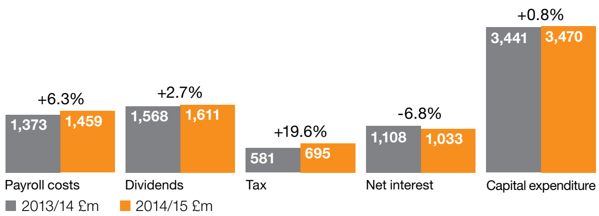
The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2015:

	Company	Retained fees (£)
Andrew Bonfield	Kingfisher plc	82,400
Steve Holliday	Marks and Spencer Group plc	22,900
Nick Winser	Kier Group plc	18,200

1. Fees for Steve Holliday relate to the period from 1 April to 8 July 2014 when he stepped down from the Marks and Spencer Group plc Board.
2. Fees for Nick Winser relate to the period from 1 April to 28 July 2014 when he stepped down from the National Grid Board at the 2014 AGM.

Relative importance of spend on pay

This chart shows the relative importance of spend on pay compared with other costs and disbursements (dividends, tax, net interest and capital expenditure). Given the capital-intensive nature of our business and the scale of our operations, these costs were chosen as the most relevant for comparison purposes. All amounts exclude exceptional items, remeasurements and stranded cost recoveries.

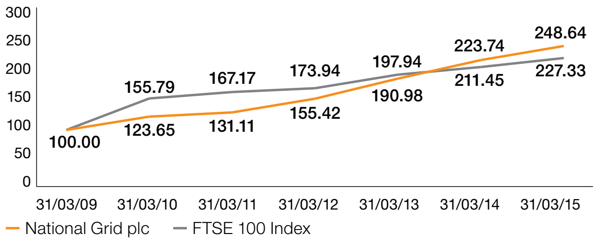


Directors' Remuneration Report continued

Performance graph and table

This chart shows National Grid plc's six year annual total shareholder return (TSR) performance against the FTSE 100 Index since 31 March 2009. The FTSE 100 Index has been chosen because it is the widely recognised performance benchmark for large companies in the United Kingdom. Over the last four years, National Grid's TSR has outperformed that of the FTSE 100 and underpins the pay shown for the Chief Executive in the table below, using current and previously published single total remuneration figures. The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30 day period up to and including that date. It assumes dividends are reinvested.

Total shareholder return



Source: Thomson Reuters

CEO's pay in the last six financial years

Steve Holliday was the CEO throughout this six year period.

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Total single figure £'000	3,931	3,738	3,539	3,170	4,801	4,845
APP (proportion of maximum awarded)	95.33%	81.33%	68.67%	56.65%	77.94%	94.80%
PSP/LTPP (proportion of maximum vesting including expected vesting for RoE measure)	100.00%	65.15%	49.50%	25.15%	76.20%	55.81%

Percentage change in CEO's remuneration

The table below shows how the percentage change in the CEO's salary, benefits and APP between 2013/14 and 2014/15 compares with the percentage change in the average of each of those components of remuneration for non-union employees in the UK. The Committee views this group as the most appropriate comparator group, as the CEO is UK-based and this group excludes employees represented by trade unions, whose pay and benefits are negotiated with each individual union.

	Salary			Taxable benefits			APP		
	£'000 2014/15	£'000 2013/14	Increase	£'000 2014/15	£'000 2013/14	Increase	£'000 2014/15	£'000 2013/14	Increase
Steve Holliday	1,021	1,000	2.1%	40	35	14.3%	1,210	1,169	3.5%
UK non-union employees (increase per employee)			2.3%			10.6%			3.5%

1. The Taxable benefits figure for 2014/15 for Steve Holliday and for UK non-union employees includes the benefit of Sharesave options granted during the year which were not in the benefits total for 2013/14.

Statement of implementation of remuneration policy in 2015/16

The remuneration policy adopted at the 2014 AGM will continue to be implemented during 2015/16 as follows:

Salary

	From 1 June 2015	From 1 June 2014	Increase
Andrew Bonfield	£737,000	£729,800	0.99%
Steve Holliday	£1,035,000	£1,025,000	0.98%
John Pettigrew	£508,250	£475,000	7%
Dean Seavers (from 1 April 2015)	$1,000,000	$1,000,000	0%

There will be no change to the implementation of the remuneration policy for 2015/16. Salary increases will normally be in line with the increase awarded to other employees in the UK and US, unless there is a change in role or responsibility. In line with the policy on recruitment remuneration, salaries for new directors may be set below market level initially and aligned to market level over time (provided the increase is merited by the individual's contribution and performance).

APP measures for 2015/16

	Weighting
Adjusted EPS	35%
Group or UK or US RoE	35%
Individual objectives	30%

The APP targets are considered commercially sensitive and consequently will be disclosed after the end of the financial year in the 2015/16 annual report on remuneration.

Performance measures for LTPP to be awarded in 2015

	Andrew Bonfield	Steve Holliday	Dean Seavers	John Pettigrew	Threshold – 20% vesting	Maximum – 100% vesting
Group RoE	50%	50%	25%	25%	11.0%	12.5% or more
UK RoE	–	–	–	25%	1 percentage point above the average allowed regulatory return	3.5 percentage points or more above the average allowed regulatory return
US RoE	–	–	25%	–	90% of the average allowed regulatory return	105% or more of the average allowed regulatory return
Value growth	50%	50%	50%	50%	10.0%	12.0% or more

NEDs' fees

	£'000		
	From 1 June 2015	From 1 June 2014	Increase
Chairman	495	490	1.0%
Senior Independent Director	22	22	0%
Board fee (UK-based)	64	62	3.2%
Board fee (US-based)	76	74	2.7%
Committee membership fee	9	9	0%
Chair Audit Committee	17	17	0%
Chair Remuneration Committee	17	17	0%
Chair (other Board committees)	12.5	12.5	0%

1. Committee chair fees are in addition to committee membership fees.
2. Therese Esperdy has been appointed as a Non-executive Director to the National Grid USA Board from 1 May 2015 with an annual fee of £25,000 in addition to her current NED fees.

Advisors to the Remuneration Committee

The Committee received advice during 2014/15 from independent remuneration consultants New Bridge Street (NBS), a trading name of Aon Hewitt Ltd (part of Aon plc). NBS were selected as advisors by the Committee from 1 August 2013 following a competitive tendering process.

Work undertaken by NBS included updating the Committee on trends in compensation and governance matters and advising the Committee in connection with benchmarking of the total reward packages for the Executive Directors and other senior employees. NBS are a member of the Remuneration Consultants Group and have signed up to that group's Code of Conduct. The Committee is satisfied that any potential conflicts were appropriately managed. NBS does not provide any other advice or services to the Company. In the year to 31 March 2015 the Committee paid a total of £88,890 to NBS, with fees being charged on a time incurred basis.

The Committee also received specialist advice from the following organisations:

- Alithos Limited: provision of TSR calculations for the LTPP (£18,750 paid in 2014/15);
- Linklaters LLP: advice relating to share schemes and to Directors' service contracts as well as providing other legal advice to the Company (£82,330 paid in 2014/15); and
- Towers Watson: advice relating to the benchmarking of the total reward packages for the Executive Directors and other senior employees (£74,450 paid in 2014/15).

The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that they all provided credible and professional advice.

The Committee considers the views of the Chairman on the performance and remuneration of the CEO; and of the CEO on the performance and remuneration of the other members of the Executive Committee. The Committee is also supported by the Group General Counsel & Company Secretary who acts as Secretary to the Committee, the Group HR Director, the Global Head of Reward and the Global Head of Pensions. No other advisors have provided significant services to the Committee in the year.

Voting on 2013/14 Directors' remuneration policy at 2014 AGM

	For	Against
Number of votes	2,223,573,203	85,131,552
Proportion of votes	96.31%	3.69%

1. The voting figures shown above refer to votes cast at the 2014 AGM and represent 61.76% of the Initial Share Capital (ISC) voted. In addition, shareholders holding 74 million shares abstained.

Voting on 2013/14 Annual Directors' Remuneration Report at 2014 AGM

	For	Against
Number of votes	2,314,662,027	23,340,071
Proportion of votes	99.00%	1.00%

1. The voting figures shown above refer to votes cast at the 2014 AGM and represent 62.54% of the ISC voted. In addition, shareholders holding 45 million shares abstained.

Voting on amendments to rules of LTPP at 2014 AGM

	For	Against
Number of votes	2,256,939,935	85,466,726
Proportion of votes	96.35%	3.65%

1. The voting figures shown above refer to votes cast at the 2014 AGM and represent 62.66% of the ISC voted. In addition, shareholders holding 40 million shares abstained.

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

Jonathan Dawson
Chairman of the Remuneration Committee
20 May 2015

Financial Statements contents

Introduction to the financial statements

We have continued to develop our presentational format to provide shareholders and users of these financial statements with additional information and guidance, and to make them easier to understand.

Throughout these financial statements we have provided plain English explanations of the disclosures and why they are important to the understanding of our financial performance and position. In places we have also highlighted 'Our strategy in action', drawing out the key elements of our business model (set out in the Strategic Report on pages 12 to 13), and showing how the disclosures reflect this strategy.

Audit opinions

We have two audit opinions on our financial statements, reflecting our dual listing on the London Stock Exchange and the New York Stock Exchange. Due to the different reporting requirements for each listing, our auditors are required to confirm compliance with each set of standards in a prescribed format. The audit opinion as required under our UK listing (starting on page 79) continues to provide more detail as to how our auditors have planned and completed their audit, as well as their views on significant matters they have noted and that were discussed by the Audit Committee.

Notes

Notes to the financial statements provide additional information required by statute, accounting standards or other regulations to assist in a more detailed understanding of the primary financial statements. In many notes we have included an accounting policy that describes how the transactions or balance in that note have been measured, recognised and disclosed. The basis of preparation section (note 1) provides details of accounting policies that apply to transactions and balances in general. There are also additional specific disclosure requirements due to our US listing which are included in the notes.

Unaudited commentary

We have presented with the financial statements certain analysis as part of the Strategic Report of our Annual Report. This approach provides a clearer narrative, a logical flow of information and reduces duplication. We have created a combined financial review, including a commentary on items within the primary statements, on pages 86 to 93. Unless otherwise indicated, all analysis provided in the financial statements is on a statutory IFRS basis. All information in ruled boxes styled in the same manner as this one does not form part of the audited financial statements. This has been further highlighted by including the word 'unaudited' at the start of each box header. Unaudited commentary boxes appear on pages 87 to 89, 91, 93, 99 to 100, 110, 112 and 125.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, including the consolidated financial statements and the Company financial statements, the Directors' Report, including the Remuneration Report and the Strategic Report, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the Company financial statements and the Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, UK GAAP). In preparing the consolidated financial statements, the Directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB). 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 on a consolidated and individual basis and of the profit or loss of the Company on a consolidated basis 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 and prudent;
- state that the consolidated financial statements comply with IFRS as issued by the IASB and IFRS adopted by the European Union and, with regard to the Company financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated financial statements and Company financial statements on a going concern basis unless it is inappropriate to presume that the Company, on a consolidated and individual basis, will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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 on a consolidated and individual basis, and to enable them to ensure that the consolidated financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation and the Company financial statements and the Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Each of the Directors, whose names and functions are listed on page 43, confirms that:

- to the best of their knowledge, the consolidated financial statements and the Company financial statements, which have been prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the European Union and UK GAAP respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Company on a consolidated and individual basis;
- to the best of their knowledge, the Strategic Report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces; and
- they consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board

Alison Kay
Group General Counsel & Company Secretary
20 May 2015
Company number: 4031152

Independent auditors' report
to the Members of National Grid plc

Report on the financial statements

Our opinion

In our opinion:

- National Grid's Group and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and the Company's affairs as at 31 March 2015 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the Basis of preparation to the financial statements, the Group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the Group financial statements comply with IFRSs as issued by the IASB.

What we have audited

The financial statements, which are prepared by National Grid plc, comprise the following:

- the Consolidated statement of financial position and Company balance sheet as at 31 March 2015;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated cash flow statement for the year then ended;
- the Consolidated statement of changes in equity for the year then ended;
- the Consolidated and Company Basis of preparation; and
- the notes to the Consolidated financial statements and the notes to the Company financial statements, which include explanatory and supplementary information.

Certain required disclosures, including Directors' remuneration, required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and UK GAAP.

Overview of our audit approach

National Grid is listed on the London and New York stock exchanges and its principal activities are regulated electricity and gas operations in the UK and northeastern US. In the UK, National Grid's activities are focused on gas and electricity transmission and gas distribution. National Grid's business in the US includes gas and electricity distribution and electricity transmission as well as delivery of gas and electricity to end users across a number of states. National Grid also operates a number of other activities which include Grain LNG, Interconnectors, Metering and UK Property.

As a result, key focus areas for National Grid in both the UK and US are network investment and the associated financing, and maximising returns allowable under regulatory frameworks. These activities provide the context for our audit together with, in National Grid US, the ongoing work to improve business processes and financial controls.

Materiality

- Overall group materiality: £132m which represents 4.6% of profit before tax, exceptional items and remeasurements.

Audit scope

- UK Electricity Transmission, UK Gas Transmission, UK Gas Distribution and US Regulated required an audit of their complete financial information due to their size;
- specific audit procedures on certain balances and transactions were also performed at four reporting units within Other activities; and
- taken together, the territories and functions where we performed our audit work accounted for 96% of group revenues and 88% of group profit before tax.

Areas of focus

Event-driven:

- US financial control environment.

Recurring:

- Accuracy of capital expenditures.
- Accuracy and valuation of treasury derivative transactions and application of hedge accounting.
- Valuation of environmental provisions.
- Accounting for net pension obligations.
- Revenue recognition.

Independent auditors' report
to the Members of National Grid plc continued

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality
£132m (2013/14: £126m).

How we determined it
4.6% of profit before tax, exceptional items and remeasurements.

Rationale for benchmark applied
We have chosen profit before tax, exceptional items and remeasurements because it is disclosed on the face of the Consolidated income statement as the consistent year on year measure for reporting performance. It excludes the non-recurring distorting impact of exceptional items and remeasurements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £6m (2013/14: £6m) as well as misstatements below that amount which in our view, warranted reporting for qualitative reasons.

The scope of our audit and our areas of focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). Our audit approach combined high reliance on controls over financial reporting where we considered them to be operating effectively as well as evidence gained from substantive testing.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Event-driven risks
Area of focus:
US financial control environment
The implementation of the US enterprise resource planning system in 2012/13 and associated changes to key processes and financial controls has had a significant impact on the reporting of financial information by the US Regulated business.

In 2014/15, work has continued to improve the quality of processes and controls on a sustainable basis particularly in the areas of access controls, the financial statement close process, the quality of account reconciliations across all financial statement line items, analytical review, and revenue and receivables. However, the US control environment continues to be an area of focus due to the higher risk of error in the financial information reported by the US Regulated business.

How our audit addressed the area of focus:
To address the risk, a significant portion of both US and group senior audit team members' time was spent developing our audit response to the issues within the US financial control environment, which we discussed with management and the Audit Committee.

We tailored our audit response as follows:

- In those areas where a significant segregation of duties or access control risk was identified, additional procedures, including retrospective reviews of system access, were performed. This work identified no issues that impacted on our audit approach.
- In areas of higher risk or where there were known issues, we increased our substantive testing sample sizes. Our testing identified a small number of potential adjustments which we reported to the Audit Committee, none of which was considered individually or in aggregate to be material to the financial statements.
- As management was placing greater emphasis on account reconciliations as a key control, we increased the number of reconciliations tested and level of precision of our substantive testing of reconciliations. Our testing did not identify any adjustments of a level that required reporting to the Audit Committee.
- In order to address the heightened risk of fraud as a result of weaker controls, we tested the design and operating effectiveness of journal review controls and found nothing that would cause us to believe these controls were not working as designed. We also tested journal entries based on a fraud risk assessment, with no material issues arising.

As noted above, whilst we did identify errors and reported these to the Audit Committee these were considered to be immaterial for adjustment in the Group financial statements.

Recurring risks

Area of focus:

Accuracy of capital expenditures

A key area of focus for National Grid is network investment with total capital expenditure recognised within property, plant and equipment across the Group of £3.3 billion during 2014/15.

National Grid undertakes a number of activities of a similar nature which could contribute to operating expenditure (maintenance or network repair), or capital expenditure (network refurbishment or new assets). The key risk is that costs may not be correctly allocated across these four categories, given the impact on the accounting treatment.

In relation to the US Regulated business, there was a heightened risk that the controls over the classification of costs between operating expenditure and capital expenditure may not have been working effectively as a result of system complexities.

In addition, there are material adjustments that are required to translate local plant accounting records prepared under Generally Accepted Accounting Principles in the United States (US GAAP) to comply with IFRSs.

How our audit addressed the area of focus:

We assessed whether the Group's accounting policies in relation to the capitalisation of expenditures complied with IFRSs. We tested the implementation of those policies through a combination of controls testing, including IT general controls over the plant accounting systems, and substantive testing of the supporting documentation behind the costs. We found no material issues that impacted our audit approach.

In the UK, we focused our testing on Electricity Transmission which is the largest area of UK capital expenditure. As part of our testing, we inspected contracts and underlying invoices to check that the classification between capital and operating expenditure was appropriate. Our testing did not identify any adjustments.

In the US Regulated business, our procedures included the identification of projects where the proportions of costs capitalised were different to those we would expect based on the nature of the work performed, and procedures around the appropriateness of capitalisation of payroll costs. We found no issues with regards to the capitalisation of payroll costs; however we did identify errors in the capitalisation of other costs, primarily contractor invoices. We reported these to the Audit Committee and they were considered to be immaterial for adjustment to the Group financial statements.

In respect of the translation of property, plant and equipment accounting records to IFRSs, management performed additional analysis which resulted in correcting adjustments. We tested this analysis to underlying accounting records, recalculations and supporting documentation. We did not identify any adjustments of a level that required reporting to the Audit Committee.

Area of focus:

Accuracy and valuation of treasury derivative transactions and application of hedge accounting

In order to fund its activities, at 31 March 2015 National Grid had total borrowings of £25.9 billion, of which £6.5 billion is denominated in currencies other than sterling or US dollars, which exposes it to foreign exchange and interest rate risk.

The Group has a large treasury operation and uses derivative financial instruments to manage foreign exchange and interest rate risks, primarily interest rate swaps and cross-currency interest rate swaps.

Whilst the majority of National Grid's derivative contracts are straightforward, a number require more complex valuation approaches which include key assumptions over estimates of future interest, exchange rates and determination of appropriate discount rates to apply to future cash flows.

How our audit addressed the area of focus:

We tested the design and operating effectiveness of IT general controls including user access, change management and segregation of duties within the treasury management system and we found no material issues that would impact our planned audit approach.

We tested the design and operating effectiveness of key controls that relate to recording and valuing derivative transactions in the treasury management system. We also tested the accuracy and completeness of the information held within the system by agreeing to third-party confirmations and found no differences when compared with the system data.

Where management used models to value complex derivatives, we tested the appropriateness of the valuation methodology applied and the integrity of the models used, and noted no material issues. We also tested the accuracy of the contractual inputs and the appropriateness of key valuation inputs including price and discount rates without material issues. Where the Group entered into new significant contracts in the year, we tested the contracts and assumptions used to assess whether the accounting treatment adopted is in accordance with International Accounting Standard 39.

Independent auditors' report

to the Members of National Grid plc continued

Area of focus:
Valuation of environmental provisions
Over time National Grid has acquired, owned and operated a number of businesses that have created an environmental impact that will require remediation. This is particularly significant in the US partly as a result of National Grid's exposure to certain 'Superfund' sites (very large sites where the US Regulated business and other parties are jointly responsible for the remediation). At 31 March 2015 the total liability on a discounted basis in respect of environmental provisions is £1.2 billion, of which £0.9 billion relates to the US Regulated business.

Estimating environmental provisions requires significant judgement in determining the form of remediation and the timing and value of projected cash flows associated with it, including the impact of regulation, accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate.

How our audit addressed the area of focus:
In the US and UK, National Grid uses external and internal experts to help determine the total expenditure required to remediate sites. As part of the audit we obtained and inspected these experts' reports and assessed their independence and competence and we found no issues that impacted our audit approach.

For material sites and a sample of other sites, we corroborated information on the nature of each of these sites to National Grid's underlying site usage records. In addition, to assess the reliability of the experts' estimates, we compared previous estimates against actual spend for sites which have been remediated, without material issue.

We also tested other inputs into the calculation by reference to publicly available information where appropriate and noted no exceptions.

We inspected responses to our confirmation requests from National Grid's legal advisors in order to identify any issues related to the valuation of the Group's exposure to environmental remediation costs and noted no issues.

In order to assess the reasonableness of management's discount rate assumptions we compared these with our internally developed benchmarks and were satisfied these are within our acceptable range.

Area of focus:
Accounting for net pension obligations
National Grid provides defined pension and other post-retirement benefits to employees in the UK and US through a number of schemes. At 31 March 2015, National Grid's gross defined benefit obligation is £29.7 billion which is offset by scheme assets of £26.4 billion.

The valuation of the pension liability requires significant judgement and technical expertise in choosing appropriate assumptions. Changes to the key assumptions including salary increases, inflation, discount rates and mortality can have a material impact on the calculation of the liability.

The pension plan assets also include a number of investments for which there is no observable input to the fair value (i.e. no quoted market price). The valuation technique used to measure the fair value of these assets is inherently more uncertain than assets with observable fair value inputs.

How our audit addressed the area of focus:
We tested the significant judgements made by National Grid's third-party actuaries and assessed their independence and competence and found no issues that impacted our audit approach.

We compared the discount and inflation rates used in the valuation of the pension liability with our internally developed benchmarks. We compared the assumptions around salary increases and mortality with national and industry averages. All of the assumptions used fell within a range we found acceptable.

We obtained details of the measurement of fair value for assets with no observable inputs. Such assets were typically private equity or real estate fund investments for which we obtained audited financial statements in support of the valuations. We found no material issues from this testing.

Area of focus:
Revenue recognition
During 2014/15 National Grid has recognised revenue of £15.2 billion, the majority of which is related to regulated activities in the UK and US.

In the UK, National Grid's revenue is governed by a number of price controls imposed by the UK regulator, Ofgem, which combined with the application of IFRSs means that revenue recognition involves limited judgement. The majority of revenue is derived from a small number of customers who settle within agreed terms.

In the US Regulated business, different services and locations are regulated by different authorities and are subject to numerous price controls. Unlike the UK, revenue is also earned through the supply of gas and electricity to end customers, which does involve judgement as a result of the estimate of accrued income for services delivered but not yet billed to these customers. This is determined using a long-established methodology within the Group.

As such, revenue recognition is not an area of significant risk for our audit but does require significant time and resource to audit due to its magnitude.

How our audit addressed the area of focus:
In the UK, we tested the design and operating effectiveness of key controls in relation to the recognition of revenue, with particular focus on controls over the setting of prices compared with those allowed by the Ofgem price controls and we found no material issues that impacted our audit approach.

We tested the revenue recognised to amounts invoiced to customers and the subsequent receipt of payment from those customers, with no material exceptions noted.

In the US Regulated business, in respect of transmission and other revenues not billed to end consumers, we selected individual transactions to test they were appropriately recorded as revenue in the correct period. We inspected the subsequent receipt of payment or confirmed amounts with customers where it was practical to do so. We also inspected regulator-approved tariffs to test that amounts charged were consistent with such tariffs. We found no material issues arising from our work.

For US utility revenues billed to end consumers, we selected samples of rate classes to test that customer rates were properly updated in the billing systems, and that rate types were assigned to customers consistent with the type of customer and (where appropriate) the volume of usage. We also selected samples of customer bills and tested that such bills were paid by customers and were consistent with the regulator-approved rate plans. For those bills selected that were outstanding at the end of the year, we confirmed the balance with customers, and tested amounts to subsequent cash receipts where no customer confirmation was received.

In respect of unbilled revenue we tested management's assumptions in relation to consumption by reference to historical data as well as specific current year factors, including weather patterns. In so doing, we did not note any material issues.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We identified that UK Electricity Transmission, UK Gas Transmission, UK Gas Distribution and the US Regulated business required an audit of their complete financial information due to their size. As the Group has separate finance functions for head office, the UK and US operations which each maintain their own accounting records and controls and report to Group through an integrated consolidation system, we used component auditors within PwC UK and PwC US who are familiar with the local laws and regulations to perform this audit work.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those locations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. In performing this assessment, and in particular given the US issues in our areas of focus, the Group team visited the US on a number of occasions for meetings with our US team and the US Regulated business. This was supported by regular conference calls throughout the year. We also held regular calls and meetings with our UK component teams.

The Group consolidation, financial statement disclosures and tax and treasury related activities are audited by the Group team using specialists where appropriate. Taken together, the territories and functions where we performed our audit work accounted for 96% of Group revenues and 88% of Group profit before tax. The Group team retains overall responsibility for the audit of the financial statements.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 54, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- Information in the Annual Report is:
  - materially inconsistent with the information in the audited financial statements; or
  - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or
  - otherwise misleading.

We have no exceptions to report arising from this responsibility.

- The statement given by the Directors on page 78, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.

We have no exceptions to report arising from this responsibility.

- The section of the Annual Report on pages 51 and 52, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Independent auditors' report
to the Members of National Grid plc continued

Adequacy of accounting records and information and explanations received
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
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Directors' Remuneration Report – Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from these responsibilities.

Corporate Governance statement
Under the Listing Rules we are required to review the part of the Corporate Governance statement relating to the Company's compliance with 10 provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' responsibilities set out on page 78, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Nicholas Blackwood (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London 20 May 2015

Report of Independent Registered Public Accounting Firm
to the Board of Directors and Shareholders of National Grid plc

Audit opinion for Form 20-F

In our opinion, the accompanying consolidated statement of financial position and the related consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity, present fairly, in all material respects, the financial position of National Grid plc and its subsidiaries at 31 March 2015 and 31 March 2014, and the results of their operations and their cash flows for each of the three years in the period ended 31 March 2015 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union.

Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of 31 March 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Additional Information section appearing on page 173 of the 2015 Annual Report and Accounts.

Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
London
United Kingdom
20 May 2015

Consolidated income statement
for the years ended 31 March

	Notes	2015 £m	2015 £m	2014 £m	2014 £m	2013 £m	2013 £m
Revenue	2(a)		**15,201**		14,809		14,359
Operating costs	3		**(11,421)**		(11,074)		(10,610)
Operating profit							
Before exceptional items, remeasurements and stranded cost recoveries	2(b)	**3,863**		3,664		3,639	
Exceptional items, remeasurements and stranded cost recoveries	4	**(83)**		71		110	
Total operating profit	2(b)		**3,780**		3,735		3,749
Finance income	5		**36**		36		30
Finance costs							
Before exceptional items and remeasurements	5	**(1,069)**		(1,144)		(1,154)	
Exceptional items and remeasurements	4,5	**(165)**		93		68	
Total finance costs	5		**(1,234)**		(1,051)		(1,086)
Share of post-tax results of joint ventures and associates	14		**46**		28		18
Profit before tax							
Before exceptional items, remeasurements and stranded cost recoveries	2(b)	**2,876**		2,584		2,533	
Exceptional items, remeasurements and stranded cost recoveries	4	**(248)**		164		178	
Total profit before tax	2(b)		**2,628**		2,748		2,711
Tax							
Before exceptional items, remeasurements and stranded cost recoveries	6	**(695)**		(581)		(619)	
Exceptional items, remeasurements and stranded cost recoveries	4,6	**78**		297		62	
Total tax	6		**(617)**		(284)		(557)
Profit after tax							
Before exceptional items, remeasurements and stranded cost recoveries		**2,181**		2,003		1,914	
Exceptional items, remeasurements and stranded cost recoveries	4	**(170)**		461		240	
Profit for the year			**2,011**		2,464		2,154
Attributable to:							
Equity shareholders of the parent			**2,019**		2,476		2,153
Non-controlling interests			**(8)**		(12)		1
			2,011		2,464		2,154
Earnings per share[1]							
Basic	7(a)		**53.6p**		65.7p		57.2p
Diluted	7(b)		**53.4p**		65.4p		57.0p

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

Unaudited commentary on the consolidated income statement

The consolidated income statement shows all revenue earned and costs incurred in the year, with the difference being the overall profit for the year.

Revenue

Revenue for the year ended 31 March 2015 increased by £392m to £15,201m. This increase was driven by higher revenues in our UK Electricity Transmission business, reflecting increases in allowed Transmission Owner revenues, and higher core allowances and pass-through costs in UK Gas Transmission. Revenues in our UK Gas Distribution business were slightly lower as a result of changes in allowed revenues for replacement expenditure (repex). Our US Regulated businesses revenues were also lower, as a result of the end of the LIPA Management Services Agreement (MSA) last year, partially offset by revenue increases from existing rate plans, including capex trackers, together with additional income from gas customer growth and the impact of the strengthening US dollar.

Operating costs

Operating costs for the year ended 31 March 2015 of £11,421m were £347m higher than the prior year. This increase in costs included a £154m year on year impact of changes in exceptional items, remeasurements and stranded cost recoveries, which is discussed below. Excluding exceptional items, remeasurements and stranded cost recoveries, operating costs were £193m higher, principally due to: increases in controllable costs, including the impact of inflation and additional costs incurred in the US to improve data quality and bring regulatory filings up to date; higher US bad debt costs following last year's exceptionally cold winter; and higher depreciation and amortisation as a result of continued investment programmes. These cost increases were partly offset by a reduction in spend on US financial systems implementation and stabilisation upgrades, with the project completing in the first half of this year.

Net finance costs

For the year ended 31 March 2015, net finance costs before exceptional items and remeasurements were £75m lower than 2013/14 at £1,033m, mainly as a result of lower average gross debt through the year, lower RPI in the UK and refinancing debt at lower rates.

Tax

The tax charge on profit before exceptional items, remeasurements and stranded cost recoveries was £114m higher than 2013/14. This was mainly due to higher profits before tax and the non-recurrence of one-off items that benefited the prior year.

Exceptional items, remeasurements and stranded cost recoveries

Operating profit for the year ended 31 March 2015 included an £83m loss (2013/14: £16m gain) on remeasurement of commodity contracts. The year ended 31 March 2014 also included a net £55m gain on exceptional items, including a net gain on the LIPA MSA transition in the US of £254m; restructuring costs of £136m, primarily in the UK as we reorganised certain parts of our business to deliver under the new RIIO price controls; and a £79m provision for the demolition of UK gas holders that are no longer required.

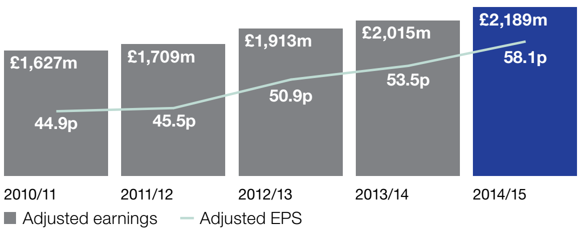
Finance costs for the year ended 31 March 2015 included exceptional debt redemption costs of £131m and a loss of £34m on financial remeasurements, relating to net losses on derivative financial instruments.

Exceptional tax for 2014/15 of £78m primarily represents tax credits on the exceptional items and remeasurements described above.

Adjusted earnings and EPS

The following chart shows the five year trend in adjusted profit attributable to equity shareholders of the parent (adjusted earnings) and adjusted earnings per share. See page 186 for a reconciliation of adjusted basic EPS to EPS.

Adjusted earnings and adjusted EPS[1]



1. Adjusted earnings and adjusted EPS are attributable to equity shareholders of the parent.

The above earnings performance translated into adjusted EPS growth in 2014/15 of 4.6p (9%).

In accordance with IAS 33, all earnings per share and adjusted earnings per share amounts for comparative periods have been restated for shares issued via scrip dividends.

Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars, so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate.

	2014/15	2013/14	% change
Weighted average (income statement)	1.58	1.62	(2)%
Year end (balance sheet)	1.49	1.67	(11)%

If 2013/14 results had been translated at 2014/15 exchange rates, revenue, adjusted operating profit and operating profit reported in sterling would have been £212m, £25m and £32m higher respectively.

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2015 £m	2014 £m	2013 £m
Profit for the year		**2,011**	2,464	2,154
Other comprehensive (loss)/income				
Items that will never be reclassified to profit or loss:				
Remeasurements of net retirement benefit obligations	22	**(771)**	485	(714)
Tax on items that will never be reclassified to profit or loss	6	**299**	(172)	179
Total items that will never be reclassified to profit or loss		**(472)**	313	(535)
Items that may be reclassified subsequently to profit or loss:				
Exchange adjustments		**175**	(158)	117
Net (losses)/gains in respect of cash flow hedges		**(154)**	63	(31)
Transferred to profit or loss in respect of cash flow hedges		**13**	27	73
Net gains on available-for-sale investments		**41**	6	20
Transferred to profit or loss on sale of available-for-sale investments		**(8)**	(14)	(10)
Tax on items that may be reclassified subsequently to profit or loss	6	**11**	(2)	(15)
Total items that may be reclassified subsequently to profit or loss		**78**	(78)	154
Other comprehensive (loss)/income for the year, net of tax		**(394)**	235	(381)
Total comprehensive income for the year		**1,617**	2,699	1,773
Attributable to:				
Equity shareholders of the parent		**1,624**	2,711	1,772
Non-controlling interests		**(7)**	(12)	1
		1,617	2,699	1,773

Unaudited commentary on consolidated statement of comprehensive income

The consolidated statement of comprehensive income records certain items as prescribed by the accounting rules. For us, the majority of the income or expense included here relates to movements in actuarial assumptions on pension schemes and the associated tax impact. These items are not part of profit for the year, yet are important to allow the reader to gain a more comprehensive picture of our performance as a whole.

Remeasurements of net retirement benefit obligations

We had a net loss after tax of £472m (2013/14: net gain of £313m) on our pension and other post-retirement benefit schemes which is due to changes in key assumptions made in the valuation calculation of pension liabilities and differences between the expected and actual pension asset returns.

Exchange adjustments

Adjustments are made when we translate the results and net assets of our companies operating outside the UK, as well as debt we have issued in foreign currencies. The net movement for the year resulted in a gain of £175m (2013/14: £158m loss).

Net (losses)/gains in respect of cash flow hedges

The value of derivatives held to hedge cash flows is impacted by changes in expected interest rates and exchange rates. The net loss for the year was £154m (2013/14: £63m gain).

Consolidated statement of changes in equity

for the years ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Other equity reserves[1] £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
At 1 April 2012	422	1,355	12,294	(4,835)	9,236	7	9,243
Profit for the year	–	–	2,153	–	2,153	1	2,154
Total other comprehensive (loss)/income for the year	–	–	(535)	154	(381)	–	(381)
Total comprehensive income for the year	–	–	1,618	154	1,772	1	1,773
Equity dividends	–	–	(810)	–	(810)	–	(810)
Scrip dividend related share issue[2]	11	(11)	–	–	–	–	–
Issue of treasury shares	–	–	19	–	19	–	19
Purchase of own shares	–	–	(6)	–	(6)	–	(6)
Other movements in non-controlling interests	–	–	–	–	–	(3)	(3)
Share-based payment	–	–	20	–	20	–	20
Tax on share-based payment	–	–	(2)	–	(2)	–	(2)
At 31 March 2013	433	1,344	13,133	(4,681)	10,229	5	10,234
Profit for the year	–	–	2,476	–	2,476	(12)	2,464
Total other comprehensive income/(loss) for the year	–	–	313	(78)	235	–	235
Total comprehensive income/(loss) for the year	–	–	2,789	(78)	2,711	(12)	2,699
Equity dividends	–	–	(1,059)	–	(1,059)	–	(1,059)
Scrip dividend related share issue[2]	6	(8)	–	–	(2)	–	(2)
Issue of treasury shares	–	–	14	–	14	–	14
Purchase of own shares	–	–	(5)	–	(5)	–	(5)
Other movements in non-controlling interests	–	–	(4)	–	(4)	15	11
Share-based payment	–	–	20	–	20	–	20
Tax on share-based payment	–	–	7	–	7	–	7
At 31 March 2014	439	1,336	14,895	(4,759)	11,911	8	11,919
Profit for the year	–	–	2,019	–	2,019	(8)	2,011
Total other comprehensive (loss)/income for the year	–	–	(472)	77	(395)	1	(394)
Total comprehensive income/(loss) for the year	–	–	1,547	77	1,624	(7)	1,617
Equity dividends	–	–	(1,271)	–	(1,271)	–	(1,271)
Scrip dividend related share issue[2]	4	(5)	–	–	(1)	–	(1)
Purchase of treasury shares	–	–	(338)	–	(338)	–	(338)
Issue of treasury shares	–	–	23	–	23	–	23
Purchase of own shares	–	–	(7)	–	(7)	–	(7)
Other movements in non-controlling interests	–	–	(3)	–	(3)	11	8
Share-based payment	–	–	20	–	20	–	20
Tax on share-based payment	–	–	4	–	4	–	4
At 31 March 2015	**443**	**1,331**	**14,870**	**(4,682)**	**11,962**	**12**	**11,974**

1. For further details of other equity reserves, see note 25.
2. Included within share premium account are costs associated with scrip dividends.

Unaudited commentary on consolidated statement of changes in equity

The consolidated statement of changes in equity shows additions and reductions to equity. For us, the main items are profit earned and dividends paid in the year.

Dividends

The Directors are proposing a final dividend of 28.16p, bringing the total dividend for the year to 42.87p, a 2.0% increase on 2013/14. The Directors intend to continue the dividend policy of increasing the annual dividend by at least the rate of RPI inflation for the foreseeable future.

Consolidated statement of financial position
as at 31 March

	Notes	2015 £m	2014 £m
Non-current assets			
Goodwill	9	**5,145**	4,594
Other intangible assets	10	**802**	669
Property, plant and equipment	11	**40,723**	37,179
Other non-current assets	12	**80**	87
Pension assets	22	**121**	174
Financial and other investments	13	**330**	284
Investments in joint ventures and associates	14	**318**	351
Derivative financial assets	15	**1,539**	1,557
Total non-current assets		**49,058**	44,895
Current assets			
Inventories and current intangible assets	16	**340**	268
Trade and other receivables	17	**2,836**	2,855
Financial and other investments	13	**2,559**	3,599
Derivative financial assets	15	**177**	413
Cash and cash equivalents	18	**119**	354
Total current assets		**6,031**	7,489
Total assets		**55,089**	52,384
Current liabilities			
Borrowings	19	**(3,028)**	(3,511)
Derivative financial liabilities	15	**(635)**	(339)
Trade and other payables	20	**(3,292)**	(3,031)
Current tax liabilities		**(184)**	(168)
Provisions	23	**(235)**	(282)
Total current liabilities		**(7,374)**	(7,331)
Non-current liabilities			
Borrowings	19	**(22,882)**	(22,439)
Derivative financial liabilities	15	**(1,764)**	(824)
Other non-current liabilities	21	**(1,919)**	(1,841)
Deferred tax liabilities	6	**(4,297)**	(4,082)
Pensions and other post-retirement benefit obligations	22	**(3,379)**	(2,585)
Provisions	23	**(1,500)**	(1,363)
Total non-current liabilities		**(35,741)**	(33,134)
Total liabilities		**(43,115)**	(40,465)
Net assets		**11,974**	11,919
Equity			
Share capital	24	**443**	439
Share premium account		**1,331**	1,336
Retained earnings		**14,870**	14,895
Other equity reserves	25	**(4,682)**	(4,759)
Shareholders' equity		**11,962**	11,911
Non-controlling interests		**12**	8
Total equity		**11,974**	11,919

The consolidated financial statements set out on pages 86 to 158 were approved by the Board of Directors on 20 May 2015 and were signed on its behalf by:

Sir Peter Gershon Chairman
Andrew Bonfield Finance Director

National Grid plc
Registered number: 4031152

Unaudited commentary on consolidated statement of financial position

The consolidated statement of financial position shows all of the Group's assets and liabilities at the year end. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

Goodwill and other intangible assets
Goodwill and intangibles increased by £684m to £5,947m as at 31 March 2015. This increase primarily relates to foreign exchange movements of £602m and software additions of £207m, partially offset by software amortisation of £121m.

Property, plant and equipment
Property, plant and equipment increased by £3,544m to £40,723m as at 31 March 2015. This was principally due to capital expenditure of £3,263m on the renewal and extension of our regulated networks and foreign exchange movements of £1,703m, offset by depreciation of £1,361m in the year. See page 22 for further details of our capital expenditure.

Investments and other non-current assets
Investments in joint ventures and associates, financial and other investments and other non-current assets have increased by £6m to £728m. This is primarily due to a decrease in investments in joint ventures of £33m, which includes dividends received of £79m, partially offset by our share of post-tax results for the year of £46m, more than offset by an increase in available-for-sale investments of £46m.

Inventories and current intangible assets, and trade and other receivables
Inventories and current intangible assets, and trade and other receivables have increased by £53m to £3,176m as at 31 March 2015. This is due to an increase in inventories and current intangible assets of £72m, offset by a net decrease in trade and other receivables of £19m. The £19m decrease consists of an increase in foreign exchange of £211m due to the stronger US dollar against sterling and a decrease in the underlying balances of £229m, reflecting collection of large prior year balances, including LIPA MSA and Superstorm Sandy re-insurance receivables.

Trade and other payables
Trade and other payables have increased by £261m to £3,292m, primarily due to foreign exchange movements of £161m and an increase in VAT liability following a change in regulations on wholesale gas and electricity trading.

Current tax balances
Current tax balances have decreased by £33m to £124m as at 31 March 2015. This is primarily due to the tax payments made in 2014/15 being only partially offset by a smaller current year tax charge.

Deferred tax balances
Deferred tax balances have increased by £215m to £4,297m as at 31 March 2015. This was primarily due to the impact of the £299m deferred tax credit on actuarial losses (a £172m tax charge in 2013/14) being offset by the impact of the reduction in the UK statutory tax rate, foreign exchange movements of £203m and the reduction in prior year charges.

Provisions and other non-current liabilities
Provisions (both current and non-current) and other non-current liabilities increased by £168m to £3,654m as at 31 March 2015.

Total provisions increased by £90m in the year. The underlying movements include additions of £105m relating to an increase to the provision for the estimated environmental restoration and remediation costs for a number of sites and other provision increases of £57m, together with foreign exchange movements of £133m, offset by utilisation of £209m in relation to all classes of provisions.

Net debt
Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and derivative financial assets and liabilities. See further analysis with the consolidated cash flow statement on page 92.

Net pension and other post-retirement obligations
A summary of the total UK and US assets and liabilities and the overall net IAS 19 (revised) accounting deficit is shown below:

Net plan liability	UK £m	US £m	Total £m
As at 1 April 2014	(753)	(1,658)	(2,411)
Exchange movements	–	(236)	(236)
Current service cost	(70)	(116)	(186)
Net interest cost	(27)	(74)	(101)
Curtailments and other	(34)	(27)	(61)
Actuarial gains/(losses)			
– on plan assets	1,929	225	2,154
– on plan liabilities	(1,975)	(950)	(2,925)
Employer contributions	258	250	508
As at 31 March 2015	**(672)**	**(2,586)**	**(3,258)**
Represented by:			
Plan assets	19,453	6,955	26,408
Plan liabilities	(20,125)	(9,541)	(29,666)
	(672)	**(2,586)**	**(3,258)**

The principal movements in net obligations during the year include net actuarial losses of £771m and employer contributions of £508m. Net actuarial losses include actuarial losses on plan liabilities of £2,746m arising as a consequence of increases in the UK real discount rate and the nominal discount rate in the US. This is partially offset by actuarial gains of £2,154m arising on plan assets.

Further information on our pension and other post-retirement obligations can be found in notes 22 and 29 to the consolidated financial statements.

Off balance sheet items
There were no significant off balance sheet items other than the contractual obligations shown in note 30(b) to the consolidated financial statements, and the commitments and contingencies discussed in note 27.

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

Consolidated cash flow statement

for the years ended 31 March

	Notes	2015 £m	2014 £m	2013 £m
Cash flows from operating activities				
Total operating profit	2(b)	**3,780**	3,735	3,749
Adjustments for:				
Exceptional items, remeasurements and stranded cost recoveries	4	**83**	(71)	(110)
Depreciation, amortisation and impairment		**1,494**	1,417	1,361
Share-based payment charge		**20**	20	20
Changes in working capital		**301**	(59)	(410)
Changes in provisions		**(41)**	(150)	(53)
Changes in pensions and other post-retirement benefit obligations		**(270)**	(323)	(408)
Cash flows relating to exceptional items		**(17)**	(150)	(112)
Cash generated from operations		**5,350**	4,419	4,037
Tax paid		**(343)**	(400)	(287)
Net cash inflow from operating activities		**5,007**	4,019	3,750
Cash flows from investing activities				
Acquisition of investments		**–**	(4)	(14)
Proceeds from sale of investments in subsidiaries		**–**	–	183
Purchases of intangible assets		**(207)**	(179)	(175)
Purchases of property, plant and equipment		**(3,076)**	(2,944)	(3,214)
Disposals of property, plant and equipment		**9**	4	32
Dividends received from joint ventures		**79**	38	21
Interest received		**37**	35	29
Net movements in short-term financial investments		**1,157**	1,720	(2,992)
Net cash flow used in investing activities		**(2,001)**	(1,330)	(6,130)
Cash flows from financing activities				
Purchase of treasury shares		**(338)**	–	–
Proceeds from issue of treasury shares		**23**	14	19
Purchase of own shares		**(7)**	(5)	(6)
Proceeds received from loans		**1,534**	1,134	5,062
Repayment of loans		**(2,839)**	(2,192)	(1,210)
Net movements in short-term borrowings and derivatives		**623**	37	452
Interest paid		**(826)**	(901)	(792)
Exceptional finance costs on the redemption of debt		**(152)**	–	–
Dividends paid to shareholders		**(1,271)**	(1,059)	(810)
Net cash flow (used in)/from financing activities		**(3,253)**	(2,972)	2,715
Net (decrease)/increase in cash and cash equivalents	26(a)	**(247)**	(283)	335
Exchange movements		**24**	(26)	14
Net cash and cash equivalents at start of year		**339**	648	299
Net cash and cash equivalents at end of year[1]	18	**116**	339	648

1. Net of bank overdrafts of £3m (2014: £15m; 2013: £23m).

Unaudited commentary on the consolidated cash flow statement

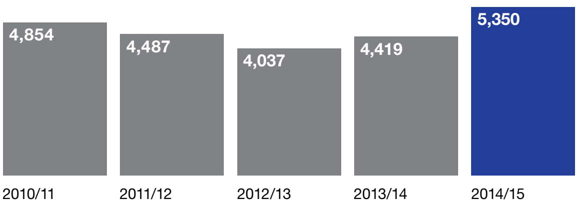
The consolidated cash flow statement shows how the cash balance has moved during the year. Cash inflows and outflows are presented to allow users to understand how they relate to the day-to-day operations of the business (Operating activities); the money that has been spent or earned on assets in the year, including acquisitions of physical assets or other businesses (Investing activities); and the cash raised from debt or share issues and other loan borrowings or repayments (Financing activities).

Reconciliation of cash flow to net debt

	2015 £m	2014 £m
Cash generated from operations	**5,350**	4,419
Net capital expenditure	**(3,274)**	(3,119)
Business net cash flow	**2,076**	1,300
Net interest paid (including exceptional interest)	**(941)**	(866)
Tax paid	**(343)**	(400)
Net acquisitions and disposals	**–**	(4)
Dividends paid	**(1,271)**	(1,059)
Other cash movements	**(243)**	47
Non-cash movements	**(2,003)**	1,221
(Increase)/decrease in net debt	**(2,725)**	239
Opening net debt	**(21,190)**	(21,429)
Closing net debt	**(23,915)**	(21,190)

Cash generated from operations

Cash generated from operations £m



Cash flows from our operations are largely stable when viewed over the longer term. Our electricity and gas transmission and distribution operations in the UK are subject to multi-year rate agreements with regulators. In the UK, we have largely stable inter-year cash flows. However, in the US our short-term cash flows are dependent on the price of gas and electricity and the timing of customer payments. The regulatory mechanisms for recovering costs from customers can result in significant cash flow swings from year to year. Changes in volumes in the US, for example as a consequence of abnormally mild or extreme weather can affect cash flows, particularly in the winter months.

For the year ended 31 March 2015, cash flow from operations increased by £931m to £5,350m.

Changes in working capital improved by £360m over the prior year, principally in the US (£441m) due to the collection of high winter 2014 billings and other settlements including Hurricane Sandy re-insurance claims and LIPA receipts. Cash outflows relating to exceptional items were £133m lower, as the prior year included reorganisation costs in the UK and LIPA MSA transition costs in the US.

Net capital expenditure

Net capital expenditure in the year of £3,274m was £155m higher than the prior year. This was a result of higher spend in our US regulated businesses, reflecting a record year of investment, partially offset by lower spend in our UK regulated businesses.

Net interest paid

Net interest paid and exceptional finance costs in 2014/15 were £941m, £75m higher than 2013/14 due to £152m debt redemption cash outflows.

Tax paid

Tax paid in the year to 31 March 2015 was £343m, £57m lower than prior year. This reflected repayments received in the US during the period.

Dividends paid

Dividends paid in the year ended 31 March 2015 amounted to £1,271m. This was £212m higher than 2013/14, reflecting the increase in the final dividend for the year ended 31 March 2014 paid in August 2014, together with a lower average scrip dividend take-up in the year.

Other cash movements

Other cash flows principally arise from dividends from joint ventures and movements in treasury shares, including the cost of repurchasing shares as part of the share buyback programme (£338m).

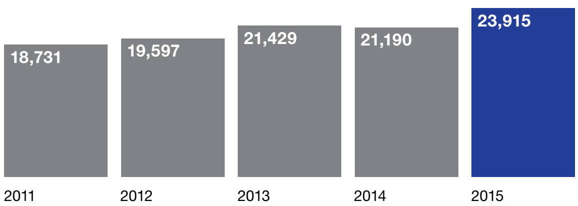
Non-cash movements

The non-cash movements are predominantly due to the strengthening of the US dollar against sterling, resulting in movements in foreign exchange arising on net debt held in currencies other than sterling. In the year, the dollar strengthened from \$1.67 at 31 March 2014 to \$1.49 at 31 March 2015.

Other non-cash movements are from changes in fair values of financial assets and liabilities and interest accretions and accruals.

Net debt

Net debt at 31 March £m



Notes to the consolidated financial statements
– analysis of items in the primary statements

1. Basis of preparation and recent accounting developments

Accounting policies describe our approach to recognising and measuring transactions and balances in the year. Accounting policies applicable across the financial statements are shown below. Accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

This section also shows areas of judgement and key sources of estimation uncertainty in these financial statements. In addition, we summarise new EU endorsed accounting standards, amendments and interpretations and whether these are effective in 2015 or later years, explaining how significant changes are expected to affect our reported results.

National Grid's principal activities involve the transmission and distribution of electricity and gas in Great Britain and northeastern US. The Company is a public limited liability company incorporated and domiciled in England, with its registered office at 1-3 Strand, London WC2N 5EH.

The Company has its primary listing on the London Stock Exchange and is also quoted on the New York Stock Exchange.

These consolidated financial statements were approved for issue by the Board of Directors on 20 May 2015.

These consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations as issued by the IASB and IFRS as adopted by the EU. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ended 31 March 2015 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the EU IAS Regulation. The 2014 and 2013 comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on an historical cost basis, except for the recording of pension assets and liabilities, the revaluation of derivative financial instruments and certain commodity contracts and investments classified as available-for-sale.

The consolidated financial statements have been prepared on a going concern basis. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. Further details of the Directors' assessment are set out on page 54.

These consolidated financial statements are presented in pounds sterling, which is also the functional currency of the Company.

The preparation of financial statements requires management to make 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 (see accounting policy C).

A. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, together with a share of the results, assets and liabilities of jointly controlled entities (joint ventures) and associates using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the share of net assets of the joint venture or associate, less any provision for impairment.

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to affect the returns of an entity to which it is exposed or to which it has rights.

Losses in excess of the consolidated interest in joint ventures and associates are not recognised, except where the Company or its subsidiaries have made a commitment to make good those losses.

Where necessary, adjustments are made to bring the accounting policies used in the individual financial statements of the Company, subsidiaries, joint ventures and associates into line with those used by the Company in its consolidated financial statements under IFRS. Intercompany transactions are eliminated.

The results of subsidiaries, joint ventures and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

1. Basis of preparation and recent accounting developments continued

B. Foreign currencies
Transactions in currencies other than the functional currency of the Company or subsidiary concerned are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Non-monetary assets are not retranslated unless they are carried at fair value.

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the adoption of hedge accounting requires inclusion in other comprehensive income – note 15.

On consolidation, the assets and liabilities of operations that have a functional currency different from the Company's functional currency of pounds sterling, principally our US operations that have a functional currency of dollars, are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period where these do not differ materially from rates at the date of the transaction. Exchange differences arising are classified as equity and transferred to the consolidated translation reserve.

C. Areas of judgement and key sources of estimation uncertainty
The preparation of financial statements requires management to make 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. Information about such judgements and estimations is contained in the notes to the financial statements, and the key areas are summarised below.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- the categorisation of certain items as exceptional items and the definition of adjusted earnings – notes 4 and 7; and
- energy purchase contracts as being for normal purchase, sale or usage – note 27.

IFRS provides certain options available within accounting standards. Choices we have made, and continue to make, include the following:

- Presentational formats: we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items, remeasurements and stranded cost recoveries. Exceptional items, remeasurements and stranded cost recoveries are presented separately on the face of the income statement.
- Customer contributions: contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.
- Financial instruments: we normally opt to apply hedge accounting in most circumstances where this is permitted. For net investment hedges, we have chosen to use the spot rate method, rather than the alternative forward rate method.

Key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – notes 10 and 11;
- estimation of liabilities for pensions and other post-retirement benefits – notes 22 and 29;
- valuation of financial instruments and derivatives – notes 15 and 30;
- revenue recognition and assessment of unbilled revenue – note 2; and
- environmental and decommissioning provisions – note 23.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analysis in note 33.

New IFRS accounting standards and interpretations adopted in 2014/15
The following standards, interpretations and amendments, issued by the IASB and by the IFRS Interpretations Committee (IFRIC), are effective for the year ended 31 March 2015. None of the pronouncements has had a material impact on the Company's consolidated results or assets and liabilities for the year ended 31 March 2015.

- IFRIC 21 'Levies';
- amendments to IAS 32 'Financial Instruments: Presentation' in respect of offsetting financial assets and financial liabilities;
- amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 27 'Separate Financial Statements' in respect of investment entities;
- amendments to IAS 36 'Impairment of Assets' in respect of recoverable amount disclosures for non-financial assets; and
- amendments to IAS 39 'Financial Instruments: Recognition and Measurement', in respect of novation of derivatives and continuation of hedge accounting.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

1. Basis of preparation and recent accounting developments continued

New IFRS accounting standards and interpretations not yet adopted
The Company enters into a significant number of transactions that fall within the scope of IFRS 9 'Financial Instruments', effective for periods beginning after 1 January 2018. We are assessing the likely impact of this standard on the Company's financial statements.

IFRS 15 'Revenue from Contracts with Customers' was issued by the IASB in May 2014. Subject to EU endorsement, it is effective for accounting periods beginning on or after 1 January 2017. The new standard provides enhanced detail on the principle of recognising revenue to reflect the transfer of goods and services to customers at a value which the Company expects to be entitled to receive.

The Group has completed an initial impact assessment of the new standard by completing a survey of all businesses identifying the likely impact of IFRS 15. This was a tailored questionnaire based on the known impacts of the new standard on power and utility companies. Whilst no material differences were identified as part of the questionnaire process, further follow-up work will be required to determine the impact, if any, on certain revenue items including, but not limited to, variable consideration contracts, take or pay arrangements and performance obligations where multiple goods or services are provided in individual contracts.

Other standards and interpretations or amendments thereto which have been issued, but are not yet effective, are not expected to have a material impact on the Company's consolidated financial statements.

2. Segmental analysis

This note sets out the financial performance for the year split into the different parts of the business (operating segments). We monitor and manage the performance of these operating segments on a day-to-day basis.

Our strategy in action
We own a portfolio of businesses that range from businesses with high levels of investment and growth (such as UK Electricity Transmission) to cash generative developed assets with minimal investment requirements (such as National Grid Metering, included within Other activities).

We generate 95% of our revenue from our regulated operating segments in the UK and US. We work with our regulators to obtain agreements that balance the risks we face with the opportunity to deliver reasonable returns for our investors. When investing in Other activities we aim to leverage our core capabilities to deliver higher returns for investors.

Our regulated businesses earn revenue for the transmission, distribution and generation services they have provided during the year. In any one year, the revenue recognised may differ from that allowed under our regulatory agreements and any such timing differences are adjusted through future prices. Our Other activities earn revenue in line with their contractual terms.

Revenue primarily represents the sales value derived from the generation, transmission and distribution of energy, together with the sales value derived from the provision of other services to customers. It excludes value added (sales) tax and intra-group sales.

Revenue includes an assessment of unbilled energy and transportation services supplied to customers between the date of the last meter reading and the year end. This is estimated based on historical consumption and weather patterns.

Where revenue exceeds the maximum amount permitted by a regulatory agreement, adjustments will be made to future prices to reflect this over-recovery. No liability is recognised, as such an adjustment relates to the provision of future services. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

We present revenue and the results of the business analysed by operating segment, based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between operating segments. The Board of Directors is National Grid's chief operating decision-making body (as defined by IFRS 8 'Operating Segments') and assesses the performance of operations principally on the basis of operating profit before exceptional items, remeasurements and stranded cost recoveries (see note 4).

There have been no changes to our reporting structure for the year ended 31 March 2015.

2. Segmental analysis continued

The following table describes the main activities for each operating segment:

UK Electricity Transmission	High voltage electricity transmission networks in Great Britain.
UK Gas Transmission	The gas transmission network in Great Britain and UK LNG storage activities.
UK Gas Distribution	Four of the eight regional networks of Great Britain's gas distribution system.
US Regulated	Gas distribution networks, electricity distribution networks and high voltage electricity transmission networks in New York and New England and electricity generation facilities in New York.

Other activities primarily relate to non-regulated businesses and other commercial operations not included within the above segments, including: the Great Britain-France electricity interconnector; UK based gas metering activities; UK property management; a UK LNG import terminal; US LNG operations; US unregulated transmission pipelines; together with corporate activities.

Sales between operating segments are priced considering the regulatory and legal requirements to which the businesses are subject. The analysis of revenue by geographical area is on the basis of destination. There are no material sales between the UK and US geographical areas.

(a) Revenue

	2015			2014			2013		
	Total sales £m	**Sales between segments £m**	**Sales to third parties £m**	Total sales £m	Sales between segments £m	Sales to third parties £m	Total sales £m	Sales between segments £m	Sales to third parties £m
Operating segments:									
UK Electricity Transmission	**3,754**	**(12)**	**3,742**	3,387	(14)	3,373	3,110	(15)	3,095
UK Gas Transmission	**1,022**	**(107)**	**915**	941	(104)	837	1,118	(89)	1,029
UK Gas Distribution	**1,867**	**(43)**	**1,824**	1,898	(49)	1,849	1,714	(47)	1,667
US Regulated	**7,986**	**–**	**7,986**	8,040	–	8,040	7,918	–	7,918
Other activities	**762**	**(28)**	**734**	736	(26)	710	678	(28)	650
	15,391	**(190)**	**15,201**	15,002	(193)	14,809	14,538	(179)	14,359
Geographical areas:									
UK			**7,191**			6,759			6,421
US			**8,010**			8,050			7,938
			15,201			14,809			14,359

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

2. Segmental analysis continued

(b) Operating profit
A reconciliation of the operating segments' measure of profit to total profit before tax is provided below. Further details of the exceptional items, remeasurements and stranded cost recoveries are provided in note 4.

	Before exceptional items, remeasurements and stranded cost recoveries			After exceptional items, remeasurements and stranded cost recoveries		
	2015 £m	2014 £m	2013 £m	**2015 £m**	2014 £m	2013 £m
Operating segments:						
UK Electricity Transmission	**1,237**	1,087	1,049	**1,237**	1,027	1,020
UK Gas Transmission	**437**	417	531	**437**	406	517
UK Gas Distribution	**826**	904	794	**826**	780	763
US Regulated	**1,164**	1,125	1,254	**1,081**	1,388	1,438
Other activities	**199**	131	11	**199**	134	11
	3,863	3,664	3,639	**3,780**	3,735	3,749
Geographical areas:						
UK	**2,820**	2,723	2,530	**2,820**	2,531	2,456
US	**1,043**	941	1,109	**960**	1,204	1,293
	3,863	3,664	3,639	**3,780**	3,735	3,749
Reconciliation to profit before tax:						
Operating profit	**3,863**	3,664	3,639	**3,780**	3,735	3,749
Finance income	**36**	36	30	**36**	36	30
Finance costs	**(1,069)**	(1,144)	(1,154)	**(1,234)**	(1,051)	(1,086)
Share of post-tax results of joint ventures and associates	**46**	28	18	**46**	28	18
Profit before tax	**2,876**	2,584	2,533	**2,628**	2,748	2,711

(c) Capital expenditure, depreciation and amortisation

	Capital expenditure			Depreciation and amortisation		
	2015 £m	2014 £m	2013 £m	**2015 £m**	2014 £m	2013 £m
Operating segments:						
UK Electricity Transmission	**1,074**	1,381	1,430	**(376)**	(343)	(323)
UK Gas Transmission	**184**	181	249	**(172)**	(172)	(162)
UK Gas Distribution	**498**	480	666	**(286)**	(271)	(261)
US Regulated	**1,501**	1,219	1,124	**(452)**	(419)	(430)
Other activities	**213**	180	217	**(196)**	(211)	(185)
	3,470	3,441	3,686	**(1,482)**	(1,416)	(1,361)
Geographical areas:						
UK	**1,864**	2,155	2,471	**(983)**	(938)	(902)
US	**1,606**	1,286	1,215	**(499)**	(478)	(459)
	3,470	3,441	3,686	**(1,482)**	(1,416)	(1,361)
By asset type:						
Property, plant and equipment	**3,263**	3,262	3,511	**(1,361)**	(1,289)	(1,260)
Non-current intangible assets	**207**	179	175	**(121)**	(127)	(101)
	3,470	3,441	3,686	**(1,482)**	(1,416)	(1,361)

Total non-current assets other than financial instruments, deferred tax assets and pension assets located in the UK and US were £25,278m and £21,790m respectively as at 31 March 2015 (31 March 2014: UK £24,531m, US £18,349m; 31 March 2013: UK £23,344m, US £19,340m).

Unaudited commentary on the results of our principal operations by segment

As a business, we have three measures of operating profit that are used on a regular basis and disclosed in this Annual Report.

Statutory operating profit: This is operating profit as calculated under International Financial Reporting Standards (IFRS). Statutory operating profit by segment is shown in note 2 on page 98.

Adjusted operating profit: Adjusted operating profit (business performance) excludes items that if included could distort understanding of our performance for the year and the comparability between periods. Further details of items that are excluded in adjusted operating profit are shown in note 4 on page 103.

Regulatory financial performance: This is particularly relevant for our UK operations and is a measure of operating profit that reflects the impact of the businesses' regulatory arrangements when presenting financial performance.

Reconciliations between statutory and adjusted operating profit can be found on page 186. Reconciliations between adjusted operating profit and regulatory financial performance for UK Electricity Transmission, UK Gas Transmission and UK Gas Distribution can be found on page 100.

Commentary on segmental adjusted operating profit results

We have summarised the results of our principal operating segments here by segment to provide direct reference to the results as disclosed in note 2. This analysis has been prepared based on adjusted operating profit (operating profit before exceptional items, remeasurements and stranded cost recoveries) as set out in note 2(b).

UK Electricity Transmission

For the year ended 31 March 2015, revenue in the UK Electricity Transmission segment was £367m higher at £3,754m, and adjusted operating profit increased by £150m to £1,237m.

Net regulated income after pass-through costs was £230m higher, principally reflecting increases in allowed Transmission Owner revenues this year and a £43m benefit relating to legal settlements. This was partially offset by under-recoveries of allowed revenue in the year of £89m compared with under-recoveries of £60m in the prior year. Regulated controllable costs were £14m higher due to inflation, organisational change costs and additional tower maintenance costs. Depreciation and amortisation was £33m higher reflecting the continued capital investment programme (investment in the year was £1,074m). Other costs were £4m higher than prior year.

UK Gas Transmission

Revenue in the UK Gas Transmission segment increased by £81m in 2014/15 to £1,022m and adjusted operating profit increased by £20m to £437m.

Net regulated income after pass-through costs was £42m higher due to earned gas permit and constraints management incentives. In addition, under-recoveries of allowed revenue in the year of £18m were £3m favourable to last year's under-recoveries of £21m. Partially offsetting the revenue gains, regulated controllable costs were £8m higher, mainly as a result of additional system operator costs relating to EU work and some organisation change costs.

Other operating costs were also £17m higher, including a £13m provision for decommissioning the Avonmouth LNG plant.

Capital investment remained around the same level as last year at £184m.

UK Gas Distribution

UK Gas Distribution revenue decreased by £31m in 2014/15 to £1,867m, and adjusted operating profit decreased by £78m to £826m.

Net regulated income after pass-through costs was £11m lower, reflecting changes in allowed revenues for replacement expenditure (repex). Timing differences reduced net revenues by a further £16m, with £13m over-recoveries in 2014/15, compared with a £29m over-recovery in the prior year. Regulated controllable costs were £22m higher primarily due to inflation and some organisation change costs. Depreciation and amortisation was £15m higher reflecting the continued capital investment programme (investment in the year was £498m). Other costs were £14m higher, reflecting a provision for additional asset protection costs.

US Regulated

Revenue in our US Regulated businesses was £54m lower in 2014/15 at £7,986m, while adjusted operating profit increased by £39m to £1,164m.

The stronger dollar increased operating profit in the year by £30m. Excluding the impact of foreign exchange, net regulated income increased by £81m, reflecting increased revenue from existing rate plans, including capex trackers, together with additional income from gas customer growth, partially offset by the impact of the end of LIPA management services activities (MSA) in December 2013. In addition, over-recoveries of allowed revenues in the year of £30m were £20m favourable to last year's over-recoveries of £10m. Regulated controllable costs increased by £17m excluding the impact of foreign exchange, as a result of increased gas leak and compliance work and additional costs incurred to improve data quality and bring regulatory filings up to date, partly offset by the cessation of costs associated with the LIPA MSA activities. Bad debt costs were £62m higher excluding the impact of foreign exchange, following last year's exceptionally cold winter. There were no major storms affecting our operations in the years ended 31 March 2014 and 2015.

Our capital investment programme continues in the US, with a further £1,501m invested in 2014/15, including gas leak reduction programmes and electricity capacity and reinforcement work.

Other activities

Revenue in Other activities increased by £26m to £762m in the year ended 31 March 2015. Adjusted operating profit was £68m higher at £199m.

Operating profit in the French interconnector was £18m higher as a result of strong auction revenues this year. In the US, corporate and other activities losses were £63m lower, mainly as a result of our finance system upgrade completing in the first half of this year. Capital investment in our Other activities was £33m higher at £213m.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

Unaudited commentary on the results of our principal operations by segment continued

Commentary on UK regulated financial performance

The regulated financial performance calculation provides a measure of the performance of the regulated operations before the impacts of interest and taxation. It adjusts reported operating profit under IFRS to reflect the impact of the businesses' regulatory arrangements when presenting financial performance.

Adjustments in calculating regulatory financial performance
The principal adjustments from reported operating profit to UK regulated financial performance are:

Movement in UK regulatory 'IOUs': Revenue related to performance in one year may be recovered in later years. Revenue may be recovered in one year but be required to be returned to customers in future years. IFRS recognises these revenues when they flow through invoices to customers and not in the period to which they relate.

Performance RAV: UK performance efficiencies are in part remunerated by the creation of additional RAV which is expected to result in future earnings under regulatory arrangements.

Pension adjustment: Cash payments against pension deficits in the UK are recoverable under regulatory contracts.

3% RAV indexation: Future UK revenues expected to be set using an asset base adjusted for inflation. This will be billed in future periods and recognised under IFRS at that time.

UK deferred taxation adjustment: Future UK revenues are expected to recover cash taxation cost including the unwinding of deferred taxation balances created in the current year.

Regulatory depreciation: US and UK regulated revenues include allowance for a return of regulatory capital in accordance with regulatory assumed asset lives. This return does not form part of regulatory profit.

Fast/slow money adjustment: The regulatory remuneration of costs incurred is split between in year revenue allowances and the creation of additional RAV. This does not align with the classification of costs as operating costs and fixed asset additions under IFRS accounting principles.

UK Electricity Transmission
Regulated financial performance for UK Electricity Transmission increased to £1,232m from £1,066m, up 16%. The year on year movement reflected the higher opening regulated asset value and the higher achieved operational return on equity. There was also a one-off benefit of £56m from legal settlements. These were partially offset by a reduced price control 'tracker' cost of debt allowance.

Reconciliation of regulated financial performance to operating profit	2015 £m	2014 £m	% change
Reported operating profit	**1,237**	1,087	14
Movement in regulatory 'IOUs'	**(130)**	(19)	
Deferred taxation adjustment	**88**	53	
RAV indexation (average 3% long-run inflation)	**326**	301	
Regulatory vs IFRS depreciation difference	**(352)**	(337)	
Fast/slow money adjustment	**34**	(2)	
Pensions	**(48)**	(47)	
Performance RAV created	**77**	30	
Regulated financial performance	**1,232**	1,066	16

UK Gas Transmission
Regulated financial performance for UK Gas Transmission increased to £648m from £552m, up 17%. This reflected improved operational return on equity, mainly as a result of incentive performance, and the increase in underlying revenues associated with increased regulated asset value. This was partly offset by lower allowed cost of debt (2.72% real compared with 2.92% real in 2013/14).

Reconciliation of regulated financial performance to operating profit	2015 £m	2014 £m	% change
Reported operating profit	**437**	417	5
Movement in regulatory 'IOUs'	**(16)**	(28)	
Deferred taxation adjustment	**85**	12	
RAV indexation (average 3% long-run inflation)	**166**	162	
Regulatory vs IFRS depreciation difference	**(22)**	(2)	
Fast/slow money adjustment	**54**	44	
Pensions	**(49)**	(46)	
Performance RAV created	**(7)**	(7)	
Regulated financial performance	**648**	552	17

UK Gas Distribution
Regulated financial performance for UK Gas Distribution decreased to £819m from £855m. The year on year movement in regulated financial performance reflected an increase in underlying revenues associated with increased regulated asset value, more than offset by lower allowed cost of debt and a slightly reduced achieved return on equity.

Reconciliation of regulated financial performance to operating profit	2015 £m	2014 £m	% change
Reported operating profit	**826**	904	(9)
Movement in regulatory 'IOUs'	**(28)**	(59)	
Deferred taxation adjustment	**60**	85	
RAV indexation (average 3% long-run inflation)	**255**	252	
Regulatory vs IFRS depreciation difference	**(148)**	(149)	
Fast/slow money adjustment	**(182)**	(197)	
Pensions	**(5)**	(9)	
Performance RAV created	**41**	28	
Regulated financial performance	**819**	855	(4)

3. Operating costs

Below we have presented separately certain items included in our operating costs. These include a breakdown of payroll costs (including disclosure of amounts paid to key management personnel) and fees paid to our auditors.

Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

	Before exceptional items, remeasurements and stranded cost recoveries			Exceptional items, remeasurements and stranded cost recoveries			Total		
	2015 £m	2014 £m	2013 £m	**2015 £m**	2014[1] £m	2013[1] £m	**2015 £m**	2014[1] £m	2013[1] £m
Depreciation and amortisation	**1,482**	1,416	1,361	**–**	–	–	**1,482**	1,416	1,361
Payroll costs	**1,459**	1,373	1,434	**–**	(155)	26	**1,459**	1,218	1,460
Purchases of electricity	**1,615**	1,513	1,251	**70**	(49)	(111)	**1,685**	1,464	1,140
Purchases of gas	**1,403**	1,722	1,384	**13**	33	(69)	**1,416**	1,755	1,315
Rates and property taxes	**1,004**	963	969	**–**	–	–	**1,004**	963	969
Balancing Services Incentive Scheme	**874**	872	805	**–**	–	–	**874**	872	805
Payments to other UK network owners	**801**	630	487	**–**	–	–	**801**	630	487
Other	**2,700**	2,656	3,029	**–**	100	44	**2,700**	2,756	3,073
	11,338	11,145	10,720	**83**	(71)	(110)	**11,421**	11,074	10,610
Operating costs include:									
Inventory consumed							**365**	422	389
Operating leases							**98**	115	109
Research and development expenditure							**23**	12	15

1. Comparatives have been represented on a basis consistent with the current year presentation.

(a) Payroll costs

	2015 £m	2014[1] £m	2013[1] £m
Wages and salaries[2]	**1,598**	1,377	1,597
Social security costs	**129**	126	120
Other pension costs (note 22)	**224**	229	234
Share-based payment	**20**	20	20
Severance costs (excluding pension costs)	**4**	30	16
	1,975	1,782	1,987
Less: payroll costs capitalised	**(516)**	(564)	(527)
	1,459	1,218	1,460

1. Comparatives have been represented on a basis consistent with the current year presentation.
2. Included within wages and salaries are US other post-retirement benefit costs of £39m (2014: £44m; 2013: £43m); a curtailment gain on LIPA MSA transaction of £nil (2014: £198m; 2013: £nil) and a curtailment loss following disposal of businesses of £nil (2014: £nil; 2013: £1m). For further information refer to note 22.

(b) Number of employees

	31 March 2015	**Monthly average 2015**	31 March 2014	Monthly average 2014	31 March 2013	Monthly average 2013
UK	**9,701**	**9,670**	9,693	9,641	9,990	9,816
US	**14,573**	**14,434**	14,216	15,094	15,438	15,555
	24,274	**24,104**	23,909	24,735	25,428	25,371

The vast majority of employees in the US are either directly or indirectly employed in the transmission, distribution and generation of electricity or the distribution of gas, while those in the UK are either directly or indirectly employed in the transmission and distribution of gas or the transmission of electricity. At 31 March 2015, there were 2,131 (2014: 2,044; 2013: 2,151) employees in other operations, excluding shared services.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

3. Operating costs continued

(c) Key management compensation

	2015 £m	2014 £m	2013 £m
Short-term employee benefits	**10**	9	8
Post-employment benefits	**9**	1	3
Share-based payment	**4**	5	5
	23	15	16

Key management compensation relates to the Board of Directors, including the Executive Directors and Non-executive Directors for the years presented.

(d) Directors' emoluments
Details of Directors' emoluments are contained in the audited part of the Remuneration Report on page 69, which forms part of these financial statements.

(e) Auditors' remuneration
Auditors' remuneration is presented below in accordance with the requirements of the UK Companies Act 2006 and the principal accountant fees and services disclosure requirements of Item 16C of Form 20-F:

	2015 £m	2014[1] £m	2013 £m
Audit fees[2] payable to the parent Company's auditors and their associates in respect of:			
Audit of the parent Company's individual and consolidated financial statements	**1.3**	0.9	1.1
The auditing of accounts of any associate of the Company	**8.1**	9.2	6.0
Other services supplied[3]	**3.3**	3.2	2.7
	12.7	13.3	9.8
Total other services[4]			
Tax fees[5]:			
Tax compliance services	**0.4**	0.5	0.5
Tax advisory services	**0.1**	0.3	0.3
All other fees[6]:			
Other assurance services	**0.1**	0.1	0.1
Services relating to corporate finance transactions not covered above	**–**	–	0.3
Other non-audit services not covered above	**0.3**	0.8	1.1
	0.9	1.7	2.3
Total auditors' remuneration	**13.6**	15.0	12.1

1. The audit fees for the year ended 31 March 2014 have been restated to reflect the final audit fee following completion of the statutory audit process.
2. Audit fees in each year represent fees for the audit of the Company's financial statements and regulatory reporting for the years ended 31 March 2015, 2014 and 2013, and the review of interim financial statements for the six month periods ended 30 September 2014, 2013 and 2012 respectively.
3. Other services supplied represent fees payable for services in relation to other statutory filings or engagements that are required to be carried out by the auditors. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley) and audit reports on regulatory returns.
4. There were no audit related fees as described in Item 16C(b) of Form 20-F.
5. Tax fees include amounts charged for tax compliance, tax advice and tax planning.
6. All other fees include amounts relating to market research on the metering industry and sundry services, all of which have been subject to approval by the Audit Committee. Total other fees for the year ended 31 March 2015 were £0.4m (2014: £0.9m; 2013: £1.5m).

In addition, fees of £0.2m were incurred in 2015 in relation to the audits of the pension schemes of the Company (2014: £0.1m; 2013: £0.1m).

Subject to the Company's Articles of Association and the Companies Act 2006, the Audit Committee is solely and directly responsible for the approval of the appointment, reappointment, compensation and oversight of the Company's independent auditors. It is our policy that the Audit Committee must approve in advance all non-audit work in excess of £50,000 to be performed by the independent auditors to ensure that the service will not compromise auditor independence. The Committee has delegated the approval in advance for all non-audit work below this level to the Finance Director. Certain services are prohibited from being performed by the external auditors under the Sarbanes-Oxley Act 2002.

4. Exceptional items, remeasurements and stranded cost recoveries

To monitor our financial performance, we use a profit measure that excludes certain income and expenses. We call that measure 'business performance' or 'adjusted profit'. We exclude items from business performance because, if included, these items could distort understanding of our performance for the year and the comparability between periods. This note analyses these items, which are included in our results for the year but are excluded from business performance.

Our financial performance is analysed into two components: business performance, which excludes exceptional items, remeasurements and stranded cost recoveries; and exceptional items, remeasurements and stranded cost recoveries. Business performance is used by management to monitor financial performance as it is considered that it improves the comparability of our reported financial performance from year to year. Business performance subtotals are presented on the face of the income statement or in the notes to the financial statements.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and significant debt redemption costs as a consequence of transactions such as significant disposals or issues of equity.

Costs arising from restructuring programmes include redundancy costs. Redundancy costs are charged to the income statement in the year in which a commitment is made to incur the costs and the main features of the restructuring plan have been announced to affected employees.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective. These fair values increase or decrease because of changes in commodity and financial indices and prices over which we have no control.

Stranded cost recoveries represent the recovery, through charges to electricity customers in upstate New York and New England, of historical generation-related costs, related to generation assets that are no longer owned by National Grid. Such costs have been recovered from customers as permitted by regulatory agreements, which was completed by 31 March 2013.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

4. Exceptional items, remeasurements and stranded cost recoveries continued

	2015 £m	2014 £m	2013 £m
Included within operating profit			
Exceptional items:			
Restructuring costs[1]	–	(136)	(87)
Gas holder demolition costs[2]	–	(79)	–
LIPA MSA transition[3]	–	254	–
Other[4]	–	16	–
Net gain on disposal of businesses[5]	–	–	3
	–	55	(84)
Remeasurements – commodity contracts[6]	(83)	16	180
Stranded cost recoveries[7]	–	–	14
	(83)	71	110
Included within finance costs			
Exceptional items:			
Debt redemption costs[8]	(131)	–	–
Remeasurements – net (losses)/gains on derivative financial instruments[9]	(34)	93	68
	(165)	93	68
Total included within profit before tax	(248)	164	178
Included within tax			
Exceptional credits/(charges) arising on items not included in profit before tax:			
Deferred tax credit arising on the reduction in the UK corporation tax rate[10]	6	398	128
Deferred tax charge arising from an increase in US state income tax rates[11]	–	(8)	–
Tax on exceptional items	28	(57)	31
Tax on remeasurements[6,8]	44	(36)	(92)
Tax on stranded cost recoveries	–	–	(5)
	78	297	62
Total exceptional items, remeasurements and stranded cost recoveries after tax	(170)	461	240
Analysis of total exceptional items, remeasurements and stranded cost recoveries after tax			
Exceptional items after tax	(97)	388	75
Remeasurements after tax	(73)	73	156
Stranded cost recoveries after tax	–	–	9
Total exceptional items, remeasurements and stranded cost recoveries after tax	(170)	461	240

1. No exceptional restructuring costs have been incurred in the year ended 31 March 2015. Restructuring costs for 2014 included: costs related to the continued restructuring of our UK operations in preparedness to deliver RIIO, other transformation-related initiatives in the UK and US and an associated software impairment for licences that will no longer be used. For the year ended 31 March 2013, restructuring costs included: costs for the restructuring of our UK operations of £66m in preparedness for delivering RIIO; costs for transformation-related initiatives in the UK and US of £31m; and a credit of £10m for the release of restructuring provisions in the UK recognised in prior years.
2. No further provision (2014: £79m) has been made for the demolition of non-operational gas holders in the UK.
3. For the year ended 31 March 2014, a net gain of £254m was recognised. This included a pension curtailment and settlement (£214m) for employees who transferred to a new employer following the cessation of the Management Services Agreement (MSA) with the Long Island Power Authority (LIPA) on 31 December 2013. There was also a gain of £142m following the extinguishment of debt obligations of £98m and a £56m cash payment received, in compensation for the Company forgiving an historical pension receivable and carrying charges. These gains were offset by transition costs and other provisions incurred to effect the transition.
4. During the year ended 31 March 2014, £16m was received following the sale to a third party of a settlement award which arose as a result of a legal ruling in 2008.
5. For the year ended 31 March 2013, we recognised a gain of £3m on the disposal of two subsidiaries in New Hampshire.
6. Remeasurements – commodity contracts represent mark-to-market movements on certain physical and financial commodity contract obligations in the US. These contracts primarily relate to the forward purchase of energy for supply to customers, or to the economic hedging thereof, that are required to be measured at fair value and that do not qualify for hedge accounting. Under the existing rate plans in the US, commodity costs are recoverable from customers although the timing of recovery may differ from the pattern of costs incurred.
7. For the year ended 31 March 2013, stranded cost recoveries of £14m substantially represented the release of an unutilised provision recognised in a prior period.
8. Represents costs arising from a liability management programme. We have reviewed and restructured the Group debt portfolio following the commencement of the RIIO price controls in 2013 and the slow down in our planned short term UK capital investment programme as the industry assesses the impact of EMR. This resulted in a bond repurchase programme with a notional value of £924m.
9. Remeasurements – net (losses)/gains on derivative financial instruments comprise (losses)/gains arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt. The tax charge in the year includes a credit of £1m (2014: £nil; 2013: £1m) in respect of prior years.
10. The Finance Act 2013 enacted reductions in the UK corporation tax rate from 23% to 21% from 1 April 2014, and from 21% to 20% from 1 April 2015. Other UK tax legislation also reduced the UK corporation tax rate in prior periods (2013: from 24% to 23%). These reductions have resulted in decreases to UK deferred tax liabilities in these periods.
11. The exceptional tax charge in the prior year arose from a net increase in US state income tax rates. Effective from 1 April 2014, the state income tax rate for Massachusetts regulated utilities increased from 6.5% to 8% and, effective from 1 April 2016, the state income tax rate for New York will decrease from 7.1% to 6.5%.

5. Finance income and costs

This note details the interest income generated by our financial assets and interest expense incurred on our financial liabilities. It also includes the expected return on our pensions and other post-retirement assets, which is offset by the interest payable on pensions and other post-retirement obligations and presented on a net basis. In reporting business performance, we adjust net financing costs to exclude any net gains or losses on derivative financial instruments included in remeasurements. In addition, the current year debt redemption costs have been treated as exceptional (see note 4).

	2015 £m	2014 £m	2013 £m
Finance income			
Interest income on financial instruments:			
Bank deposits and other financial assets	**28**	22	20
Gains on disposal of available-for-sale investments	**8**	14	10
	36	36	30
Finance costs			
Net interest on pensions and other post-retirement benefit obligations	**(101)**	(128)	(135)
Interest expense on financial liabilities held at amortised cost:			
Bank loans and overdrafts	**(45)**	(61)	(65)
Other borrowings	**(992)**	(1,109)	(1,052)
Derivatives	**56**	79	51
Unwinding of discount on provisions	**(73)**	(73)	(75)
Less: interest capitalised[1]	**86**	148	122
	(1,069)	(1,144)	(1,154)
Exceptional items			
Debt redemption costs	**(131)**	–	–
Remeasurements			
Net gains/(losses) on derivative financial instruments included in remeasurements[2]:			
Ineffectiveness on derivatives designated as:			
Fair value hedges[3]	**36**	22	17
Cash flow hedges	**(13)**	4	(7)
Net investment hedges	**2**	38	(26)
Net investment hedges – undesignated forward rate risk	**33**	(7)	26
Derivatives not designated as hedges or ineligible for hedge accounting	**(92)**	36	58
	(165)	93	68
	(1,234)	(1,051)	(1,086)
Net finance costs	**(1,198)**	(1,015)	(1,056)

1. Interest on funding attributable to assets in the course of construction in the current year was capitalised at a rate of 3.8% (2014: 4.5%; 2013: 4.4%). In the UK, capitalised interest qualifies for a current year tax deduction with tax relief claimed of £24m (2014: £32m). In the US, capitalised interest is added to the cost of plant and qualifies for tax depreciation allowances.
2. Includes a net foreign exchange gain on financing activities of £636m (2014: £268m gain; 2013: £32m loss) offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.
3. Includes a net gain on instruments designated as fair value hedges of £219m (2014: £183m loss; 2013: £67m gain) offset by a net loss of £162m (2014: £205m gain; 2013: £50m loss) arising from fair value adjustments to the carrying value of debt.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

6. Tax

Tax is payable in the territories where we operate, mainly the UK and the US. This note gives further details of the total tax charge and tax liabilities, including current and deferred tax. The current tax charge is the tax payable on this year's taxable profits. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in the accounting and tax bases of profit.

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

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

The calculation of the Group's total tax charge involves a degree of estimation and judgement, and management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Company and its subsidiaries intend to settle their current tax assets and liabilities on a net basis.

6. Tax continued

Tax charged/(credited) to the income statement

	2015 £m	2014 £m	2013 £m
Tax before exceptional items, remeasurements and stranded cost recoveries	**695**	581	619
Exceptional tax on items not included in profit before tax (note 4)	**(6)**	(390)	(128)
Tax on other exceptional items, remeasurements and stranded cost recoveries	**(72)**	93	66
Tax on total exceptional items, remeasurements and stranded cost recoveries (note 4)	**(78)**	(297)	(62)
Total tax charge	**617**	284	557

Tax as a percentage of profit before tax

	2015 %	2014 %	2013 %
Before exceptional items, remeasurements and stranded cost recoveries	**24.2**	22.5	24.4
After exceptional items, remeasurements and stranded cost recoveries	**23.5**	10.3	20.5

The tax charge for the year can be analysed as follows:

	2015 £m	2014 £m	2013 £m
Current tax			
UK corporation tax at 21% (2014: 23%; 2013: 24%)	**309**	355	306
UK corporation tax adjustment in respect of prior years	**(2)**	(9)	(17)
	307	346	289
Overseas corporation tax	**51**	54	50
Overseas corporation tax adjustment in respect of prior years	**(62)**	(88)	(222)
	(11)	(34)	(172)
Total current tax	**296**	312	117
Deferred tax			
UK deferred tax	**123**	(292)	35
UK deferred tax adjustment in respect of prior years	**7**	(3)	(17)
	130	(295)	18
Overseas deferred tax	**138**	276	283
Overseas deferred tax adjustment in respect of prior years	**53**	(9)	139
	191	267	422
Total deferred tax	**321**	(28)	440
Total tax charge	**617**	284	557

Adjustments in respect of prior years include the following amounts that relate to exceptional items, remeasurements and stranded cost recoveries: £1m credit (2014: £nil; 2013: £1m credit).

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

6. Tax continued

Tax (credited)/charged to other comprehensive income and equity

	2015 £m	2014 £m	2013 £m
Current tax			
Share-based payment	**(7)**	(3)	1
Available-for-sale investments	**5**	(5)	–
Deferred tax			
Available-for-sale investments	**2**	2	2
Cash flow hedges	**(18)**	5	13
Share-based payment	**3**	(4)	1
Remeasurements of net retirement benefit obligations	**(299)**	172	(179)
	(314)	167	(162)
Total tax recognised in the statement of comprehensive income	**(310)**	174	(164)
Total tax relating to share-based payment recognised directly in equity	**(4)**	(7)	2
	(314)	167	(162)

The tax charge for the year after exceptional items, remeasurements and stranded cost recoveries is higher (2014: lower; 2013: lower) than the standard rate of corporation tax in the UK of 21% (2014: 23%; 2013: 24%):

	Before exceptional items, remeasurements and stranded cost recoveries 2015 £m	After exceptional items, remeasurements and stranded cost recoveries 2015 £m	Before exceptional items, remeasurements and stranded cost recoveries 2014 £m	After exceptional items, remeasurements and stranded cost recoveries 2014 £m	Before exceptional items, remeasurements and stranded cost recoveries 2013 £m	After exceptional items, remeasurements and stranded cost recoveries 2013 £m
Profit before tax						
Before exceptional items, remeasurements and stranded cost recoveries	**2,876**	**2,876**	2,584	2,584	2,533	2,533
Exceptional items, remeasurements and stranded cost recoveries	**–**	**(248)**	–	164	–	178
Profit before tax	**2,876**	**2,628**	2,584	2,748	2,533	2,711
Profit before tax multiplied by UK corporation tax rate of 21% (2014: 23%; 2013: 24%)	**604**	**552**	594	632	608	651
Effect of:						
Adjustments in respect of prior years	**(3)**	**(4)**	(109)	(109)	(116)	(117)
Expenses not deductible for tax purposes	**31**	**327**	32	284	37	169
Non-taxable income	**(20)**	**(320)**	(24)	(268)	(24)	(152)
Adjustment in respect of foreign tax rates	**91**	**77**	98	138	116	140
Impact of share-based payment	**(1)**	**(1)**	(3)	(3)	2	2
Deferred tax impact of change in UK and US tax rates	**–**	**(6)**	–	(390)	–	(128)
Other	**(7)**	**(8)**	(7)	–	(4)	(8)
Total tax charge	**695**	**617**	581	284	619	557
	%	%	%	%	%	%
Effective tax rate	**24.2**	**23.5**	22.5	10.3	24.4	20.5

6. Tax continued

Tax included within the statement of financial position
The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current and prior reporting periods:

	Accelerated tax depreciation £m	Share-based payment £m	Pensions and other post-retirement benefits £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax (assets)/liabilities						
Deferred tax assets at 31 March 2013	(2)	(15)	(1,362)	(16)	(777)	(2,172)
Deferred tax liabilities at 31 March 2013	5,963	–	154	9	123	6,249
At 1 April 2013	5,961	(15)	(1,208)	(7)	(654)	4,077
Exchange adjustments	(282)	–	78	–	59	(145)
(Credited)/charged to income statement	(30)	(3)	141	(7)	(126)	(25)
(Credited)/charged to other comprehensive income and equity	–	(4)	172	7	–	175
At 31 March 2014	5,649	(22)	(817)	(7)	(721)	4,082
Deferred tax assets at 31 March 2014	(1)	(22)	(960)	(13)	(796)	(1,792)
Deferred tax liabilities at 31 March 2014	5,650	–	143	6	75	5,874
At 1 April 2014	5,649	(22)	(817)	(7)	(721)	4,082
Exchange adjustments	408	–	(99)	(2)	(104)	203
Charged/(credited) to income statement	599	1	38	(34)	(280)	324
Charged/(credited) to other comprehensive income and equity	–	3	(299)	(16)	–	(312)
At 31 March 2015	**6,656**	**(18)**	**(1,177)**	**(59)**	**(1,105)**	**4,297**
Deferred tax assets at 31 March 2015	(1)	(18)	(1,337)	(64)	(1,186)	(2,606)
Deferred tax liabilities at 31 March 2015	6,657	–	160	5	81	6,903
	6,656	(18)	(1,177)	(59)	(1,105)	4,297

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. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £4,297m (2014: £4,082m).

Deferred tax assets in respect of capital losses, trading losses and non-trade deficits have not been recognised as their future recovery is uncertain or not currently anticipated. The deferred tax assets not recognised are as follows:

	2015 £m	2014 £m
Capital losses	**250**	274
Non-trade deficits	**1**	1
Trading losses	**4**	5

The capital losses and non-trade deficits that arise in the UK are available to carry forward indefinitely. However, the capital losses can only be offset against specific types of future capital gains and non-trade deficits against specific future non-trade profits. The trading losses arising in the US have up to a 20 year carry forward time limit.

The aggregate amount of temporary differences associated with the unremitted earnings of overseas subsidiaries and joint ventures for which deferred tax liabilities have not been recognised at the reporting date is approximately £773m (2014: £2,118m). No liability is recognised in respect of the differences because the Company and its subsidiaries are in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. In addition, as a result of UK tax legislation, which largely exempts overseas dividends received, the temporary differences are unlikely to lead to additional tax.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

Unaudited commentary on tax

Tax strategy
National Grid manages its tax affairs in a proactive and responsible way in order to comply with all relevant legislation and minimise reputational risk. As a regulated public utility we are very conscious of the need to manage our tax affairs responsibly in the eyes of our stakeholders. We have a good working relationship with all relevant tax authorities and actively engage with them in order to ensure that they are fully aware of our view of the tax implications of our business initiatives. Management responsibility and oversight for our tax strategy, which is approved by the Finance Committee, rests with the Finance Director and the Global Tax and Treasury Director who monitor our tax activities and report to the Finance Committee.

Total UK tax contribution
This is the third year we have disclosed additional information in respect of our total UK tax contribution for consistency and to aid transparency in an area in which there remains significant public interest. As was the case in prior years, the total amount of taxes we pay and collect in the UK year on year is significantly more than just the corporation tax which we pay on our UK profits. Within the total, we again include other taxes paid such as business rates and taxes on employment together with employee taxes and other indirect taxes.

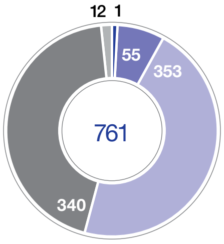
For 2014/15 our total tax contribution to the UK Exchequer was £1.5bn (2013/14: £1.4bn). Taxes borne in 2015 were £761m, a 4% increase on taxes borne in 2014 of £733m and primarily due to higher corporation tax payments in the current year. Our 2013/14 total tax contribution of £1.4bn resulted in National Grid being the 13th highest contributor of UK taxes based on the results of the Hundred Group's 2014 Total Tax Contribution Survey, a position commensurate with the size of our business and capitalisation relative to other contributors to the Survey. In 2013 we were in 17th position. In 2014 we ranked 9th in respect of taxes borne.

National Grid's contribution to the UK economy is again broader than just the taxes it pays over to and collects on behalf of HMRC. The Hundred Group's 2014 Total Tax Contribution Survey ranks National Grid in 4th place in respect of UK capital expenditure on fixed assets. For instance, National Grid's economic contribution also supports a significant number of UK jobs in our supply chain.

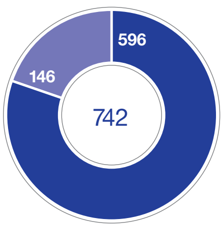
The most significant amounts making up the 2014/15 total tax contribution were as follows:

UK total tax contribution 2014/15

Taxes borne £m



Taxes collected £m



■ VAT ■ PAYE and NIC ■ UK corporation tax
■ Business rates ■ Other

Tax transparency
The UK tax charge for the year disclosed in the financial statements in accordance with accounting standards and the UK corporation tax paid during the year will differ. For transparency we have included a reconciliation below of the tax charge per the income statement to the UK corporation tax paid in 2014/15.

The tax charge for the Group as reported in the income statement is £617m (2013/14: £284m). The UK tax charge is £437m (2013/14: £51m) and UK corporation tax paid was £353m (2013/14: £329m), with the principal differences between these two measures as follows:

Reconciliation of UK total tax charge to UK corporation tax paid	Year ended 31 March 2015 £m	2014 £m
Total UK tax charge (current tax £307m (2014: £346m) and deferred tax £130m (2014: £295m credit))	**437**	51
Adjustment for non-cash deferred tax (charge)/credit	**(130)**	295
Adjustments for current tax credit in respect of prior years	**2**	9
UK current tax charge	**309**	355
UK corporation tax instalment payments not payable until the following year	**(127)**	(179)
UK corporation tax instalment payments in respect of prior years paid in current year	**171**	153
UK corporation tax paid	**353**	329

Tax losses
We have total unrecognised deferred tax assets in respect of losses of £255m (2013/14: £280m) of which £250m (2013/14: £274m) are capital losses in the UK as set out above. These losses arose as a result of the disposal of certain businesses or assets and may be available to offset against future capital gains in the UK.

Development of future tax policy
We believe that the continued development of a coherent and transparent tax policy in the UK is critical to help drive growth in the economy.

We continue to contribute to research into the structure of business tax and its economic impact by contributing to the funding of the Oxford University Centre for Business Tax at the Saïd Business School.

We are a member of a number of industry groups which participate in the development of future tax policy, including the Hundred Group, which represents the views of Finance Directors of FTSE 100 companies and several other large UK companies. Our Group Finance Director is Chairman of its Tax Committee. This helps to ensure that we are engaged at the earliest opportunity on tax issues which affect our business. In the current year we have reviewed and responded to a number of HMRC consultations, the subject matter of which directly impacts taxes borne or collected by our business.

7. Earnings per share (EPS)

EPS is the amount of post-tax profit attributable to each ordinary share. Basic EPS is calculated on profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS shows what the impact would be if all outstanding share options were exercised and treated as ordinary shares at year end. The weighted average number of shares is increased by additional shares issued as scrip dividends and reduced by shares repurchased by the Company during the year.

Adjusted earnings and EPS, which exclude exceptional items, remeasurements and stranded cost recoveries, are provided to reflect the business performance subtotals used by the Company. For further details of exceptional items, remeasurements and stranded cost recoveries, see note 4.

(a) Basic earnings per share

	Earnings 2015 £m	**Earnings per share 2015 pence**	Earnings 2014 £m	Earnings per share 2014 (restated)[1] pence	Earnings 2013 £m	Earnings per share 2013 (restated)[1] pence
Adjusted earnings	**2,189**	**58.1**	2,015	53.5	1,913	50.9
Exceptional items after tax	**(97)**	**(2.6)**	388	10.3	75	2.0
Remeasurements after tax	**(73)**	**(1.9)**	73	1.9	156	4.1
Stranded cost recoveries after tax	**–**	**–**	–	–	9	0.2
Earnings	**2,019**	**53.6**	2,476	65.7	2,153	57.2

	2015 millions	2014 millions	2013 millions
Weighted average number of shares – basic[1]	**3,766**	3,766	3,761

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

(b) Diluted earnings per share

	Earnings 2015 £m	**Earnings per share 2015 pence**	Earnings 2014 £m	Earnings per share 2014 (restated)[1] pence	Earnings 2013 £m	Earnings per share 2013 (restated)[1] pence
Adjusted earnings	**2,189**	**57.9**	2,015	53.2	1,913	50.6
Exceptional items after tax	**(97)**	**(2.6)**	388	10.3	75	2.0
Remeasurements after tax	**(73)**	**(1.9)**	73	1.9	156	4.1
Stranded cost recoveries after tax	**–**	**–**	–	–	9	0.3
Earnings	**2,019**	**53.4**	2,476	65.4	2,153	57.0

	2015 millions	2014 millions	2013 millions
Weighted average number of shares – diluted[1]	**3,783**	3,785	3,779

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

(c) Reconciliation of basic to diluted average number of shares

	2015 millions	2014 (restated)[1] millions	2013 (restated)[1] millions
Weighted average number of ordinary shares – basic	**3,766**	3,766	3,761
Effect of dilutive potential ordinary shares – employee share plans	**17**	19	18
Weighted average number of ordinary shares – diluted	**3,783**	3,785	3,779

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

8. Dividends

Dividends represent the return of profits to shareholders. Dividends are paid as an amount per ordinary share held. We retain part of the profits generated in the year to meet future growth plans and pay out the remainder in accordance with our dividend policy.

Interim dividends are recognised when they become payable to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

	2015			2014			2013		
	Pence per share	Cash dividend paid £m	Scrip dividend £m	Pence per share	Cash dividend paid £m	Scrip dividend £m	Pence per share	Cash dividend paid £m	Scrip dividend £m
Interim dividend in respect of the current year	**14.71**	**531**	**26**	14.49	539	–	14.49	340	187
Final dividend in respect of the prior year	**27.54**	**740**	**289**	26.36	520	444	25.35	470	436
	42.25	**1,271**	**315**	40.85	1,059	444	39.84	810	623

The Directors are proposing a final dividend for the year ended 31 March 2015 of 28.16p per share that will absorb approximately £1,054m of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 5 August 2015 to shareholders who are on the register of members at 5 June 2015 and a scrip dividend will be offered as an alternative, subject to shareholders' approval at the Annual General Meeting.

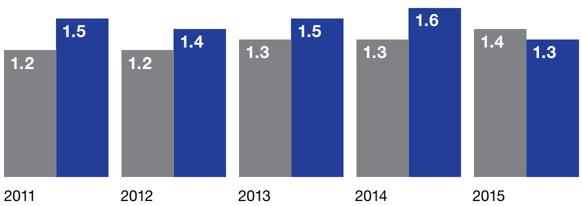
Unaudited commentary on dividends

Following the announcement of our dividend policy in March 2013, the Board remains confident that National Grid is able to support a dividend growing at least in line with RPI inflation for the foreseeable future, while continuing to invest as required in our regulated assets.

With the exception of the 2013/14 interim dividend paid in January 2014, a scrip option has been offered for all interim and final dividends in the last four years. The scrip take-up as a percentage of total shares outstanding (excluding treasury shares) since 2012/13 was as follows: 2014/15 interim 5%; 2013/14 final 28%; 2013/14 interim n/a; 2012/13 final 46%; and 2012/13 interim 35%.

In August 2014 we began a share buyback programme that will allow us to offer the scrip dividend option for both the full-year and interim dividend. The buyback programme is designed to balance shareholders' appetite for the scrip dividend option with our desire to operate an efficient balance sheet with appropriate leverage.

Dividend cover
Ratio of earnings cover over dividend paid to shareholders



9. Goodwill

Goodwill represents the excess of what we paid to acquire businesses over the fair value of their net assets at the acquisition date. We assess whether goodwill is recoverable each year by performing an impairment review.

Goodwill is recognised as an asset and is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

Impairment
Goodwill is allocated to cash-generating units and this allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Impairments of goodwill are calculated as the difference between the carrying value of the goodwill and the estimated recoverable amount of the cash-generating unit to which that goodwill has been allocated. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value-in-use at the date the impairment review is undertaken.

Value-in-use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairments are recognised in the income statement and are disclosed separately.

	Total £m
Net book value at 1 April 2013	5,028
Additions	12
Exchange adjustments	(446)
Net book value at 31 March 2014	4,594
Impairment	(12)
Exchange adjustments	563
Net book value at 31 March 2015	**5,145**

The cost of goodwill at 31 March 2015 was £5,157m (2014: £4,594m) with an accumulated impairment charge of £12m (2014: £nil).

The amounts disclosed above as at 31 March 2015 include balances relating to the following cash-generating units: New York £2,964m (2014: £2,640m); Massachusetts £1,108m (2014: £987m); Rhode Island £412m (2014: £367m); and Federal £661m (2014: £600m).

Goodwill is reviewed annually for impairment and the recoverability of goodwill has been assessed by comparing the carrying amount of our operations described above (our cash-generating units) with the expected recoverable amount on a value-in-use basis. In each assessment, the value-in-use has been calculated based on five year plan projections that incorporate our best estimates of future cash flows, customer rates, costs, future prices and growth. Such projections reflect our current regulatory rate plans taking into account regulatory arrangements to allow for future rate plan filings and recovery of investment. Our plans have proved to be reliable guides in the past and the Directors believe the estimates are appropriate.

The future economic growth rate used to extrapolate projections beyond five years has been maintained at 2.25% (2014: 2.25%). The growth rate has been determined having regard to data on projected growth in US real gross domestic product (GDP). Based on our business' place in the underlying US economy, it is appropriate for the terminal growth rate to be based upon the overall growth in real GDP and, given the nature of our operations, to extend over a long period of time. Cash flow projections have been discounted to reflect the time value of money, using a pre-tax discount rate of 9% (2014: 9%). The discount rate represents the estimated weighted average cost of capital of these operations.

While it is possible that a key assumption in the calculation could change, the Directors believe that no reasonably foreseeable change would result in an impairment of goodwill, in view of the long-term nature of the key assumptions and the margin by which the estimated fair value exceeds the carrying amount.

As part of their review, the Directors specifically reviewed the carrying value of goodwill associated with Clean Line Energy Partners LLC. This review resulted in a full impairment being recorded of £12m.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

10. Other intangible assets

Other intangible assets include software and acquisition-related assets (such as brand names and customer relationships), which are written down (amortised) over the length of period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Other intangible assets are tested for impairment only if there is an indication that the carrying value of the assets may have been impaired. Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets, such as software, are recognised only if: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

On a business combination, as well as recording separable intangible assets possessed by the acquired entity at their fair value, identifiable intangible assets that arise from contractual or other legal rights are also included in the statement of financial position at their fair value. Acquisition-related intangible assets principally comprise customer relationships.

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

	Years
Software	3 to 10
Acquisition-related intangibles	10 to 25

	Software £m	Acquisition-related £m	Total £m
Cost at 1 April 2013	1,031	122	1,153
Exchange adjustments	(38)	(7)	(45)
Additions	179	–	179
Disposals	(16)	(115)	(131)
Reclassifications[1]	66	–	66
Cost at 31 March 2014	1,222	–	1,222
Exchange adjustments	59	–	59
Additions	207	–	207
Reclassifications[1]	16	–	16
Cost at 31 March 2015	1,504	–	1,504
Accumulated amortisation at 1 April 2013	(442)	(122)	(564)
Exchange adjustments	12	7	19
Amortisation charge for the year	(127)	–	(127)
Impairment charge	(5)	–	(5)
Disposals	12	115	127
Reclassifications[1]	(3)	–	(3)
Accumulated amortisation at 31 March 2014	(553)	–	(553)
Exchange adjustments	(20)	–	(20)
Amortisation charge for the year	(121)	–	(121)
Reclassifications[1]	(8)	–	(8)
Accumulated amortisation at 31 March 2015	(702)	–	(702)
Net book value at 31 March 2015	**802**	**–**	**802**
Net book value at 31 March 2014	669	–	669

1. Reclassifications includes amounts transferred (to)/from property, plant and equipment (see note 11) and reclasses between cost and accumulated amortisation of £6m.

11. Property, plant and equipment

The following note shows the physical assets controlled by us. The cost of these assets primarily represents the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and the reduced value of the asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economic life) and charging the cost of the asset to the income statement equally over this period.

Our strategy in action
We operate an energy networks business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment is recorded at cost, less accumulated depreciation and any impairment losses.

Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment as well as the cost of any associated asset retirement obligations.

Property, plant and equipment includes assets in which the Company's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets.

Contributions received prior to 1 July 2009 towards the cost of property, plant and equipment are included in trade and other payables as deferred income and credited on a straight-line basis to the income statement over the estimated useful economic lives of the assets to which they relate.

Contributions received post 1 July 2009 are recognised in revenue immediately, except where the contributions are consideration for a future service, in which case they are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided.

No depreciation is provided on freehold land or assets in the course of construction.

Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessments of estimated useful economic lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

	Years
Freehold and leasehold buildings	up to 65
Plant and machinery:	
Electricity transmission plant	15 to 60
Electricity distribution plant	15 to 60
Electricity generation plant	20 to 40
Interconnector plant	15 to 60
Gas plant – mains, services and regulating equipment	30 to 100
Gas plant – storage	15 to 21
Gas plant – meters	10 to 33
Motor vehicles and office equipment	up to 10

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within operating profit in the income statement.

Items within property, plant and equipment are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

Material impairments are recognised in the income statement and are disclosed separately.

Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

11. Property, plant and equipment continued

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2013	2,325	45,366	3,960	803	52,454
Exchange adjustments	(99)	(1,471)	(82)	(28)	(1,680)
Additions	69	623	2,514	56	3,262
Disposals	(32)	(288)	(2)	(98)	(420)
Reclassifications[1]	(15)	2,195	(2,366)	120	(66)
Cost at 31 March 2014	2,248	46,425	4,024	853	53,550
Exchange adjustments	132	2,019	82	47	2,280
Additions	55	544	2,514	150	3,263
Disposals	(30)	(334)	(1)	(74)	(439)
Reclassifications[1]	105	1,981	(2,104)	8	(10)
Cost at 31 March 2015	2,510	50,635	4,515	984	58,644
Accumulated depreciation at 1 April 2013	(499)	(14,806)	–	(557)	(15,862)
Exchange adjustments	16	399	–	21	436
Depreciation charge for the year[2]	(84)	(1,112)	–	(103)	(1,299)
Impairment charge for the year	(1)	–	–	–	(1)
Disposals	25	234	–	93	352
Reclassifications[1]	107	(65)	–	(39)	3
Accumulated depreciation at 31 March 2014	(436)	(15,350)	–	(585)	(16,371)
Exchange adjustments	(15)	(533)	–	(29)	(577)
Depreciation charge for the year[2]	(82)	(1,138)	–	(143)	(1,363)
Disposals	7	307	–	74	388
Reclassifications[1]	(4)	1	–	5	2
Accumulated depreciation at 31 March 2015	(530)	(16,713)	–	(678)	(17,921)
Net book value at 31 March 2015	**1,980**	**33,922**	**4,515**	**306**	**40,723**
Net book value at 31 March 2014	1,812	31,075	4,024	268	37,179

1. Represents amounts transferred between categories and (to)/from other intangible assets (see note 10).
2. Includes amounts in respect of capitalised depreciation of £2m (2014: £10m).

	2015 £m	2014 £m
Information in relation to property, plant and equipment		
Capitalised interest included within cost	**1,506**	1,409
Net book value of assets held under finance leases (all relating to motor vehicles and office equipment)	**184**	170
Additions to assets held under finance leases (all relating to motor vehicles and office equipment)	**61**	25
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	**47**	44
Non-current liabilities	**1,569**	1,526

12. Other non-current assets

Other non-current assets include assets that do not fall into any other non-current asset category (such as goodwill or property, plant and equipment) and the benefit to be received from the asset is not due to be received until after 31 March 2016.

	2015 £m	2014 £m
Commodity contract assets	**29**	45
Other receivables	**39**	33
Prepayments	**12**	9
	80	87

13. Financial and other investments

Financial and other investments include two main categories. Assets classified as available-for-sale typically represent investments in short-term money funds and quoted investments in equities or bonds of other companies. The second category is loans and receivables which includes bank deposits with a maturity of greater than three months, and cash balances that cannot be readily used in operations, principally collateral pledged for certain borrowings.

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

Available-for-sale financial investments are recognised at fair value plus directly related incremental transaction costs, and are subsequently carried at fair value in the statement of financial position. Changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Investment income is recognised using the effective interest method and taken through interest income in the income statement.

Loans receivable and other receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, are recognised in the income statement.

Subsequent to initial recognition, the fair values of financial assets measured at fair value that are quoted in active markets are based on bid prices. When independent prices are not available, fair values are determined by using valuation techniques that are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

	2015 £m	2014[1] £m
Non-current		
Available-for-sale investments	**330**	284
Current		
Available-for-sale investments	**1,232**	2,716
Loans and receivables	**1,327**	883
	2,559	3,599
	2,889	3,883
Financial and other investments include the following:		
Investments in short-term money funds[2]	**618**	2,165
Managed investments in equity and bonds[3]	**785**	696
Bank deposits	**–**	355
Cash surrender value of life insurance policies	**158**	140
Other investments	**2**	2
Restricted balances:		
Collateral[4]	**1,199**	402
Other	**127**	123
	2,889	3,883

1. Comparatives have been represented on a basis consistent with current year presentation.
2. Includes £34m (2014: £nil) held by insurance captives and therefore restricted.
3. Includes £644m (2014: £667m) which is restricted and relates to investments held by insurance captives of £382m (2014: £296m), US non-qualified plan investments of £170m (2014: £141m) and assets held within security accounts with charges in favour of the UK pension scheme Trustees of £92m (2014: £230m).
4. Refers to collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA (International Swaps and Derivatives Association) Master Agreement.

Available-for-sale investments are recorded at fair value. Due to their short maturities the carrying value of loans and receivables approximates their fair value. The maximum exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our credit risk, refer to note 30(a). None of the financial investments are past due or impaired.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

14. Investments in joint ventures and associates

Investments in joint ventures and associates represent businesses we do not control, but instead exercise joint control or significant influence.

A joint venture is an arrangement established to engage in economic activity, which the Company jointly controls with other parties and has rights to the net assets of the arrangement. An associate is an entity which is neither a subsidiary nor a joint venture, but over which the Company has significant influence.

	2015 £m	2014 £m
Share of net assets at 1 April	**351**	371
Exchange adjustments	**(11)**	(16)
Additions	**–**	4
Share of post-tax results for the year	**46**	28
Dividends received	**(79)**	(38)
Other movements	**11**	2
Share of net assets at 31 March	**318**	351

A list of principal joint ventures and associates including the name, proportion of ownership and principal activity is provided in note 32.

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed, and the Group has no significant contingent liabilities in relation to its interest in the joint ventures and associates.

Outstanding balances with joint ventures and associates are shown in note 28.

15. Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange rates, credit spreads, commodities, equity or other indices. In accordance with Board approved policies, derivatives are transacted to manage our exposure to fluctuations in interest rate and foreign exchange rate on borrowings and other contractual cash flows. Specifically, we use derivatives to manage these risks from our financing portfolio to optimise the overall cost of accessing the debt capital markets. These derivatives are analysed below. We also use derivatives to manage our operational market risks from commodities. The commodity derivative contracts are detailed in note 30(e).

Derivative financial instruments are initially recognised at fair value and subsequently remeasured at fair value at each reporting date. Changes in fair values are recorded in the period they arise, in either the income statement or other comprehensive income depending on the applicable accounting standards. Where the fair value of a derivative is positive it is carried as a derivative asset, and where negative as a derivative liability.

We calculate fair value of the financial derivatives by discounting all future cash flows using the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. Analysis of these derivatives and the various methods used to calculate their respective fair values is detailed below and in note 30.

For each class of derivative instrument type the total fair value amounts are as follows:

	2015			2014		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Interest rate swaps	**1,153**	**(978)**	**175**	861	(743)	118
Cross-currency interest rate swaps	**544**	**(746)**	**(202)**	1,025	(195)	830
Foreign exchange forward contracts	**18**	**(294)**	**(276)**	68	(12)	56
Inflation linked swaps	**1**	**(381)**	**(380)**	16	(213)	(197)
	1,716	**(2,399)**	**(683)**	1,970	(1,163)	807

15. Derivative financial instruments continued

The maturity profile of derivative financial instruments is as follows:

	2015 Assets £m	2015 Liabilities £m	2015 Total £m	2014 Assets £m	2014 Liabilities £m	2014 Total £m
Current						
Less than 1 year	177	(635)	(458)	413	(339)	74
	177	(635)	(458)	413	(339)	74
Non-current						
In 1 to 2 years	15	(97)	(82)	54	(26)	28
In 2 to 3 years	37	(252)	(215)	73	(57)	16
In 3 to 4 years	136	(238)	(102)	71	(103)	(32)
In 4 to 5 years	125	(235)	(110)	244	(128)	116
More than 5 years	1,226	(942)	284	1,115	(510)	605
	1,539	(1,764)	(225)	1,557	(824)	733
	1,716	(2,399)	(683)	1,970	(1,163)	807

For each class of derivative the notional contract[1] amounts are as follows:

	2015 £m	2014 £m
Interest rate swaps	(11,125)	(15,406)
Cross-currency interest rate swaps	(8,103)	(8,614)
Foreign exchange forward contracts	(6,579)	(4,698)
Inflation linked swaps	(1,361)	(1,391)
	(27,168)	(30,109)

1. The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the reporting date.

Where possible, derivatives held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, cash flow hedges or net investment hedges. Our use of derivatives may entail a derivative transaction qualifying for one or more hedge type designations under IAS 39.

Hedge accounting allows derivatives to be designated as a hedge of another non-derivative financial instrument, to mitigate the impact of potential volatility in the income statement of changes in the fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. National Grid uses three hedge accounting methods, which are described as follows:

Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the item in relation to the risk being hedged are recognised in the income statement to the extent the fair value hedge is effective. Adjustments made to the carrying amount of the hedged item for fair value hedges will be amortised over the remaining life, in line with the hedged item.

	2015 £m	2014 £m
Cross-currency interest rate/interest rate swaps	379	367

Cash flow hedges

Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates or are in a foreign currency. Interest rate and cross-currency swaps are maintained, and designated as cash flow hedges, where they qualify, to manage this exposure. Fair value changes on designated cash flow hedges are initially recognised directly in the cash flow hedge reserve, as gains or losses recognised in equity and any ineffective portion is recognised immediately in the income statement. Amounts are transferred from equity and recognised in the income statement as the income or expense is recognised on the hedged item.

Forward foreign currency contracts are used to hedge anticipated and committed future currency cash flows. Where these contracts qualify for hedge accounting they are designated as cash flow hedges. On recognition of the underlying transaction in the financial statements, the associated hedge gains and losses, deferred in equity, are transferred and included with the recognition of the underlying transaction.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

15. Derivative financial instruments continued

Cash flow hedges continued
When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously reported in equity is transferred to the income statement.

Where a non-financial asset or a non-financial liability results from a forecast transaction or firm commitment being hedged, the amounts deferred in equity are included in the initial measurement of that non-monetary asset or liability.

	2015 £m	2014 £m
Cross-currency interest rate/interest rate swaps	**(453)**	224
Foreign exchange forward contracts	**(34)**	(11)
Inflation linked swaps	**(109)**	(32)
	(596)	181

Net investment hedges
Borrowings, cross-currency swaps and forward currency contracts are used in the management of the foreign exchange exposure arising from the investment in non-sterling denominated subsidiaries. Where these contracts qualify for hedge accounting they are designated as net investment hedges.

	2015 £m	2014 £m
Cross-currency interest rate swaps	**(72)**	342
Foreign exchange forward contracts	**(218)**	66
	(290)	408

The cross-currency swaps and forward foreign currency contracts are hedge accounted using the spot to spot method. The foreign exchange gain or loss on retranslation of the borrowings and the spot to spot movements on the cross-currency swaps and forward currency contracts are transferred to equity to offset gains or losses on translation of the net investment in the non-sterling denominated subsidiaries, with any ineffective portion recognised immediately in the income statement.

Derivatives not in a formal hedge relationship
Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting under IAS 39 some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised in remeasurements within the income statement.

	2015 £m	2014 £m
Cross-currency interest rate/interest rate swaps	**119**	15
Foreign exchange forward contracts	**(24)**	1
Inflation linked swaps	**(271)**	(165)
	(176)	(149)

Discontinuation of hedge accounting
Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement in the same periods in which the previously hedged item affects profit or loss. Amounts deferred in equity with respect to net investment hedges are subsequently recognised in the income statement in the event of the disposal of the overseas operations concerned. For fair value hedges, the cumulative adjustment recorded to the carrying value of the hedged item at the date hedge accounting is discontinued is amortised to the income statement using the effective interest method.

Embedded derivatives
No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are defined as closely related to those instruments or contracts. Consequently these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument.

16. Inventories and current intangible assets

Inventories represent assets that we intend to use in order to generate revenue in the short term, either by selling the asset itself (for example fuel stocks) or by using it to fulfil a service to a customer or to maintain our network (consumables).

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

Emission allowances, principally relating to the emissions of carbon dioxide in the UK and sulphur and nitrous oxides in the US, are recorded as intangible assets within current assets and are initially recorded at cost and subsequently at the lower of cost and net realisable value. Where emission allowances are granted by relevant authorities, cost is deemed to be equal to the fair value at the date of allocation. Receipts of such grants are treated as deferred income, which is recognised in the income statement as the related charges for emissions are recognised or on impairment of the related intangible asset. A provision is recorded in respect of the obligation to deliver emission allowances and emission charges are recognised in the income statement in the period in which emissions are made.

	2015 £m	2014 £m
Fuel stocks	112	74
Raw materials and consumables	152	128
Work in progress	13	13
Current intangible assets – emission allowances	63	53
	340	268

There is a provision for obsolescence of £28m against inventories as at 31 March 2015 (2014: £29m).

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

17. Trade and other receivables

Trade and other receivables are amounts which are due from our customers for services (and commodities in the US) we have provided. Other receivables also include prepayments made by us, for example, property lease rentals paid in advance.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected.

	2015 £m	2014 £m
Trade receivables	**1,568**	1,602
Prepayments and accrued income	**1,081**	1,090
Commodity contract assets	**35**	42
Current tax assets	**60**	11
Other receivables	**92**	110
	2,836	2,855

Trade receivables are non interest-bearing and generally have a 30 to 90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their book value. Commodity contract assets are recorded at fair value. All other receivables are recorded at amortised cost.

Provision for impairment of receivables

	2015 £m	2014 £m
At 1 April	**249**	261
Exchange adjustments	**31**	(23)
Charge for the year, net of recoveries	**126**	105
Uncollectible amounts written off against receivables	**(112)**	(94)
At 31 March	**294**	249

Trade receivables past due but not impaired

	2015 £m	2014[1] £m
Up to 3 months past due	**299**	285
3 to 6 months past due	**60**	57
Over 6 months past due	**156**	91
	515	433

1. Comparatives have been represented on a basis consistent with the current year presentation.

For further information on our wholesale and retail credit risk, refer to note 30(a). For further information on our commodity risk, refer to note 30(e).

18. Cash and cash equivalents

Cash and cash equivalents include cash balances, together with short-term investments with an original maturity of less than three months that are readily convertible to cash.

Net cash and cash equivalents reflected in the cash flow statement are net of bank overdrafts, which are reported in borrowings. The carrying amounts of cash and cash equivalents and bank overdrafts approximate their fair values.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for periods varying between one day and three months, depending on the immediate cash requirements, and earn interest at the respective short-term deposit rates.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 30(d).

	2015 £m	2014 £m
Cash at bank	**109**	75
Short-term deposits	**10**	279
Cash and cash equivalents excluding bank overdrafts	**119**	354
Bank overdrafts	**(3)**	(15)
Net cash and cash equivalents	**116**	339

At 31 March 2015, £1m (2014: £24m) of cash and cash equivalents were restricted. This primarily relates to cash held in captive insurance companies.

19. Borrowings

We borrow money primarily in the form of bonds and bank loans. These are for a fixed term and may have fixed or floating interest rates or are linked to RPI. As indicated in note 15, we use derivatives to manage risks associated with interest rates and foreign exchange.

Our strategy in action
Our price controls and rate plans require us to fund our networks within a certain ratio of debt to equity and, as a result, we have issued a significant amount of debt. As we continue to invest in our networks, the value of debt is expected to increase over time. To maintain a strong balance sheet and to allow us to access capital markets at commercially acceptable interest rates, we balance the amount of debt we issue with the value of our assets, and take account of certain other metrics used by credit rating agencies.

Borrowings, which include interest-bearing and inflation linked debt and overdrafts, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

	2015 £m	2014 £m
Current		
Bank loans	**561**	1,485
Bonds	**1,068**	1,730
Commercial paper	**1,349**	252
Finance leases	**44**	19
Other loans	**3**	10
Bank overdrafts	**3**	15
	3,028	3,511
Non-current		
Bank loans	**1,417**	1,414
Bonds	**21,156**	20,732
Finance leases	**159**	151
Other loans	**150**	142
	22,882	22,439
	25,910	25,950

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

19. Borrowings continued

Total borrowings are repayable as follows:

	2015 £m	2014 £m
Less than 1 year	**3,028**	3,511
In 1 to 2 years	**873**	895
In 2 to 3 years	**1,601**	1,177
In 3 to 4 years	**1,437**	1,661
In 4 to 5 years	**1,709**	1,509
More than 5 years:		
by instalments	**154**	175
other than by instalments	**17,108**	17,022
	25,910	25,950

The fair value of borrowings at 31 March 2015 was £30,103m (2014: £28,131m). Where market values were available, fair value of borrowings (Level 1) was £14,583m (2014: £17,388m). Where market values were not available, fair value of borrowings (Level 2) was £15,520m (2014: £10,743m), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2015 was £25,419m (2014: £25,539m).

The assets of the Colonial Gas Company and the Niagara Mohawk Power Corporation and certain gas distribution assets of the Narragansett Electric Company are subject to liens and other charges and are provided as collateral over borrowings totalling £424m at 31 March 2015 (2014: £438m).

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £540m (2014: £843m) in respect of cash received under collateral agreements. For further details of our borrowing facilities, refer to note 31. For further details of our bonds in issue, please refer to the debt investor section of our website.

Assets held under finance leases are recognised at their fair value or, if lower, the present value of the minimum lease payments on inception. The corresponding liability is recognised as a finance lease obligation within borrowings. Rental payments are apportioned between finance costs and reduction in the finance lease obligation, so as to achieve a constant rate of interest.

Assets held under finance leases are depreciated over the shorter of their useful life and the lease term.

Finance lease obligations

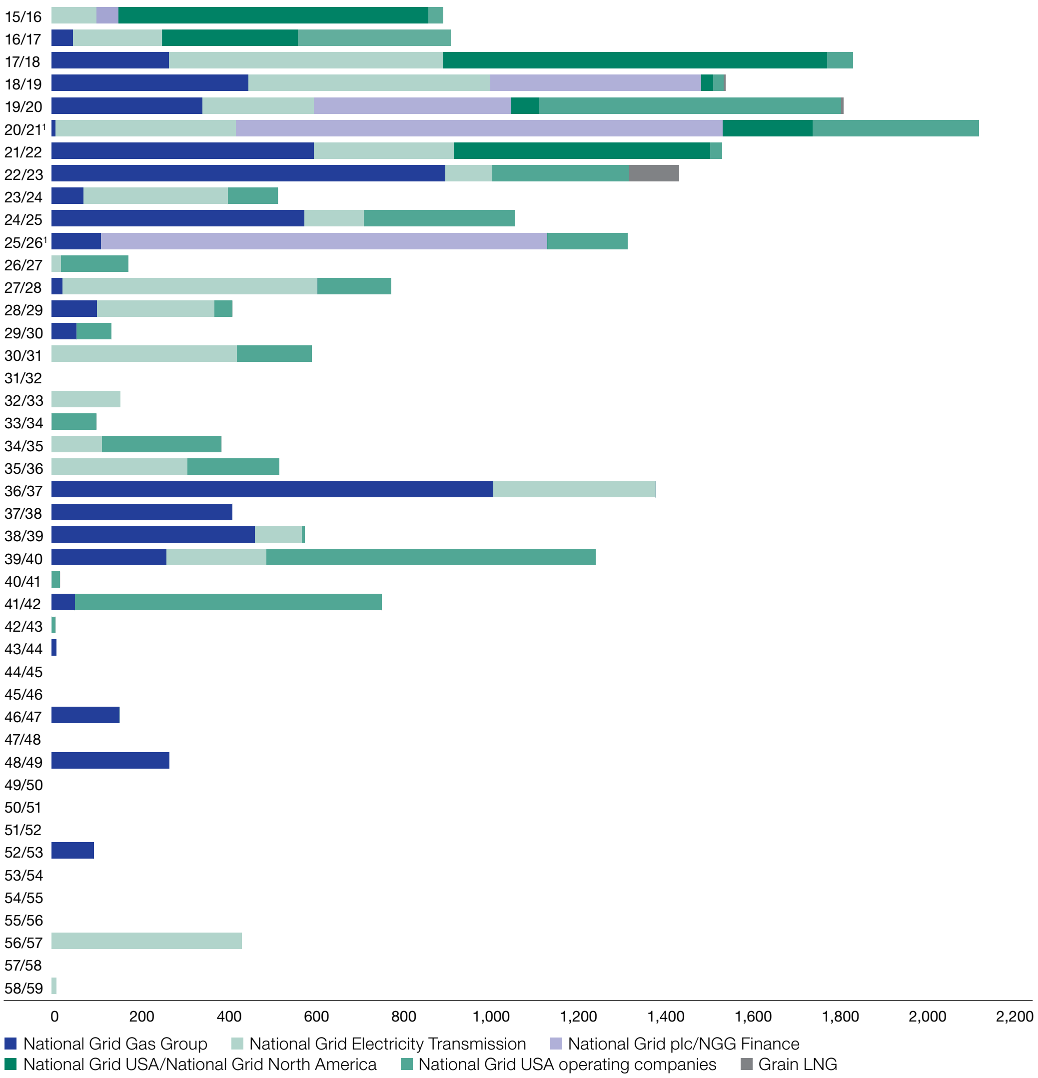
	2015 £m	2014 £m
Gross finance lease liabilities are repayable as follows:		
Less than 1 year	**44**	19
1 to 5 years	**125**	89
More than 5 years	**72**	100
	241	208
Less: finance charges allocated to future periods	**(38)**	(38)
	203	170
The present value of finance lease liabilities is as follows:		
Less than 1 year	**44**	19
1 to 5 years	**110**	70
More than 5 years	**49**	81
	203	170

Unaudited commentary on borrowings

As at 31 March 2015, total borrowings of £25,910m (2014: £25,950m) including bonds, bank loans, commercial paper, collateral, finance leases and other debt had decreased by £40m. This represents the ongoing refinancing of the debt portfolio. We expect to repay £3,028m of our total borrowings in the next 12 months including commercial paper, collateral and interest, and to fund this repayment through the capital and money markets. The average long-term debt maturity of the portfolio is 13 years (2014: 12 years).

The maturity profile of long-term debt in our major entities is illustrated below:

National Grid long-term debt maturity profile £m



1. Includes hybrid bonds at first callable date (euro: 2020; sterling: 2025). Actual maturity of these bonds is euro: 2076; sterling: 2073.

Further information on our bonds can be found in the debt investor section of our website.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

20. Trade and other payables

Trade and other payables include amounts owed to suppliers, tax authorities and other parties which are due to be settled within 12 months. The total also includes deferred income, which represents monies received from customers but for which we have not yet delivered the associated service. These amounts are recognised as revenue when the service is provided.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

	2015 £m	2014 £m
Trade payables	**2,050**	1,942
Deferred income	**236**	224
Commodity contract liabilities	**116**	77
Social security and other taxes	**196**	146
Other payables	**694**	642
	3,292	3,031

Due to their short maturities, the fair value of trade and other payables approximates their book value. Commodity contract liabilities are recorded at fair value. All other trade and other payables are recorded at amortised cost.

21. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2016. It also includes payables that are not due until after that date.

Commodity contract liabilities are recorded at fair value. All other non-current liabilities are recorded at amortised cost.

	2015 £m	2014 £m
Deferred income	**1,648**	1,605
Commodity contract liabilities	**55**	46
Other payables	**216**	190
	1,919	1,841

There is no material difference between the fair value and the carrying value of other non-current liabilities.

22. Pensions and other post-retirement benefits

Substantially all our employees are members of either DB (defined benefit) or DC (defined contribution) pension plans. The principal UK plans are the National Grid UK Pension Scheme, the National Grid Electricity Group of the Electricity Supply Pension Scheme and The National Grid YouPlan. In the US, we have a number of plans and also provide healthcare and life insurance benefits to eligible retired US employees.

The fair value of associated plan assets and present value of DB obligations are updated annually. For further details and the actuarial assumptions used to value the obligations, see note 29.

We separately present our UK and US pension plans to show geographical split. Below we provide a more detailed analysis of the amounts recorded in the primary financial statements.

For DC plans, the Group pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For DB retirement plans, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. The Group underwrites both financial and demographic risks associated with this type of plan.

The cost of providing benefits in a DB plan is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

22. Pensions and other post-retirement benefits continued

The Group's obligation in respect of DB pension plans is calculated separately for each plan by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds.

The Group takes advice from independent actuaries relating to the appropriateness of any key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net liability recognised in the statement of financial position.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

Risks

The DB pension obligations and other post-retirement benefit liabilities are exposed to the primary risks outlined below.

Liabilities are calculated using discount rates set with reference to yields on high-quality corporate bonds prevailing in the US and UK debt markets and will fluctuate as yields change. Plan funds are invested in a variety of asset classes, principally: equities, government securities, corporate bonds and property. Consequently, actual returns will differ from the underlying discount rate adopted and therefore have an impact on the net balance sheet liability.

Changes in inflation will affect both current and future pension payments and are partially mitigated through investment in inflation matching assets and hedging instruments.

Longevity is also a key driver of liabilities and changes in expected mortality will have a direct impact on liabilities. The liabilities are, in aggregate, relatively mature which serves to mitigate this risk to some extent.

Each plan's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made both to the maturity of the liabilities and the funding level of that plan. A number of further strategies are employed to manage underlying risks, including liability matching asset strategies, diversification of asset portfolios, interest rate hedging and active management of foreign exchange exposure.

Amounts recognised in the statement of financial position

	UK pensions			US pensions			US other post-retirement benefits		
	2015 £m	2014 £m	2013 £m	**2015 £m**	2014 £m	2013 £m	**2015 £m**	2014 £m	2013 £m
Present value of funded obligations	**(20,053)**	(18,100)	(18,495)	**(5,827)**	(4,566)	(4,915)	**(3,412)**	(2,680)	(3,020)
Fair value of plan assets	**19,453**	17,409	17,392	**5,052**	4,229	4,378	**1,903**	1,620	1,515
	(600)	(691)	(1,103)	**(775)**	(337)	(537)	**(1,509)**	(1,060)	(1,505)
Present value of unfunded obligations	**(72)**	(62)	(66)	**(228)**	(186)	(200)	**–**	–	–
Other post-employment liabilities	**–**	–	–	**–**	–	(3)	**(74)**	(75)	(83)
Net defined benefit liability	**(672)**	(753)	(1,169)	**(1,003)**	(523)	(740)	**(1,583)**	(1,135)	(1,588)
Represented by:									
Liabilities	**(672)**	(753)	(1,169)	**(1,124)**	(697)	(935)	**(1,583)**	(1,135)	(1,588)
Assets	**–**	–	–	**121**	174	195	**–**	–	–
	(672)	(753)	(1,169)	**(1,003)**	(523)	(740)	**(1,583)**	(1,135)	(1,588)

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

22. Pensions and other post-retirement benefits continued

Amounts recognised in the income statement and statement of other comprehensive income

	UK pensions			US pensions			US other post-retirement benefits		
	2015 £m	2014 £m	2013 £m	**2015 £m**	2014 £m	2013 £m	**2015 £m**	2014 £m	2013 £m
Included within operating costs									
Administration costs	**6**	6	6	**7**	5	4	**1**	1	2
Included within payroll costs									
Defined contribution scheme costs	**26**	19	16	**22**	21	23	**–**	–	–
Defined benefit scheme costs:									
Current service cost	**70**	96	90	**77**	85	87	**39**	44	43
Past service costs – augmentations	**7**	15	2	**–**	–	–	**–**	–	–
Past service cost/(credit) – redundancies	**1**	(19)	(7)	**–**	–	–	**–**	–	–
Past service (credit)/cost – plan amendments	**–**	(11)	–	**1**	–	–	**–**	–	–
Special termination benefit cost – redundancies	**20**	39	20	**–**	–	–	**–**	–	–
LIPA MSA transition	**–**	–	–	**–**	(16)	–	**–**	(198)	–
Net loss on disposal of businesses	**–**	–	–	**–**	–	3	**–**	–	1
	124	139	121	**100**	90	113	**39**	(154)	44
Included within finance income and costs									
Net interest cost	**27**	47	31	**25**	27	34	**49**	54	70
Total included in income statement	**157**	192	158	**132**	122	151	**89**	(99)	116
Remeasurements of net retirement benefit obligations	**(46)**	354	(560)	**(408)**	81	(35)	**(317)**	50	(119)
Exchange adjustments	**–**	–	–	**(88)**	60	(37)	**(148)**	126	(75)
Total included in the statement of other comprehensive income	**(46)**	354	(560)	**(496)**	141	(72)	**(465)**	176	(194)

Reconciliation of the net defined benefit liability

	UK pensions			US pensions			US other post-retirement benefits		
	2015 £m	2014 £m	2013 £m	**2015 £m**	2014 £m	2013 £m	**2015 £m**	2014 £m	2013 £m
Opening net defined benefit liability	**(753)**	(1,169)	(668)	**(523)**	(740)	(766)	**(1,135)**	(1,588)	(1,504)
(Cost)/credit recognised in the income statement	**(131)**	(173)	(142)	**(110)**	(101)	(128)	**(89)**	99	(116)
Remeasurement effects recognised in the statement of other comprehensive income	**(46)**	354	(560)	**(496)**	141	(72)	**(465)**	176	(194)
Employer contributions	**258**	235	201	**126**	174	224	**124**	187	262
Other movements	**–**	–	–	**–**	3	2	**(18)**	(9)	(36)
Closing net defined benefit liability	**(672)**	(753)	(1,169)	**(1,003)**	(523)	(740)	**(1,583)**	(1,135)	(1,588)

22. Pensions and other post-retirement benefits continued

	UK pensions			US pensions			US other post-retirement benefits		
	2015 £m	2014 £m	2013 £m	**2015 £m**	2014 £m	2013 £m	**2015 £m**	2014 £m	2013 £m
Changes in the present value of defined benefit obligations (including unfunded obligations)									
Opening defined benefit obligations	**(18,162)**	(18,561)	(16,775)	**(4,752)**	(5,115)	(4,611)	**(2,680)**	(3,020)	(2,630)
Current service cost	**(70)**	(96)	(90)	**(77)**	(85)	(87)	**(39)**	(44)	(43)
Interest cost	**(762)**	(780)	(788)	**(235)**	(221)	(232)	**(130)**	(123)	(133)
Actuarial gains/(losses) – experience	**100**	16	74	**(22)**	(22)	1	**85**	47	60
Actuarial losses – demographic assumptions	**(95)**	–	–	**(125)**	(129)	5	**(122)**	(154)	(18)
Actuarial (losses)/gains – financial assumptions	**(1,980)**	436	(1,765)	**(486)**	57	(245)	**(280)**	49	(218)
Past service (cost)/credit – redundancies	**(1)**	19	7	**–**	16	36	**–**	119	5
Special termination benefit cost – redundancies	**(20)**	(39)	(20)	**–**	–	–	**–**	–	–
Past service cost – augmentations	**(7)**	(15)	(2)	**–**	–	–	**–**	–	–
Past service credit – plan amendments	**–**	11	–	**(1)**	–	–	**–**	19	–
Medicare subsidy received	**–**	–	–	**–**	–	–	**(19)**	(17)	(19)
Liabilities extinguished on settlements	**–**	–	–	**–**	–	–	**–**	60	–
Employee contributions	**(2)**	(2)	(3)	**–**	–	–	**–**	–	–
Benefits paid	**874**	849	801	**269**	291	269	**125**	117	123
Exchange adjustments	**–**	–	–	**(626)**	456	(251)	**(352)**	267	(147)
Closing defined benefit obligations	**(20,125)**	(18,162)	(18,561)	**(6,055)**	(4,752)	(5,115)	**(3,412)**	(2,680)	(3,020)
Changes in the fair value of plan assets									
Opening fair value of plan assets	**17,409**	17,392	16,107	**4,229**	4,378	3,850	**1,620**	1,515	1,192
Interest income	**735**	733	757	**210**	194	198	**81**	69	63
Return on assets greater/(less) than assumed	**1,929**	(98)	1,131	**225**	175	204	**–**	108	57
Administration costs	**(6)**	(6)	(6)	**(7)**	(5)	(4)	**(1)**	(1)	(2)
Employer contributions	**258**	235	201	**126**	174	224	**124**	187	262
Employee contributions	**2**	2	3	**–**	–	–	**–**	–	–
Benefits paid	**(874)**	(849)	(801)	**(269)**	(291)	(269)	**(125)**	(117)	(123)
Assets distributed in settlements and transfers	**–**	–	–	**–**	–	(39)	**–**	–	(6)
Exchange adjustments	**–**	–	–	**538**	(396)	214	**204**	(141)	72
Closing fair value of plan assets	**19,453**	17,409	17,392	**5,052**	4,229	4,378	**1,903**	1,620	1,515
Actual return on plan assets	**2,664**	635	1,888	**435**	369	402	**81**	177	120
Expected contributions to plans in the following year	**225**	182	181	**204**	118	183	**104**	109	196

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

23. Provisions

We make provisions when an obligation exists, resulting from a past event and it is probable that cash will be paid to settle it, but the exact amount of cash required can only be estimated.

The main estimates relate to environmental remediation and decommissioning costs for various sites we own or have owned and other provisions, including restructuring plans and lease contracts we have entered into that are now loss making.

Our strategy in action
We are committed to the protection and enhancement of the environment. However, we have acquired, owned and operated a number of businesses which have, during the course of their operations, created an environmental impact. Therefore we have a provision that reflects the expected cost to remediate these sites. Current operations will seldom result in new sites with significant expected costs being added to the provision.

Provisions are recognised where a legal or constructive obligation exists at the reporting date, as a result of a past event, where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Provision is made for decommissioning and environmental costs, based on future estimated expenditures, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

The unwinding of the discount is included within the income statement as a financing charge.

	Environmental £m	Decommissioning £m	Restructuring £m	Emissions £m	Other £m	Total provisions £m
At 1 April 2013	1,198	81	53	8	420	1,760
Exchange adjustments	(79)	(7)	–	(1)	(25)	(112)
Additions	11	84	86	7	42	230
Unused amounts reversed	(14)	–	(1)	–	(3)	(18)
Unwinding of discount	57	–	–	–	16	73
Utilised	(101)	(14)	(59)	–	(114)	(288)
At 31 March 2014	1,072	144	79	14	336	1,645
Exchange adjustments	95	8	–	2	28	133
Additions	25	7	9	7	57	105
Unused amounts reversed	(5)	–	(2)	–	(5)	(12)
Unwinding of discount	57	3	1	–	12	73
Utilised	(80)	(25)	(48)	–	(56)	(209)
At 31 March 2015	**1,164**	**137**	**39**	**23**	**372**	**1,735**

	2015 £m	2014 £m
Current	**235**	282
Non-current	**1,500**	1,363
	1,735	1,645

23. Provisions continued

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to a number of sites owned and managed by subsidiary undertakings, together with certain US sites that National Grid no longer owns. The environmental provision is as follows:

	2015			2014		
	Discounted £m	Undiscounted £m	Real discount rate	Discounted £m	Undiscounted £m	Real discount rate
UK sites	**286**	**367**	**2%**	286	367	2%
US sites	**878**	**999**	**2%**	786	891	2%
	1,164	**1,366**		1,072	1,258	

The remediation expenditure in the UK relates to old gas manufacturing sites and also to electricity transmission sites. Cash flows are expected to be incurred between 2015 and 2060. A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

The remediation expenditure in the US is expected to be incurred between 2015 and 2071. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK sites. This expenditure is expected to be largely recoverable from ratepayers under the terms of various rate agreements in the US.

Decommissioning provision

The decommissioning provision represents £51m (2014: £55m) of expenditure relating to asset retirement obligations expected to be incurred until 2075, and £64m (2014: £72m) of expenditure relating to the demolition of gas holders expected to be incurred until 2022. It also includes the net present value of the estimated expenditure (discounted at a real rate of 2%) expected to be incurred until 2033 in respect of the decommissioning of certain US nuclear generating units that National Grid no longer owns.

Restructuring provision

The restructuring provision principally relates to business reorganisation costs in the UK and is expected to be incurred until 2023.

Emissions provision

The provision for emission costs is expected to be settled using emission allowances granted.

Other provisions

Included within other provisions at 31 March 2015 are amounts provided in respect of onerous lease commitments and rates payable on surplus properties of £117m (2014: £117m) with expenditure expected to be incurred until 2039.

Other provisions also include £182m (2014: £160m) of estimated liabilities in respect of past events insured by insurance subsidiary undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date. It also includes £13m (2014: £13m) in respect of obligations associated with investments in joint ventures.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

24. Share capital

Ordinary share capital represents the total number of shares issued which are publicly traded. We also disclose the number of treasury shares the Company holds, which are shares that the Company has bought itself, predominantly to satisfy employee share option plan liabilities.

Share capital is accounted for as an equity instrument. An equity instrument is any contract that includes a residual interest in the consolidated assets of the Company after deducting all its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

	Allotted, called up and fully paid	
	million	£m
At 1 April 2013	3,795	433
Issued during the year in lieu of dividends[1]	59	6
At 31 March 2014	3,854	439
Issued during the year in lieu of dividends[1]	38	4
At 31 March 2015	**3,892**	**443**

1. The issue of shares under the scrip dividend programme is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

The share capital of the Company consists of ordinary shares of $11\frac{17}{43}$ pence nominal value each including ADSs. The ordinary shares and ADSs allow holders to receive dividends and vote at general meetings of the Company. The Company holds treasury shares but may not exercise any rights over these shares including the entitlement to vote or receive dividends. There are no restrictions on the transfer or sale of ordinary shares.

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

Treasury shares
At 31 March 2015, the Company held 153m (2014: 124m) of its own shares. The market value of these shares as at 31 March 2015 was £1,323m (2014: £1,019m).

The Company made the following transactions in respect of its own shares during the year ended 31 March 2015:

1. During the year, the Company, as part of management of the dilutive effect of share issuances under the scrip dividend programme, repurchased 37m ordinary shares for aggregate consideration of £338m, including transaction costs. The shares repurchased have a nominal value of £4m and represented approximately 1% of the ordinary shares in issue as at 31 March 2015.

2. During the year, 3m (2014: 2m) treasury shares were gifted to National Grid Employee Share Trusts and 5m (2014: 3m) treasury shares were re-issued in relation to employee share schemes, in total representing approximately 0.2% (2014: 0.1%) of the ordinary shares in issue as at 31 March 2015. The nominal value of these shares was £1m (2014: £1m) and the total proceeds received were £23m (2014: £14m).

3. During the year, the Company made payments totalling £7m (2014: £3m) to National Grid Employee Share Trusts, outside of its share repurchase programme, to enable the trustees to make purchases of National Grid plc shares in order to satisfy the requirements of employee share option and reward plans.

The maximum number of shares held during the year was 153m ordinary shares (2014: 129m) representing approximately 3.9% (2014: 3.4%) of the ordinary shares in issue as at 31 March 2015 and having a nominal value of £17m (2014: £15m).

25. Other equity reserves

Other equity reserves are different categories of equity as required by accounting standards and represent the impact of a number of our historical transactions.

Other equity reserves comprise the translation reserve (see accounting policy B in note 1), cash flow hedge reserve (see note 15), available-for-sale reserve (see note 13), the capital redemption reserve and the merger reserve. The merger reserve arose as a result of the application of merger accounting principles under the then prevailing UK GAAP, which under IFRS 1 was retained for mergers that occurred prior to the IFRS transition date. Under merger accounting principles, the difference between the carrying amount of the capital structure of the acquiring vehicle and that of the acquired business was treated as a merger difference and included within reserves.

As the amounts included in other equity reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

	Translation £m	Cash flow hedge £m	Available-for-sale £m	Capital redemption £m	Merger £m	Total £m
At 1 April 2012	346	(100)	65	19	(5,165)	(4,835)
Exchange adjustments	117	–	–	–	–	117
Net (losses)/gains taken to equity	–	(31)	20	–	–	(11)
Transferred to/(from) profit or loss	–	73	(10)	–	–	63
Tax	–	(13)	(2)	–	–	(15)
At 31 March 2013	463	(71)	73	19	(5,165)	(4,681)
Exchange adjustments	(158)	–	–	–	–	(158)
Net gains taken to equity	–	63	6	–	–	69
Transferred to/(from) profit or loss	–	27	(14)	–	–	13
Tax	–	(5)	3	–	–	(2)
At 31 March 2014	305	14	68	19	(5,165)	(4,759)
Exchange adjustments	174	–	–	–	–	174
Net (losses)/gains taken to equity	–	(154)	41	–	–	(113)
Transferred to/(from) profit or loss	–	13	(8)	–	–	5
Tax	–	18	(7)	–	–	11
At 31 March 2015	**479**	**(109)**	**94**	**19**	**(5,165)**	**(4,682)**

The merger reserve represents the difference between the carrying value of subsidiary undertaking investments and their respective capital structures following the Lattice demerger from BG Group plc and the 1999 Lattice refinancing.

The cash flow hedge reserve on interest rate swap contracts will be continuously transferred to the income statement until the borrowings are repaid. The amount due to be released from reserves to the income statement next year is £15m (pre-tax) and the remainder released with the same maturity profile as borrowings due after more than one year.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

26. Net debt

Net debt represents the amount of borrowings and overdrafts less cash, financial investments and related derivatives.

Funding and liquidity risk management is carried out by the treasury function under policies and guidelines approved by the Finance Committee of the Board. The Finance Committee is responsible for the regular review and monitoring of treasury activity and for the approval of specific transactions, the authority for which fall outside the delegation of authority to management.

The primary objective of the treasury function is to manage our funding and liquidity requirements. A secondary objective is to manage the associated financial risks, in the form of interest rate risk and foreign exchange risk, to within pre-authorised parameters. Details of the main risks arising from our financing and commodity hedging activities can be found in the risk factors discussion starting on page 173 and in note 30 to the consolidated financial statements on pages 141 to 148.

Investment of surplus funds, usually in short-term fixed deposits or placements with money market funds that invest in highly liquid instruments of high credit quality, is subject to our counterparty risk management policy.

The movement in cash and cash equivalents is reconciled to movements in net debt.

(a) Reconciliation of net cash flow to movement in net debt

	2015 £m	2014 £m	2013 £m
(Decrease)/increase in cash and cash equivalents	**(247)**	(283)	335
(Decrease)/increase in financial investments	**(1,157)**	(1,720)	2,992
Increase/(decrease) in borrowings and related derivatives	**682**	1,021	(4,304)
Net interest paid on the components of net debt[1]	**925**	841	756
Change in debt resulting from cash flows	**203**	(141)	(221)
Changes in fair value of financial assets and liabilities and exchange movements	**(1,777)**	1,360	(536)
Net interest charge on the components of net debt[1]	**(1,068)**	(1,053)	(1,017)
Extinguishment of debt resulting from LIPA MSA transition (note 4)	**–**	98	–
Other non-cash movements	**(83)**	(25)	(58)
Movement in net debt (net of related derivative financial instruments) in the year	**(2,725)**	239	(1,832)
Net debt (net of related derivative financial instruments) at start of year	**(21,190)**	(21,429)	(19,597)
Net debt (net of related derivative financial instruments) at end of year	**(23,915)**	(21,190)	(21,429)

Composition of net debt

Net debt is made up as follows:

	2015 £m	2014 £m	2013 £m
Cash, cash equivalents and financial investments	**2,678**	3,953	6,102
Borrowings and bank overdrafts	**(25,910)**	(25,950)	(28,095)
Derivatives	**(683)**	807	564
	(23,915)	(21,190)	(21,429)

1. An exceptional charge of £131m (2014: £nil; 2013: £nil) is included in net interest charge on the components of net debt and an exceptional cash outflow of £152m (2014: £nil; 2013: £nil) is included in net interest paid on the components of net debt.

26. Net debt continued

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Total[1] £m
At 1 April 2012	332	(33)	299	2,391	(22,992)	705	(19,597)
Cash flow	325	10	335	2,963	(3,433)	(86)	(221)
Fair value gains and losses and exchange movements	14	–	14	47	(452)	(145)	(536)
Interest income/(charges)	–	–	–	30	(1,137)	90	(1,017)
Other non-cash movements	–	–	–	–	(58)	–	(58)
At 31 March 2013	671	(23)	648	5,431	(28,072)	564	(21,429)
Cash flow	(291)	8	(283)	(1,755)	2,009	(112)	(141)
Fair value gains and losses and exchange movements	(26)	–	(26)	(113)	1,223	276	1,360
Interest income/(charges)	–	–	–	36	(1,168)	79	(1,053)
Extinguishment of debt resulting from LIPA MSA transition (note 4)	–	–	–	–	98	–	98
Other non-cash movements	–	–	–	–	(25)	–	(25)
At 31 March 2014	354	(15)	339	3,599	(25,935)	807	(21,190)
Cash flow	(259)	12	(247)	(1,194)	1,721	(77)	203
Fair value gains and losses and exchange movements	24	–	24	118	(451)	(1,468)	(1,777)
Interest income/(charges)[2]	–	–	–	36	(1,160)	56	(1,068)
Other non-cash movements	–	–	–	–	(82)	(1)	(83)
At 31 March 2015	**119**	**(3)**	**116**	**2,559**	**(25,907)**	**(683)**	**(23,915)**
Balances at 31 March 2015 comprise:							
Non-current assets	–	–	–	–	–	1,539	1,539
Current assets	119	–	119	2,559	–	177	2,855
Current liabilities	–	(3)	(3)	–	(3,025)	(635)	(3,663)
Non-current liabilities	–	–	–	–	(22,882)	(1,764)	(24,646)
	119	**(3)**	**116**	**2,559**	**(25,907)**	**(683)**	**(23,915)**

1. Includes accrued interest at 31 March 2015 of £230m (2014: £239m; 2013: £250m).
2. An exceptional expense of £131m (2014: £nil; 2013: £nil) is included in net interest charge on the components of net debt and an exceptional cash outflow of £152m (2014: £nil; 2013: £nil) is included in net interest paid on the components of net debt.

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This section includes information that is important to enable a full understanding of our financial position, particularly areas of potential risk that could affect us in the future.

We also include specific disclosures for British Transco Finance Inc., Niagara Mohawk Power Corporation and National Grid Gas plc in accordance with various rules including Rule 3-10 of Regulation S-X (a US SEC requirement), as they have issued public debt securities which have been guaranteed by National Grid plc and one of its subsidiary companies, National Grid Gas plc. Additional disclosures have also been included in respect of the two guarantor companies. These disclosures are in lieu of publishing separate financial statements for these companies. See note 34 for further information.

27. Commitments and contingencies

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets its obligations. These commitments primarily relate to operating lease rentals, energy purchase agreements and contracts for the repurchase of network assets which, in many cases, extend over a long period of time. We also disclose any contingencies, which include guarantees that companies have given, where we pledge assets against current obligations that will remain for a specific period.

	2015 £m	2014 £m
Future capital expenditure		
Contracted for but not provided	**2,360**	2,624
Operating lease commitments		
Less than 1 year	**87**	84
In 1 to 2 years	**81**	76
In 2 to 3 years	**74**	70
In 3 to 4 years	**63**	66
In 4 to 5 years	**45**	56
More than 5 years	**277**	278
	627	630
Energy purchase commitments[1]		
Less than 1 year	**1,199**	1,103
In 1 to 2 years	**601**	481
In 2 to 3 years	**458**	356
In 3 to 4 years	**360**	279
In 4 to 5 years	**305**	235
More than 5 years	**1,415**	1,083
	4,338	3,537
Guarantees and letters of credit		
Guarantee of sublease for US property (expires 2040)	**236**	232
Guarantees of certain obligations of Grain LNG Import Terminal (expire up to 2028)	**151**	155
Guarantee of certain obligations for construction of HVDC West Coast Link (expected expiry 2016)	**555**	594
Other guarantees and letters of credit (various expiry dates)	**355**	271
	1,297	1,252

1. Energy purchase commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves (i.e. normal purchase, sale or usage) and hence are accounted for as ordinary purchase contracts. Details of commodity contracts that do not meet the normal purchase, sale or usage criteria, and hence are accounted for as derivative contracts, are shown in note 30(e).

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £26m (2014: £21m).

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

28. Related party transactions

A related party is a company or individual who has an interest in us, for example a company that provides a service to us with a director who holds a controlling stake in that company and who is also a Director of National Grid plc. The related parties identified include joint ventures, associates, investments and key management personnel.

The following significant transactions with related parties were in the normal course of business. Amounts receivable from and payable to related parties are due on normal commercial terms:

	2015 £m	2014 £m	2013 £m
Sales: Goods and services supplied to a pension plan and joint ventures	**52**	15	10
Purchases: Goods and services received from joint ventures and associates[1]	**120**	128	133
Receivable from a pension plan and joint ventures	**4**	3	3
Payable to joint ventures and associates	**6**	5	6
Dividends received from joint ventures and associates[2]	**79**	38	21

1. During the year the Company received goods and services from a number of joint ventures and associates, including Iroquois Gas Transmission System, L.P. of £24m (2014: £30m; 2013: £37m), Millennium Pipeline Company, LLC of £26m (2014: £31m; 2013: £35m) for the transportation of gas in the US and NGET/SPT Upgrades Limited of £68m (2014: £67m; 2013: £52m) for the construction of a transmission link in the UK.
2. Dividends were received from BritNed Development Limited of £49m (2014: £17m; 2013: £nil), Iroquois Gas Transmission System, L.P. of £14m (2014: £11m; 2013: £12m) and Millennium Pipeline Company, LLC of £16m (2014: £10m; 2013: £9m).

Details of investments in principal subsidiary undertakings, joint ventures and associates are disclosed in note 32 and information relating to pension fund arrangements is disclosed in notes 22 and 29. For details of Directors' and key management remuneration, refer to the audited section of the Remuneration Report and note 3(c).

29. Actuarial information on pensions and other post-retirement benefits

Further details of the DB plans terms and the actuarial assumptions used to value the obligations are set out in this note.

When deciding on these assumptions we take independent actuarial advice. Comparatively small changes in the assumptions applied may have a significant effect on the overall deficit or surplus of a DB plan.

UK pension plans

National Grid's defined benefit pension arrangements are funded with assets held in separate trustee administered funds. The arrangements are managed by trustee companies with boards consisting of company and member appointed directors. The directors are required to manage the arrangements in accordance with local regulations and the arrangements' governing documents, acting on behalf of their beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with us, the qualified actuary certifies the employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the plans' assets, are expected to be sufficient to fund the benefits payable. The last full actuarial valuations were carried out as at 31 March 2013. The next valuations are required to be carried out as at 31 March 2016.

The results of the 2013 valuations are shown below:

	NG UKPS[1]	NGEG of ESPS[2]
Latest full actuarial valuation	31 March 2013	31 March 2013
Actuary	Towers Watson	Aon Hewitt
Market value of scheme assets at latest valuation	£15,569m	£1,900m
Actuarial value of benefits due to members	£(17,332)m	£(2,708)m
Market value as percentage of benefits	90%	70%
Funding deficit	£1,763m	£808m
Funding deficit (net of tax)	£1,410m	£646m

1. National Grid UK Pension Scheme
2. National Grid Electricity Group of the Electricity Supply Pension Scheme.

From April 2014 an annual cap was placed on future increases to the salary used to calculate pensions at the lower of 3% or the annual increase in RPI. This capped salary applied to all pensionable service from 1 April 2013 onwards. During the year ended 31 March 2014 these changes resulted in a past service credit of £11m to the income statement (see note 22) and a change to the salary increase assumption which affects how our DB liabilities as at 31 March have been calculated. These changes are to ensure our schemes remain affordable and sustainable over the coming years.

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29. Actuarial information on pensions and other post-retirement benefits continued

National Grid UK Pension Scheme
The 2013 actuarial funding valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 36% of pensionable earnings (currently 33% by employers and 3% by employees). In addition, National Grid makes payments to the scheme to cover administration costs and the Pension Protection Fund levy.

Following the 2013 valuation, National Grid and the Trustees agreed a recovery plan which would see the funding deficit repaid by 31 March 2027. Under the schedule of contributions, payments of £60m were made in 2013/14 and £99m in 2014/15 and will thereafter rise in line with RPI until 2026/27. As part of the 2013 agreement, National Grid has established a security arrangement with a charge in favour of the Trustees. At 31 March 2015 the value of this was required to be £397m. This was provided via £300m in letters of credit and approximately £198m in UK Government bonds and cash. The assets held as security will be paid to the scheme in the event that National Grid Gas plc (NGG) is subject to an insolvency event, is given notice of less than 12 months that Ofgem intends to revoke its licence under the Gas Act 1986, or National Grid fails to make the required contributions in relation to the scheme. The assets held as security will be released back to National Grid if the scheme moves into surplus. In addition, National Grid will make a payment of £200m (increased in line with RPI) into the scheme if NGG's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

This scheme ceased to allow new hires to join from 1 April 2002. A DC section of the scheme was offered for employees joining after this date, which has since been replaced by The National Grid YouPlan (see below).

National Grid Electricity Group of the Electricity Supply Pension Scheme
The 2013 actuarial funding valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 33.4% of pensionable earnings (currently 27.5% by employers and an average of 5.9% by employees).

Following the 2013 valuation, National Grid and the Trustees agreed a recovery plan that would see the funding deficit repaid by 31 March 2027. Under the schedule of contributions, a payment of £80m was made in 2013/14 and £46m in 2014/15. Thereafter annual payments are due of £47m in 2015/16 rising in line with RPI until 2026/27. As part of the 2013 agreement, National Grid has established security arrangements with a charge in favour of the Trustees. At 31 March 2015 the value of this was required to be £150m. This was provided via £150m in a letter of credit. In addition, approximately £36m in UK Government bonds and cash was held. The assets held as security will be paid to the scheme in the event that National Grid Electricity Transmission plc (NGET) is subject to an insolvency event, or ceases to hold a licence granted under the Electricity Act 1989. The assets held as security will be released back to National Grid if the scheme moves into surplus. National Grid has also agreed to make a payment in respect of the deficit up to a maximum of £500m should certain triggers be breached; namely if NGET ceases to hold the licence granted under the Electricity Act 1989 or NGET's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

The scheme closed to new members from 1 April 2006.

The National Grid YouPlan
The National Grid YouPlan (YouPlan) is a DC scheme that was launched in 2013 and under the rules of the plan, National Grid double matches contributions to YouPlan up to a maximum of 6% of employee salary. YouPlan is the qualifying scheme used for automatic enrolment and new hires are enrolled into YouPlan.

US pension plans
National Grid sponsors numerous non-contributory DB pension plans. The DB plans provide retirement benefits to vested union employees, as well as vested non-union employees hired before 1 January 2011. Benefits under these plans generally reflect age, years of service and compensation and are paid in the form of an annuity or lump sum. An independent actuary performs valuations annually. The Company funds the defined benefit plans by contributing no less than the minimum amount required, but no more than the maximum tax deductible amount allowed under US Internal Revenue Service regulations. The range of contributions based upon these regulations can vary significantly based upon the funded status of the plans. At present, there is some flexibility in the amount that is contributed on an annual basis. In general, the Company's policy for funding the US pension plans is to contribute the amounts collected in rates and capitalised in the rate base during the year, to the extent that the funding is no less than the minimum amount required. The assets of the plans are held in trusts and administered by fiduciary committees comprised of appointed employees of the Company.

National Grid also has several DC pension plans, primarily comprised of employee savings and Company matching contributions. Non-union employees hired after 1 January 2011 as well as new hires in 10 groups of represented union employees, receive a core contribution into the DC plan, irrespective of the employee's contribution into the plan.

US retiree healthcare and life insurance plans
National Grid provides healthcare and life insurance benefits to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in most cases retirees contribute to the cost of their healthcare coverage. In the US, there is no governmental requirement to pre-fund post-retirement health and welfare plans. However, in general, the Company's policy for funding the US retiree healthcare and life insurance plans is to contribute amounts collected in rates and capitalised in the rate base during the year.

29. Actuarial information on pensions and other post-retirement benefits continued

Asset allocations

Within the asset allocations below there is significant diversification across regions, asset managers, currencies and bond categories.

UK pensions

	2015			2014			2013		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities[1]	3,848	761	4,609	4,045	620	4,665	4,825	546	5,371
Corporate bonds[2]	6,494	–	6,494	5,706	–	5,706	5,804	–	5,804
Government securities	4,637	–	4,637	4,161	–	4,161	4,743	–	4,743
Property	86	1,082	1,168	33	1,057	1,090	–	1,072	1,072
Diversified alternatives[3]	–	716	716	–	793	793	–	–	–
Liability matching assets[4,6]	878	–	878	598	–	598	–	–	–
Other[5,6]	936	15	951	433	(37)	396	426	(24)	402
	16,879	2,574	19,453	14,976	2,433	17,409	15,798	1,594	17,392

1. Included within equities at 31 March 2015 were ordinary shares of National Grid plc with a value of £14m (2014: £15m; 2013: £16m).
2. Included within corporate bonds at 31 March 2015 was an investment in a number of bonds issued by subsidiary undertakings with a value of £80m (2014: £72m; 2013: £69m).
3. Includes return seeking non-conventional asset classes.
4. Includes liability-driven investment vehicles.
5. Includes cash and cash type instruments.
6. Comparatives have been represented on a basis consistent with the current year presentation.

US pensions

	2015			2014			2013		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	617	1,455	2,072	508	1,225	1,733	507	1,289	1,796
Corporate bonds	971	139	1,110	823	336	1,159	863	295	1,158
Government securities	1,059	–	1,059	632	28	660	707	19	726
Property	–	249	249	–	189	189	–	175	175
Diversified alternatives[1]	–	498	498	–	434	434	–	465	465
Other	–	64	64	–	54	54	–	58	58
	2,647	2,405	5,052	1,963	2,266	4,229	2,077	2,301	4,378

1. Includes return seeking non-conventional asset classes.

US other post-retirement benefits

	2015			2014			2013		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	289	939	1,228	245	852	1,097	195	774	969
Corporate bonds	34	–	34	2	10	12	2	11	13
Government securities	382	–	382	357	1	358	361	2	363
Diversified alternatives[1]	47	100	147	43	110	153	43	127	170
Other	–	112	112	–	–	–	–	–	–
	752	1,151	1,903	647	973	1,620	601	914	1,515

1. Includes return seeking non-conventional asset classes.

Target asset allocations

Each plan's investment strategy is formulated specifically in order to manage risk, through investment in diversified asset classes, including the use of liability matching assets and where appropriate through the employment of interest rate and inflation hedging instruments. The target asset allocation of the plans as at 31 March 2015 is as follows:

	UK pensions %	US pensions %	US other post-retirement benefits %
Equities	21	42	65
Other	79	58	35
	100	100	100

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29. Actuarial information on pensions and other post-retirement benefits continued

Actuarial assumptions

The Company has applied the following financial assumptions in assessing DB liabilities.

	UK pensions			US pensions			US other post-retirement benefits		
	2015 %	2014 %	2013 %	**2015 %**	2014 %	2013 %	**2015 %**	2014 %	2013 %
Discount rate[1]	**3.3**	4.3	4.3	**4.1**	4.8	4.7	**4.1**	4.8	4.7
Rate of increase in salaries[2]	**3.2**	3.6	4.1	**3.5**	3.5	3.5	**3.5**	3.5	3.5
Rate of increase in RPI[3]	**2.9**	3.3	3.4	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Initial healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**8.0**	8.0	8.0
Ultimate healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**5.0**	5.0	5.0

1. The discount rates for pension liabilities have been determined by reference to appropriate yields on high-quality corporate bonds prevailing in the UK and US debt markets at the reporting date.
2. A promotional scale has also been used where appropriate. The UK assumption stated is that relating to service prior to 1 April 2014. The UK assumption for the rate of increase in salaries for service after this date is 2.1%.
3. This is the key assumption that determines assumed increases in pensions in payment and deferment in the UK only. The assumptions for the UK were 2.9% (2014: 3.3%; 2013: 3.4%) for increases in pensions in payment and 2.1% (2014: 3.3%; 2013: 3.4%) for increases in pensions in deferment.

For sensitivity analysis see note 33.

	2015		2014		2013	
	UK years	**US years**	UK years	US years	UK years	US years
Assumed life expectations for a retiree age 65						
Today:						
Males	**22.7**	**21.7**	22.9	20.6	22.7	19.5
Females	**25.1**	**23.9**	25.4	22.9	25.2	21.4
In 20 years:						
Males	**24.9**	**23.4**	25.2	22.8	25.0	21.0
Females	**27.4**	**25.6**	27.8	24.7	27.6	22.2

Maturity profile of DB obligations

The weighted average duration of the DB obligation for each category of scheme is 16 years for UK pension schemes; 14 years for US pension schemes and 18 years for US other post-retirement benefits.

30. Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate risk, commodity price risk, credit risk, capital risk and liquidity risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage risks of this type.

This note describes our approach to managing risk, including an analysis of assets and liabilities by currency type and an analysis of interest rate category for our net debt. We are required by accounting standards to also include a number of specific disclosures (such as a maturity analysis of contractual undiscounted cash flows) and have included these requirements below.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

We have exposure to the following risks, which are described in more detail below:

- credit risk;
- liquidity risk;
- interest rate risk;
- currency risk;
- commodity risk; and
- capital risk.

(a) Credit risk
We are exposed to the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in our commercial business activities. We are exposed to credit risk on our cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Treasury credit risk
Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. As at 31 March 2015, the following limits were in place for investments held with banks and financial institutions:

	Maximum limit £m	Long-term limit £m
Triple 'A' G8 sovereign entities (AAA)	Unlimited	Unlimited
Triple 'A' vehicles (AAA)	319	270
Triple 'A' range institutions and non G8 sovereign entities (AAA)	1,088 to 1,642	548 to 859
Double 'A+' G8 sovereign entities (AA+)	1,642	859
Double 'A' range institutions (AA)	650 to 818	331 to 409
Single 'A' range institutions (A)	224 to 319	114 to 163

As at 31 March 2014 and 2015, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Management does not expect any significant losses from non performance by these counterparties.

Commodity credit risk
The credit policy for commodity transactions is owned and monitored by the Executive Energy Risk Committee, under authority delegated by the Board and Executive Committee, and establishes controls and procedures to determine, monitor and minimise the credit risk of counterparties.

Wholesale and retail credit risk
Our principal commercial exposure in the UK is governed by the credit rules within the regulated codes: Uniform Network Code and Connection and Use of System Code. These set out the level of credit relative to the RAV for each credit rating. In the US, we are required to supply electricity and gas under state regulations. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash, cheques, electronic bank payments or by using major credit cards. We are committed to measuring, monitoring, minimising and recording counterparty credit risk in our wholesale business. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 17.

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30. Financial risk management continued

(a) Credit risk continued

Offsetting financial assets and liabilities

The following tables set out our financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present National Grid's net exposure.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis.

Amounts which do not meet the criteria for offsetting on the statement of financial position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Commodity contracts that have not been offset on the balance sheet may be settled net in certain circumstances under ISDA or NAESB (North American Energy Standards Board) agreements.

National Grid has similar arrangements in relation to bank account balances and bank overdrafts; and trade payables and trade receivables which are subject to general terms and conditions. However, these balances are immaterial.

				Related amounts available to be offset but not offset in statement of financial position		
At 31 March 2015	**Gross carrying amounts £m**	**Gross amounts offset[1] £m**	**Net amount presented in statement of financial position £m**	**Financial instruments £m**	**Cash collateral received/ pledged £m**	**Net amount £m**
Assets						
Derivative financial instruments	**1,716**	**–**	**1,716**	**(839)**	**(527)**	**350**
Commodity contracts	**64**	**–**	**64**	**(11)**	**–**	**53**
	1,780	**–**	**1,780**	**(850)**	**(527)**	**403**
Liabilities						
Derivative financial instruments	**(2,399)**	**–**	**(2,399)**	**839**	**1,125**	**(435)**
Commodity contracts	**(182)**	**11**	**(171)**	**11**	**–**	**(160)**
	(2,581)	**11**	**(2,570)**	**850**	**1,125**	**(595)**
	(801)	**11**	**(790)**	**–**	**598**	**(192)**

				Related amounts available to be offset but not offset in statement of financial position		
At 31 March 2014	Gross carrying amounts £m	Gross amounts offset[1] £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	1,970	–	1,970	(609)	(831)	530
Commodity contracts	89	(2)	87	(7)	(2)	78
	2,059	(2)	2,057	(616)	(833)	608
Liabilities						
Derivative financial instruments	(1,163)	–	(1,163)	609	374	(180)
Commodity contracts	(123)	–	(123)	7	–	(116)
	(1,286)	–	(1,286)	616	374	(296)
	773	(2)	771	–	(459)	312

1. The gross financial assets and liabilities offset in the statement of financial position primarily relate to commodity contracts. Offsets relate to margin payments for NYMEX gas futures which are traded on a recognised exchange.

30. Financial risk management continued

(b) Liquidity risk
Our policy is to determine our liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding requirements for at least a 24 month period and maintain adequate liquidity for a continuous 12 month period.

We believe our contractual obligations, including those shown in commitments and contingencies in note 27 can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of subsidiary indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt and may restrict our ability to draw upon our facilities or access the capital markets.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the reporting date:

At 31 March 2015	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	More than 3 years £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(2,289)	(1,179)	(1,513)	(20,235)	(25,216)
Interest payments on borrowings[1]	(790)	(790)	(766)	(13,587)	(15,933)
Finance lease liabilities	(44)	(41)	(32)	(86)	(203)
Other non-interest bearing liabilities	(2,744)	(216)	–	–	(2,960)
Derivative financial liabilities					
Derivative contracts – receipts	602	244	411	1,194	2,451
Derivative contracts – payments	(935)	(318)	(952)	(1,631)	(3,836)
Commodity contracts	(116)	(43)	(21)	–	(180)
	(6,316)	(2,343)	(2,873)	(34,345)	(45,877)

At 31 March 2014	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	More than 3 years £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(3,091)	(864)	(1,140)	(20,275)	(25,370)
Interest payments on borrowings[1]	(826)	(812)	(796)	(14,571)	(17,005)
Finance lease liabilities	(18)	(19)	(20)	(112)	(169)
Other non-interest bearing liabilities	(2,584)	(190)	–	–	(2,774)
Derivative financial liabilities					
Derivative contracts – receipts	1,068	950	153	1,155	3,326
Derivative contracts – payments	(556)	(861)	(144)	(1,638)	(3,199)
Commodity contracts	(177)	(30)	(22)	2	(227)
	(6,184)	(1,826)	(1,969)	(35,439)	(45,418)

1. The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle.

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30. Financial risk management continued

(c) Interest rate risk
National Grid's interest rate risk arises from our long-term borrowings. Borrowings issued at variable rates expose National Grid to cash flow interest rate risk, partially offset by cash held at variable rates. Borrowings issued at fixed rates expose National Grid to fair value interest rate risk.

Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints. We do this by using fixed and floating rate debt and derivative financial instruments including interest rate swaps, swaptions and forward rate agreements.

We hold some borrowings on issue that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

The table in note 19 sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

During 2015 and 2014, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2015					2014				
	Fixed rate £m	Floating rate £m	Inflation linked £m	Other[1] £m	Total £m	Fixed rate £m	Floating rate £m	Inflation linked £m	Other[1] £m	Total £m
Cash and cash equivalents	1	118	–	–	119	175	179	–	–	354
Financial investments	281	2,273	–	5	2,559	615	2,979	–	5	3,599
Borrowings[2]	(16,229)	(2,746)	(6,933)	(2)	(25,910)	(15,585)	(3,520)	(6,836)	(9)	(25,950)
Pre-derivative position	(15,947)	(355)	(6,933)	3	(23,232)	(14,795)	(362)	(6,836)	(4)	(21,997)
Derivative effect[3]	1,593	(2,294)	18	–	(683)	3,359	(2,743)	191	–	807
Net debt position	(14,354)	(2,649)	(6,915)	3	(23,915)	(11,436)	(3,105)	(6,645)	(4)	(21,190)

1. Represents financial instruments which are not directly affected by interest rate risk, such as investments in equity or other similar financial instruments.
2. Includes bank overdrafts.
3. The impact of 2015/16 (2014: 2014/15) maturing short-dated interest rate derivatives is included.

(d) Currency risk
National Grid operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and investments in foreign operations.

Our policy for managing foreign exchange transaction risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where foreign currency cash flow forecasts are less certain, our policy is to hedge a proportion of such cash flows based on the probability of those cash flows occurring. Instruments used to manage foreign exchange transaction risk include foreign exchange forward contracts and foreign exchange swaps.

Our policy for managing foreign exchange translation risk relating to our net investment in foreign operations is to maintain a percentage of net debt and foreign exchange forwards so as to provide an economic offset of our cash flows arising in the foreign currency. The primary managed foreign exchange exposure arises from the dollar denominated assets and liabilities held by our US operations, with a further small euro exposure in respect of a joint venture investment.

During 2015 and 2014, derivative financial instruments were used to manage foreign currency risk as follows:

	2015					2014				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Cash and cash equivalents	12	–	107	–	119	16	–	338	–	354
Financial investments	1,227	90	1,181	61	2,559	1,879	111	1,553	56	3,599
Borrowings[1]	(11,791)	(5,099)	(7,604)	(1,416)	(25,910)	(12,780)	(4,479)	(7,330)	(1,361)	(25,950)
Pre-derivative position	(10,552)	(5,009)	(6,316)	(1,355)	(23,232)	(10,885)	(4,368)	(5,439)	(1,305)	(21,997)
Derivative effect	1,608	5,203	(8,858)	1,364	(683)	3,137	4,670	(8,326)	1,326	807
Net debt position	(8,944)	194	(15,174)	9	(23,915)	(7,748)	302	(13,765)	21	(21,190)

1. Includes bank overdrafts.

The overall exposure to dollars largely relates to our net investment hedge activities as described in note 15.

30. Financial risk management continued

(d) Currency risk continued

The currency exposure on other financial instruments is as follows:

	2015					2014				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Trade and other receivables	200	–	1,495	–	1,695	142	–	1,623	–	1,765
Trade and other payables	(1,403)	–	(1,457)	–	(2,860)	(1,370)	–	(1,291)	–	(2,661)
Other non-current assets	(19)	–	(252)	–	(271)	(16)	–	(220)	–	(236)

The carrying amounts of other financial instruments are denominated in the above currencies, which in most instances are the functional currency of the respective subsidiaries. Our exposure to dollars is due to activities in our US subsidiaries. We do not have any other significant exposure to currency risk on these balances.

(e) Commodity risk

We purchase electricity and gas to supply our customers in the US and to meet our own energy needs. Substantially all our costs of purchasing electricity and gas for supply to customers are recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular year that can lead to large fluctuations in the income statement. We follow approved policies to manage price and supply risks for our commodity activities.

Our energy procurement risk management policy and delegations of authority govern our US commodity trading activities for energy transactions. The purpose of this policy is to ensure we transact within pre-defined risk parameters and only in the physical and financial markets where we or our customers have a physical market requirement. In addition, state regulators require National Grid to manage commodity risk and cost volatility prudently through diversified pricing strategies. In some jurisdictions we are required to file a plan outlining our strategy to be approved by regulators. In certain cases we might receive guidance with regard to specific hedging limits.

Energy purchase contracts for the forward purchase of electricity or gas that are used to satisfy physical delivery requirements to customers or for energy that the Company uses itself meet the normal purchase, sale or usage exemption of IAS 39. They are, therefore, not recognised in the financial statements. Disclosure of commitments under such contracts is made in note 27.

We enter into forward contracts for the purchase of commodities, some of which do not meet the own use exemption for accounting purposes and hence are accounted for as derivatives. We also enter into derivative financial instruments linked to commodity prices, including index-linked futures, swaps and options contracts. These derivative financial instruments are used to manage market price volatility and are carried at fair value on the statement of financial position, with the mark-to-market changes reflected through earnings.

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30. Financial risk management continued

(e) Commodity risk continued

The fair value of our commodity contracts by type can be analysed as follows:

	2015 Assets £m	2015 Liabilities £m	2015 Total £m	2014 Assets £m	2014 Liabilities £m	2014 Total £m
Commodity purchase contracts accounted for as derivative contracts						
Forward purchases of electricity	–	(42)	(42)	1	(49)	(48)
Forward purchases of gas	42	(42)	–	30	(66)	(36)
Derivative financial instruments linked to commodity prices						
Electricity swaps	21	(59)	(38)	26	(6)	20
Electricity options	–	(1)	(1)	22	–	22
Gas swaps	1	(27)	(26)	7	(2)	5
Gas options	–	–	–	1	–	1
	64	(171)	(107)	87	(123)	(36)

The maturity profile of commodity contracts is as follows:

	2015 Assets £m	2015 Liabilities £m	2015 Total £m	2014 Assets £m	2014 Liabilities £m	2014 Total £m
Current						
Less than one year	35	(116)	(81)	42	(77)	(35)
	35	(116)	(81)	42	(77)	(35)
Non-current						
In 1 to 2 years	25	(37)	(12)	13	(22)	(9)
In 2 to 3 years	2	(18)	(16)	15	(17)	(2)
In 3 to 4 years	1	–	1	4	(7)	(3)
In 4 to 5 years	1	–	1	3	–	3
More than 5 years	–	–	–	10	–	10
	29	(55)	(26)	45	(46)	(1)
	64	(171)	(107)	87	(123)	(36)

For each class of commodity contract, our exposure based on the notional quantities is as follows:

	2015	2014
Forward purchases of electricity[1]	984 GWh	1,740 GWh
Forward purchases/sales of gas[2]	55m Dth	84m Dth
Electricity swaps	10,779 GWh	6,603 GWh
Electricity options	25,157 GWh	28,760 GWh
Gas swaps	65m Dth	50m Dth
Gas options	4m Dth	23m Dth
NYMEX gas futures[3]	20m Dth	20m Dth

1. Forward electricity purchases have terms up to three years. The contractual obligations under these contracts are £77m (2014: £106m).
2. Forward gas purchases have terms up to five years. The contractual obligations under these contracts are £26m (2014: £171m).
3. NYMEX gas futures have been offset with related margin accounts (see note 30(a)).

(f) Capital risk management

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 26). National Grid's objectives when managing capital are: to safeguard our ability to continue as a going concern; to remain within regulatory constraints of our regulated operating companies; and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated companies is an important aspect of our capital risk management strategy and balance sheet efficiency. As noted on page 22, we monitor our balance sheet efficiency using several metrics including our retained cash flow/net debt and interest cover. Interest cover for the year ended 31 March 2015 was 5.1 (2014: 4.1). Our long-term target range for interest cover is greater than 3.0, which we believe is consistent with single A range long-term senior unsecured debt credit ratings within our main UK operating companies, NGET and NGG, based on guidance from the rating agencies.

30. Financial risk management continued

(f) Capital risk management continued
In addition, we monitor the RAV gearing within each of NGET and the regulated transmission and distribution businesses within NGG. This is calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our UK regulated businesses. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for these businesses, at around 60 to 65%.

The majority of our regulated operating companies in the US and the UK (and one intermediate UK holding company), are subject to certain restrictions on the payment of dividends by administrative order, contract and/or licence. The types of restrictions that a company may have that would prevent a dividend being declared or paid unless they are met include:

- dividends must be approved in advance by the relevant US state regulatory commission;
- the subsidiary must have at least two recognised rating agency credit ratings of at least investment grade;
- dividends must be limited to cumulative retained earnings, including pre-acquisition retained earnings;
- National Grid plc must maintain an investment grade credit rating and if that rating is the lowest investment grade bond rating it cannot have a negative watch/review for downgrade notice by a credit rating agency;
- the subsidiary must not carry on any activities other than those permitted by the licences;
- the subsidiary must not create any cross-default obligations or give or receive any intra-group cross-subsidies; and
- the percentage of equity compared with total capital of the subsidiary must remain above certain levels.

There is a further restriction relating only to the Narragansett Electric Company, which is required to maintain its consolidated net worth above certain levels.

These restrictions are subject to alteration in the US as and when a new rate case or rate plan is agreed with the relevant regulatory bodies for each operating company and in the UK through the normal licence review process.

As most of our business is regulated, at 31 March 2015 the majority of our net assets are subject to some of the restrictions noted above. These restrictions are not considered to be significantly onerous, nor do we currently expect they will prevent the planned payment of dividends in future in line with our dividend policy.

Some of our regulatory and bank loan agreements additionally impose lower limits for the long-term credit ratings that certain companies within the Group must hold. All the above requirements are monitored on a regular basis in order to ensure compliance. The Company has complied with all externally imposed capital requirements to which it is subject.

(g) Fair value analysis
The financial instruments included on the statement of financial position are measured at fair value. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

	2015				2014			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Available-for-sale investments	1,315	247	–	1,562	2,786	214	–	3,000
Derivative financial instruments	–	1,702	14	1,716	–	1,950	20	1,970
Commodity contracts	–	22	42	64	–	34	53	87
	1,315	1,971	56	3,342	2,786	2,198	73	5,057
Liabilities								
Derivative financial instruments	–	(2,219)	(180)	(2,399)	–	(1,043)	(120)	(1,163)
Commodity contracts	–	(87)	(84)	(171)	–	(12)	(111)	(123)
	–	(2,306)	(264)	(2,570)	–	(1,055)	(231)	(1,286)
	1,315	(335)	(208)	772	2,786	1,143	(158)	3,771

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

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30. Financial risk management continued

(g) Fair value analysis continued
Our level 3 derivative financial instruments include cross-currency swaps with an embedded call option, currency swaps where the currency forward curve is illiquid and inflation linked swaps where the inflation curve is illiquid. In valuing these instruments a third-party valuation is obtained to support each reported fair value.

Our level 3 commodity contracts primarily consist of our forward purchases of electricity and gas where pricing inputs are unobservable, as well as other complex transactions. Complex transactions can introduce the need for internally developed models based on reasonable assumptions. Industry standard valuation techniques such as the Black-Scholes pricing model and Monte Carlo simulation are used for valuing such instruments. Level 3 is also applied in cases when optionality is present or where an extrapolated forward curve is considered unobservable. All published forward curves are verified to market data; if forward curves differ from market data by 5% or more they are considered unobservable.

The changes in value of our level 3 derivative financial instruments are as follows:

	Derivative financial instruments		Commodity contracts		Total	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
At 1 April	**(100)**	(104)	**(58)**	(71)	**(158)**	(175)
Net gains/(losses) for the year[1,2]	**(63)**	7	**(53)**	19	**(116)**	26
Purchases	**–**	–	**38**	1	**38**	1
Settlements	**(3)**	(3)	**28**	(7)	**25**	(10)
Reclassification/transfers out of level 3	**–**	–	**3**	–	**3**	–
At 31 March	**(166)**	(100)	**(42)**	(58)	**(208)**	(158)

1. Loss of £63m (2014: £7m gain) is attributable to derivative financial instruments held at the end of the reporting period and has been recognised in finance costs in the income statement.
2. Loss of £48m (2014: £30m loss) is attributable to commodity contract financial instruments held at the end of the reporting period.

The impacts on a post-tax basis of reasonably possible changes in significant level 3 assumptions are as follows:

	Derivative financial instruments		Commodity contracts	
	2015 Income statement £m	2014 Income statement £m	**2015 Income statement £m**	2014 Income statement £m
10% increase in commodity prices[1]	**–**	–	**4**	33
10% decrease in commodity prices[1]	**–**	–	**(3)**	(15)
Volume forecast uplift[2]	**–**	–	**(2)**	(2)
Volume forecast reduction[2]	**–**	–	**2**	2
Forward curve extrapolation	**–**	–	**–**	1
+10% market area price change	**–**	–	**(4)**	–
–10% market area price change	**–**	–	**4**	–
+20 basis point change in Limited Price Inflation (LPI) market curve[3]	**(77)**	(54)	**–**	–
–20 basis points change in LPI market curve[3]	**75**	53	**–**	–

1. Level 3 commodity price sensitivity is included within the sensitivity analysis disclosed in note 33.
2. Volumes were flexed using maximum and minimum historical averages, or by >10% where historical averages were not available.
3. A reasonably possible change in assumption of other level 3 derivative financial instruments is unlikely to result in a material change in fair values.

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified.

31. Borrowing facilities

To support our long-term liquidity requirements and provide backup to commercial paper and other borrowings, we agree loan facilities with financial institutions over and above the value of borrowings that may be required. These facilities have never been drawn, and our undrawn amounts are listed below.

At 31 March 2015, we had bilateral committed credit facilities of £2,094m (2014: £2,073m). In addition, we had committed credit facilities from syndicates of banks of £884m at 31 March 2015 (2014: £800m). All committed credit facilities were undrawn in 2015 and 2014. An analysis of the maturity of these undrawn committed facilities is shown below:

	2015 £m	2014 £m
Undrawn committed borrowing facilities expiring:		
Less than 1 year	572	–
In 1 to 2 years	–	800
In 2 to 3 years	874	–
In 3 to 4 years	1,220	853
In 4 to 5 years	312	1,220
	2,978	2,873

Of the unused facilities at 31 March 2015, £2,666m (2014: £2,583m) was held as backup to commercial paper and similar borrowings, while £312m (2014: £290m) is available as backup to specific US borrowings.

In addition to the above the Group has an RPI-linked bank loan agreement totalling £1,500m with the European Investment Bank (EIB), which is currently undrawn.

Further information on our bonds can be found on the debt investor section of our website.

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32. Subsidiary undertakings, joint ventures and associates

While we present consolidated results in these financial statements as if we were one company, our legal structure is such that there are a number of different operating and holding companies that contribute to the overall result. This structure has evolved through acquisitions as well as regulatory requirements to have certain activities within separate legal entities.

Principal subsidiary undertakings
The principal subsidiary undertakings included in the consolidated financial statements at 31 March 2015 are listed below. These undertakings are wholly owned and, unless otherwise indicated, are incorporated in England and Wales.

	Principal activity
Boston Gas Company[1]	Distribution of gas
KeySpan Gas East Corporation[1]	Distribution of gas
The Brooklyn Union Gas Company[1]	Distribution of gas
Massachusetts Electric Company[1]	Distribution of electricity
National Grid Interconnectors Limited	Electricity interconnector operator
National Grid Generation LLC[1]	Generation of electricity
National Grid Grain LNG Limited	LNG importation and storage
National Grid Metering Limited	Metering services
National Grid Property Holdings Limited	Property services
National Grid Gas plc	Transmission and distribution of gas
The Narragansett Electric Company[1]	Transmission and distribution of electricity
Niagara Mohawk Power Corporation[1]	Transmission of electricity and distribution of electricity and gas
National Grid Electricity Transmission plc	Transmission of electricity
New England Power Company[1]	Transmission of electricity
British Transco Finance Inc.[1]	Financing
British Transco International Finance BV (incorporated in the Netherlands)	Financing
NGG Finance plc	Financing
KeySpan Corporation[1]	Holding company
Lattice Group plc	Holding company
National Grid Commercial Holdings Limited	Holding company
National Grid Gas Holdings Limited	Holding company
National Grid Holdings Limited	Holding company
National Grid Holdings One plc	Holding company
National Grid North America Inc.[1]	Holding company
National Grid (US) Holdings Limited	Holding company
National Grid (US) Investments 4 Limited	Holding company
National Grid (US) Partner 1 Limited	Holding company
National Grid USA[1]	Holding company
Niagara Mohawk Holdings, Inc.[1]	Holding company

1. Incorporated in the US.

Principal joint ventures and associates
The principal joint ventures and associated undertakings included in the financial statements at 31 March 2015 are listed below. These undertakings are incorporated in England and Wales (unless otherwise indicated).

	% of ordinary shares held	Principal activity
BritNed Development Limited[1]	50	UK/Netherlands interconnector
NGET/SPT Upgrades Limited	50	England/Scotland interconnector
Millennium Pipeline Company, LLC[2]	26.25	Transmission of gas
Iroquois Gas Transmission System, L.P.[2]	20.4	Transmission of gas

1. Financial year end of 31 December.
2. Incorporated in the US.

The Group comprises a large number of entities and it is not practical to include all of them in this list. This list therefore includes brief details for those principal companies which, in the Directors' opinion, have a significant impact on the revenue, profit or assets of the Group. A full list of subsidiaries, joint ventures and associates is annexed to the Company's Annual Return filed with the Registrar of Companies.

Our interests and activities are held or operated through subsidiaries, branches, joint arrangements or associates established in – and subject to the laws and regulations of – a number of different jurisdictions.

33. Sensitivities on areas of estimation and uncertainty

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are hypothetical, as they are based on assumptions and conditions prevailing at the year end, and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing.

The sensitivities in the tables below show the potential impact in the income statement (and consequential impact on net assets) for a range of different variables each of which have been considered in isolation (i.e. with all other variables remaining constant). There are a number of these sensitivities which are mutually exclusive and therefore if one were to happen, another would not, meaning a total showing how sensitive our results are to these external factors is not meaningful.

We are further required to show additional sensitivity analysis for changes in interest and exchange rates and these are shown separately in the subsequent table due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

The sensitivities included in the tables below all have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated. For example, a 10% increase in unbilled revenue at 31 March 2015 would result in an increase in the income statement of £60m and a 10% decrease in unbilled revenue would have the equal but opposite effect.

	2015		2014	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
One year average change in useful economic lives (pre-tax):				
Depreciation charge on property, plant and equipment	**69**	**69**	68	68
Amortisation charge on intangible assets	**26**	**26**	18	18
Estimated future cash flows in respect of provisions, change of 10% (pre-tax)	**174**	**174**	164	164
Assets and liabilities carried at fair value change of 10% (pre-tax):				
Derivative financial instruments[1]	**68**	**68**	81	81
Commodity contract liabilities	**11**	**11**	4	4
Pensions and other post-retirement benefits[2] (pre-tax):				
UK discount rate change of 0.5%[3]	**9**	**1,575**	13	1,347
US discount rate change of 0.5%[3]	**12**	**670**	15	473
UK RPI rate change of 0.5%[4]	**9**	**1,349**	12	1,217
UK long-term rate of increase in salaries change of 0.5%[5]	**1**	**93**	5	95
US long-term rate of increase in salaries change of 0.5%[5]	**2**	**42**	4	39
UK change of one year to life expectancy at age 65	**1**	**620**	3	548
US change of one year to life expectancy at age 65	**3**	**352**	12	220
Assumed US healthcare cost trend rates change of 1%	**28**	**465**	28	355
Unbilled revenue at 31 March change of 10% (post-tax)	**60**	**60**	58	58
No hedge accounting for our derivative financial instruments (post-tax)	**(611)**	**316**	350	(294)
Commodity risk[6] (post-tax):				
10% increase in commodity prices	**26**	**26**	50	50
10% decrease in commodity prices	**(24)**	**(24)**	(33)	(33)

1. The effect of a 10% change in fair value assumes no hedge accounting.
2. The changes shown are a change in the annual pension or other post-retirement benefit service charge and change in the defined benefit obligations.
3. A change in the discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans.
4. The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.
5. This change has been applied to both the pre 1 April 2014 and post 1 April 2014 rate of increase in salary assumption.
6. Represents potential impact on fair values of commodity contracts only.

	2015		2014	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
Financial risk (post-tax):				
UK RPI change of 0.5%[1]	**27**	**–**	26	–
UK interest rates change of 0.5%	**92**	**101**	93	68
US interest rates change of 0.5%	**77**	**11**	70	13
US dollar exchange rate change of 10%[2]	**62**	**607**	55	641

1. Excludes sensitivities to LPI curve. Further details on sensitivities are provided in note 30(g).
2. The other equity reserves impact does not reflect the exchange translation in our US subsidiaries' net assets. It is estimated this would change by £771m (2014: £781m) in the opposite direction if the dollar exchange rate changed by 10%.

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33. Sensitivities on areas of estimation and uncertainty continued

Pensions and other post-retirement benefits assumptions
Sensitivities have been prepared to show how the DB obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 2015. In preparing sensitivities the potential impact has been calculated by applying the change to each assumption in isolation and assuming all other assumptions remain unchanged. This is with the exception of RPI in the UK where the corresponding change to increases to pensions in payment, increases to pensions in deferment and increases in salary is recognised.

Financial instruments assumptions
Our financial instruments are sensitive to changes in market variables, being UK and US interest rates, the UK RPI and the dollar to sterling exchange rate. The changes in market variables impact the valuation of our borrowings, deposits, derivative financial instruments and commodity contracts. The analysis illustrates the sensitivity of our financial instruments to the changes in market variables.

The following main assumptions were made in calculating the sensitivity analysis:

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2015 and 2014 respectively;
- the statement of financial position sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity; and
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in interest rates are recorded in the income statement as they are designated using the spot rather than the forward translation method. The impact of movements in the dollar to sterling exchange rate are recorded directly in equity.

34. Additional disclosures in respect of guaranteed securities

We have three debt issuances (including preferred shares) that are listed on a US national securities exchange and are guaranteed by other companies in the Group. These guarantors commit to honour any liabilities should the company issuing the debt have any financial difficulties. In order to provide debt holders with information on the financial stability of the companies providing the guarantees, we are required to disclose individual financial information for these companies. We have chosen to include this information in the Group financial statements rather than submitting separate stand-alone financial statements.

The following condensed consolidating financial information, comprising statements of comprehensive income, statements of financial position and cash flow statements, is given in respect of National Grid Gas plc (subsidiary guarantor), which became joint full and unconditional guarantor on 11 May 2004 with National Grid plc (parent guarantor) of the 6.625% Guaranteed Notes due 2018 issued in June 1998 by British Transco Finance Inc., then known as British Gas Finance Inc. (issuer of notes). Condensed consolidating financial information is also provided in respect of Niagara Mohawk Power Corporation as a result of National Grid plc's guarantee, dated 29 October 2007, of Niagara Mohawk's 3.6% and 3.9% issued preferred shares. National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation are wholly-owned subsidiaries of National Grid plc.

The following financial information for National Grid plc, National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation on a condensed consolidating basis is intended to provide investors with meaningful and comparable financial information and is provided pursuant to various rules including Rule 3-10 of Regulation S-X in lieu of the separate financial statements of each subsidiary issuer of public debt securities.

This financial information should be read in conjunction with the other disclosure in these financial statements.

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income are presented, on a consolidated basis, for the three years ended 31 March 2015. Summary statements of comprehensive income of National Grid plc and National Grid Gas plc are presented under IFRS measurement principles, as modified by the inclusion of the results of subsidiary undertakings on the basis of equity accounting principles.

The summary statements of financial position of National Grid plc and National Grid Gas plc include the investments in subsidiaries recorded on the basis of equity accounting principles for the purposes of presenting condensed consolidating financial information under IFRS. The summary statements of financial position present these investments within non-current financial and other investments.

The consolidation adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between National Grid plc, National Grid Gas plc, British Transco Finance Inc., Niagara Mohawk Power Corporation and other subsidiaries.

Summary statements of comprehensive income for the year ended 31 March 2015 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	–	2,109	–	3,136	10,125	(169)	15,201
Operating costs:							
Depreciation and amortisation	–	(146)	–	(540)	(796)	–	(1,482)
Payroll costs	–	(256)	–	(253)	(950)	–	(1,459)
Purchases of electricity	–	(604)	–	–	(1,081)	–	(1,685)
Purchases of gas	–	(147)	–	(98)	(1,171)	–	(1,416)
Rates and property tax	–	(146)	–	(247)	(611)	–	(1,004)
Balancing Service Incentive Scheme	–	–	–	–	(874)	–	(874)
Payments to other UK network owners	–	–	–	–	(801)	–	(801)
Other operating costs	–	(501)	–	(655)	(1,713)	169	(2,700)
	–	(1,800)	–	(1,793)	(7,997)	169	(11,421)
Total operating profit	–	309	–	1,343	2,128	–	3,780
Net finance costs	(223)	(76)	–	(352)	(547)	–	(1,198)
Dividends receivable	–	–	–	–	700	(700)	–
Interest in equity accounted affiliates	2,192	–	–	8	46	(2,200)	46
Profit before tax	1,969	233	–	999	2,327	(2,900)	2,628
Tax	50	(98)	–	(230)	(339)	–	(617)
Profit for the year	2,019	135	–[1]	769	1,988	(2,900)	2,011
Amounts recognised in other comprehensive income[2]	(395)	1	–	22	(588)	566	(394)
Total comprehensive income for the year	**1,624**	**136**	**–**	**791**	**1,400**	**(2,334)**	**1,617**
Attributable to:							
Equity shareholders	1,624	136	–	791	1,407	(2,334)	1,624
Non-controlling interests	–	–	–	–	(7)	–	(7)
	1,624	**136**	**–**	**791**	**1,400**	**(2,334)**	**1,617**

1. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.
2. Includes other comprehensive income relating to interest in equity accounted affiliates.

Notes to the consolidated financial statements
– supplementary information continued

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income for the year ended 31 March 2014 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries[1] £m	Consolidation adjustments £m	National Grid consolidated[1] £m
Revenue	4	2,185	–	3,141	9,653	(174)	14,809
Operating costs:							
Depreciation and amortisation	–	(127)	–	(529)	(760)	–	(1,416)
Payroll costs	–	(278)	–	(251)	(689)	–	(1,218)
Purchases of electricity	–	(647)	–	–	(817)	–	(1,464)
Purchases of gas	–	(194)	–	(112)	(1,449)	–	(1,755)
Rates and property tax	–	(137)	–	(241)	(585)	–	(963)
Balancing Service Incentive Scheme	–	–	–	–	(872)	–	(872)
Payments to other UK network owners	–	–	–	–	(630)	–	(630)
Other operating costs	15	(440)	–	(661)	(1,844)	174	(2,756)
	15	(1,823)	–	(1,794)	(7,646)	174	(11,074)
Total operating profit	19	362	–	1,347	2,007	–	3,735
Net finance costs	(128)	(85)	–	(285)	(517)	–	(1,015)
Dividends receivable	–	–	–	–	600	(600)	–
Interest in equity accounted affiliates	2,550	–	–	11	28	(2,561)	28
Profit before tax	2,441	277	–	1,073	2,118	(3,161)	2,748
Tax	35	(97)	–	3	(225)	–	(284)
Profit for the year	2,476	180	–[2]	1,076	1,893	(3,161)	2,464
Amounts recognised in other comprehensive income[3]	235	(8)	–	9	383	(384)	235
Total comprehensive income for the year	**2,711**	**172**	**–**	**1,085**	**2,276**	**(3,545)**	**2,699**
Attributable to:							
Equity shareholders	2,711	172	–	1,085	2,288	(3,545)	2,711
Non-controlling interests	–	–	–	–	(12)	–	(12)
	2,711	**172**	**–**	**1,085**	**2,276**	**(3,545)**	**2,699**

1. Comparatives have been represented on a basis consistent with the current year presentation.
2. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.
3. Includes other comprehensive income relating to interest in equity accounted affiliates.

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income for the year ended 31 March 2013 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries[1] £m	Consolidation adjustments £m	National Grid consolidated[1] £m
Revenue	–	2,129	–	3,062	9,345	(177)	14,359
Operating costs:							
Depreciation and amortisation	–	(119)	–	(511)	(731)	–	(1,361)
Payroll costs	–	(276)	–	(238)	(946)	–	(1,460)
Purchases of electricity	–	(561)	–	–	(579)	–	(1,140)
Purchases of gas	–	(151)	–	(128)	(1,036)	–	(1,315)
Rates and property tax	–	(141)	–	(235)	(593)	–	(969)
Balancing Service Incentive Scheme	–	–	–	–	(805)	–	(805)
Payments to other UK network owners	–	–	–	–	(487)	–	(487)
Other operating costs	–	(357)	–	(579)	(2,314)	177	(3,073)
	–	(1,605)	–	(1,691)	(7,491)	177	(10,610)
Total operating profit	–	524	–	1,371	1,854	–	3,749
Net finance costs	(181)	(88)	–	(274)	(513)	–	(1,056)
Dividends receivable	–	–	–	–	1,900	(1,900)	–
Interest in equity accounted affiliates	2,295	–	–	8	18	(2,303)	18
Profit before tax	2,114	436	–	1,105	3,259	(4,203)	2,711
Tax	39	(168)	–	(174)	(254)	–	(557)
Profit for the year	2,153	268	–[2]	931	3,005	(4,203)	2,154
Amounts recognised in other comprehensive income[3]	(381)	(35)	–	3	(353)	385	(381)
Total comprehensive income for the year	**1,772**	**233**	**–**	**934**	**2,652**	**(3,818)**	**1,773**
Attributable to:							
Equity shareholders	1,772	233	–	934	2,651	(3,818)	1,772
Non-controlling interests	–	–	–	–	1	–	1
	1,772	**233**	**–**	**934**	**2,652**	**(3,818)**	**1,773**

1. Comparatives have been represented on a basis consistent with the current year presentation.
2. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.
3. Includes other comprehensive income relating to interest in equity accounted affiliates.

Notes to the consolidated financial statements

– supplementary information continued

34. Additional disclosures in respect of guaranteed securities continued

Statements of financial position as at 31 March 2015 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	653	–	–	4,492	–	5,145
Other intangible assets	–	–	–	232	570	–	802
Property, plant and equipment	–	5,025	–	12,428	23,270	–	40,723
Other non-current assets	–	11	–	18	51	–	80
Amounts owed by subsidiary undertakings	341	–	202	5,609	3,017	(9,169)	–
Pension assets	–	121	–	–	–	–	121
Financial and other investments	14,988	26	–	56	9,905	(24,327)	648
Derivative financial assets	148	–	–	988	403	–	1,539
Total non-current assets	15,477	5,836	202	19,331	41,708	(33,496)	49,058
Current assets							
Inventories and current intangible assets	–	40	–	26	274	–	340
Trade and other receivables	2	502	–	417	1,915	–	2,836
Amounts owed by subsidiary undertakings	11,484	254	5	298	13,052	(25,093)	–
Financial and other investments	740	9	–	363	1,447	–	2,559
Derivative financial assets	281	–	–	70	88	(262)	177
Cash and cash equivalents	10	11	–	4	104	(10)	119
Total current assets	12,517	816	5	1,178	16,880	(25,365)	6,031
Total assets	**27,994**	**6,652**	**207**	**20,509**	**58,588**	**(58,861)**	**55,089**
Current liabilities							
Borrowings	(1,068)	(44)	(5)	(521)	(1,400)	10	(3,028)
Derivative financial liabilities	(289)	–	–	(133)	(475)	262	(635)
Trade and other payables	(39)	(267)	–	(877)	(2,109)	–	(3,292)
Amounts owed to subsidiary undertakings	(11,208)	–	–	(1,973)	(11,912)	25,093	–
Current tax liabilities	(3)	(61)	–	(34)	(86)	–	(184)
Provisions	–	–	–	(39)	(196)	–	(235)
Total current liabilities	(12,607)	(372)	(5)	(3,577)	(16,178)	25,365	(7,374)
Non-current liabilities							
Borrowings	(1,117)	(2,021)	(202)	(6,056)	(13,486)	–	(22,882)
Derivative financial liabilities	(411)	–	–	(481)	(872)	–	(1,764)
Other non-current liabilities	–	(287)	–	(1,038)	(594)	–	(1,919)
Amounts owed to subsidiary undertakings	(1,894)	–	–	(1,123)	(6,152)	9,169	–
Deferred tax liabilities	(3)	(782)	–	(1,655)	(1,857)	–	(4,297)
Pensions and other post-retirement benefit obligations	–	(801)	–	–	(2,578)	–	(3,379)
Provisions	–	(267)	–	(168)	(1,065)	–	(1,500)
Total non-current liabilities	(3,425)	(4,158)	(202)	(10,521)	(26,604)	9,169	(35,741)
Total liabilities	**(16,032)**	**(4,530)**	**(207)**	**(14,098)**	**(42,782)**	**34,534**	**(43,115)**
Net assets	**11,962**	**2,122**	**–**	**6,411**	**15,806**	**(24,327)**	**11,974**
Equity							
Share capital	443	126	–	45	182	(353)	443
Share premium account	1,331	2,039	–	204	8,033	(10,276)	1,331
Retained earnings	14,870	(43)	–	4,885	7,761	(12,603)	14,870
Other equity reserves	(4,682)	–	–	1,277	(182)	(1,095)	(4,682)
Shareholders' equity	**11,962**	**2,122**	**–**	**6,411**	**15,794**	**(24,327)**	**11,962**
Non-controlling interests	–	–	–	–	12	–	12
Total equity	**11,962**	**2,122**	**–**	**6,411**	**15,806**	**(24,327)**	**11,974**

34. Additional disclosures in respect of guaranteed securities continued

Statements of financial position as at 31 March 2014 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	581	–	–	4,013	–	4,594
Other intangible assets	–	–	–	230	439	–	669
Property, plant and equipment	–	4,266	–	12,259	20,654	–	37,179
Other non-current assets	–	26	–	15	46	–	87
Amounts owed by subsidiary undertakings	305	–	180	5,609	2,676	(8,770)	–
Pension assets	–	–	–	–	174	–	174
Financial and other investments	14,520	22	–	50	9,896	(23,853)	635
Derivative financial assets	643	–	–	642	272	–	1,557
Total non-current assets	15,468	4,895	180	18,805	38,170	(32,623)	44,895
Current assets							
Inventories and current intangible assets	–	27	–	24	217	–	268
Trade and other receivables	3	572	–	361	1,855	64	2,855
Amounts owed by subsidiary undertakings	9,025	11	5	262	11,100	(20,403)	–
Financial and other investments	1,481	10	–	420	1,688	–	3,599
Derivative financial assets	284	–	–	63	174	(108)	413
Cash and cash equivalents	24	16	–	–	314	–	354
Total current assets	10,817	636	5	1,130	15,348	(20,447)	7,489
Total assets	**26,285**	**5,531**	**185**	**19,935**	**53,518**	**(53,070)**	**52,384**
Current liabilities							
Borrowings	(1,327)	(328)	(4)	(568)	(1,284)	–	(3,511)
Derivative financial liabilities	(286)	–	–	(99)	(62)	108	(339)
Trade and other payables	(37)	(252)	–	(809)	(1,933)	–	(3,031)
Amounts owed to subsidiary undertakings	(8,695)	(56)	–	(2,212)	(9,440)	20,403	–
Current tax liabilities	–	(64)	–	(27)	(13)	(64)	(168)
Provisions	–	–	–	(74)	(208)	–	(282)
Total current liabilities	(10,345)	(700)	(4)	(3,789)	(12,940)	20,447	(7,331)
Non-current liabilities							
Borrowings	(1,850)	(1,321)	(180)	(6,048)	(13,040)	–	(22,439)
Derivative financial liabilities	(154)	–	–	(279)	(391)	–	(824)
Other non-current liabilities	–	(245)	–	(1,045)	(551)	–	(1,841)
Amounts owed to subsidiary undertakings	(2,022)	–	–	(654)	(6,094)	8,770	–
Deferred tax liabilities	(3)	(609)	–	(1,601)	(1,869)	–	(4,082)
Pensions and other post-retirement benefit obligations	–	(652)	–	–	(1,933)	–	(2,585)
Provisions	–	(243)	–	(158)	(962)	–	(1,363)
Total non-current liabilities	(4,029)	(3,070)	(180)	(9,785)	(24,840)	8,770	(33,134)
Total liabilities	**(14,374)**	**(3,770)**	**(184)**	**(13,574)**	**(37,780)**	**29,217**	**(40,465)**
Net assets	**11,911**	**1,761**	**1**	**6,361**	**15,738**	**(23,853)**	**11,919**
Equity							
Share capital	439	112	–	45	182	(339)	439
Share premium account	1,336	1,808	–	204	8,032	(10,044)	1,336
Retained earnings	14,895	(159)	1	4,814	7,628	(12,284)	14,895
Other equity reserves	(4,759)	–	–	1,298	(112)	(1,186)	(4,759)
Shareholders' equity	**11,911**	**1,761**	**1**	**6,361**	**15,730**	**(23,853)**	**11,911**
Non-controlling interests	–	–	–	–	8	–	8
Total equity	**11,911**	**1,761**	**1**	**6,361**	**15,738**	**(23,853)**	**11,919**

Notes to the consolidated financial statements
– supplementary information continued

34. Additional disclosures in respect of guaranteed securities continued

Cash flow statements

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Year ended 31 March 2015							
Net cash flow from operating activities	38	531	–	1,575	2,863	–	5,007
Net cash flow from/(used in) investing activities	2,103	(393)	–	(603)	(1,051)	(2,057)	(2,001)
Net cash flow (used in)/from financing activities	(2,169)	(145)	–	(959)	(2,037)	2,057	(3,253)
Net (decrease)/increase in cash and cash equivalents in the year	**(28)**	**(7)**	**–**	**13**	**(225)**	**–**	**(247)**
Year ended 31 March 2014							
Net cash flow from operating activities	52	581	–	1,717	1,669	–	4,019
Net cash flow from/(used in) investing activities	1,358	(555)	–	(91)	(993)	(1,049)	(1,330)
Net cash flow (used in)/from financing activities	(1,724)	(18)	–	(1,632)	(647)	1,049	(2,972)
Net (decrease)/increase in cash and cash equivalents in the year	(314)	8	–	(6)	29	–	(283)
Year ended 31 March 2013							
Net cash flow from operating activities	36	162	–	1,608	1,944	–	3,750
Net cash flow used in investing activities	(979)	(286)	–	(1,345)	(1,048)	(2,472)	(6,130)
Net cash flow from/(used in) financing activities	1,255	132	–	(240)	(904)	2,472	2,715
Net increase/(decrease) in cash and cash equivalents in the year	312	8	–	23	(8)	–	335

Cash dividends were received by National Grid plc from subsidiary undertakings amounting to £1,355m during the year ended 31 March 2015 (2014: £1,050m; 2013: £570m).

Maturity analysis of parent Company borrowings

	2015 £m	2014 £m
Total borrowings are repayable as follows:		
Less than 1 year	**1,068**	1,327
In 1 to 2 years	**–**	46
In 2 to 3 years	**–**	580
In 3 to 4 years	**443**	–
In 4 to 5 years	**360**	506
More than 5 years	**314**	718
	2,185	3,177

Company accounting policies

We are required to include the stand-alone balance sheet of our ultimate parent Company, National Grid plc, under the Companies Act 2006. This is because the publicly traded shares are actually those of National Grid plc (the Company) and the following disclosures provide additional information to shareholders.

A. Basis of preparation of individual financial statements under UK GAAP

These individual financial statements of the Company have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006. They have been prepared on an historical cost basis, except for the revaluation of financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The 2014 comparative financial information has also been prepared on this basis.

These individual financial statements have been prepared on a going concern basis, which presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. Further details of the Directors' assessment are set out on page 54.

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006.

The Company has taken advantage of the exemptions in FRS 8 'Related Party Disclosures' from disclosing transactions with other members of the National Grid plc group of companies.

In accordance with exemptions under FRS 29 'Financial Instruments: Disclosures', the Company has not presented the financial instruments disclosures required by the standard, as disclosures which comply with the standard are included in the consolidated financial statements.

B. Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value-in-use.

C. Tax

Current tax for the current and prior periods is provided at the amount expected to be paid or recovered using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

D. 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 currencies are retranslated at closing exchange rates. Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

E. Financial instruments

The Company's accounting policies under UK GAAP, namely FRS 25 'Financial Instruments: Presentation', FRS 26 'Financial Instruments: Measurement' and FRS 29 'Financial Instruments: Disclosures', are the same as the Group's accounting policies under IFRS, namely IAS 32 'Financial Instruments: Presentation', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures'. The Company applies these policies only in respect of the financial instruments that it has, namely investments, derivative financial instruments, debtors, cash at bank and in hand, borrowings and creditors.

The policies are set out in notes 13, 15, 17, 18, 19 and 20 to the consolidated financial statements. The Company is taking the exemption for financial instruments disclosures, because IFRS 7 disclosures are given in notes 30 and 33 to the consolidated financial statements.

F. Hedge accounting

The Company applies the same accounting policy as the Group in respect of fair value hedges and cash flow hedges. This policy is set out in note 15 to the consolidated financial statements.

G. Parent Company guarantees

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due by certain subsidiary undertakings primarily to third parties. In the event of default or non performance by the subsidiary, the Company recognises such guarantees as insurance contracts, at fair value with a corresponding increase in the carrying value of the investment.

H. Share awards to employees of subsidiary undertakings

The issuance by the Company to employees of its subsidiaries of a grant over the Company's options represents additional capital contributions by the Company to its subsidiaries. An additional investment in subsidiaries results in a corresponding increase in shareholders' equity. The additional capital contribution is based on the fair value of the option at the date of grant, allocated over the underlying grant's vesting period. Where payments are subsequently received from subsidiaries, these are accounted for as a return of a capital contribution and credited against the Company's investments in subsidiaries. The Company has no employees.

I. Dividends

Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

J. Directors' remuneration

Full details of directors' remuneration are disclosed on pages 60 to 75.

Company balance sheet
at 31 March

	Notes	2015 £m	2014 £m
Fixed assets			
Investments	1	**8,823**	8,803
Current assets			
Debtors (amounts falling due within one year)	2	**11,767**	9,312
Debtors (amounts falling due after more than one year)	2	**489**	948
Investments	5	**750**	1,504
Cash at bank and in hand		**–**	1
Total current assets		**13,006**	11,765
Creditors (amounts falling due within one year)	3	**(12,607)**	(10,345)
Net current assets		**399**	1,420
Total assets less current liabilities		**9,222**	10,223
Creditors (amounts falling due after more than one year)	3	**(3,425)**	(4,029)
Net assets		**5,797**	6,194
Capital and reserves			
Share capital	7	**443**	439
Share premium account	8	**1,331**	1,336
Cash flow hedge reserve	8	**17**	20
Available-for-sale reserve	8	**–**	1
Other equity reserves	8	**280**	260
Profit and loss account	8	**3,726**	4,138
Total shareholders' funds	9	**5,797**	6,194

The notes on pages 161 to 163 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 20 May 2015 and were signed on its behalf by:

Sir Peter Gershon Chairman
Andrew Bonfield Finance Director

National Grid plc
Registered number: 4031152

Notes to the Company financial statements

1. Fixed asset investments

	Shares in subsidiary undertakings £m
At 1 April 2013	8,177
Additions	626
At 31 March 2014	8,803
Additions	20
At 31 March 2015	**8,823**

During the year there was a capital contribution of £20m (2014: £20m) which represents the fair value of equity instruments granted to subsidiaries' employees arising from equity-settled employee share schemes. During the year ended 31 March 2014, the Company acquired a further 98,851 ordinary shares of £1 each in National Grid (US) Holdings Limited for a total consideration of £606m.

The names of the principal subsidiary undertakings, joint ventures and associates are included in note 32 to the consolidated financial statements. The Directors believe that the carrying value of the investments is supported by the fair value of their underlying net assets.

2. Debtors

	2015 £m	2014 £m
Amounts falling due within one year		
Derivative financial instruments (note 4)	**281**	284
Amounts owed by subsidiary undertakings	**11,484**	9,025
Prepayments and accrued income	**2**	3
	11,767	9,312
Amounts falling due after more than one year		
Derivative financial instruments (note 4)	**148**	643
Amounts owed by subsidiary undertakings	**341**	305
	489	948

The carrying values stated above are considered to represent the fair values of the assets.

3. Creditors

	2015 £m	2014 £m
Amounts falling due within one year		
Borrowings (note 6)	**1,068**	1,327
Derivative financial instruments (note 4)	**289**	286
Amounts owed by subsidiary undertakings	**11,208**	8,695
Corporation tax payable	**3**	–
Other creditors	**39**	37
	12,607	10,345
Amounts falling due after more than one year		
Borrowings (note 6)	**1,117**	1,850
Derivative financial instruments (note 4)	**411**	154
Amounts owed by subsidiary undertakings[1]	**1,894**	2,022
Deferred tax	**3**	3
	3,425	4,029

1. All amounts owed by subsidiary undertakings in 2014 and 2015 are repayable after five years.

Notes to the Company financial statements
continued

3. Creditors continued
The carrying values stated above are considered to represent the fair values of the liabilities. A reconciliation of the movement in deferred tax in the year is shown below:

	Deferred tax £m
At 1 April 2013	1
Charged to the profit and loss account	1
Charged to equity	1
At 31 March 2014	3
Charged to the profit and loss account	1
Credited to equity	(1)
At 31 March 2015	**3**

4. Derivative financial instruments
The fair values of derivative financial instruments are:

	2015			2014		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	**281**	**(289)**	**(8)**	284	(286)	(2)
Amounts falling due after more than one year	**148**	**(411)**	**(263)**	643	(154)	489
	429	**(700)**	**(271)**	927	(440)	487

For each class of derivative the notional contract[1] amounts are as follows:

	2015 £m	2014 £m
Interest rate swaps	**(2,499)**	(6,531)
Cross-currency interest rate swaps	**(3,529)**	(4,490)
Foreign exchange forward contracts	**(13,708)**	(11,626)
	(19,736)	(22,647)

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

5. Investments
The following table sets out the Company's current asset investments:

	2015 £m	2014 £m
Investments in short-term money funds	**217**	1,238
Short-term deposits	**252**	245
Restricted balances – collateral	**281**	21
	750	1,504

6. Borrowings
The following table analyses the Company's total borrowings:

	2015 £m	2014 £m
Amounts falling due within one year		
Bank overdrafts	**13**	–
Bank loans	**28**	423
Bonds	**70**	904
Commercial paper	**957**	–
	1,068	1,327
Amounts falling due after more than one year		
Bonds	**1,117**	1,850
	2,185	3,177

The maturity of total borrowings is disclosed in note 34 to the consolidated financial statements. There are no differences in the maturities as calculated under IFRS or UK GAAP.

The notional amount of borrowings outstanding as at 31 March 2015 was £2,157m (2014: £3,074m). Further information on significant borrowings can be found on the debt investors section of our website.

7. Share capital

The share capital amounting to £443m (2014: £439m) consists of 3,891,691,900 (2014: 3,854,339,684) ordinary shares. For further information on share capital, refer to note 24 to the consolidated financial statements.

8. Reserves

	Share premium account £m	Cash flow hedge reserve £m	Available-for-sale reserve £m	Other equity reserves £m	Profit and loss account £m
At 1 April 2013	1,344	12	–	240	4,210
Transferred from equity in respect of cash flow hedges (net of tax)	–	8	–	–	–
Net gains taken to equity	–	–	1	–	–
Scrip dividend related share issue	(8)	–	–	–	–
Issue of treasury shares	–	–	–	–	14
Purchase of own shares	–	–	–	–	(3)
Share awards to employees of subsidiary undertakings	–	–	–	20	–
Loss for the financial year	–	–	–	–	(83)
At 31 March 2014	1,336	20	1	260	4,138
Transferred from equity in respect of cash flow hedges (net of tax)	–	(3)	–	–	–
Net gains taken to income statement	–	–	(1)	–	–
Scrip dividend related share issue	(5)	–	–	–	–
Purchase of treasury shares	–	–	–	–	(338)
Issue of treasury shares	–	–	–	–	23
Purchase of own shares	–	–	–	–	(7)
Share awards to employees of subsidiary undertakings	–	–	–	20	–
Loss for the financial year	–	–	–	–	(90)
At 31 March 2015	**1,331**	**17**	**–**	**280**	**3,726**

There were no gains and losses, other than losses for the years stated above; therefore no separate statement of total recognised gains and losses has been presented. At 31 March 2015, £86m (2014: £86m) of the profit and loss account reserve relating to gains on intra-group transactions was not distributable to shareholders.

9. Reconciliation of movements in total shareholders' funds

	2015 £m	2014 £m
Profit for the financial year	**1,181**	976
Dividends[1]	**(1,271)**	(1,059)
Loss for the financial year	**(90)**	(83)
Purchase of treasury shares	**(338)**	–
Issue of treasury shares	**23**	14
Purchase of own shares	**(7)**	(3)
Scrip dividend related share issue[2]	**(1)**	(2)
Movement on cash flow hedge reserve (net of tax)	**(3)**	8
Movement on available-for-sale reserve	**(1)**	1
Share awards to employees of subsidiary undertakings	**20**	20
Net decrease in shareholders' funds	**(397)**	(45)
Opening shareholders' funds	**6,194**	6,239
Closing shareholders' funds	**5,797**	6,194

1. For further details of dividends paid and payable to shareholders, refer to note 8 to the consolidated financial statements.
2. Included within share premium account are costs associated with scrip dividends.

10. Parent Company guarantees

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due by certain subsidiary undertakings primarily to third parties. At 31 March 2015, the sterling equivalent amounted to £2,593m (2014: £2,713m). The guarantees are for varying terms from less than one year to open-ended.

11. Audit fees

The audit fee in respect of the parent Company was £27,553 (2014: £26,750). Fees payable to PricewaterhouseCoopers LLP for non-audit services to the Company are not required to be disclosed as they are included within note 3 to the consolidated financial statements.

Additional Information contents

The business in detail

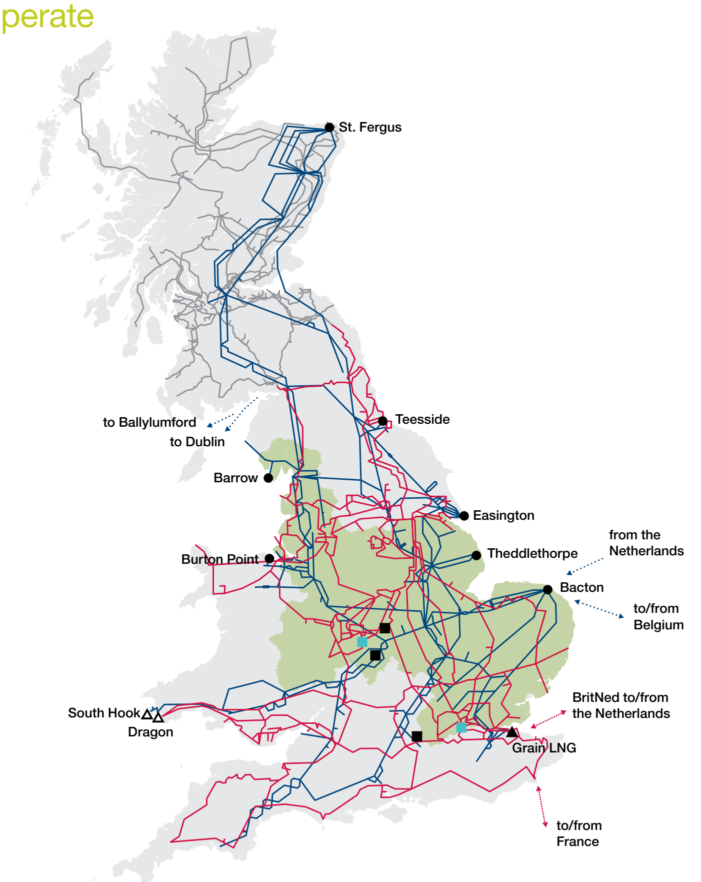
Key milestones

Some of the key dates and actions in the corporate history of National Grid are listed below. The full history goes back much further.

1986	British Gas (BG) privatisation
1990	Electricity transmission network in England and Wales transferred to National Grid on electricity privatisation
1995	National Grid listed on the London Stock Exchange
1997	Centrica demerged from BG Energis demerged from National Grid
2000	Lattice Group demerged from BG and listed separately New England Electric System and Eastern Utilities Associates acquired
2002	Niagara Mohawk Power Corporation merged with National Grid in US National Grid and Lattice Group merged to form National Grid Transco
2004	UK wireless infrastructure network acquired from Crown Castle International Corp
2005	Four UK regional gas distribution networks sold and National Grid adopted as our name
2006	Rhode Island gas distribution network acquired
2007	UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia sold KeySpan Corporation acquired
2008	Ravenswood generation station sold
2010	Rights issue raised £3.2 billion
2012	New Hampshire electricity and gas distribution businesses sold

Where we operate

Our UK network



UK Transmission*

- Scottish electricity transmission system
- English and Welsh electricity transmission system

Approximately 7,200 kilometres (4,470 miles) of overhead line, 1,500 kilometres (932 miles) of underground cable and 336 substations.

- Gas transmission system

Approximately 7,660 kilometres (4,760 miles) of high pressure pipe and 24 compressor stations connecting to 8 distribution networks and also other third-party independent systems.

- Terminal
- LNG terminal owned by National Grid
- LNG terminal
- Electricity interconnector
- Gas interconnector

UK Gas Distribution*

- Gas distribution operating area

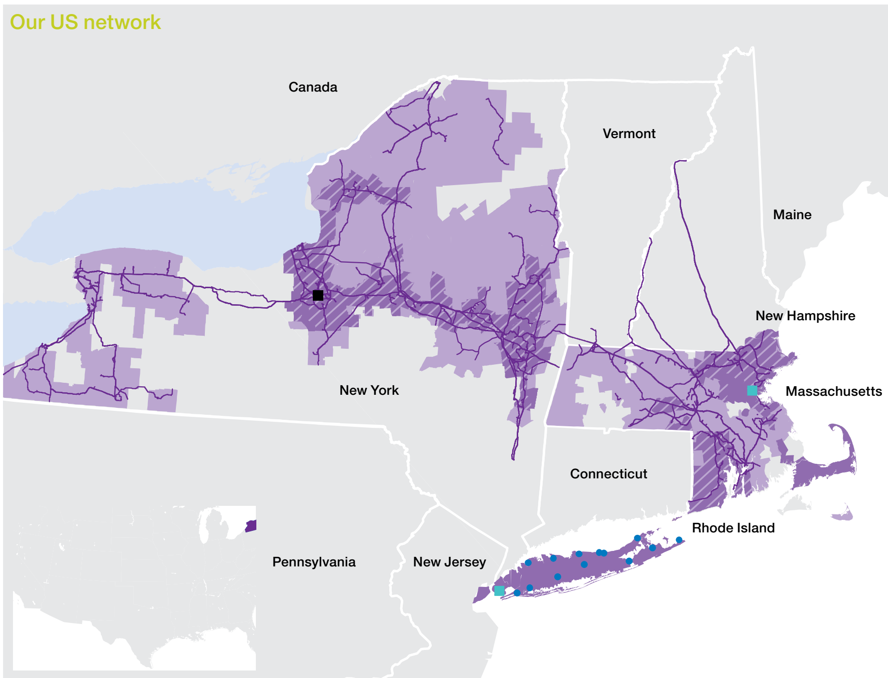
Approximately 133,800 kilometres (83,139 miles) of gas distribution pipeline owned and operated by National Grid.

Principal offices

- Owned office space: Hinckley, Warwick and Wokingham
- Leased office space: Solihull and London

Leased office space totalling 40,100 square metres (431,600 square feet) with remaining terms of one to eight years.

Our US network



US Regulated*

- Electricity transmission network
- Gas distribution operating area
- Electricity distribution area
- Gas and electricity distribution area overlap

An electricity transmission network of approximately 14,355 kilometres (8,920 miles) of overhead line, 169 kilometres (105 miles) of underground cable and 520 transmission substations.

An electricity distribution network of approximately 116,636 circuit kilometres (72,474 miles) and 644 distribution substations in New England and upstate New York.

A network of approximately 56,263 kilometres (34,960 miles) of gas pipeline serving an area of approximately 25,545 square kilometres (9,863 square miles). Our network also consists of approximately 781 kilometres (486 miles) of gas transmission pipe, as defined by the US Department of Transportation.

- Generation

Principal offices

- Owned office space: Syracuse, New York
- Leased office space: Brooklyn, New York and Waltham, Massachusetts

Leased office space totalling approximately 52,676 square metres (567,000 square feet) with remaining terms of 10 to 14 years.

At present, environmental issues are not preventing our UK and US businesses from utilising any material operating assets in the course of their operations.

*Access to electricity and gas transmission and distribution assets on property owned by others is controlled through various agreements.

The business in detail continued

UK regulation

Our licences are established under the Gas Act 1986 and Electricity Act 1989, as amended (the Acts). They require us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas and electricity in Great Britain. They also give us statutory powers. These include the right to bury our pipes or cables under public highways and the ability to use compulsory powers to purchase land so we can conduct our business.

Our networks are regulated by Ofgem, which has established price control mechanisms that set the amount of revenue that our regulated businesses can earn. Price control regulation is designed to make sure our interests, as a monopoly, are balanced with those of our customers. Ofgem allows us to charge reasonable, but not excessive, prices. This gives us a future level of revenue that is sufficient to meet our statutory duties and licence obligations, and makes a reasonable return on our investment.

The price control includes a number of mechanisms designed to help achieve its objectives. These include financial incentives that encourage us to:

- continuously improve the cost and effectiveness of our services;
- manage and operate our networks efficiently;
- deliver high-quality services to our customers and wider stakeholder community; and
- invest in developing the network in a way that ensures long-term security of supply.

Our UK Electricity Transmission (UK ET), UK Gas Transmission (UK GT) and UK Gas Distribution (UK GD) businesses operate under eight separate price controls in the UK. These comprise two for our UK ET operations, one covering our role as transmission owner (TO) and the other for our role as system operator (SO); two for our UK GT operations, again one as TO and one as SO; and one for each of our four regional gas distribution networks. While each of the eight price controls may have differing terms, they are based on a consistent regulatory framework.

In addition to the eight price controls, our LNG storage business has a price control covering some aspects of its operations. There is also a tariff cap price control applied to certain elements of domestic metering and daily meter reading activities carried out by National Grid Metering.

Interconnectors derive their revenues from congestion revenues. Congestion revenues depend on the existence of price differentials between markets at either end of the interconnector. European legislation governs how capacity is allocated. It requires all interconnection capacity to be allocated to the market through auctions.

There are a range of different regulatory models available for interconnector projects. These involve various levels of regulatory insight ranging from fully merchant (the project is reliant on revenues selling interconnector capacity) to 'cap and floor' (where revenues above the cap are returned to system users and revenues below the floor are topped by system users thus reducing the overall project risk).

RIIO price controls

On 1 April 2013, our UK regulator introduced a new regulatory framework called RIIO (revenue = incentives + innovation + outputs), which lasts for eight years. The building blocks of the RIIO price control are broadly similar to the historical price controls used in the UK. However, there are some significant differences in the mechanics of the calculations.

How is revenue calculated?

Under RIIO the outputs we deliver are clearly articulated and are integrally linked to the calculation of our allowed revenue. These outputs have been determined through an extensive consultation process, which has given stakeholders a greater opportunity to influence the decisions. The clarity around outputs should lead to greater transparency in how we deliver them.

The six output categories are:

Safety: ensuring the provision of a safe energy network.

Reliability (and availability): promoting networks capable of delivering long-term reliability, as well as minimising the number and duration of interruptions experienced over the price control period, and ensuring adaptation to climate change.

Environmental impact: encouraging companies to play their role in achieving broader environmental objectives – specifically, facilitating the reduction of carbon emissions – as well as minimising their own carbon footprint.

Customer and stakeholder satisfaction: maintaining high levels of customer satisfaction and stakeholder engagement, and improving service levels.

Customer connections: encouraging networks to connect customers quickly and efficiently.

Social obligations (UK Gas Distribution only): extending the gas network to communities that are fuel poor where it is efficient to do so, and introducing measures to address carbon monoxide poisoning incidents.

Within each of these output categories are a number of primary and secondary deliverables, reflecting what our stakeholders want us to deliver over the coming price control period. The nature and number of these deliverables varies according to the output category, with some being linked directly to our allowed revenue, some linked to legislation, and others having only a reputational impact. Ofgem, using information we have submitted, along with independent assessments, determines the efficient level of expected costs necessary to deliver them. Under RIIO this is known as totex, which is total allowable expenditure, and is similar to the sum of what was controllable opex, capex (and repex for UK Gas Distribution) under the previous price control periods.

A number of assumptions are necessary in setting these outputs, such as certain prices or the volumes of work that will be needed. Consequently, there are a number of uncertainty mechanisms within the RIIO framework that can result in adjustments to totex if actual prices or volumes differ from the assumptions. These mechanisms protect us and our customers from windfall gains and losses.

Where we under- or over-spend the allowed totex for reasons that are not covered by uncertainty mechanisms, there is a sharing factor. This means the under- or over-spend is shared between us and customers through an adjustment to allowed revenues in a future year. This sharing factor provides an incentive for us to provide the outputs efficiently, as we are able to keep a portion of the savings, with the remainder benefiting our customers.

This sharing factor is one of the ways that RIIO has given innovation more prominence. Innovation includes traditional areas such as new technologies, as well as the broader challenge of finding new ways of working to deliver outputs more efficiently. This broader challenge has an impact on everyone in our business.

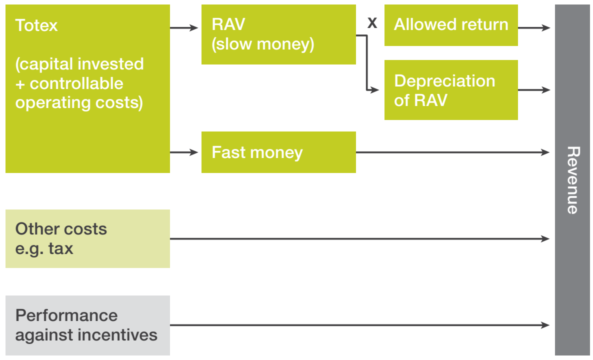
Totex is then split between fast and slow money – a new concept under RIIO, based on a specified percentage. Fast money represents the amount of totex we are able to recover in the current year. Slow money is added to our RAV. For more details on the sharing factors under RIIO, please see the table below.

In addition to fast money, in each year we are allowed to collect a depreciation of and a return on our RAV.

This works in a similar way to the previous price control. However, there have been changes to the asset lives for electricity transmission (transition from 20 years to 45 years evenly across the RIIO period) and the depreciation calculation for UK GD (changed from 45 years straight line to 45 years sum of digits for assets added post 2002). We are also allowed to collect additional revenues related to non-controllable costs and incentives.

The incentive mechanisms can increase or decrease our allowed revenue and result from our performance against various measures related to our outputs. RIIO has introduced new incentive mechanisms as a way to provide further incentives to align our objectives with those of our customers and other stakeholders. For example, performance against our customer satisfaction targets can have a positive or negative effect of up to 1% of allowed annual revenues. Incentives will normally affect our revenues two years after the year of performance.

RIIO regulatory building blocks



Allowed returns

The cost of capital allowed under RIIO is as follows:

	Transmission		Gas Distribution
	Gas	Electricity	
Cost of equity (post-tax real)	6.8%	7.0%	6.7%
Cost of debt (pre-tax real)	iBoxx 10 year simple trailing average index (2.92% for 2013/14)		
Notional gearing	62.5%	60.0%	65.0%
Vanilla WACC[1]	4.38%	4.55%	4.24%

1. Vanilla WACC = cost of debt x gearing + cost of equity x (1- gearing).

The sharing factor means that any over- and under-spend is shared between the businesses and consumers. The shared figures displayed are the sharing factors that apply to the UK ET, UK GT and UK GD.

For more information on RIIO, including incentive mechanisms, please see the relevant investor fact sheets on the Investor Relations section of our website.

Sharing factors under RIIO are as follows:

	Gas Transmission		Electricity Transmission		Gas Distribution			
	Transmission Operator	System Operator	Transmission Operator	System Operator	North West	East of England	West Midlands	London
					Repex: Stepped decline from 50% in 2013/14 to 0% in 2020/21 in seven equal instalments of 7.14% per annum			
Fast[1]	Baseline[3] 35.6% Uncertainty 10%	62.60%	15.00%	72.10%	73.90%	73.37%	75.05%	76.53%
					Repex: Stepped increase from 50% in 2013/14 to 100% in 2020/21 in seven equal instalments of 7.14% per annum			
Slow[2]	Baseline[3] 64.4% Uncertainty 90%	37.40%	85.00%	27.90%	26.10%	26.63%	24.95%	23.47%
Sharing	44.36%		46.89%		63.04%			

1. Fast money allows network companies to recover a percentage of total expenditure within a one year period.
2. Slow money is where costs are added to RAV and, therefore, revenues are recovered slowly (e.g. over 20 years) from both current and future consumers.
3. The Baseline is the expenditure that is funded through ex ante allowances whereas the Uncertainty adjusts the allowed expenditure automatically where the level outputs delivered differ from the baseline level, or if triggered by an event.

The business in detail continued

US Regulation

Regulators

In the US, public utilities' retail transactions are regulated by state utility commissions. The commissions serve as economic regulators, approving cost recovery and authorised rates of return. The state commissions establish the retail rates to recover the cost of transmission and distribution services, and focus on services and costs within their jurisdictions. They also serve the public interest by making sure utilities provide safe and reliable service at just and reasonable prices. The commissions establish service standards and approve public utility mergers and acquisitions.

Utilities are regulated at the federal level (FERC) for wholesale transactions, such as interstate transmission and wholesale electricity sales, including rates for these services. FERC also regulates public utility holding companies and centralised service companies, including those of our US businesses.

Regulatory process

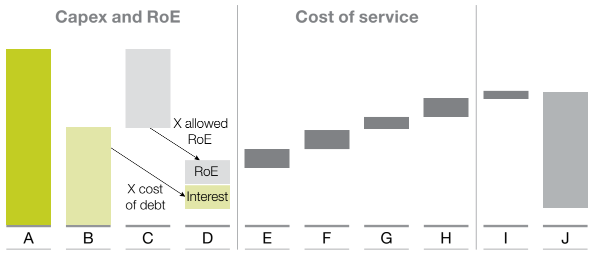
The US regulatory regime is premised on allowing the utility the opportunity to recover its cost of service and earn a reasonable return on its investments as determined by the commission. Utilities submit formal rate filings ('rate cases') to the relevant state regulator when additional revenues are necessary to provide safe, reliable service to customers. Utilities can be compelled to file a rate case due to complaints filed with the commission or at the commission's own discretion.

The rate case is litigated with parties representing customer and other interests. In the states in which we operate, it can take nine to thirteen months for the commission to render a final decision. The utility is required to prove that the requested rate change is prudent and reasonable, and the requested rate plan can span multiple years. Unlike the state processes, the federal regulator has no specified timeline for adjudicating a rate case, but typically makes a final decision retroactive when the case is completed.

Gas and electricity rates are established from a revenue requirement, or cost of service, equal to the utility's total cost of providing distribution or delivery service to its customers, as approved by the commission in the rate case. This revenue requirement includes operating expenses, depreciation, taxes and a fair and reasonable return on shareholder capital invested in certain components of the utility's regulated asset base, typically referred to as its rate base.

The final revenue requirement and rates for service are approved in the rate case decision. The revenue requirement is derived from a comprehensive study of the utility's total costs during a recent 12 month period of operations, referred to as a test year. Each commission has its own rules and standards for adjustments to the test year and may include forecasted capital investments. These adjustments are intended to arrive at the total costs expected in the first year new rates will be in effect, or the rate year.

US regulatory revenue requirement



A Rate base
B Debt
C Equity
D Return
E Controllable costs
F Non-controllable costs
G Depreciation
H Taxes
I Lagged recoveries
J Allowed revenue

Our rate plans

Each operating company has a set of rates for service. We have three electric distribution operations (upstate New York, Massachusetts, and Rhode Island) and six gas distribution networks (upstate New York, New York City, Long Island, Massachusetts (two), and Rhode Island).

Our operating companies have revenue decoupling mechanisms that de-link the companies' revenues from the quantity of energy delivered and billed to customers. These mechanisms remove the natural disincentive utility companies have for promoting and encouraging customer participation in energy efficiency programmes that lower energy end use and thus distribution volumes.

Our rate plans are designed to a specific allowed RoE, by reference to an allowed operating expense level and rate base. Some rate plans include earnings sharing mechanisms that allow us to retain a proportion of the earnings above our allowed RoE, achieved through improving efficiency, with the balance benefiting customers.

In addition, our performance under certain rate plans is subject to service performance targets. We may be subject to monetary penalties in cases where we do not meet those targets.

One measure used to monitor the performance of our regulated businesses is a comparison of achieved RoE to allowed RoE, with a target that the achieved should be equal to or above the allowed. However, this measure cannot be used in isolation, as there are a number of factors that may prevent us from achieving that target. These factors include financial market conditions, regulatory lag and decisions by the regulator preventing cost recovery in rates from customers.

We work to increase achieved RoE through: productivity improvements; positive performance against incentives or earned savings mechanisms such as energy efficiency programmes, where available; and filing a new rate case when achieved returns are lower than the Company could reasonably expect to attain through a new rate case.

Features of our rate plans

We bill our customers for their use of electricity and gas services. Customer bills typically comprise a commodity charge, covering the cost of the electricity or gas delivered, and charges covering our delivery service. With the exception of residential gas customers in Rhode Island, our customers are allowed to select an unregulated competitive supplier for the supply component of electricity and gas utility services. A substantial proportion of our costs, in particular electricity and gas commodity purchases, are pass-through costs, meaning they are fully recoverable from our customers. These pass-through costs are recovered through separate charges to customers that are designed to recover those costs with no profit. Rates are adjusted from time to time to make sure that any over- or under-recovery of these costs is returned to, or recovered from, our customers.

Our FERC-regulated transmission companies use formula rates (instead of rate cases) to set rates annually to recover their cost of service. Through the use of annual true-ups, formula rates recover our actual costs incurred and the allowed RoE based on the actual transmission rate base each year. The company must make annual formula rate filings documenting the revenue requirement, which customers can review and challenge.

Revenue for our wholesale transmission businesses in New England and New York is collected from wholesale transmission customers, who are typically other utilities and include our own New England electricity distribution businesses. With the exception of upstate New York, which continues to combine retail transmission and distribution rates to end-use customers, these wholesale transmission costs are incurred by distribution utilities on behalf of their customers and are fully recovered as a pass-through from end-use customers as approved by each state commission.

Our Long Island generation plants sell capacity to LIPA under 15 year and 25 year power supply agreements, and within wholesale tariffs approved by FERC. Through the use of cost-based formula rates these long-term contracts provide a similar economic effect to cost of service rate regulation.

US regulatory filings

The objectives of our rate case filings are to make sure we have the right cost of service with the ability to earn a fair and reasonable rate of return, while providing safe, reliable and economical service to our customers. In order to achieve these objectives and to reduce regulatory lag, we have been requesting structural changes, such as revenue decoupling mechanisms, capital trackers, commodity-related bad debt true-ups and pension and other post-employment benefit true-ups, separately from base rates. These terms are explained below the table on page 172.

Below we summarise significant developments in rate filings and the regulatory environment during the year. We completed the final stabilisation upgrade to our new financial systems in July 2014. The new systems will facilitate future regulatory filings and capture the benefit of the increased investments in asset replacement, network reliability and customer growth. Planning has started to prepare suitable 'test years' to support new regulatory filings. We expect to make a number of such filings over the next two to three years to update the capital investment allowances and rate base across many of our businesses. Specifically, we anticipate that KEDLI, KEDNY, and Massachusetts Electric will file applications for new rate plans with their regulators during the 12 months ending 31 March 2016. Moreover, as part of current regulatory initiatives, we will file proposals for investments in grid modernisation in Massachusetts and for innovative technology deployments and service offerings as part of the Reforming the Energy Vision effort in New York. Effective 1 April 2015, we implemented changes to our US management structure to strengthen our jurisdictional focus and address recommendations made by our regulators, including giving jurisdictional presidents more authority over operations and other functions.

Massachusetts

Capital investment programmes

Most recently, on the electricity side, MADPU allowed approximately $12 million into rates effective from 1 March 2015, related to $170 million of plant investments made in 2013.

On the gas side, MADPU allowed approximately $15 million into rates effective from 1 November 2014, related to $134 million of plant investment made in 2013. Additionally, recent legislation in Massachusetts grants us greater ability to cost effectively accelerate the replacement of our ageing gas infrastructure by receiving concurrent cost recovery for eligible capital investments. We submitted a plan to MADPU on 31 October 2014 to replace all eligible ageing gas infrastructure on our system within 20 years by increasing the annual replacement rate by approximately 50% within the next 10 years, and then maintaining this replacement rate for the remainder of the programme. On 30 April 2015, MADPU approved our proposal to place an additional $9.7 million into rates effective from 1 May 2015, related to $175 million of anticipated investments in 2015 under this accelerated pipe replacement plan.

Solar investment legislation

Recent legislation extended our ability to construct, own and operate a total of up to 25 MW of solar facilities within our electricity service territory if the facilities are constructed by 30 June 2016. On 28 June 2014, MADPU approved our proposal for up to 20 MW of solar facilities, in addition to the 4.6 MW of solar generation that we already own and operate under the same legislation. MADPU also pre-approved an amount not to exceed $97.6 million for ownership costs, lease expenses and property tax expenses associated with the solar facilities. We have entered into contracts with developers to deliver constructed solar generation facilities by 2015, and will petition MADPU for cost recovery in 2016 once the solar facilities become operational.

Storm fund recovery

The Massachusetts electricity business collects $4.3 million annually in base rates to credit towards a storm fund devoted to fund major storm restoration efforts. The severity and frequency of storms in Massachusetts over the last few years left our storm fund in a deficit position of approximately $212 million. On 3 May 2013, MADPU allowed us to begin collecting $40 million annually for three years, and an additional $7.3 million from 1 July 2014, towards the replenishment of the storm fund, subject to a review of the prudency of the underlying costs. That review is under way, with evidentiary hearings scheduled for May 2015. The funding of the remaining deficit will be addressed as part of the prudency review and in future rate proceedings, if necessary.

Storm management audit

MADPU's December 2012 order regarding our performance during Tropical Storm Irene and the October 2011 snowstorm required us to undergo an independent audit regarding our storm management. MADPU adopted the auditor's 30 recommendations, which included items such as improving emergency response training and tracking of training, designating additional personnel for storm roles, and considering the expanded use of technology and communication tools. The Company has already implemented 12 of the recommendations and is in the process of implementing the remaining recommendations.

The business in detail continued

Grid modernisation
MADPU is increasingly focused on improving service and reliability to customers, with a focus on greater choice for customers and integrating distributed energy resources. MADPU has directed the Company to file a grid modernisation plan in August 2015 that demonstrates how the Company will make measurable progress towards reducing the effect of outages, optimising demand, integrating distributed resources and improving workforce and asset management. The grid modernisation plan represents a new capital investment opportunity for the Company. MADPU established criteria that, if met, would allow the capital costs from the plan to be recovered through a separate capital recovery mechanism.

Additionally, the Company's Worcester, Massachusetts Smart Energy Solutions pilot began on 1 January 2015. The pilot is testing grid modernisation technologies for approximately 15,000 customers, with a goal of reducing peak and average loads by 5%. The Company has an opportunity to earn a performance incentive if load reduction exceeds 5%. The Company filed on 15 September 2014 to recover $11 million of costs incurred in 2012 and 2013 to implement this pilot. MADPU is currently reviewing the Company's request and a decision is expected in early 2016.

Service quality
MADPU issued its final order and service quality guidelines for all gas and electricity companies on 22 December 2014. The order shifted the goal of the service quality guidelines from preventing the deterioration of performance to improved service quality. The reasons stated by MADPU included that: the companies are able to achieve higher levels of service quality than in 2002, when the guidelines were first implemented; customers expect improved levels of service quality; and advances in available technologies and the expected grid modernisation efforts of the electricity companies will help them meet the new standards and at a more reasonable cost. In shifting the goals of service quality, MADPU made changes to the current service quality structure, including removing financial offsets to penalties, setting state-wide benchmarks and changing the calculation of benchmarks and penalties. The new guidelines are effective from 1 January 2015. However, there is a motion for clarification and reconsideration currently pending before MADPU on this matter.

New York

Upstate New York 2012 rate plan filing
Effective from 1 April 2014, the upstate New York electricity and gas businesses entered the second year of their three year rate plan. The rate plan provides an increase in the electricity delivery revenue requirement of $51.4 million and $28.3 million for rate years two and three, respectively. For the gas operations, the rate plan provides an increase of $5.9 million and $6.3 million in rate years two and three, respectively.

Reforming the Energy Vision (REV)
In April 2014, the NYPSC instituted the REV proceeding, which considers options for a new regulatory and operational model for electricity utilities that includes a greater emphasis on incorporating distributed energy resources (DER) via market mechanisms. The NYPSC envisions a new role for utilities as distributed system platform (DSP) providers who create markets for DER and more fully integrate DER in distribution system operations and planning. The REV proceeding's objectives include: enhanced customer energy choices and control; improved electricity system efficiency, reliability, and resiliency; and cleaner more diverse electricity generation. In February 2015, the NYPSC issued an order addressing various technical, policy, and market design issues. The NYPSC is expected to address ratemaking issues in 2015. Implementation of the DSP role and greater DER integration will probably require incremental investments in utility infrastructure.

2013 New York gas management audit
In October 2014, the NYPSC issued a report on the results of the comprehensive management and operations audit of National Grid's three New York gas distribution utilities. New York law requires periodic management audits of all utilities at least once every five years. We last underwent a management audit in 2009 when the NYPSC audited Niagara Mohawk's electricity business.

The audit found that our operations performed well in providing reliable gas service and noted strength in operations, network planning, project management, work management, load forecasting, supply procurement and customer systems support. The audit report offered 31 recommendations aimed at promoting improvement in the performance of our New York gas businesses, including recommendations around strengthening of the National Grid US jurisdictional operating model, enhancing the service level agreements between the operating companies and supporting functions and corporate governance. We generally accept the recommendations presented in the report, and are currently working to implement the recommendations in a manner that will deliver the greatest value to our gas customers. To address the recommendation that the National Grid USA Board include at least one independent director, Therese Esperdy was elected to the Board of Directors with effect from 1 May 2015. In our next major gas rate proceeding, the NYPSC will consider our effectiveness in implementing the audit recommendations and seek to reflect the costs and savings associated with the recommendations in rates.

KEDLI gas investment plan
In June 2014, KEDLI petitioned the NYPSC for approval of a deferral mechanism related to a proposed gas infrastructure investment programme. In December 2014, the NYPSC approved two gas investment plans for calendar years 2015 and 2016, one for leak-prone pipe capital expenditures (capped at $211.7 million in total) and one for gas service expansion expenditures (capped at $202.9 million in total). The NYPSC approved a surcharge to begin recovery of the deferred leak-prone pipeline investment costs, allowing for the recovery up to a total of $23.4 million through a surcharge effective from 1 April 2015 until the end of 2016. KEDLI received approval to establish a new deferral accounting mechanism for the balance of the approved costs not covered by the surcharge.

KEDNY rate plan extension
In June 2013, the NYPSC approved a two year extension of KEDNY's five year rate settlement, extending the rate plan until the end of 2014. The NYPSC modified KEDNY's capital tracker to be a downward-only net utility plant reconciliation mechanism, covering the cumulative two year term ending 31 December 2014. The extension of KEDNY's rate settlement included increased capital investment allowances for 2013 and 2014.

Rhode Island

Rhode Island 2014/15 electricity and gas infrastructure, safety and reliability (ISR) plans
State law provides our Rhode Island gas and electricity operating divisions with rate mechanisms that allow for the recovery of capital investment, including a return, and certain expenses outside base rate proceedings through the submission of annual ISR plans.

In December 2014, we filed with the RIPUC for review and approval of our annual ISR plans for the electricity and gas systems. RIPUC approved the 2016 ISR plans on 31 March 2015. The electricity ISR plan encompasses a $73.3 million spending programme for capital investment and $12.1 million for operating and maintenance expenses for vegetation management and inspection and maintenance. The gas ISR plan encompasses $76.8 million for capital investment and incremental operation and maintenance expense for the hiring and training of additional personnel to support increases in leak-prone pipe replacement.

Rhode Island Renewable Energy Growth Program

In June 2014, the Rhode Island legislature enacted legislation to facilitate and promote installation of distributed renewable energy generation. As a result, in November 2014, we filed with RIPUC a proposal to implement the Rhode Island Renewable Energy Growth Program, which replaces our current programme and will create a feed-in-tariff (FIT) programme to support a total of 160 MW of renewable distributed generation projects over a five year period. The FIT payments will be determined via competitive solicitations for larger projects. The current programme provides long-term contracts, or power purchase agreements, to renewable energy projects. RIPUC approved the new programme on 31 March 2015. Under Rhode Island law, we can recover the incremental costs associated with the programme and are entitled to earn incentives equal to 1.75% of the gross payments made under the FIT.

FERC

Complaints on New England transmission allowed RoE

In September 2011, December 2012 and July 2014, complaints were filed with FERC against certain transmission owners, including our New England electricity transmission business, to lower the base RoE from the FERC approved rate of 11.14%. In orders addressing the September 2011 complaint issued in June 2014, October 2014 and March 2015, FERC set the base RoE for the first complaint's 15 month historical refund period and for a prospective period beginning in October 2014 at 10.57%. In these orders, FERC also found that the total or maximum RoE for our New England transmission business, including various RoE incentive adders authorised by FERC, cannot exceed 11.74% during these periods.

FERC has scheduled hearings on the December 2012 and July 2014 New England RoE complaints in June 2015, with non-binding preliminary findings due by the end of 2015. A FERC order acting on these preliminary findings is not expected until the end of 2016.

Complaints on New York transmission allowed RoE

In September 2012, November 2012 and February 2014, complaints were filed with FERC against our New York electricity transmission subsidiary to lower the total RoE from the FERC approved rate of 11.5% and to modify certain other aspects of our New York transmission formula rates. In September 2014, FERC set these three complaints for settlement and hearing procedures. In December 2014, we reached a settlement agreement in principle with the complainants to resolve these complaints. In May 2015, FERC approved the uncontested settlement agreement.

Short-term borrowing authorisation

In October 2014, National Grid filed an application with FERC on behalf of all electricity public utility subsidiaries, with the exception of Massachusetts Electric Company (MECo), seeking to re-establish the Commission's authorisation to issue short-term debt, as required by Section 204 of the Federal Power Act. National Grid's short-term borrowing authorisation had expired on 30 November 2013, as issues related to the implementation of the US enterprise resource planning system had rendered National Grid temporarily unable to provide FERC with the financial reports required for such approval. FERC granted the application in December 2014. MECo was omitted from the application because it did not satisfy the interest coverage calculation typically required for approval. National Grid intends to file on behalf of MECo as soon as practicable, and in the interim MECo's short-term cash needs will be met through capital contributions in the form of equity.

New York Transco

On 14 November 2014, the four New York investor-owned utilities (IOUs), including Niagara Mohawk Power Corporation, formed NY Transco LLC, a New York company whose sole business will be to plan, develop, construct and own major new high voltage electricity transmission projects across New York State. In early December 2014, the four IOUs and NY Transco filed on behalf of NY Transco an application with FERC to establish a formula rate, rate incentives and cost allocation for a portfolio of five new transmission projects with a combined estimated total cost of over $1.7 billion. A number of entities intervened in the docket and challenged various aspects of the application. In April 2015, FERC approved certain elements of our filing (including some rate incentives), rejected others, and set the remainder for hearing and settlement.

New England gas and electricity interdependency

The region's electricity and gas systems have become increasingly interdependent as the region's reliance on gas-fired electricity generation has grown without commensurate pipeline infrastructure expansion, resulting in severe constraints at certain times of the year. These constraints have restricted gas availability for generation and decreased electricity reliability. They have also resulted in significant increases to spot gas prices for electricity generation, driving significant increases to the region's wholesale and retail electricity costs. To address this challenge, New England's governors have established an initiative envisaging coordinated strategic infrastructure investments focused on expanding the region's energy portfolio.

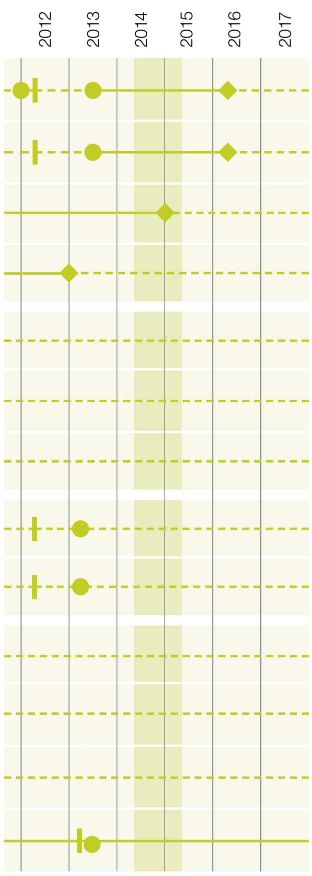
We are working with representatives from several states, other regional electricity and gas utilities, interstate gas pipelines, state regulators, and FERC in realising the governors' goals. We have put forward structural proposals which would support the development of additional gas pipeline infrastructure to serve the region's needs and are also developing electricity transmission proposals to increase the ability to deliver clean low carbon energy to enable a balanced solution to the region's energy needs.

FERC Order 1000

Issued in 2011, Order 1000 was FERC's major policy order intended to foster regional and inter-regional transmission planning, address transmission needs driven by public policy requirements and increase competition in the electric transmission industry. In 2014 and 2015, FERC issued orders on filings made by the New York and New England system operators to comply with Order 1000 and continue to implement a package of reforms addressing transmission planning and cost allocation. A federal court upheld key provisions of Order 1000 against legal challenges in an August 2014 decision. Policies to comply with Order 1000 have been in effect in New York since January 2014 and became effective in New England in May 2015. The competitive transmission planning processes instituted under Order 1000 have opened National Grid's service territory to competition from non-incumbent transmission developers and also created opportunities for National Grid to compete for transmission projects outside of the Company's current geographic footprint.

The business in detail continued

Summary of US price controls and rate plans



	Rate plan	Rate base (31 Mar 2015)	Equity to debt ratio	Allowed return on equity	Achieved return on equity (31 Dec 2014)	Revenue decoupling†	Capital tracker‡	Commodity-related bad debt true-ups§	Pension/ OPEB true-up◊
New York Public Service Commission	Niagara Mohawk[1] (upstate, electricity)	$4,453m	48 : 52	9.3%	9.0%	✓	✗	P	✓
	Niagara Mohawk (upstate, gas)	$1,060m	48 : 52	9.3%	8.3%	✓	✗	P	✓
	KEDNY (downstate)[2]	$2,387m	48 : 52	9.4%	8.5%	P	✗	P	✓
	KEDLI (downstate)[3]	$2,146m	45 : 55	9.8%	6.5%	P	P	P	✓
Massachusetts Department of Public Utilities	Massachusetts Electric/ Nantucket Electric	$1,905m	50 : 50	10.35%	4.6%	✓	P	✓	✓
	Boston Gas	$1,427m	50 : 50	9.75%	7.8%	✓	P	✓	✓
	Colonial Gas	$320m	50 : 50	9.75%	7.9%	✓	P	✓	✓
Rhode Island Public Utilities Commission	Narragansett Electric	$570m	49 : 51	9.5%	9.5%	✓	✓	P	✓
	Narragansett Gas	$496m	49 : 51	9.5%	11.6%	✓	✓	P	✓
Federal Energy Regulatory Commission	Narragansett	$607m	50 : 50	10.57%	12.1%	n/a	✓	n/a	✓
	Canadian Interconnector	$16m	51 : 49	13.0%	13.0%	n/a	✓	n/a	✓
	New England Power	$1,380m	68 : 32	10.57%	11.6%	n/a	✓	n/a	✓
	Long Island Generation	$446m	46 : 54	10.0%	10.5%	n/a	✓	n/a	✓

1. Both transmission and distribution, excluding stranded costs.
2. KeySpan Energy Delivery New York (The Brooklyn Union Gas Company).
3. KeySpan Energy Delivery Long Island (KeySpan Gas East Corporation).

Rate filing made
● New rates effective
◆ Rate plan ends
- - - - Rates continue indefinitely
—— Multi-year rate plan

✓ Feature in place
✗ Feature not in current rate plan
P Feature partially in place

†Revenue decoupling
A mechanism that removes the link between a utility's revenue and sales volume so that the utility is indifferent to changes in usage. Revenues are reconciled to a revenue target, with differences billed or credited to customers. Allows the utility to support energy efficiency.

‡Capital tracker
A mechanism that allows for the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.

§Commodity-related bad debt true-up
A mechanism that allows a utility to reconcile commodity-related bad debt to either actual commodity-related bad debt or to a specified commodity-related bad debt write-off percentage. For electricity utilities, this mechanism also includes working capital.

◊Pension/OPEB true-up
A mechanism that reconciles the actual non-capitalised costs of pension and OPEB and the actual amount recovered in base rates. The difference may be amortised and recovered over a period or deferred for a future rate case.

Internal control and risk factors

Disclosure controls

Working with management, including the Chief Executive and Finance Director, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as at 31 March 2015. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, however, the effectiveness of any system of disclosure controls and procedures has limitations including the possibility of human error and the circumvention or overriding of the controls and procedures.

Even effective disclosure controls and procedures provide only reasonable assurance of achieving their objectives. Based on the evaluation, the Chief Executive and Finance Director concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file and submit under the Exchange Act is recorded, processed, summarised and reported as and when required and that such information is accumulated and communicated to our management, including the Chief Executive and Finance Director, as appropriate, to allow timely decisions regarding disclosure.

Internal control over financial reporting

Our management, including the Chief Executive and Finance Director, has carried out an evaluation of our internal control over financial reporting pursuant to the Disclosure and Transparency Rules and Section 404 of the Sarbanes-Oxley Act 2002. As required by Section 404, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluation of the effectiveness of the Company's internal control over financial reporting was based on the revised Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as at 31 March 2015.

PricewaterhouseCoopers LLP, which has audited our consolidated financial statements for the year ended 31 March 2015, has also audited the effectiveness of our internal control over financial reporting. Their attestation report can be found on page 85.

During the year, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, it.

Risk factors

Management of our risks is an important part of our internal control environment, as we describe on pages 38 to 41. In addition to the principal risks listed we face a number of inherent risks that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities.

Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on the inside back cover. An overview of the key inherent risks we face is provided below.

Risk factors

Potentially harmful activities

Aspects of the work we do could potentially harm employees, contractors, members of the public or the environment.

Potentially hazardous activities that arise in connection with our business include the generation, transmission and distribution of electricity and the storage, transmission and distribution of gas.

Electricity and gas utilities also typically use and generate hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields.

A significant safety or environmental incident, or the failure of our safety processes or of our occupational health plans, as well as the breach of our regulatory or contractual obligations or our climate change targets, could materially adversely affect our results of operations and our reputation.

We commit significant resources and expenditure to process safety and to monitoring personal safety, occupational health and environmental performance, and to meeting our obligations under negotiated settlements.

We are subject to laws and regulations in the UK and US governing health and safety matters to protect the public and our employees and contractors, who could potentially be harmed by these activities as well as laws and regulations relating to pollution, the protection of the environment, and the use and disposal of hazardous substances and waste materials.

These expose us to costs and liabilities relating to our operations and properties, including those inherited from predecessor bodies, whether currently or formerly owned by us, and sites used for the disposal of our waste.

The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and our share of the liability. We are increasingly subject to regulation in relation to climate change and are affected by requirements to reduce our own carbon emissions as well as to enable reduction in energy use by our customers.

If more onerous requirements are imposed or our ability to recover these costs under regulatory frameworks changes, this could have a material adverse impact on our business, reputation, results of operations and financial position.

Internal control and risk factors continued

Risk factors

Infrastructure and IT systems

We may suffer a major network failure or interruption, or may not be able to carry out critical operations due to the failure of infrastructure, data or technology or a lack of supply.
Operational performance could be materially adversely affected by a failure to maintain the health of our assets or networks, inadequate forecasting of demand, inadequate record keeping or control of data or failure of information systems and supporting technology.

This in turn could cause us to fail to meet agreed standards of service, incentive and reliability targets, or be in breach of a licence, approval, regulatory requirement or contractual obligation. Even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation.

Where demand for electricity or gas exceeds supply and our balancing mechanisms are not able to mitigate this fully, a lack of supply to consumers may damage our reputation.

In addition to these risks, we may be affected by other potential events that are largely outside our control, such as the impact of weather (including as a result of climate change and major storms), unlawful or unintentional acts of third parties, insufficient or unreliable supply or force majeure.

Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure together with our actual or perceived response could materially adversely affect operational and potentially business performance and our reputation.

Malicious attack, sabotage or other intentional acts, including breaches of our cyber security, may also damage our assets (which include critical national infrastructure) or otherwise significantly affect corporate activities and, as a consequence, have a material adverse impact on our reputation, business, results of operations and financial condition.

Unauthorised access to, or deliberate breaches of, our IT systems may also lead to manipulation of our proprietary business data or customer information.

Unauthorised access to private customer information may make us liable for a violation of data privacy regulations. Even where we establish business continuity controls and security against threats against our systems, these may not be sufficient.

Law and regulation

Changes in law or regulation or decisions by governmental bodies or regulators could materially adversely affect us.
Most of our businesses are utilities or networks subject to regulation by governments and other authorities. Changes in law or regulation or regulatory policy and precedent, including decisions of governmental bodies or regulators, in the countries or states in which we operate could materially adversely affect us.

If we fail to engage in the energy policy debate, we may not be able to influence future energy policy and deliver our strategy.

Decisions or rulings concerning, for example:

(i) whether licences, approvals or agreements to operate or supply are granted, amended or renewed, whether consents for construction projects are granted in a timely manner or whether there has been any breach of the terms of a licence, approval or regulatory requirement; and

(ii) timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, a decoupling of energy usage and revenue, and other decisions relating to the impact of general economic conditions on us, our markets and customers, implications of climate change and of advancing energy technologies, whether aspects of our activities are contestable, the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities, could have a material adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future.

Following the introduction of EMR, there has been an increased focus (from some of our stakeholders) on the potential conflicting duties of our transmission and system operator roles, which may damage our reputation.

The remediation plans in place or being implemented to address control weaknesses in our US business may not operate as expected, as a result of which we may be unable to provide timely regulatory reporting, which may include the provision of financial statements. This could result in the imposition of regulatory fines, penalties and other sanctions, which could impact our operations, our reputation and our relationship with our regulators and other stakeholders.

For further information see pages 166 to 172, which explain our regulatory environment in detail.

Business performance

Current and future business performance may not meet our expectations or those of our regulators and shareholders.
Earnings maintenance and growth from our regulated gas and electricity businesses will be affected by our ability to meet or exceed efficiency targets and service quality standards set by, or agreed with, our regulators.

If we do not meet these targets and standards, or if we do not implement the transformation projects we are carrying out as envisaged, including to our US enterprise resource planning systems and controls over financial reporting, or are not able to deliver our RIIO operating model and the US Elevate 2018 strategy successfully, we may not achieve the expected benefits, our business may be materially adversely affected and our performance, results of operations and reputation may be materially harmed and we may be in breach of regulatory or contractual obligations.

Risk factors

Growth and business development activity	
Failure to respond to external market developments and execute our growth strategy may negatively affect our performance. Conversely, new businesses or activities that we undertake alone or with partners may not deliver target outcomes and may expose us to additional operational and financial risk. Failure to grow our core business sufficiently and have viable options for new future business over the longer term could negatively affect the Group's credibility and reputation and jeopardise the achievement of intended financial returns. Business development activities and the delivery of our growth ambition, including acquisitions, disposals, joint ventures, partnering and organic investment opportunities (including organic investments made as a result of changes to the energy mix), are subject to a wide range of both external uncertainties (including the availability of potential investment targets and	attractive financing and the impact of competition for onshore transmission in both the UK and US), and internal uncertainties (including actual performance of our various existing operating companies and our business planning model assumptions and ability to integrate acquired businesses effectively). As a result, we may suffer unanticipated costs and liabilities and other unanticipated effects. We may also be liable for the past acts, omissions or liabilities of companies or businesses we have acquired, which may be unforeseen or greater than anticipated. In the case of joint ventures, we may have limited control over operations and our joint venture partners may have interests that diverge from our own. The occurrence of any of these events could have a material adverse impact on our results of operations or financial condition, and could also impact our ability to enter into other transactions.
Cost escalation	
Changes in foreign currency rates, interest rates or commodity prices could materially impact earnings or our financial condition. We have significant operations in the US and so are subject to the exchange rate risks normally associated with non UK operations, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency. In addition, our results of operations and net debt position may be affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are	affected by changes in interest rates, commodity price indices and exchange rates, in particular the dollar to sterling exchange rate. Furthermore, our cash flow may be materially affected as a result of settling hedging arrangements entered into to manage our exchange rate, interest rate and commodity price exposure, or by cash collateral movements relating to derivative market values, which also depend on the sterling exchange rate into euro and other currencies.
Our results of operations could be affected by inflation or deflation. In our regulated UK networks, our allowed revenues are set in real terms and then adjusted for actual RPI inflation. There is a risk that inflationary impacts on our costs are higher than RPI inflation and are not fully compensated by this inflation adjustment to revenues. There is also a risk that year-on-year RPI inflation is negative with no corresponding decrease in costs or insufficient decrease to offset the impact on revenues.	Our income under our rate plans in the US is not typically linked to inflation. In periods of inflation in the US, our operating costs may increase by more than our revenues. In both the UK and US such increased costs may materially adversely affect the results of our operations.
We may be required to make significant contributions to fund pension and other post-retirement benefits. We participate in a number of pension schemes that together cover substantially all our employees. In both the UK and US, the principal schemes are DB schemes where the scheme assets are held independently of our own financial resources. In the US, we also have other post-retirement benefit schemes. Estimates of the amount and timing of future funding for the UK and US schemes are based on actuarial assumptions and other factors including: the actual and projected market performance of the scheme assets; future long-term bond yields; average life expectancies; and relevant legal requirements.	Actual performance of scheme assets may be affected by volatility in debt and equity markets. Changes in these assumptions or other factors may require us to make additional contributions to these pension schemes which, to the extent they are not recoverable under our price controls or state rate plans, could materially adversely affect the results of our operations and financial condition.

Internal control and risk factors continued

Risk factors

Financing and liquidity

An inability to access capital markets at commercially acceptable interest rates could affect how we maintain and grow our businesses.
Our businesses are financed through cash generated from our ongoing operations, bank lending facilities and the capital markets, particularly the long-term debt capital markets.

Some of the debt we issue is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and borrowing costs. In addition, restrictions imposed by regulators may also limit how we service the financial requirements of our current businesses or the financing of newly acquired or developing businesses.

Financial markets can be subject to periods of volatility and shortages of liquidity. If we were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, our cost of financing may increase, the discretionary and uncommitted elements of our proposed capital investment programme may need to be reconsidered and the manner in which we implement our strategy may need to be reassessed.

Such events could have a material adverse impact on our business, results of operations and prospects.

Some of our regulatory agreements impose lower limits for the long-term senior unsecured debt credit ratings that certain companies within the Group must hold or the amount of equity within their capital structures.

One of the principal limits requires National Grid plc to hold an investment grade long-term senior unsecured debt credit rating. In addition, some of our regulatory arrangements impose restrictions on the way we can operate.

These include regulatory requirements for us to maintain adequate financial resources within certain parts of our operating businesses and may restrict the ability of National Grid plc and some of our subsidiaries to engage in certain transactions, including paying dividends, lending cash and levying charges.

The inability to meet such requirements or the occurrence of any such restrictions may have a material adverse impact on our business and financial condition.

The remediation plans in place or being implemented to address control weaknesses in our US business may not operate as expected, as a result of which we may be unable to provide accurate financial information to our debt investors in a timely manner.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants, such as restrictions on the level of subsidiary indebtedness.

Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt and may restrict our ability to draw upon our facilities or access the capital markets.

Customers and counterparties

Customers and counterparties may not perform their obligations.
Our operations are exposed to the risk that customers, suppliers, banks and other financial institutions and others with whom we do business will not satisfy their obligations, which could materially adversely affect our financial position.

This risk is significant where our subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates, such as from our previous LIPA managed services agreement (MSA) and current PSEG-LI transition services agreement (TSA), as well as industrial customers and other purchasers, and may also arise where customers are unable to pay us as a result of increasing commodity prices or adverse economic conditions.

To the extent that counterparties are contracted with for physical commodities (gas and electricity) and they experience events that impact their own ability to deliver, we may suffer supply interruption as described in *Infrastructure and IT systems* on page 174.

There is also a risk to us where we invest excess cash or enter into derivatives and other financial contracts with banks or other financial institutions. Banks who provide us with credit facilities may also fail to perform under those contracts.

Employees and others

We may fail to attract, develop and retain employees with the competencies, including leadership and business capabilities, values and behaviours required to deliver our strategy and vision and ensure they are engaged to act in our best interests.
Our ability to implement our strategy depends on the capabilities and performance of our employees and leadership at all levels of the business. Our ability to implement our strategy and vision may be negatively affected by the loss of key personnel or an inability to attract, integrate, engage and retain appropriately qualified personnel, or if significant disputes arise with our employees. As a result, there may be a material adverse effect on our business, financial condition, results of operations and prospects.

There is a risk that an employee or someone acting on our behalf may breach our internal controls or internal governance framework or may contravene applicable laws and regulations. This could have an impact on the results of our operations, our reputation and our relationship with our regulators and other stakeholders.

Shareholder information

Articles of Association

The following description is a summary of the material terms of our Articles and applicable English law. It is a summary only and is qualified in its entirety by reference to the Articles.

Summary

The Articles set out the Company's internal regulations. Copies are available on our website and upon request. Amendments to the Articles have to be approved by at least 75% of those voting at a general meeting of the Company. Subject to company law and the Articles, the Directors may exercise all the powers of the Company. They may delegate authorities to committees and day-to-day management and decision-making to individual Executive Directors. The committee structure is set out on page 49.

General

The Company is incorporated under the name National Grid plc and is registered in England and Wales with registered number 04031152. Under the Companies Act 2006, the Company's objects are unrestricted.

Directors

Under the Articles, a Director must disclose any personal interest in a matter and may not vote in respect of that matter, subject to certain limited exceptions. As permitted under the Companies Act 2006, the Articles allow non conflicted Directors of the Company to authorise a conflict or potential conflict for a particular matter. In doing so, the non conflicted Directors must act in a way they consider, in good faith, will be most likely to promote the success of the Company for the benefit of the shareholders as a whole.

The Directors (other than a Director acting in an executive capacity) are paid fees for their services. In total, these fees must not exceed £2,000,000 a year or any higher sum decided by an ordinary resolution at a general meeting of shareholders. In addition, special pay may be awarded to a Director who acts in an executive capacity, serves on a committee, performs services which the Directors consider to extend beyond the ordinary duties of a Director, devotes special attention to the business of National Grid, or goes or lives abroad on the Company's behalf. Directors may also receive reimbursement for expenses properly incurred, and may be awarded pensions and other benefits. The compensation awarded to the Executive Directors is determined by the Remuneration Committee. Further details of Directors' remuneration are set out in the Directors' Remuneration Report (see pages 60 to 75).

The Directors may exercise all the powers of National Grid to borrow money. However, the aggregate principal amount of all the Group's borrowings outstanding at any time must not exceed £35 billion or any other amount approved by shareholders by an ordinary resolution at a general meeting.

Directors can be appointed or removed by the Board or shareholders in a general meeting. Directors must stand for election at the first AGM following their appointment to the Board. Each Director must retire at least every three years, although they will be eligible for re-election. In accordance with best practice introduced by the UK Corporate Governance Code, all Directors wishing to continue in office currently offer themselves for re-election annually. No person is disqualified from being a Director or is required to vacate that office by reason of attaining a maximum age.

A Director is not required to hold shares in National Grid in order to qualify as a Director.

Rights, preferences and restrictions

(i) Dividend rights

National Grid may not pay any dividend otherwise than out of profits available for distribution under the Companies Act 2006 and other applicable provisions of English law. In addition, as a public company, National Grid may only make a distribution if, at the time of the distribution, the amount of its net assets is not less than the aggregate of its called up share capital and undistributable reserves (as defined in the Companies Act 2006) and to the extent that the distribution does not reduce the amount of those assets to less than that aggregate. Ordinary shareholders and ADS holders receive dividends.

Subject to these points, shareholders may, by ordinary resolution, declare dividends in accordance with the respective rights of the shareholders, but not exceeding the amount recommended by the Board. The Board may pay interim dividends if it considers that National Grid's financial position justifies the payment. Any dividend or interest unclaimed for 12 years from the date when it was declared or became due for payment will be forfeited and revert to National Grid.

(ii) Voting rights

Subject to any rights or restrictions attached to any shares and to any other provisions of the Articles, at any general meeting on a show of hands, every shareholder who is present in person will have one vote and on a poll, every shareholder will have one vote for every share they hold. On a show of hands or poll, shareholders may cast votes either personally or by proxy. A proxy need not be a shareholder. Under the Articles, all substantive resolutions at a general meeting must be decided on a poll. Ordinary shareholders and ADS holders can vote at general meetings.

(iii) Liquidation rights

In a winding up, a liquidator may, in each case with the sanction of a special resolution passed by the shareholders and any other sanction required under English law, (a) divide among the shareholders the whole or any part of National Grid's assets (whether the assets are of the same kind or not); the liquidator may, for this purpose, value any assets and determine how the division should be carried out as between shareholders or different classes of shareholders, or (b) transfer any part of the assets to trustees on trust for the benefit of the shareholders as the liquidator determines. In neither case will a shareholder be compelled to accept assets upon which there is a liability.

(iv) Restrictions

There are no restrictions on the transfer or sale of ordinary shares. Some of the Company's employee share plans, details of which are contained in the Directors' Remuneration Report, include restrictions on the transfer of shares while the shares are subject to the plan. Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owner, the voting rights may be exercised by the registered owner at the direction of the participant. Treasury shares do not attract a vote or dividends.

Variation of rights

Subject to applicable provisions of English law, the rights attached to any class of shares of National Grid may be varied or cancelled. This must be with the written consent of the holders of three quarters in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

Shareholder information continued

General meetings
AGMs must be convened each year within six months of the Company's accounting reference date upon 21 clear days' advance written notice. Any other general meeting may be convened provided at least 14 clear days' written notice is given, subject to annual approval of shareholders. In certain limited circumstances, the Company can convene a general meeting by shorter notice. The notice must specify, among other things, the nature of the business to be transacted, the place, the date and the time of the meeting.

Rights of non residents
There are no restrictions under National Grid's Articles that would limit the rights of persons not resident in the UK to vote in relation to ordinary shares.

Disclosure of interests
Under the Companies Act 2006, National Grid may, by written notice, require a person whom it has reasonable cause to believe to be or to have been in the last three years interested in its shares to provide additional information relating to that interest. Under the Articles, failure to provide such information may result in a shareholder losing their rights to attend, vote or exercise any other right in relation to shareholders' meetings.

Under the UK Disclosure and Transparency Rules, there is also an obligation on a person who acquires or ceases to have a notifiable interest in shares in National Grid to notify the Company of that fact. The disclosure threshold is 3% and disclosure is required each time the person's direct and indirect holdings reach, exceed or fall below each 1% threshold thereafter.

The UK City Code on Takeovers and Mergers imposes strict disclosure requirements with regard to dealings in the securities of an offeror or offeree company, and also on their respective associates, during the course of an offer period. Other regulators in the UK, US and elsewhere may have, or assert, notification or approval rights over acquisitions or transfers of shares.

Board biographies

Sir Peter Gershon CBE FREng, Chairman
Appointment to the Board: 1 August 2011 as Deputy Chairman, Chairman with effect from 1 January 2012
Committee membership: N (ch)
Previous appointments: Chairman of Premier Farnell plc, Chief Executive of the Office of Government Commerce, Managing Director of Marconi Electronic Systems and member of the UK Defence Academy Advisory Board.
External appointments: Chairman of Tate & Lyle plc and the Aircraft Carrier Alliance and member of The Sutton Trust Board.
Experience:
- Chairman
- Engineer
- Government
- Partnering/JV/contract management
- City
- High tech industry
- US
- International
- General management

Steve Holliday FREng, Chief Executive
Appointment to the Board: October 2002, appointed to National Grid Group plc on 30 March 2001, Chief Executive with effect from January 2007
Committee membership: F
Previous appointments: Executive Director of British Borneo Oil and Gas; he also spent 19 years within the Exxon Group, where he held senior positions in the international gas business and managed major operational areas such as refining and shipping. Most recently Chairman of UK Business Council for Sustainable Energy, the Prince's National Ambassador and Non-executive Director of Marks and Spencer Group plc.
External appointments: Chairman of Crisis UK and of the Energy and Efficiency Industrial Partnership, and Vice Chairman for Business in the Community and of The Careers and Enterprise Company.
Experience:
- Chief Executive
- Engineer
- Government/regulatory
- Partnering/JV/contract management
- City
- Utilities – energy
- Customer
- Oil and gas
- US
- International

Andrew Bonfield, Finance Director
Appointment to the Board: 1 November 2010
Committee membership: F, S
Previous appointments: Chief Financial Officer at Cadbury plc until March 2010; he also spent five years as Executive Vice President & Chief Financial Officer of Bristol-Myers Squibb Company and has previous experience in the energy sector as Finance Director of BG Group plc.
External appointments: Non-executive Director of Kingfisher plc.
Experience:
- Finance Director
- Accountant
- Government/regulatory
- Partnering/JV/contract management
- City
- Utilities – energy
- Customer
- US
- International

Nora Mead Brownell, Non-executive Director
Appointment to the Board: 1 June 2012
Committee membership: N, R, S
Previous appointments: Commissioner of the Pennsylvania Public Utility Commission from 1997 to 2001, Commissioner for the Federal Energy Regulatory Commission from 2001 to 2006 and former President of the National Association of Regulatory Utility Commissioners. Board member of ONCOR Electric Delivery Holding Company LLC and Comverge, Inc.
External appointments: Board member of Spectra Energy Partners LP, Direct Energy Advisory Board and the Advisory Board of Morgan Stanley Infrastructure Partners and partner in ESPY Energy Solutions, LLC.
Experience:
- US Government/regulatory
- US utilities – energy
- FERC
- Various non-executive directorships
- US

Jonathan Dawson, Non-executive Director
Appointment to the Board: 4 March 2013
Committee membership: F, N, R (ch)
Previous appointments: Various roles within the Ministry of Defence before joining Lazard where he spent over 20 years. Non-executive Director of Galliford Try plc 2004 to 2008, National Australia Group Europe Limited 2005 to 2012 and Standard Life Investments (Holdings) Limited 2010 to 2013, and most recently Senior Independent Director and Chairman of the Remuneration Committee of Next plc.
External appointments: Non-executive Director of Jardine Lloyd Thompson Group plc and Chairman of Penfida Limited.
Experience:
- City
- Corporate finance
- Banking
- Pensions

Therese Esperdy, Non-executive Director
Appointment to the Board: 18 March 2014, and to the Board of National Grid USA with effect from 1 May 2015
Committee membership: A, F (ch), N
Previous appointments: Joined Chase Securities in 1997, having started her banking career with Lehman Brothers. Various senior roles at JPMorgan Chase & Co. including Head of US Debt Capital Markets and Global Head of Debt Capital Markets and most recently co head of Banking, Asia Pacific at JPMorgan.
External appointments: Global Chairman of the Financial Institutions Group, JPMorgan Chase & Co.
Experience:
- City
- Corporate finance
- Banking
- US
- International

Paul Golby CBE FREng, Non-executive Director
Appointment to the Board: 1 February 2012
Committee membership: A, N, R, S (ch)
Previous appointments: Executive Director of Clayhithe plc before joining East Midlands Electricity plc in 1998 as Managing Director, Chief Executive of E.ON UK plc in 2002, and later additionally as Chairman, stepping down from the E.ON board in December 2011 and most recently Non-executive Chairman of AEA Technology Group plc.
External appointments: Chairman of EngineeringUK and the UK National Air Traffic System, Chair of the Engineering and Physical Sciences Research Council and a member of the Council for Science and Technology and of the Nurse Review Advisory Group.
Experience:
- Chairman and chief executive
- Engineer
- Government/regulatory
- City
- Utilities – energy

Ruth Kelly, Non-executive Director
Appointment to the Board: 1 October 2011
Committee membership: A, F, N
Previous appointments: Various senior roles in Government from 2001 to 2008, including Secretary of State for Transport, Secretary of State for Communities and Local Government, Secretary of State for Education and Skills and Financial Secretary to the Treasury.
External appointments: Senior Executive at HSBC and Governor for the National Institute of Economic and Social Research.
Experience:
- Government/regulatory
- Partnering/JV/contract management
- Financial and economic
- Infrastructure projects

John Pettigrew, Executive Director, UK
Appointment to the Board: 1 April 2014
Previous appointments: Joined The National Grid Company plc in 1991 and held various senior management roles, becoming Director of Engineering in 2003. He went on to become Chief Operating Officer and Executive Vice President for the US Electricity Distribution & Generation business between 2007 and 2010; Chief Operating Officer for UK Gas Distribution between 2010 and 2012; and UK Chief Operating Officer from 2012 to 2014.
Experience:
- Government/regulatory
- Partnering/JV/contract management
- Utilities – energy
- US

Dean Seavers, Executive Director, US
Appointment to the Board: 1 April 2015
Previous appointments: Various senior management positions at Tyco International Ltd. from 2000 to 2007 before joining General Electric Company/United Technologies Corporation in 2007. President and Chief Executive Officer of General Electric Security from 2007 to 2010 and then President, Global Services of United Technologies Fire & Security from 2010 to 2011. Additionally, a member of the Board of Directors of National Fire Protection Association from 2010 to 2014, lead network member at City Light Capital from 2011 to 2015 and President and Chief Executive at Red Hawk Fire & Security, LLC from 2012 to 2014.
External appointments: Board member of Red Hawk Fire & Security, LLC.
Experience:
- Chief executive
- Partnering/JV/contract management
- City
- Corporate finance
- Financial services
- Customer
- US
- International
- Change and performance improvement programmes
- General management

Mark Williamson, Non-executive Director
Appointment to the Board: 3 September 2012
Committee membership: A (ch), N, R
Previous appointments: Chief Accountant then Group Financial Controller of Simon Group plc before joining International Power plc as Group Financial Controller in 2000 and appointed as Chief Financial Officer in 2003.
External appointments: Non-executive, Chairman of the Audit Committee and Senior Independent Director of Alent plc, and Chairman of Imperial Tobacco Group PLC.
Experience:
- Finance director
- Accountant
- Government/regulatory
- City
- Utilities – energy
- International

Alison Kay, Group General Counsel & Company Secretary
Appointment as Company Secretary: 24 January 2013
Previous appointments: Various roles since joining National Grid in 1996 including UK General Counsel and Company Secretary from 2000 to 2008 and Commercial Director, UK Transmission from 2008 to 2012.

Key
A Audit Committee
F Finance Committee
N Nominations Committee
R Remuneration Committee
S Safety, Environment and Health Committee
(ch) Chairman of committee

Shareholder information continued

Depositary payments to the Company

The Depositary reimburses the Company for certain expenses it incurs in relation to the ADS programme. The Depositary also pays the standard out-of-pocket maintenance costs for the ADSs, which consist of the expenses for the mailing of annual and interim financial reports, printing and distributing dividend cheques, electronic filing of US federal tax information, mailing required tax forms, stationery, postage, facsimile and telephone calls. It also reimburses the Company for certain investor relationship programmes or special investor relations promotional activities. There are limits on the amount of expenses for which the Depositary will reimburse the Company, but the amount of reimbursement is not necessarily tied to the amount of fees the Depositary collects from investors. For the period 1 April 2014 to 20 May 2015, the Company received a total of $2,094,871.42 in reimbursements from the Depositary consisting of $1,440,230.53 and $654,640.89 received in October 2014 and January 2015 respectively. Fees that are charged on cash dividends will be apportioned between the Depositary and the Company, see below.

Any questions from ADS holders should be directed to The Bank of New York Mellon at the contact details on page 196.

Description of securities other than equity securities: depositary fees and charges

The Bank of New York Mellon, as the Depositary, collects fees, by deducting those fees from the amounts distributed or by selling a portion of distributable property, for:

- delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them; and
- making distributions to investors (including, it is expected, cash dividends).

The Depositary may generally refuse to provide fee attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:	For
$5.00 per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property; cancellation of ADSs for the purpose of withdrawal, including if the Deposit Agreement terminates; distribution of securities distributed to holders of deposited securities that are distributed by the Depositary to ADS registered holders.
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the Depositary or its agent when they deposit or withdraw shares.
Expenses of the Depositary	Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement); converting foreign currency to dollars.
Taxes and other governmental charges the Depositary or the Custodian has to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary.

The Company's Deposit Agreement under which the ADS are issued allows a fee of up to $0.05 per ADS to be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2014/15 final dividend will be charged a fee of $0.02 per ADS by the Depositary prior to distribution of the cash dividend.

Documents on display

National Grid is subject to the filing requirements of the Exchange Act, as amended. In accordance with these requirements, we file reports and other information with the SEC. These materials, including this document, may be inspected during normal business hours at our registered office 1-3 Strand, London WC2N 5EH or at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. For further information about the Public Reference Room, please call the SEC at 1-800-SEC-0330. Some of our filings are also available on the SEC's website at www.sec.gov.

Events after the reporting period

There have been no material events affecting the Company since the year end.

Exchange controls

There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange control restrictions, or that affect the remittance of dividends, interest or other payments to non UK resident holders of ordinary shares except as otherwise set out in Taxation on page 182 and except in respect of the governments of and/or certain citizens, residents or bodies of certain countries (described in applicable Bank of England Notices or European Union Council Regulations in force as at the date of this document).

Exchange rates

The following table shows the history of the exchange rates of one pound sterling to dollars for the periods indicated.

	Dollar equivalent of £1 sterling High	Low
April 2015	1.5454	1.4642
March 2015	1.5372	1.4686
February 2015	1.5488	1.5035
January 2015	1.5388	1.5018
December 2014	1.5729	1.5522

	Average[1]
2014/15	1.61
2013/14	1.60
2012/13	1.57
2011/12	1.60
2010/11	1.57

1. The average for each period is calculated by using the average of the exchange rates on the last day of each month during the period. See weighted average exchange rate on page 87.

Material interests in shares

As at 31 March 2015, National Grid had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	Number of ordinary shares	% of voting rights[1]
The Capital Group Companies, Inc.	187,283,805	4.98
Black Rock, Inc.	182,630,798	5.21
Competrol International Investments Limited	149,414,285	3.99

1. This number is calculated in relation to the issued share capital at the time the holding was disclosed.

On 20 April 2015, The Capital Group of Companies, Inc. notified us of a holding in voting rights of 3.881%, 145,094,617 ordinary shares, as at 16 April 2015.

As at 20 May 2015, no further notifications have been received.

The rights attached to ordinary shares are detailed on page 177. All ordinary shares carry the same voting rights.

Share capital

The share capital of the Company consists of ordinary shares of 11 17/43 pence nominal value each and ADSs, which represent five ordinary shares each.

Authority to purchase shares

Shareholder approval was given at the 2014 AGM to purchase up to 10% of the Company's share capital (being 373,477,508 ordinary shares). The Directors intend to seek shareholder approval to renew this authority at this year's AGM.

In some circumstances, the Company may find it advantageous to have the authority to purchase its own shares in the market, where the Directors believe this would be in the interests of shareholders generally. The Directors believe that it is an important part of the financial management of the Company to have the flexibility to repurchase issued shares in order to manage its capital base, including actively managing share issuances from the operation of the scrip dividend scheme. It is expected that such repurchases will not exceed 2.5% of the issued share capital (excluding treasury shares) per annum.

When purchasing shares, the Company have and will, take into account market conditions prevailing at the time, other investment and financing opportunities and the overall financial position of the Company.

During the year the Company purchased ordinary shares in the capital of the Company as part of the management of the dilutive effect of share issuances under the scrip dividend scheme.

	Number of shares	Total nominal value	Percentage of called up share capital[1]
Shares held in Treasury purchased in prior years	123,948,354	£14,124,347.32	3.18%
Shares purchased and held in Treasury during the year[2,3]	37,350,216	£4,256,187.40	0.96%
Shares transferred from Treasury during the year (to employees under employee share plans)[2]	8,353,093	£951,864.09	0.21%
Maximum number of shares held in Treasury during the year[2]	152,970,767	£17,431,552.52	3.93%

1. Called up share capital of 3,891,691,900 ordinary shares as at the date of this Report.
2. From 7 August 2014 to 31 March 2015.
3. Shares purchased for a total cost of £338,170,931.

As at the date of this Report, the Company held 150,305,846 ordinary shares as treasury shares, representing 3.86% of the Company's called up share capital.

Authority to allot shares

Shareholder approval was given at the 2014 AGM to allot shares of up to one third of the Company's share capital. The Directors are seeking this same lower level of authority this year. The Directors consider that the Company will have sufficient flexibility with the lower level of authority to respond to market developments. This authority is in line with investor guidelines.

The Directors currently have no intention of issuing new shares, or of granting rights to subscribe for or convert any security into shares, except in relation to, or in connection with, the operation and management of the Company's scrip dividend scheme and the exercise of options under the Company's share plans. No issue of shares will be made which would effectively alter control of the Company without the sanction of shareholders in general meeting.

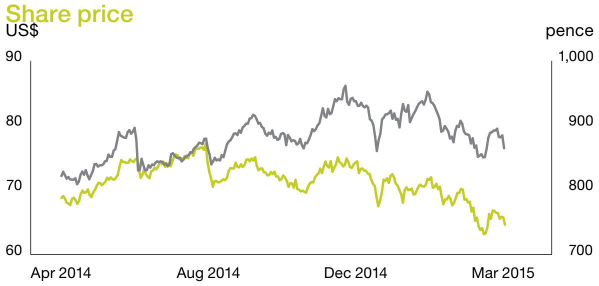
The Company expects to actively manage the dilutive effect of share issuance arising from the operation of the scrip dividend scheme. In some circumstances, additional shares may be allotted to the market for this purpose under the authority provided by this resolution. Under these unlikely circumstances, it is expected that the associated allotment of new shares (or rights to subscribe for or convert any security into shares) will not exceed 1% of the issued share capital (excluding treasury shares) per year.

Dividend waivers

The trustees of the National Grid Employees Share Trust, which are independent of the Company, waived the right to dividends paid during the year, and have agreed to waive the right to future dividends, in relation to the ordinary shares and American Depositary Receipts (ADR) held by the trust.

Under the Company's ADR programme, the right to dividends in relation to the ordinary shares underlying the ADRs was waived during the year by the ADR Depositary, under an arrangement whereby the Company pays the monies to satisfy any dividends separately to the Depositary for distribution to ADR holders entitled to the dividend. This arrangement is expected to continue for future dividends.

Share price



— Ordinary share price — ADS price
Source: Datastream

National Grid ordinary shares are listed on the London Stock Exchange under the symbol NG and the ADSs are listed on the New York Stock Exchange under the symbol NGG.

Shareholder information continued

Price history

The following table shows the highest and lowest intraday market prices for our ordinary shares and ADSs for the periods indicated:

	Ordinary share (pence)		ADS ($)	
	High	Low	High	Low
2014/15	965.00	806.22	77.21	62.25
2013/14	849.50	711.00	70.07	55.16
2012/13	770.00	627.00	58.33	49.55
2011/12	660.50	545.50	52.18	45.80
2010/11[1]	666.00	474.80	51.00	36.72
2014/15 Q4	954.00	842.60	72.41	62.25
Q3	965.00	853.78	75.08	67.01
Q2	916.00	835.76	77.21	70.37
Q1	897.92	806.22	75.09	67.62
2013/14 Q4	842.50	769.00	70.07	63.19
Q3	797.50	725.16	65.39	58.85
Q2	817.75	727.45	61.59	55.30
Q1	849.50	711.00	64.56	55.16
April 2015	910.90	863.60	68.88	64.65
March 2015	897.80	842.60	68.22	62.25
February 2015	942.10	868.20	71.13	67.12
January 2015	954.00	890.89	72.41	67.87
December 2014	936.90	860.03	73.54	67.01

1. On 20 May 2010, we announced a 2 for 5 rights issue of 990,439,017 ordinary shares at 355 pence per share.

Shareholder analysis

The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2015.

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1–50	170,300	17.7275	4,916,530	0.1263
51–100	259,888	27.0532	18,391,904	0.4726
101–500	415,128	43.2131	87,234,245	2.2416
501–1,000	57,930	6.0303	40,551,745	1.0420
1,001–10,000	54,252	5.6474	133,804,248	3.4382
10,001–50,000	2,074	0.2159	37,223,848	0.9565
50,001–100,000	196	0.0204	14,049,218	0.3610
100,001–500,000	444	0.0462	107,102,598	2.7521
500,001–1,000,000	133	0.0138	94,059,625	2.4169
1,000,001+	309	0.0322	3,354,357,939	86.1928
Total	**960,654**	**100**	**3,891,691,900**	**100**

Taxation

The discussion in this section provides information about certain US federal income tax and UK tax consequences for US Holders (defined below) of owning ADSs and ordinary shares. A US Holder is beneficial owner of ADSs or ordinary shares that:

- is (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, any State thereof or the District of Columbia, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for US federal income tax purposes;
- is not resident or ordinarily resident in the UK for UK tax purposes; and
- does not hold ADSs or ordinary shares in connection with the conduct of a business or the performance of services in the UK or otherwise in connection with a branch, agency or permanent establishment in the UK.

This discussion is not a comprehensive description of all the US federal income tax and UK tax considerations that may be relevant to any particular investor (including consequences under the US alternative minimum tax or net investment income tax) and does not address state, local, or other tax laws. National Grid has assumed that shareholders, including US Holders, are familiar with the tax rules applicable to investments in securities generally and with any special rules to which they may be subject. This discussion deals only with US Holders who hold ADSs or ordinary shares as capital assets. It does not address the tax treatment of investors who are subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or currencies;
- investors who elect mark-to-market treatment;
- partnerships or other pass-through entities and their partners;
- individual retirement accounts and other tax-deferred accounts;
- tax-exempt organisations;
- investors who own (directly or indirectly) 10% or more of our voting stock;
- investors who hold ADSs or ordinary shares as a position in a straddle, hedging transaction or conversion transaction; and
- investors whose functional currency is not the US dollar.

The statements regarding US and UK tax laws and administrative practices set forth below are based on laws, treaties, judicial decisions and regulatory interpretations in effect on the date of this document. These laws and practices are subject to change without notice, potentially with retroactive effect. In addition, the statements set forth below are based on the representations of the Depositary and assume that each party to the Deposit Agreement will perform its obligations thereunder in accordance with its terms.

US Holders of ADSs will be treated as the owners of the ordinary shares represented by those ADSs for US federal income tax purposes. For the purposes of the Tax Convention, the Estate Tax Convention and UK tax considerations, this discussion assumes that a US Holder of ADSs will be treated as the owner of the ordinary shares represented by those ADSs. HMRC has stated that it will continue to apply its long-standing practice of treating a holder of ADSs as holding the beneficial interest in the ordinary shares represented by the ADSs; however, we note that this is an area of some uncertainty and may be subject to change.

US Holders should consult their own advisors regarding the tax consequences of buying, owning and disposing of ADSs or ordinary shares in light of their particular circumstances, including the effect of any state, local, or other tax laws.

Taxation of dividends

The UK does not currently impose a withholding tax on dividends paid to US Holders.

Cash distributions paid out of our current or accumulated earnings and profits (as determined for US federal income tax purposes) generally will be taxable to a US Holder as dividend income. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of a US Holder's basis in its ADSs or ordinary shares, as applicable, and thereafter as a capital gain. However, we do not maintain calculations of our earnings and profits in accordance with US federal income tax principles. US Holders should therefore assume that any distribution by us with respect to ADSs or ordinary shares will be reported as dividend income.

Dividends received by non-corporate US Holders with respect to ADSs or ordinary shares will generally be taxable at the reduced rate applicable to long-term capital gains provided (i) either (a) we are eligible for the benefits of the Tax Convention or (b) ADSs or ordinary shares are treated as 'readily tradable' on an established securities market in the United States and (ii) we are not, for our taxable year during which the dividend is paid or the prior year, a passive foreign investment company for US federal income tax purposes (a PFIC), and certain other requirements are met. We (1) expect that our shares will be treated as 'readily tradable' on an established securities market in the United States as a result of the trading of ADSs on the New York Stock Exchange and (2) believe we are eligible for the benefits of the Tax Convention. Based on our audited financial statements and the nature of our business activities, we believe that we were not treated as a PFIC for US federal income tax purposes with respect to our taxable year ending 31 March 2015. In addition, based on our current expectations regarding the value and nature of our assets, the sources and nature of our income, and the nature of our business activities, we do not anticipate becoming a PFIC in the foreseeable future.

Dividends received by corporate US Holders with respect to ADSs or ordinary shares will not be eligible for the dividends received deduction generally allowed to corporations.

Taxation of capital gains
US Holders will not be subject to UK taxation on any capital gain realised on the sale or other disposition of ADSs or ordinary shares.

Provided that we are not a PFIC for any taxable year during which a US Holder holds their ADSs or ordinary shares, upon a sale or other disposition of ADSs or ordinary shares, a US Holder generally will recognise capital gain or loss equal to the difference between the US dollar value of the amount realised on the sale or other disposition and the US Holder's adjusted tax basis in the ADSs or ordinary shares. Such capital gain or loss generally will be long-term capital gain or loss if the ADSs or ordinary shares were held for more than one year. For non-corporate US Holders, long-term capital gain is generally taxed at a lower rate than ordinary income. A US Holder's ability to deduct capital losses is subject to significant limitations.

UK stamp duty and stamp duty reserve tax (SDRT)
Transfers of ordinary shares – SDRT at the rate of 0.5% of the amount or value of the consideration will generally be payable on any agreement to transfer ordinary shares that is not completed using a duly stamped instrument of transfer (such as a stock transfer form).

Where an instrument of transfer is executed and duly stamped before the expiry of the six year period beginning with the date on which the agreement is made, the SDRT liability will be cancelled. If a claim is made within the specified period, any SDRT which has been paid will be refunded. SDRT is due whether or not the agreement or transfer is made or carried out in the UK and whether or not any party to that agreement or transfer is a UK resident.

Purchases of ordinary shares completed using a stock transfer form will generally result in a UK stamp duty liability at the rate of 0.5% (rounded up to the nearest £5) of the amount or value of the consideration. Paperless transfers under the CREST paperless settlement system will generally be liable to SDRT at the rate of 0.5%, and not stamp duty. SDRT is generally the liability of the purchaser and UK stamp duty is usually paid by the purchaser or transferee.

Transfers of ADSs – No UK stamp duty will be payable on the acquisition or transfer of existing ADSs or beneficial ownership of ADSs, provided that any instrument of transfer or written agreement to transfer is executed outside the UK and remains at all times outside the UK.

An agreement for the transfer of ADSs in the form of ADRs will not result in a SDRT liability. A charge to stamp duty or SDRT may arise on the transfer of ordinary shares to the Depositary or The Bank of New York Mellon as agent of the Depositary (the Custodian).

The rate of stamp duty or SDRT will generally be 1.5% of the value of the consideration or, in some circumstances, the value of the ordinary shares concerned. However, there is no 1.5% SDRT charge on the issue of ordinary shares (or, where it is integral to the raising of new capital, the transfer of ordinary shares) to the Depositary or the Custodian.

The Depositary will generally be liable for the stamp duty or SDRT. Under the terms of the Deposit Agreement, the Depositary will charge any tax payable by the Depositary or the Custodian (or their nominees) on the deposit of ordinary shares to the party to whom the ADSs are delivered against such deposits. If the stamp duty is not a multiple of £5, the duty will be rounded up to the nearest multiple of £5.

US information reporting and backup withholding tax
Dividend payments made to US Holders and proceeds paid from the sale, exchange, redemption or disposal of ADSs or ordinary shares to US Holders may be subject to information reporting to the US Internal Revenue Service (IRS). Such payments may be subject to backup withholding taxes unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number on a properly completed IRS Form W-9 and complies with applicable certification requirements.

US Holders should consult their tax advisors about these rules and any other reporting obligations that may apply to the ownership or disposition of ADSs or ordinary shares, including reporting requirements related to the holding of certain foreign financial assets.

UK inheritance tax
An individual who is domiciled in the US for the purposes of the Estate Tax Convention and who is not a UK national for the purposes of the Estate Tax Convention will generally not be subject to UK inheritance tax in respect of (i) the ADSs or ordinary shares on the individual's death or (ii) a gift of the ADSs or ordinary shares during the individual's lifetime. This is not the case where the ADSs or ordinary shares are part of the business property of the individual's permanent establishment in the UK or relate to a fixed base in the UK of an individual who performs independent personal services.

Special rules apply to ADSs or ordinary shares held in trust. In the exceptional case where the ADSs or shares are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Convention generally provides for the tax paid in the UK to be credited against tax paid in the US.

Capital gains tax (CGT) for UK resident shareholders
You can find CGT information relating to National Grid shares for UK resident shareholders on our website under: Investors, Shareholder centre, More information and help. Share prices on specific dates are also available on our website.

Other disclosures

All-employee share plans
The all-employee share plans allow UK- or US-based employees to participate in either HMRC (UK) or Internal Revenue Service (US) approved plans and to become shareholders in National Grid.

Sharesave
Employees resident in the UK are eligible to participate in the Sharesave plan. Under this plan, participants may contribute between £5 and £500 in total each month, for a fixed period of three years, five years or both. Contributions are taken from net salary.

SIP
Employees resident in the UK are eligible to participate in the SIP. Contributions up to £150 are deducted from participants' gross salary and used to purchase ordinary shares in National Grid each month. The shares are placed in trust.

US Incentive Thrift Plans
Employees of National Grid's US companies are eligible to participate in the Thrift Plans, which are tax-advantaged savings plans (commonly referred to as 401(k) plans). They are DC pension plans that give participants the opportunity to invest up to applicable federal salary limits. The federal limits for calendar year 2014 are: for pre-tax contributions a maximum of 50% of salary limited to $17,500 for those under the age of 50 and $23,000 for those age 50 and above; for post-tax contributions, up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) may not exceed 50% of compensation and are further subject to the combined federal annual contribution limit of $52,000. For calendar year 2015, participants may invest up to the applicable federal salary limits: for pre-tax contributions a maximum of 50% of salary limited to $18,000 for those under the age of 50 and $24,000 for those age 50 and above; for post-tax contributions up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) may not exceed 50% of compensation and are further subject to the combined federal annual contribution limit of $53,000.

ESPP
Employees of National Grid's US companies are eligible to participate in the ESPP (commonly referred to as a 423(b) plan). Eligible employees have the opportunity to purchase ADSs on a monthly basis at a 15% discounted price. Under the plan employees may contribute up to 20% of base pay each year up to a maximum annual contribution of $18,888 to purchase ADSs in National Grid.

Change of control provisions
No compensation would be paid for loss of office of Directors on a change of control of the Company. As at 31 March 2015, the Company had undrawn borrowing facilities with a number of its banks of £1.4 billion available to it and a further £630 million of drawn bank loans which, on a change of control of the Company following a takeover bid, may alter or terminate. All the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. In the event of a change of control of the Company, a number of governmental and regulatory consents or approvals are likely to be required arising from laws or regulations of the UK, US or the EU. Such consents or approvals may also be required for acquisitions of equity securities that do not amount to a change of control.

No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

Code of Ethics
In accordance with US legal requirements, the Board has adopted a Code of Ethics for senior financial professionals. This code is available on our website (where any amendments or waivers will also be posted). There were no amendments to, or waivers of, our Code of Ethics during the year.

Conflicts of interest
The Board continues to monitor and note possible conflicts of interest that each Director may have. The Directors are regularly reminded of their continuing obligations in relation to conflicts, and are required annually to review and confirm their external interests. Potential conflicts are considered and, if appropriate, authorised. During the year ended 31 March 2015, the Board has been advised by the Directors of two actual conflicts of interest and has authorised these conflicts in accordance with its powers as set out in the Articles. The Board has also considered and noted a number of situations in relation to which no actual conflict of interest was identified.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards
The Company is listed on the NYSE and is therefore required to disclose differences in its corporate governance practices adopted as a UK listed company, compared with those of a US company.

The corporate governance practices of the Company are primarily based on the requirements of the UK Corporate Governance Code (the Code) but substantially conform to those required of US companies listed on the NYSE. The following is a summary of the significant ways in which the Company's corporate governance practices differ from those followed by US companies under Section 303A Corporate Governance Standards of the NYSE.

- The NYSE rules and the Code apply different tests for the independence of Board members.
- The NYSE rules require a separate nominating/corporate governance committee composed entirely of independent Directors. There is no requirement for a separate corporate governance committee in the UK. Under the Company's corporate governance policies, all Directors on the Board discuss and decide upon governance issues and the Nominations Committee makes recommendations to the Board with regard to certain of the responsibilities of a corporate governance committee.
- The NYSE rules require listed companies to adopt and disclose corporate governance guidelines. While the Company reports compliance with the Code in each Annual Report and Accounts, the UK requirements do not require the Company to adopt and disclose separate corporate governance guidelines.
- The NYSE rules require a separate audit committee composed of at least three independent members. While the Company's Audit Committee exceeds the NYSE's minimum independent Non-executive Director membership requirements, it should be noted that the quorum for a meeting of the Audit Committee, of two independent Non-executive Directors, is less than the minimum membership requirements under the NYSE rules.
- The NYSE rules require a compensation committee composed entirely of independent Directors, and prescribe criteria to evaluate the independence of the committee's members and its ability to engage external compensation advisors. While the Code prescribes different independence criteria, the Non-executive Directors on the Remuneration Committee have each been deemed independent by the Board under the NYSE rules. Although the evaluation criteria for appointment of external advisors differ under the Code, the Remuneration Committee is solely responsible for appointment, retention and termination of such advisors.

Directors' indemnity

The Company has arranged, in accordance with the Companies Act 2006 and the Articles, qualifying third-party indemnities against financial exposure that Directors may incur in the course of their professional duties. Equivalent qualifying third-party indemnities were, and remain, in force for the benefit of those Directors who stood down from the Board during the year ended 31 March 2015. Alongside these indemnities, the Company places Directors' and Officers' liability insurance cover for each Director.

Employees

We negotiate with recognised unions. It is our policy to maintain well developed communications and consultation programmes and there have been no material disruptions to our operations from labour disputes during the past five years. National Grid believes that it can conduct its relationships with trade unions and employees in a satisfactory manner.

Human Rights

Respect for human rights is incorporated into our employment practices and our values, which include respecting others and valuing diversity. 'Always Doing the Right Thing' is our guide to ethical business conduct – the way in which we conduct ourselves allows us to build trust with the people we work with. We earn this trust by doing things in the right way, building our reputation as an ethical company that our stakeholders want to do business with, and that our employees want to work for. Although we do not have a specific policy relating to human rights, our procurement policies integrate sustainability into the way we do business throughout our supply chain, so that we create value, preserve natural resources and respect the interests of the communities we serve and from which we procure goods and services. Through our Global Supplier Code of Conduct, we expect our suppliers to keep to all laws relating to their business, as well as adhere to the principles of the United Nations Global Compact, the United Nations Declaration of Human Rights and the International Labour Organization.

Listing Rule 9.8.4 R cross reference table

Information required to be disclosed by LR 9.8.4 R (starting on page indicated):

Interest capitalised	Page 105
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Not applicable
Waiver of emoluments by a director	Not applicable
Waiver of future emoluments by a director	Not applicable
Non pre-emptive issues of equity for cash	Not applicable
Item (7) in relation to major subsidiary undertakings	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waivers of dividends	Page 181
Shareholder waivers of future dividends	Page 181
Agreements with controlling shareholders	Not applicable

Material contracts

Each of our Executive Directors has a service agreement and each Non-executive Director has a letter of appointment. No contract (other than contracts entered into in the ordinary course of business) has been entered into by National Grid within the two years immediately preceding the date of this Report which is, or may be, material; or which contains any provision under which any member of National Grid has any obligation or entitlement which is material to National Grid at the date of this Report.

Political donations and expenditure

National Grid made no donations in the UK or EU during the year, including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000. National Grid USA and its affiliated New York and federal political action committees (each, a PAC) made political donations in the US totalling $54,375 (£34,415) during the year. National Grid USA's affiliated New York PAC was funded partly by contributions from National Grid USA and certain of its subsidiaries and partly by voluntary employee contributions. National Grid USA's affiliated federal PAC was funded wholly by voluntary employee contributions.

Property, plant and equipment

This information can be found under the heading note 11 property, plant and equipment on page 115, note 19 Borrowings on pages 123 and 124, Strategic Report pages 08 to 11, where we operate on page 165 and principal operations on pages 27 to 36.

Research and development

Expenditure on research and development during the year was £23 million (2013/14: £12 million; 2012/13: £15 million). Innovation funding throughout 2014/15 has stimulated greater investment across all three of our UK Regulated business areas: UK ET, UK GT and UK GD. Delivering benefits for our stakeholders has been at the forefront of each of our Innovation Projects. This has driven collaboration across the industry in search of new techniques to revolutionise the way we work. Due to the way in which we work with a large number of partners on new ideas, our disclosed research and development expenditure is lower than the overall contribution we make to the industry. We only disclose directly incurred expenditure, and not those amounts our partners incur working on projects with us.

The UK ET innovation portfolio has developed to reflect the evolution of our strategic innovation priorities. Our activities in the year have focused on enhancing our capabilities in managing ageing assets, improving the efficiency of new build, and system reliability and availability. In addition NGET secured £6.9 million of funding to develop new approaches to frequency control. The UK GT innovation portfolio has developed and expanded over the past year to include projects on 3D modelling, virtual reality technologies and sustainable energy solutions. In addition, GT won £5.7 million of funding for industry leading work in robotics for Project GRAID (Gas Robotic Agile Inspection Device). Innovation in UK GD has focused on reduction of leakage levels and minimisation of street works and excavations through the use of robotics. Our customers have been central to our portfolio, with projects enhancing safety through the use of Intelligent Carbon Monoxide monitoring and more robust on-site fencing feet and projects improving real-time information for work on-site through the use of QR codes.

The US business has been working on research and development initiatives to improve the way we deliver gas operations, and on modernising the US electricity grid in Massachusetts and Reforming the Energy Vision (REV) in New York State. More information in relation to grid modernisation and REV can be found on page 170.

Unresolved SEC staff comments

There are no unresolved staff comments required to be reported.

Other unaudited financial information

Reconciliations of adjusted profit measures

Use of adjusted profit measures

In considering the financial performance of our businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax, profit for the year attributable to equity shareholders and EPS into two components.

The first of these components is referred to as an adjusted profit measure, also known as a business performance measure. This is the principal measure used by management to assess the performance of the underlying business.

Adjusted results exclude exceptional items, remeasurements and stranded cost recoveries. These items are reported collectively as the second component of the financial measures. Note 4 on page 103 explains in detail the items which are excluded from our adjusted profit measures.

Adjusted profit measures have limitations in their usefulness compared with the comparable total profit measures as they exclude important elements of our financial performance. However, we believe that by presenting our financial performance in two components it is easier to read and interpret financial performance between periods, as adjusted profit measures are more comparable having removed the distorting effect of the excluded items. Those items are more clearly understood if separately identified and analysed.

The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented.

Management uses adjusted profit measures as the basis for monitoring financial performance and in communicating financial performance to investors in external presentations and announcements of financial results.

Internal financial reports, budgets and forecasts are primarily prepared on the basis of adjusted profit measures, although planned exceptional items, such as significant restructurings, are also reflected in budgets and forecasts. We separately monitor and disclose the excluded items as a component of our overall financial performance.

Reconciliation of adjusted operating profit to total operating profit

Adjusted operating profit is presented on the face of the income statement under the heading operating profit before exceptional items, remeasurements and stranded cost recoveries.

	Year ended 31 March		
	2015 £m	2014 £m	2013 £m
Adjusted operating profit	**3,863**	3,664	3,639
Exceptional items	**–**	55	(84)
Remeasurements – commodity contracts	**(83)**	16	180
Stranded cost recoveries	**–**	–	14
Total operating profit	**3,780**	3,735	3,749

Reconciliation of adjusted operating profit to adjusted earnings and earnings

Adjusted earnings is presented in note 7 to the consolidated financial statements on page 111.

	Year ended 31 March		
	2015 £m	2014 £m	2013 £m
Adjusted operating profit	**3,863**	3,664	3,639
Adjusted net finance costs	**(1,033)**	(1,108)	(1,124)
Share of post-tax results of joint ventures and associates	**46**	28	18
Adjusted profit before tax	**2,876**	2,584	2,533
Adjusted tax	**(695)**	(581)	(619)
Adjusted profit after tax	**2,181**	2,003	1,914
Attributable to non-controlling interests	**8**	12	(1)
Adjusted earnings	**2,189**	2,015	1,913
Exceptional items after tax	**(97)**	388	75
Remeasurements after tax	**(73)**	73	156
Stranded cost recoveries after tax	**–**	–	9
Earnings	**2,019**	2,476	2,153

Reconciliation of adjusted EPS to EPS

Adjusted EPS is presented in note 7 to the consolidated financial statements.

	Year ended 31 March		
	2015 pence	2014 pence	2013 pence
Adjusted EPS	**58.1**	53.5	50.9
Exceptional items after tax	**(2.6)**	10.3	2.0
Remeasurements after tax	**(1.9)**	1.9	4.1
Stranded cost recoveries after tax	**–**	–	0.2
EPS	**53.6**	65.7	57.2

Reconciliation of adjusted operating profit excluding timing differences and major storms to total operating profit

Adjusted operating profit excluding timing differences and major storms is discussed on page 23.

	Year ended 31 March		
	2015 £m	2014 £m	2013 £m
Adjusted operating profit excluding timing differences and major storms	**3,927**	3,706	3,759
Major storms	**–**	–	(136)
Adjusted operating profit excluding timing differences	**3,927**	3,706	3,623
Timing differences	**(64)**	(42)	16
Adjusted operating profit	**3,863**	3,664	3,639
Exceptional items, remeasurements and stranded cost recoveries	**(83)**	71	110
Total operating profit	**3,780**	3,735	3,749

Commentary on consolidated financial statements for the year ended 31 March 2014

In compliance with SEC rules, we present a summarised analysis of movements in the income statement, an analysis of movements in adjusted operating profit by operating segment and a summarised analysis of movements in the statement of financial position for the year ended 31 March 2014. This should be read in conjunction with the 31 March 2015 unaudited commentary included on pages 87, 91 and 99.

Analysis of the income statement for the years ended 31 March 2014 and 31 March 2013

Revenue

Revenue for the year ended 31 March 2014 increased by £450 million to £14,809 million. This increase was driven by higher revenues in our UK ET and UK GD businesses, principally as a result of the new RIIO regulatory arrangements. Revenue in our US Regulated businesses was also higher, reflecting higher pass-through costs such as gas and electricity commodity costs, partially offset by the end of Niagara Mohawk deferral revenue recoveries at March 2013 and the impact of the weaker dollar.

Revenue for the year ended 31 March 2013 increased by £527 million to £14,359 million driven by the UK ET business, which increased by £300 million principally due to inflationary increases in allowable revenue and higher pass-through costs. The UK GD segment also delivered an additional £114 million primarily for the same reason. Finally, US Regulated revenue was £123 million higher due to the recovery of Niagara Mohawk deferral revenues and higher FERC rate bases.

Operating costs

Operating costs for the year ended 31 March 2014 of £11,074 million were £464 million higher than the prior year. This increase in costs was predominantly due to increases in pass-through costs in our UK and US regulated businesses, together with higher depreciation and amortisation as a result of continued investment and increases in our controllable costs.

Exceptional items, remeasurements and stranded cost recoveries included in operating costs for the year ended 31 March 2014 were £39 million lower than the prior year. Net exceptional gains included in 2013/14 of £55 million primarily consisted of a net gain on the LIPA MSA transition in the US of £254 million, a gain of £16 million following the sale to a third party of a settlement award, restructuring costs of £136 million and UK gas holder demolition costs of £79 million. The 2013/14 results also included a gain of £16 million on remeasurements of commodity contracts.

There were no major storms affecting our operations in the year ended 31 March 2014. In 2012/13, two major storms in the US, Superstorm Sandy and Storm Nemo, increased operating costs by £136 million.

Operating costs for the year ended 31 March 2013 of £10,610 million were £313 million higher than the prior year. The increase in costs was predominantly due to increases in pass-through costs due to the colder winter in the US and inflationary increases in our controllable costs. Additional costs of £91 million were incurred in the stabilisation of our US enterprise resource planning system.

Exceptional items included in operating profit of £110 million in 2012/13 consisted of restructuring costs of £87 million, less a gain on sale of our EnergyNorth gas business and Granite State electricity business in New Hampshire of £3 million. There were also gains of £180 million on commodity contract remeasurements.

Net finance costs

For the year ended 31 March 2014, net finance costs before exceptional items and remeasurements were £16 million lower than 2012/13 at £1,108 million, mainly due to the impact of the weaker dollar (£17 million).

Total net finance costs for the year ended 31 March 2013 were slightly down compared with 2011/12 at £1,086 million, due to the reduction in the cost of our index-linked debt, offset by the cost of carrying higher debt levels and loss on disposal of financial instruments.

Financial remeasurements relate to net gains and losses on derivative financial instruments. The year ended 31 March 2014 included a gain of £93 million (2012/13: gain of £68 million).

Tax

The 2013/14 adjusted tax charge was £38 million lower than 2012/13 at £581 million. This was mainly due to a 1% decrease in the UK statutory corporation tax rate in the year and a change in the UK/US profit mix where higher UK profits were taxed at the lower UK tax rate. Our tax charge was also affected by changes in tax provisions in respect of prior years.

For the year ended 31 March 2013, our adjusted tax charge was £78 million lower than 2011/12, mainly due to changes in tax provisions in respect of prior years and a 2% decrease in the UK statutory corporation tax rate in the year, partially offset by increased taxes on higher taxable profits.

Exceptional tax for 2013/14 included an exceptional deferred tax credit of £398 million arising from a reduction in the UK corporation tax rate from 23% to 21% applicable from 1 April 2014 and a further reduction to 20% from 1 April 2015.

A similar reduction in the UK corporation tax rate in 2012/13 from 24% to 23% resulted in a deferred tax credit of £128 million.

Adjusted earnings and EPS

As a result of the variances described above, adjusted earnings for the year ended 31 March 2014 was £2,015 million. For the year ended 31 March 2013, adjusted earnings was £1,913 million.

The above earnings performance translated into adjusted EPS growth in 2013/14 of 2.6p (5%) and 5.4p (12%) in 2012/13.

In accordance with IAS 33, all EPS and adjusted EPS amounts for comparative periods have been restated for shares issued via scrip dividends and the bonus element of the 2010 rights issue.

Other unaudited financial information continued

Analysis of the adjusted operating profit by segment for the year ended 31 March 2014

UK Electricity Transmission

For the year ended 31 March 2014, revenue in the UK Electricity Transmission segment increased by £277 million, and adjusted operating profit increased by £38 million.

Net regulated income after pass-through costs was £170 million higher, reflecting increases in allowed revenues under the new RIIO regulatory framework. This was partially offset by under-recoveries of revenue in the year of £60 million compared with over-recoveries of £29 million in the prior year. Regulated controllable costs were £27 million higher due to inflation, legal fees and one-off credits in the prior year. Depreciation and amortisation was £20 million higher reflecting the continued capital investment programme (investment in the year was £1,381 million). Other costs were £4 million lower than prior year.

UK Gas Transmission

Revenue in the UK Gas Transmission segment decreased by £177 million in 2013/14 to £941 million and adjusted operating profit fell by £114 million to £417 million.

Net regulated income after pass-through costs was £80 million lower, with lower permit income than prior year under the new RIIO arrangements. In addition, under-recoveries in the year of £21 million compared with over-recoveries last year of £17 million, gave rise to an adverse timing movement of £38 million. Depreciation and amortisation was £10 million higher due to investment, with £181 million invested in the year. Partially offsetting these, other operating costs were £14 million lower.

UK Gas Distribution

UK Gas Distribution revenue increased by £184 million in the year to £1,898 million, and adjusted operating profit increased by £110 million to £904 million.

Net regulated income after pass-through costs was £96 million higher, reflecting increases in allowed revenues under the new RIIO regulatory framework. Timing differences added another £39 million, with £29 million over-recoveries in 2013/14, compared with a £10 million under-recovery in the prior year. Partially offsetting these, regulated controllable costs were £14 million higher primarily due to inflation. Depreciation and amortisation was £10 million higher reflecting the continued capital investment programme (investment in the year was £480 million). Other costs were £1 million higher than prior year.

US Regulated

Revenue in our US Regulated businesses was £122 million higher at £8,040 million, and adjusted operating profit fell by £129 million to £1,125 million.

The weaker dollar reduced operating profit in the year by £38 million. Excluding the impact of foreign exchange, net regulated income fell by £52 million, principally due to the end of deferral income recoveries at Niagara Mohawk in March 2013. Timing differences added another £29 million profit compared with prior year. Regulated controllable costs increased by £89 million at constant currency as a result of inflation and wage increases, higher insurance costs post Superstorm Sandy, and cost true-ups identified during the implementation of the new enterprise resource planning system. Other operating costs (excluding major storms) increased by £61 million at constant currency due to the higher cost of non-major storm remediation, higher property taxes and depreciation of the new US enterprise resource planning system.

There were no major storms affecting our operations in the year ended 31 March 2014. In 2012/13, two major storms in the US, Superstorm Sandy and Storm Nemo, reduced operating profit within US Regulated by £82 million at constant currency.

Our capital investment programme continued in the US, with a further £1,219 million invested in 2013/14.

Other activities

Revenue in Other activities increased by £58 million to £736 million in the year ended 31 March 2014. Adjusted operating profit was £120 million higher at £131 million.

There was no repeat of the major storm cost of £51 million incurred in our insurance captive in the prior year due to Superstorm Sandy. Operating profit in the French interconnector was £62 million higher as a result of strong auction revenues this year. In our other non-regulated businesses, adjusted operating profit was £7 million higher due to improved results in our UK metering business and insurance captive, partially offset by higher costs associated with the stabilisation of the new US enterprise resource planning system.

Capital expenditure in our Other activities was £37 million lower at £180 million, principally reflecting reduced capital spend on the new US enterprise resource planning system.

Analysis of the statement of financial position for the year ended 31 March 2014

Goodwill and other intangible assets

Goodwill and intangibles decreased by £354 million to £5,263 million as at 31 March 2014. This decrease was due to foreign exchange movements of £472 million and software amortisation of £127 million, partially offset by software additions of £179 million.

Property, plant and equipment

Property, plant and equipment increased by £587 million to £37,179 million as at 31 March 2014. This was due to capital expenditure of £3,262 million on the renewal and extension of our regulated networks, offset by foreign exchange movements of £1,244 million, and £1,299 million of depreciation in the year.

Investments and other non-current assets

Investments in joint ventures and associates; financial and other investments and other non-current assets decreased by £31 million to £722 million as at 31 March 2014. This was principally due to changes in the fair value of our US commodity contract assets and available-for-sale investments.

Inventories and current intangible assets, and trade and other receivables

Inventories and current intangible assets, and trade and other receivables decreased by £78 million to £3,123 million as at 31 March 2014. This decrease was principally due to foreign exchange movements of £195 million, partially offset by an increase in trade and other receivables of £120 million mostly due to colder weather in the US in February and March 2014 compared with 2013 resulting in increased billings for commodity costs and customer usage.

Trade and other payables

Trade and other payables decreased by £20 million to £3,031 million as at 31 March 2014 due to favourable foreign exchange movements of £150 million, partially offset by higher payables in the UK due in part to changes in payment terms with new Gas Distribution strategic partners and increased activity on the Western Link project.

Current tax liabilities

Current tax liabilities decreased by £63 million to £168 million at 31 March 2014. This was primarily due to higher tax payments made in 2013/14 although these were partially offset by a larger current tax charge.

Deferred tax liabilities

Deferred tax liabilities increased by £5 million to £4,082 million as at 31 March 2014. This was primarily due to the impact of the £172 million deferred tax charge on actuarial gains (a £179 million tax credit in 2012/13) being offset by the impact of the reduction in the UK statutory tax rate for future periods, foreign exchange movements and the reduction in prior year charges.

Provisions and other non-current liabilities

Provisions (both current and non-current) and other non-current liabilities decreased by £158 million to £3,486 million as at 31 March 2014.

Total provisions decreased by £115 million to £1,645 million as at 31 March 2014. The underlying movements included additions of £230 million primarily relating to a provision for the demolition of certain gas holders in the UK of £79 million, restructuring provisions of £86 million and other provisions of £42 million, more than offset by foreign exchange movements of £112 million and utilisation of £288 million in relation to all classes of provisions.

Other non-current liabilities decreased by £43 million principally due to foreign exchange movements of £47 million.

Net debt

Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and derivative financial assets and liabilities.

Net pension and other post-retirement obligations

A summary of the total UK and US assets and liabilities and the overall net IAS 19 (revised) accounting deficit is shown below:

Net plan liability	UK £m	US £m	Total £m
As at 1 April 2013	(1,169)	(2,328)	(3,497)
Exchange movements	–	186	186
Current service cost	(96)	(129)	(225)
Net interest cost	(47)	(81)	(128)
Curtailments and settlements – LIPA	–	214	214
Curtailments and settlements – other	(30)	(12)	(42)
Actuarial (losses)/gains			
– on plan assets	(98)	283	185
– on plan liabilities	452	(152)	300
Employer contributions	235	361	596
As at 31 March 2014	**(753)**	**(1,658)**	**(2,411)**
Represented by:			
Plan assets	17,409	5,849	23,258
Plan liabilities	(18,162)	(7,507)	(25,669)
	(753)	(1,658)	(2,411)

The principal movements in net obligations during the year included a curtailment gain of £214 million following the LIPA MSA transition, net actuarial gains of £485 million and employer contributions of £596 million. Net actuarial gains included actuarial gains on plan liabilities of £542 million arising as a consequence of an increase in the UK real discount rate and the nominal discount rate in the US. This was partially offset by actuarial losses of £283 million arising from increases in life expectancy in the US. Actuarial losses/gains on plan assets reflects the asset allocations in the different plans. In both the UK and US, returns on equities were above the assumed rate; however, UK Government securities had negative returns and corporate bonds were close to nil.

Off balance sheet items

There were no significant off balance sheet items other than the contractual obligations shown in note 30(b) to the consolidated financial statements, and the commitments and contingencies discussed in note 27.

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

Summary consolidated financial information

Financial summary (unaudited)

The financial summary set out below has been derived from the audited consolidated financial statements of National Grid for the five financial years ended 31 March 2015. It should be read in conjunction with the consolidated financial statements and related notes, together with the Strategic Report. The information presented below for the years ended 31 March 2011, 2012, 2013, 2014 and 2015 has been prepared under IFRS issued by the IASB and as adopted by the EU[1].

	2015	2014	2013[1]	2012[1]	2011[1]
Summary income statement					
Revenue	**15,201**	14,809	14,359	13,832	14,343
Operating profit					
Before exceptional items, remeasurements and stranded cost recoveries	**3,863**	3,664	3,639	3,491	3,619
Exceptional items, remeasurements and stranded cost recoveries	**(83)**	71	110	44	145
	3,780	3,735	3,749	3,535	3,764
Profit before tax					
Before exceptional items, remeasurements and stranded cost recoveries	**2,876**	2,584	2,533	2,408	2,283
Exceptional items, remeasurements and stranded cost recoveries	**(248)**	164	178	(26)	151
	2,628	2,748	2,711	2,382	2,434
Profit for the year	**2,011**	2,464	2,154	1,919	2,043
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements and stranded cost recoveries	**2,189**	2,015	1,913	1,709	1,627
Exceptional items, remeasurements and stranded cost recoveries	**(170)**	461	240	208	412
	2,019	2,476	2,153	1,917	2,039
Earnings per share					
Basic – continuing operations (pence)[2]	**53.6**	65.7	57.2	51.1	56.3
Diluted – continuing operations (pence)[2]	**53.4**	65.4	57.0	50.8	56.0
Basic (pence)[2]	**53.6**	65.7	57.2	51.1	56.3
Diluted (pence)[2]	**53.4**	65.4	57.0	50.8	56.0
Number of shares – basic (millions)[3]	**3,766**	3,766	3,761	3,755	3,622
Number of shares – diluted (millions)[3]	**3,783**	3,785	3,779	3,774	3,641
Dividends per ordinary share					
Paid during the year (pence)	**42.25**	40.85	39.84	37.40	37.74
Approved or proposed during the year (pence)	**42.87**	42.03	40.85	39.28	36.37
Paid during the year ($)	**0.697**	0.636	0.633	0.599	0.592
Approved or proposed during the year ($)	**0.672**	0.696	0.632	0.623	0.571

	2015	2014	2013[1]	2012[1]	2011[1]
Summary statement of net assets					
Non-current assets	**49,058**	44,895	45,129	41,684	39,787
Current assets	**6,031**	7,489	9,576	5,387	6,323
Assets of businesses held for sale	**–**	–	–	264	290
Total assets	**55,089**	52,384	54,705	47,335	46,400
Current liabilities	**(7,374)**	(7,331)	(7,445)	(6,004)	(6,826)
Non-current liabilities	**(35,741)**	(33,134)	(37,026)	(32,001)	(30,403)
Liabilities of businesses held for sale	**–**	–	–	(87)	(110)
Total liabilities	**(43,115)**	(40,465)	(44,471)	(38,092)	(37,339)
Net assets	**11,974**	11,919	10,234	9,243	9,061
Shareholders' equity	**11,962**	11,911	10,229	9,236	9,052
Summary cash flow statement					
Cash generated from continuing operations	**5,350**	4,419	4,037	4,487	4,854
Tax (paid)/received	**(343)**	(400)	(287)	(259)	4
Net cash inflow from operating activities	**5,007**	4,019	3,750	4,228	4,858
Net cash flows used in investing activities	**(2,001)**	(1,330)	(6,130)	(2,371)	(4,774)
Net cash flows (used in)/from financing activities	**(3,253)**	(2,972)	2,715	(1,900)	(430)
Net (decrease)/increase in cash and cash equivalents	**(247)**	(283)	335	(43)	(346)

1. For the year ended 31 March 2015, there have been no significant changes in accounting standards, interpretations or policies that have a material financial impact on the selected financial data. For the year ended 31 March 2014, the adoption of IAS 19 (revised) 'Employee benefits' resulted in a significant change in pensions and employee benefits accounting. The numbers included in the selected financial data above for the years 31 March 2011, 2012 and 2013 were restated to show the impact of IAS 19 (revised) had it been adopted since 2010.
2. Items previously reported for 2011 to 2014 have been restated to reflect the additional shares issued as scrip dividends.
3. Number of shares previously reported for 2011 to 2014 have been restated to reflect the impact of the additional shares issued as scrip dividends.

Definitions and glossary of terms

Our aim is to use plain English in this Annual Report and Accounts. However, where necessary, we do use a number of technical terms and/or abbreviations and we summarise the principal ones below, together with an explanation of their meanings. The descriptions below are not formal legal definitions.

A

American Depositary Shares (ADSs)
Securities of National Grid listed on the New York Stock Exchange, each of which represents five ordinary shares. They are evidenced by American Depositary Receipts or ADRs.

Annual General Meeting (AGM)
Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.

B

Board
The Board of Directors of the Company (for more information see pages 43 and 178 and 179).

bps
Basis point (bps) is a unit that is equal to 1/100th of 1% and is typically used to denote the movement in a percentage based metric such as interest rates or RoE. A 0.1% change in a percentage represents 10 basis points.

BritNed
BritNed Development Limited.

C

called up share capital
Shares (common stock) that have been issued and have been fully paid for.

carrying value
The amount at which an asset or a liability is recorded in the Group's statement of financial position and the Company's balance sheet.

circuit
See route length.

the Company, the Group, National Grid, we, our or us
We use the terms 'the Company', 'the Group', 'National Grid', 'we', 'our' or 'us' to refer to either National Grid plc itself or to National Grid plc and/or all or certain of its subsidiaries, depending on context.

consolidated financial statements
Financial statements that include the results and financial position of the Company and its subsidiaries together as if they were a single entity.

contingent liabilities
Possible obligations or potential liabilities arising from past events for which no provision has been recorded, but for which disclosure in the financial statements is made.

D

Dth
Decatherm, being an amount of energy equal to 1 million British thermal units (BTUs), equivalent to approximately 293 kWh.

DB
Defined benefit, relating to our UK or US (as the context requires) final salary pension schemes.

DC
Defined contribution, relating to our UK or US (as the context requires) pension schemes to which National Grid, as an employer, pays contributions based on a percentage of employees' salaries.

DECC
The Department of Energy & Climate Change, the UK Government ministry responsible for energy and climate change.

deferred tax
For most assets and liabilities, deferred tax is the amount of tax that will be payable or receivable in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the statement of financial position or balance sheet and the value for tax purposes of the same asset or liability.

delivery body
Under the Energy Act 2013, and secondary legislation which came into force in August 2014, National Grid's electricity system operator function became the EMR Delivery Body. In this role National Grid provides independent evidence and analysis to the UK Government to inform its decisions on the key rules and parameters to achieve the Government's policy objectives under EMR. National Grid also administers the capacity mechanism, including running the annual capacity auctions, manages the allocation of contracts for difference to low carbon generators and reports to the Government annually on performance against the Government's delivery plan.

derivative
A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates or commodity prices. In most cases, contracts for the sale or purchase of commodities that are used to supply customers or for our own needs are excluded from this definition.

Deposit Agreement
Deposit Agreement means the agreement entered into between National Grid Transco plc (now National Grid plc), the Depositary and the registered holders of ADRs, pursuant to which ADSs have been issued, dated as of 21 November 1995 and amended and restated as of 1 August 2005, and any related agreement.

Depositary
Depositary means the Bank of New York Mellon acting as depositary.

Directors/Executive Directors/Non-executive Directors
The Directors/Executive Directors and Non-executive Directors of the Company whose names are set out on page 43 of this document.

dollars or $
Except as otherwise noted all references to dollars or $ in this Annual Report and Accounts relate to the US currency.

E

earnings per share (EPS)
Profit for the year attributable to equity shareholders of the parent allocated to each ordinary share.

Electricity Market Reform (EMR)
An energy policy initiative, introduced by the Energy Act 2013, designed to provide greater financial certainty to investors in both low carbon and conventional generation in order to meet environmental targets and maintain security of supply, and to do so at the lowest cost to consumers.

employee engagement
A key performance indicator, based on the percentage of favourable responses to certain indicator questions repeated in each employee survey, which provides a measure of how employees think, feel and act in relation to National Grid. Research shows that a highly engaged workforce leads to increased productivity and employee retention, therefore we use employee engagement as a measure of organisational health in relation to business performance.

Estate Tax Convention
The Estate Tax Convention is the convention between the US and the UK for the avoidance of double taxation with respect to estate and gift taxes.

EU
The European Union, being the economic and political union of 28 member states located in Europe.

Exchange Act
The US Securities Exchange Act 1934, as amended.

F

FERC
The US Federal Energy Regulatory Commission.

finance lease
A lease where the asset is treated as if it was owned for the period of the lease and the obligation to pay future rentals is treated as if they were borrowings. Also known as a capital lease.

financial year
For National Grid this is an accounting year ending on 31 March. Also known as a fiscal year.

FRS
A UK Financial Reporting Standard as issued by the UK Financial Reporting Council (FRC). These apply to the Company's individual financial statements on pages 159 to 163, which are prepared in accordance with UK GAAP.

G

Grain LNG
National Grid Grain LNG Limited.

Great Britain
England, Wales and Scotland.

Group return on equity (Group RoE)
The Group return on equity calculation provides a measure of the performance of the whole Group compared with the amounts invested by the Group in assets attributable to equity shareholders. The Group return on equity measure is calculated using the Group capital employed in accordance with the definition used in the RoCE measures, adjusted for Group net debt and goodwill.

GW
Gigawatt, being an amount of power equal to 1 billion watts (10^9 watts).

H

HMRC
HM Revenue & Customs. The UK tax authority.

HVDC
High voltage, direct current electric power transmission which uses direct current for the bulk transmission of electrical power, in contrast with the more common alternating current systems.

I

IAS or IFRS
An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe international generally accepted accounting principles as a whole.

individual financial statements
Financial statements of a company on its own, not including its subsidiaries or joint ventures.

J

joint venture
A company or other entity which is controlled jointly with other parties.

K

kV
Kilovolt, being an amount of electric force equal to 1,000 volts.

L

LIPA
The Long Island Power Authority.

LNG
Liquefied natural gas, being natural gas that has been condensed into a liquid form, typically at temperatures at or below -161°C (-258°F).

lost time injury (LTI)
An incident arising out of National Grid's operations which leads to an injury where the employee or contractor normally has time off the following day or shift following the incident. It relates to one specific (acute) identifiable incident which arises as a result of National Grid's premises, plant or activities, which was reported to the supervisor at the time and was subject to appropriate investigation.

lost time injury frequency rate (IFR)
The number of lost time injuries per 100,000 hours worked in a 12 month period.

M

MADPU
The Massachusetts Department of Public Utilities.

MSA
The managed services agreement, under which the Company maintained and operated the electricity transmission and distribution system on Long Island owned by LIPA, which was transitioned to a third party with effect from 31 December 2013.

MW
Megawatt, being an amount of power equal to 1 million watts.

MWh
Megawatt hours, being an amount of energy equivalent to delivering 1 million watts of power for a period of one hour.

Definitions and glossary of terms continued

N

National Grid Metering (NGM)
National Grid Metering Limited, National Grid's UK regulated metering business.

New England
The term refers to a region within the northeastern US that includes the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. National Grid's New England operations are primarily in the states of Massachusetts and Rhode Island.

northeastern US
The northeastern region of the US, comprising the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

NYPSC
The New York Public Service Commission.

O

Ofgem
The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

ordinary shares
Voting shares entitling the holder to part ownership of a company. Also known as common stock. National Grid's ordinary shares have a nominal value of $11\frac{17}{43}$ pence.

P

price control
The mechanism by which Ofgem sets restrictions on the amounts of revenue we are allowed to collect from customers in our UK businesses. The allowed revenues are intended to cover efficiently incurred operational expenditure, capital expenditure and financing costs, including a return on equity invested.

PSA
The 15 year power supply agreement with LIPA which came into effect on 28 May 2013, under which the Company supplies electricity to communities and businesses across Long Island.

R

rate base
The base investment on which the utility is authorised to earn a cash return. It includes the original cost of facilities, minus depreciation, an allowance for working capital and other accounts.

rate plan
The term given to the mechanism by which a US utility regulator sets terms and conditions for utility service including, in particular, tariffs and rate schedules. The term can mean a multi-year plan that is approved for a specified period, or an order approving tariffs and rate schedules that remain in effect until changed as a result of future regulatory proceedings. Such proceedings can be commenced through a filing by the utility or on the regulator's own initiative.

regulated controllable operating costs
Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

regulatory asset value (RAV)
The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for the effects of inflation.

return on capital employed (RoCE)
The return on capital employed metric is designed to give an alternative comparison between the UK and US businesses showing the overall return on capital provided by both debt and equity. The calculation reflects regulatory treatments of costs.

return on equity (RoE)
A performance metric measuring returns from the investment of shareholders' funds. It is a financial ratio of a measure of earnings divided by an equity base.

revenue decoupling
Revenue decoupling is the term given to the elimination of the dependency of a utility's revenue on the volume of gas or electricity transported. The purpose of decoupling is to eliminate the disincentive a utility otherwise has to encourage energy efficiency programmes.

RIIO
The revised regulatory framework issued by Ofgem which was implemented in the eight year price controls which started on 1 April 2013.

RIPUC
The Rhode Island Public Utilities Commission.

route length
The route length of an electricity transmission line is the geographical distance from the start tower to the end tower. In most cases in the UK, and in many cases in the US, the transmission line consists of a double circuit for additional reliability. In such cases, the circuit length is twice the route length.

RPI
The UK retail price index as published by the Office for National Statistics.

S

Scope 1 greenhouse gas emissions
Scope 1 emissions are direct greenhouse gas emissions that occur from sources that are owned or controlled by the Company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.

Scope 2 greenhouse gas emissions
Scope 2 emissions are greenhouse gas emissions from the generation of purchased electricity consumed by the Company. Purchased electricity is defined as electricity that is purchased or otherwise brought into the organisational boundary of the Company. Scope 2 emissions physically occur at the facility where electricity is generated.

SEC
The US Securities and Exchange Commission, the financial regulator for companies with registered securities in the US, including National Grid and certain of its subsidiaries.

SEH Committee
The Safety, Environment and Health Committee of the Board whose role is explained on page 56.

share premium
The difference between the amount shares are issued for and the nominal value of those shares.

standard cubic metre
A quantity of gas which at 15°C and atmospheric pressure (1.013 bar) occupies the volume of $1m^3$.

stranded cost recoveries
The recovery of historical generation-related costs in the US, related to generation assets that are no longer owned by us.

STEM
Science, technology, engineering and mathematics; the Company is currently looking to recruit people with skills in these subjects.

subsidiary
A company or other entity that is controlled by National Grid.

swaption
A swaption gives the buyer, in exchange for an option premium, the right, but not the obligation, to enter into an interest rate swap at some specified date in the future. The terms of the swap are specified on the trade date of the swaption.

T

taxes borne
Those taxes that represent a cost to the Company and which are reflected in our results.

taxes collected
Those taxes that are generated by our operations but which do not affect our results; we generate the commercial activity giving rise to these taxes and then collect and administer them on behalf of HMRC.

Tax Convention
Tax Convention means the income tax convention between the US and the UK.

tonne
A unit of mass equal to 1,000 kilogrammes, equivalent to approximately 2,205 pounds.

tonnes carbon dioxide equivalent (CO_2e)
A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

treasury shares
Shares that have been repurchased but not cancelled. These shares can then be allotted to meet obligations under the Company's employee share schemes.

TWh
Terawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of 1,000 hours.

U

UK
The United Kingdom, comprising England, Wales, Scotland and Northern Ireland.

UK Corporate Governance Code 2012 (the Code)
Guidance, issued by the Financial Reporting Council in September 2012, on how companies should be governed, applicable to UK listed companies, including National Grid, in respect of reporting periods beginning before 1 October 2014.

UK Corporate Governance Code 2014 (the New Code)
Updated guidance, issued by the Financial Reporting Council in September 2014, on how companies should be governed, applicable to UK listed companies, including National Grid, in respect of reporting periods beginning on or after 1 October 2014.

UK GAAP
Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.

UK regulated return on equity (UK RoE)
UK regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.

US
The United States of America, its territories and possessions, any state of the United States and the District of Columbia.

US GAAP
Generally accepted accounting principles in the US. These differ from IFRS and from UK GAAP.

US regulated return on equity (US RoE)
US regulated return on equity is a measure of how a business is performing operationally against the assumptions used by the relevant regulator. This US operational return measure is calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure. This is a post-tax US GAAP metric as calculated annually (on a calendar year to 31 December).

US state regulators (state utility commissions)
In the US, public utilities' retail transactions are regulated by state utility commissions, including the New York Public Service Commission (NYPSC), the Massachusetts Department of Public Utilities (MADPU) and the Rhode Island Public Utilities Commission (RIPUC).

V

value added
Value added is a measure to capture the value created through investment attributable to equity holders, being the change in total regulated and non-regulated assets including goodwill (both at constant currency) plus the cash dividend paid in the year less the growth in net debt (at constant currency). This is then presented on an absolute and a per share basis.

value growth
Value growth is the growth in the value of our regulated and non-regulated assets including goodwill plus dividend less net debt, on a per share basis.

Want more information or help?

Capita Asset Services

For queries about ordinary shares:

0371 402 3344
Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open 8.30am to 5.30pm, Monday to Friday, excluding public holidays. If calling from outside the UK: +44 (0)371 402 3344

Visit the National Grid share portal www.nationalgridshareholders.com
Email: nationalgrid@capita.co.uk

National Grid Share Register
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham, Kent BR3 4TU

The Bank of New York Mellon

For queries about American Depositary Shares:

1-800-466-7215
If calling from outside the US: +1-201-680-6825

www.mybnymdr.com
Email: shrrelations@cpushareownerservices.com

The Bank of New York Mellon
Depositary Receipts
PO Box 30170
College Station, Texas 77842-3170

Further information about National Grid including share price and interactive tools can be found on our website: www.nationalgrid.com

Have you received unsolicited investment advice?
Shareholders are advised to be wary of any unsolicited advice or offers, whether over the telephone, through the post or by email. If you receive any such unsolicited communication please check the company or person contacting you is properly authorised by the Financial Conduct Authority (FCA) before getting involved. You can check at www.fca.org.uk/consumers/protect-yourself and can report calls from unauthorised firms to the FCA by calling 0800 111 6768.

Financial calendar

The following dates have been announced or are indicative:

4 June 2015	Ordinary shares go ex-dividend for 2014/15
5 June 2015	Record date for 2014/15 final dividend
11 June 2015	Scrip reference price announced
22 June 2015	Scrip election date
21 July 2015	2015 AGM
5 August 2015	2014/15 final dividend paid to qualifying shareholders
10 November 2015	2015/16 half year results
26 November 2015	Ordinary shares go ex-dividend
27 November 2015	Record date for 2015/16 interim dividend
13 January 2016	2015/16 interim dividend paid to qualifying shareholders
May 2016	2015/16 preliminary results

Dividends

The Directors are recommending a final dividend of 28.16 pence per ordinary share ($2.1866 per ADS) to be paid on 5 August 2015 to shareholders on the register as at 5 June 2015. Further details in respect of dividend payments can be found on page 23. If you live outside the UK, you may be able to request that your dividend payments be converted into your local currency.

Under the Deposit Agreement, a fee of up to $0.05 per ADS can be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2014/15 final dividend will be charged a fee of $0.02 per ADS by the Depositary prior to the distribution of the cash dividend.

Have your dividends paid directly into your bank or building society account:

- Your dividend reaches your account on the payment day
- It is more secure – cheques do sometimes get lost in the post
- No more trips to the bank

Elect to receive your dividends as additional shares:

- Join our scrip dividend scheme
- No stamp duty or commission to pay

Electronic communications

To receive an email notifying you as soon as new shareholder information is available to view online, including your electronic tax voucher, sign up for electronic communications. Simply go to the National Grid share portal www.nationalgridshareholders.com and once you have registered, click on the 'manage your account' link and follow the on screen instructions to change your communication preference.

Manage your shareholding online via the National Grid share portal:

- Have your dividends paid direct to your bank account instead of receiving cheques
- Choose to receive your dividends in shares, via our scrip dividend scheme
- Register your AGM vote
- Get copies of your dividend tax vouchers and view your dividend payment history
- Update your address details

Registered office

National Grid plc was incorporated on 11 July 2000. The Company is registered in England and Wales No. 4031152, with its registered office at 1-3 Strand, London WC2N 5EH.

Share dealing

Capita Share Dealing Services offer our European Economic Area resident shareholders a range of quick and easy share dealing services by post, online or telephone from 10p per share (plus stamp duty as applicable). Dealing at live prices is available online or by telephone, different fees apply.

Visit www.capitadeal.com/nationalgrid or call Capita Share Dealing free on 0800 022 3374 for details and terms and conditions. This is not a recommendation to take any action. High street banks may also offer share dealing services. If you have any doubt as to what action you should take, please contact an authorised financial advisor.

ShareGift: If you only have a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity.

ShareGift is a registered charity (no. 1052686) which specialises in accepting such shares as donations. For more information visit www.sharegift.org.uk or contact Capita Asset Services.

Individual Savings Accounts (ISAs): Corporate ISAs for National Grid shares are available from Stocktrade. For more information, call Stocktrade on 0131 240 0443, email isa@stocktrade.co.uk or write to Stocktrade, 6th floor, Atria One, 144 Morrison Street, Edinburgh EH3 8BR.

Cautionary statement

This document comprises the Annual Report and Accounts for the year ending 31 March 2015 for National Grid and its subsidiaries. It contains the Directors' Report and Financial Statements, together with the independent auditors' report thereon, as required by the Companies Act 2006. The Directors' Report, comprising pages 06 to 75 and 164 to 191, has been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to National Grid.

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as 'anticipates', 'expects', 'should', 'intends', 'plans', 'believes', 'outlook', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as changes in laws or regulations, announcements from and decisions by governmental bodies or regulators (including the timeliness of consents for construction projects); the timing of construction and delivery by third parties of new generation projects requiring connection; breaches of, or changes in, environmental, climate change and health and safety laws or regulations, including breaches or other incidents arising from the potentially harmful nature of our activities; network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure, due to adverse weather conditions including the impact of major storms as well as the results of climate change, due to counterparties being unable to deliver physical commodities, or due to the failure of or unauthorised access to or deliberate breaches of our IT systems and supporting technology; performance against regulatory targets and standards and against our peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, including those related to investment programmes and internal transformation and remediation plans; and customers and counterparties (including financial institutions) failing to perform their obligations to the Company. Other factors that could cause actual results to differ materially from those described in this document include fluctuations in exchange rates, interest rates and commodity price indices; restrictions and conditions (including filing requirements) in our borrowing and debt arrangements, funding costs and access to financing; regulatory requirements for us to maintain financial resources in certain parts of our business and restrictions on some subsidiaries' transactions such as paying dividends, lending or levying charges; inflation or deflation; the delayed timing of recoveries and payments in our regulated businesses and whether aspects of our activities are contestable; the funding requirements and performance of our pension schemes and other post-retirement benefit schemes; the failure to attract, train or retain employees with the necessary competencies, including leadership skills, and any significant disputes arising with our employees or the breach of laws or regulations by our employees; and the failure to respond to market developments, including competition for onshore transmission, and grow our business to deliver our strategy, as well as incorrect or unforeseen assumptions or conclusions (including unanticipated costs and liabilities) relating to business development activity, including assumptions in connection with joint ventures.

For further details regarding these and other assumptions, risks and uncertainties that may affect National Grid, please read the Strategic Report and the Risk factors on pages 173 and 176 of this document. In addition, new factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause actual future results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document.

The contents of any website references in this document do not form part of this document.

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Connecting to life:

T-pylon

Our cover photo shows a line of four new T-pylons under construction at our UK training facility in Eakring, Nottinghamshire. When complete, this training line will test the design, construction, installation and maintenance aspects of the T-pylon, allowing us to refine it to a point where the T-pylon can be offered alongside other connection options when developing new transmission circuits.

The new T-pylon design was the winner of an international competition held in 2011 by the Department of Energy and Climate Change, together with the Royal Institute of British Architects and National Grid.

nationalgridt-talk.com


nationalgrid
Annual Report
and Accounts 2015/16
nationalgrid
nationalgrid

Key highlights 2015/16

Information about our reporting
Our financial results are reported in sterling. We convert our US business results at the average exchange rate during the year, which for 2015/16 was $1.47 to £1 (2014/15 $1.58 to £1).

We use adjusted profit measures which exclude the impact of exceptional items and remeasurements. These are used by management to assess the underlying performance of the business. Reconciliations to statutory financial information are shown on page 196.

Online report
The PDF of our Annual Report and Accounts 2015/16 includes a full search facility. You can find the document by visiting the investor relations section at www.nationalgrid.com and using a word search.

Further information
Throughout this report you can find links to further detail within this document or online. Please look out for the following icon:

Financial highlights

Adjusted operating profit
£4,096m
+6%
2014/15: £3,863m

Adjusted earnings per share
63.5p
+10%
2014/15: 57.6p*

Operating profit
£4,085m
+8%
2014/15: £3,780m

Earnings per share
69.0p
+30%
2014/15: 53.2p*

Operational highlights

Capital expenditure
£3,893m
+12%
2014/15: £3,470m

Group safety performance
0.10 IFR
0.03 improvement
2014/15: 0.13 IFR

Greenhouse gas emissions (million tonnes carbon dioxide equivalent)
7.3
+0%
2014/15: 7.3

Employee engagement score
76%
+1%
2014/15: 75%

* Comparative earnings per share (EPS) data has been restated for the impact of scrip dividend issues

Contents

National Grid Annual Report and Accounts 2015/16

Our strategy
Our strategy is to be a recognised leader in the development and operation of safe, reliable and sustainable energy infrastructure, to meet the needs of our customers and communities and to generate value for our investors.

Deliver operational excellence
Achieve world-class levels of safety, reliability, security and customer service.

Engage our people
Create an inclusive, high-performance culture by developing all our employees.

Stimulate innovation
Promote new ideas to work more efficiently and effectively.

Engage externally
Work with external stakeholders to shape UK, EU and US energy policy.

Embed sustainability
Integrate sustainability into our decision-making to create value, help preserve natural resources and respect the interests of our communities.

Drive growth
Grow our core businesses and develop future new business opportunities.

Strategic Report

The Strategic Report includes an overview of our strategy and business model, the principal risks we face and information about our performance. In addition to the financial review included within this section, we provide additional analysis and commentary, including the performance of our operating segments, within the unaudited commentary sections of the Financial Statements. This additional analysis forms part of our Strategic Report.

Corporate Governance

The Corporate Governance Report, introduced by our Chairman, contains details about the activities of the Board and its committees during the year. We include reports from the Audit, Nominations, Remuneration, Finance, and Safety, Environment and Health Committees. We also include details of our shareholder engagement activities.

Financial Statements

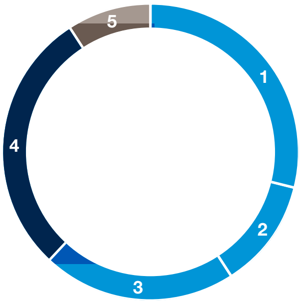
Our Financial Statements include: the independent auditors' reports; consolidated financial statements prepared in accordance with IFRS as adopted by the EU; related commentary and notes to the consolidated financial statements; and the Company's financial statements prepared in accordance with FRS 101.

Additional Information

This section includes additional disclosures and information, definitions and a glossary of terms, summary consolidated financial information, and other useful information for shareholders, including contact details for more information or help.

We use a number of technical terms and abbreviations within this document. For brevity, we do not define terms or provide explanations every time they are used; please refer to the glossary for this information as well as an important notice in relation to forward-looking statements with our cautionary statement.

Adjusted Group operating profit (%)



- 1. UK Electricity Transmission 29
- 2. UK Gas Transmission 12
- 3. UK Gas Distribution 21
- 4. US Regulated 29
- 5. Other activities 9

At a glance

We are one of the world's largest investor-owned utilities focused on transmission and distribution activities in electricity and gas in both the UK and the US. We play a vital role in connecting millions of people to the energy they use, safely, reliably and efficiently. We are organised into four operating segments, along with other activities.

UK Electricity Transmission

We own and operate the electricity transmission network in England and Wales, with day-to-day responsibility for balancing supply and demand. We operate but do not own the Scottish networks. Our networks comprise approximately 7,200 kilometres (4,470 miles) of overhead line, 1,500 kilometres (932 miles) of underground cable and 338 substations.

UK Gas Transmission

We own and operate the gas national transmission system in Great Britain, with day-to-day responsibility for balancing supply and demand. Our network comprises approximately 7,660 kilometres (4,760 miles) of high pressure pipe and 24 compressor stations. In 2015/16, the gas throughput across the system was more than 80 billion cubic metres.

Adjusted operating profit
£4,096m
2014/15: £3,863m

Capital expenditure
£3,893m
2014/15: £3,470m

Adjusted operating profit
£1,173m
2014/15: £1,237m

Capital expenditure
£1,084m
2014/15: £1,074m

Adjusted operating profit
£486m
2014/15: £437m

Capital expenditure
£186m
2014/15: £184m

UK regulated return on equity (RoE) %

UK Gas Distribution

We own and operate four gas distribution networks comprising approximately 131,000 kilometres (81,400 miles) of pipeline. We transport gas from the national transmission system to around 10.9 million consumers on behalf of 39 shippers.

Adjusted operating profit

£878m

2014/15: £826m

Capital expenditure

£549m

2014/15: £498m

US Regulated

Electricity: We jointly own and operate transmission facilities across upstate New York, Massachusetts, New Hampshire, Rhode Island and Vermont. We own and operate electricity distribution networks in upstate New York, Massachusetts and Rhode Island. The assets we operate include 174 kilometres (108 miles) of underground cable, 491 transmission substations and 688 distribution substations.

Gas: We own and operate gas distribution networks across the northeastern US, located in upstate New York, New York City, Long Island, Massachusetts and Rhode Island. We forecast, plan for and procure around 16 billion standard cubic metres of gas each year.

Adjusted operating profit

£1,185m

2014/15: £1,164m

Capital expenditure

£1,856m

2014/15: £1,501m

US Regulated RoE (calculated on a calendar year) %

Other Activities

Our other activities mainly relate to non-regulated businesses and other commercial operations not included within the business segments including: interconnectors; UK-based gas metering activities; UK property management; a UK LNG import terminal; US LNG operations; US unregulated transmission pipelines; and corporate activities.

Adjusted operating profit

£374m

2014/15: £199m

Capital expenditure

£218m

2014/15: £213m

Chairman's statement

Balancing the three elements of the energy trilemma – security of supply, the cost of energy and environmental sustainability – continues to contribute towards a dynamic environment in the energy industry.

"Being responsible and sustainable is central to both what we do and how we do it"

Responsible business
www.nationalgrid.com/responsibility

Our KPIs
pages 18–21

As we continue to invest in the future performance of our business, we are striving to meet the challenges of the energy trilemma. For this year's Annual Report, we have described the challenge in more detail, highlighting developments during 2015/16 and our response. You can read more about this on pages 8–9.

As part of our response, we need a strong leadership team that combines a deep knowledge of the industry with fresh insight. Over the past year we have had a number of changes to the Company's leadership, which I believe have secured continuity, while complementing the strong range of skills and experience we need for the challenges and opportunities ahead.

In November, we announced that Steve Holliday had informed the Board that he wished to retire as CEO and leave the Company in 2016. Steve stepped down as CEO at the end of March and was succeeded by John Pettigrew, who was previously Executive Director of our UK operations.

Steve, who will remain on the Board until 22 July to support John with the transition, has made a significant contribution to the energy sector and National Grid. Under his leadership the Company has delivered excellent returns for shareholders, helping establish National Grid's place as one of the world's leading utilities.

Throughout his tenure as CEO, Steve has remained committed to our people, our customers and the communities we serve. This commitment has included leading the drive for greater levels of safety, as well as playing a leading role in the debate on creating employment opportunities for young people – championing the role businesses can play in providing good careers advice and encouraging the growth of STEM education and engineering.

John's appointment followed a very thorough and rigorous selection process, carried out by the Nominations Committee. The Committee, and subsequently the Board, was unanimous in its support for John, given his experience covering our UK and US operations. He was the architect of our strategy for delivery and performance under the UK regulatory regime, RIIO. He also played a pivotal role in introducing improvements and demonstrating strong leadership within both the US Electricity Transmission and Distribution businesses.

In focus

The Board is proposing a recommended full-year dividend of

43.34p

Corporate Governance
pages 46–81

We will also be welcoming Nicola Shaw onto the Board as Executive Director, UK from 1 July 2016. Apart from the appointment of Dean Seavers on 1 April 2015, as we described in last year's Annual Report and Accounts, there have been no other changes to the Board composition over the past year.

John and Nicola's appointments highlight the importance of succession planning and this will remain an important area of focus for the Nominations Committee and the Board. Effective succession planning for both Executive and Non-executive Director positions helps make sure we have the right mix of skills and experience to manage change as the Company evolves.

Viability statement

During 2015/16 the Board reviewed and approved the Company's principal risks. This played an important part in the Board's approval of the new viability statement required by the 2014 UK Corporate Governance Code. You can read more about our viability statement on page 30.

Our UK Gas Distribution business

The Board regularly reviews the composition and balance of the Company's portfolio. As part of this, we have begun a process for the potential sale of a majority stake in our UK Gas Distribution business.

We believe that the Company can deliver best value to shareholders through maintaining a portfolio of businesses with strong operational performance, alongside annual asset growth of around 5–7%, based on a long-term assumption of 3% in respect of UK RPI. The sale of a majority stake in our UK Gas Distribution business is expected to increase this growth rate towards the upper end of the range.

Following completion of a sale, the Board expects to return substantially all of the net proceeds to shareholders. We also expect to maintain the strong balance sheet that allows the Group to continue to fund its investment programme. The process is likely to be completed in early 2017.

Dividend

Our dividend policy aims to grow the ordinary dividend at least in line with the rate of RPI inflation each year. Accordingly, the Board has recommended an increase in the final dividend to 28.34 pence per ordinary share ($2.0445 per American Depositary Share). If approved, this will bring the full-year dividend to 43.34 pence per ordinary share ($3.1768 per American Depositary Share), an increase of 1.1% over the 42.87 pence per ordinary share in respect of the financial year ended 31 March 2015.

Responsible business

At the start of 2016, the United Nation's 17 goals to 'transform our world' officially came into force. The Sustainable Development Goals call on all countries to promote prosperity while protecting the planet. Business has an important role to play in helping achieve these goals. By being responsible and sustainable we can all make a positive difference to people's lives and to our planet.

At National Grid, being responsible and sustainable is central to both what we do and how we do it. In the UK we are now an accredited Living Wage employer. We have come to the end of our two-year employee chosen charity partnership with Macmillan Cancer Support. I am very pleased to say that our UK employees have raised more than £600,000 and this money has been used by Macmillan to provide fuel grants for more than 3,000 people living with or recovering from cancer. I am looking forward to seeing which charity our employees choose next for us to support.

In the US, our energy efficiency programmes are making a real difference in helping our customers reduce their energy use. The American Council for an Energy-Efficient Economy (ACEEE) scored all three states in which we operate among the top 10 for energy efficiency.

As you can read on page 18, we have added new KPIs to our reporting, so we can more fully reflect the issues that really matter to the Company and our stakeholders. For our 2015/16 Annual Report, we have included KPIs for our community engagement and for the work we do in support of education and skills. Both of these issues are important to us. We want to see the communities in which we operate thrive, and we want to see more young people studying STEM subjects because there are not enough young people coming through into engineering.

You can find more information about our approach to being a responsible business on our website.

We know there are areas where we can improve. As John describes in his CEO review, we did not meet some of our customer satisfaction targets, and we must continue to build on our safety performance.

Looking ahead

We support the work that Ofgem is undertaking to explore the introduction of onshore competition. However, we believe that competition should only be taken forward where it is in the best interests of consumers.

As the energy market continues to evolve, the role of the GB System Operator (SO) has also been a matter of debate with both Ofgem and DECC and we are currently in detailed discussion on what greater independence for the SO means in practice. We recognise the need to continue strengthening the management of potential conflicts of interest between our Transmission Operator (TO) and SO roles, but do not believe that creating an independent SO is in the interests of consumers, given the need to focus on security of supply.

Due to the nature of our business, we recognise that our critical national infrastructure systems are a potential target for cyber threats. We will continue to invest in strategies that aim to protect our business in the UK and US, and which keep pace with the increasing scale and sophistication of threats.

We also need to continue raising awareness of cyber security across the Company, addressing our attitudes and behaviour towards it as an issue, making security breaches less likely to happen.

I would like to extend my deepest appreciation to the management team and all our employees for their hard work, dedication and commitment to the Company's success.

Sir Peter Gershon
Chairman

Chief Executive's review

It's an exciting time to be part of the energy industry, and I'm looking forward to working with my leadership team on the opportunities that lie ahead.

I'm delighted to have been asked by the Board to take over as CEO of National Grid and lead the Company into its next chapter.

Having joined the Company 25 years ago, as a graduate, I've been fortunate that the opportunities and challenges I've had from moving around all parts of the organisation, in both the UK and US, have never failed to motivate and inspire me – both personally and professionally.

I've also been fortunate to have worked closely with Steve Holliday over the past ten years. Under Steve's leadership, the Company has transformed its performance and culture, helping place National Grid at the heart of the energy industry. He leaves a great legacy for us to build on.

I now look forward to continuing the great work we are doing with our customers, shareholders, partners and employees to meet the challenges and opportunities of the changing UK and US energy landscapes.

On 1 July, Nicola Shaw joins National Grid as Executive Director for our UK business. Nicola joins us from High Speed 1, where she was CEO for the last five years, managing and maintaining the UK's high-speed railway infrastructure. I very much look forward to working with her when she joins our business.

I would like to thank Ian Galloway for his tremendous support as UK Chief Operating Officer while we were seeking to make an appointment to the UK Executive Director role.

Our performance during 2015/16

Our business has delivered a strong performance during 2015/16.

In the UK, we have had our safest year ever, while in the US our performance continues to improve – we have seen fewer injuries and had fewer people taking time off due to an injury than ever before. However, we want to build on this performance and further reduce risks. We will focus on the causes of incidents and find more opportunities to learn from them and share best practice.

Reliability across our networks has remained very strong throughout the year. In the US, our electricity distribution system delivered solid performance with continued recognition of our storm response processes. In the UK, despite the ongoing concerns over tightening electricity margins, our SO business has managed the challenges extremely well.

Our commitment to our customers is critical to our future success. In the UK, we have exceeded our two electricity and gas transmission customer satisfaction targets. In the US, we did not meet our targets due to customer concerns about higher than normal winter bills.

I firmly believe that through a high performance culture we will continue to find better ways of serving our customers – setting expectations, being honest about what we can deliver, then consistently delivering on our promises. However, customer needs are evolving with much greater engagement, awareness, and a desire to manage their energy use.

That's why we are developing the way we think and work at National Grid – improving our end-to-end processes, removing waste and focusing on the things that create value for our customers. We have done more work during the year to develop this high performance culture and it will remain an important part of how we develop as a Company.

Our employees continue to show their commitment to the communities we serve. Our UK and US businesses have delivered over 18,000 interactions with young people, encouraging the development of the skills and capabilities needed to gain meaningful employment. Overall, we invest time and resources equivalent to a value over £14 million each year in the communities where we work.

Our UK business

As Sir Peter describes, we have begun a process for the potential sale of a majority stake in our UK Gas Distribution business. We have been working on how we separate Gas Distribution from National Grid, so we can create a stand-alone business that is ready for sale. We want to make sure it has the people, assets, systems and technology it needs to be successful in the future.

In the UK, where there are continuing concerns about electricity capacity margins, we contracted additional balancing services of 2.4 GW for the winter period to be available to help manage periods of peak demand.

This includes 133 MW from demand side balancing reserve arrangements, including businesses that signed up for reducing demand at peak periods if called on – for example, by turning off air conditioning for a period – in return for payment.

We have also launched the Power Responsive programme, which is designed to help growth in DSR. You can read more about this on pages 34 and 35.

"I look forward to continuing the great work we are doing with our customers, shareholders, partners and employees"

In focus

Employee engagement score

76%

(2014/15: 75%)

Our KPIs
pages 18–21

Principal operations
pages 31–43

On 12 May 2016, Ofgem announced a mid-term review. As expected, the scope of this review is narrow with no changes to key financial parameters. We welcome Ofgem's continued commitment to the clarity and certainty offered by the eight-year RIIO framework. Ofgem will run a consultation process this summer, with any changes to be implemented in April next year.

In addition, the Company has been working with DECC and Ofgem to consider how to evolve the current SO model, to make it more independent, while remaining cost effective. In doing so, it is vital that there is no disruption to the pivotal role we play as SO in balancing the network.

Our US business

America's gas and electricity networks, most of which were originally constructed during the nation's ambitious post-World War II building boom, have served us well over the last half-century.

But times have changed. We need to advance the country's natural gas and electricity infrastructure beyond its 20th century limitations, by creating a more customer-centric, resilient, agile, efficient and environmentally sound energy network.

We call our approach to this Connect21, and you can read more about our work to support it on pages 38–41. For example, we've created our New Energy Solutions team, which is looking at how we promote cleaner energy, improving efficiency, affordability, and choice for customers by delivering state-mandated initiatives.

In order to continue investing in our networks and improving our service to customers, we filed three rate cases in 2015 – one in Massachusetts and two in downstate New York. These three proposals are undergoing a thorough review process by the regulators in each state.

Also during 2015/16, we backed the Environmental Protection Agency's (EPA) proposed Carbon Pollution Standards for New and Existing Power Plants (known as the Clean Power Plan). As we and other organisations have requested, the EPA's final Plan provides states with compliance flexibility and makes sure that early emissions reductions via investments in renewable resources and energy efficiency strategies are counted.

Our people

The initiatives and achievements I've described are testament to the hard work of our people. I believe that developing the skills and capabilities of our employees is crucial to our success, so I'm really pleased that we delivered more than 154,000 days of technical, safety, leadership and personal effectiveness training across our global workforce during 2015/16.

I was also delighted to see that in our most recent employee engagement survey we achieved an engagement score of 76% – our highest since we started conducting Group-wide surveys of our people.

I would like to thank all my colleagues at National Grid for their contribution and ongoing commitment to our business.

Priorities for the year ahead

Maximising value from our core businesses and delivering safe, reliable networks will continue to be our top priorities. In addition, in 2016/17 we are focused on completing the sale of a majority stake in our UK Gas Distribution business and will continue to file for new rates to support our US business.

Longer-term priorities

Customer first

We must be close to our customers, so we can respond to their changing needs and deliver an outstanding service. As customer requirements evolve, so must National Grid. This will bring further opportunities to grow and drive value.

Performance optimisation

Everyone in our Company should see performance optimisation as part of the day job – constantly working efficiently and doing things better. If we are to succeed, we must maintain and further strengthen the Group's high performance culture.

Growth

We have strong growth potential and see opportunities in all our regions and businesses. We expect to sustain a high level of investment in our regulated business in the UK and US as well as exploring new business opportunities over the medium term. We will, however, only invest in projects that meet our strict investment criteria and represent the best value for shareholders.

Evolve for the future

With the growing rate of renewables, distributed generation and, over time, energy storage, our industry is changing. We need to make sure we are at the forefront of this, continuing our involvement in industry discussions so we can keep abreast of the changes, and make sure we evolve for the future.

J. Pettigrew

John Pettigrew
Chief Executive

Our operating environment

The cost of energy
In Saratoga, New York, we have supported customer Quad Graphics with an energy efficiency incentive offer of $1,095,000. Our support is helping achieve significant energy savings while boosting productivity.

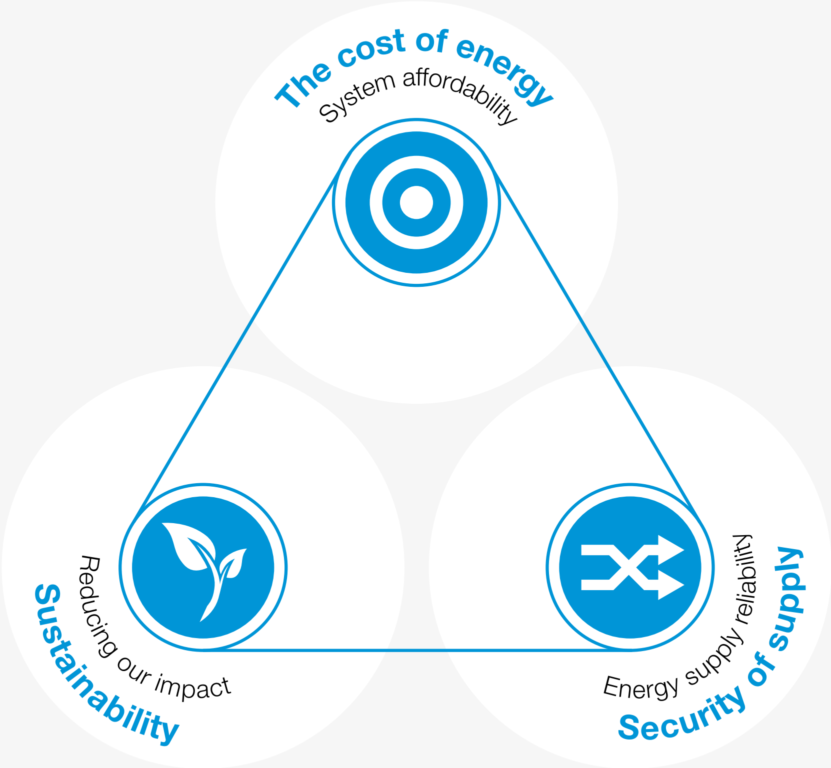
Read more on page 41.

Security of supply
When we assessed the margin for the winter of 2015/16, we procured additional commercial tools that raised the margin to a tight but manageable 5.1%.

Read more on page 34.

Sustainability
Decarbonising domestic heat remains one of the major challenges in society's energy trilemma, so our Gas Distribution business is developing sources of renewable gas that can be transported through our existing networks.

Read more on page 36.



Our operating environment is shaped by the 'trilemma', which has become the standard way to assess energy systems, as it simply articulates the three distinct objectives that need to be met in providing energy to consumers, but which are often in tension.

Regulatory changes are a response to choices that governments make in seeking to appropriately balance these often conflicting objectives.

	The cost of energy	Security of supply	Sustainability
Commentary	The cost of the energy we use is an issue for consumers, industry, energy providers, regulators and governments. Consumers expect a reliable energy system that delivers gas and electricity when and where it is needed. They pay for the cost of this infrastructure and improvements to it through the network costs part of their energy bills. The costs are subject to regulatory approval.	The energy system is in a phase of transition from high to low carbon. Coal plants are closing down and being replaced with nuclear, renewables and gas. During the transition, electricity margins need to be monitored and actively managed as we move to a generation mix with greater volumes of intermittent generation.	Evidence shows our climate is changing because of the emission of greenhouse gases resulting from human activity. The bulk of emissions derive from the demand for energy for power, heating and transport.
Developments	The UK Competition and Markets Authority has concluded its investigation into the energy market and set out numerous remedies, including proposals to address locational pricing on the electricity transmission network. In May 2016, Ofgem stated that it will undertake a mid-period review of the RIIO outputs for our transmission businesses. In the US, consumers have experienced rising costs for energy over the past three winters. Regulators are seeking to encourage investment in infrastructure and new technology to bring down costs and help consumers manage their energy use.	Energy security is the UK Government's number one priority on energy. It is reviewing the capacity market and incentives so that market arrangements bring forward new generation of all technologies at the right time – so that new generation capacity is built. The Government also signed an agreement for a new nuclear power station at Hinkley Point. In the US, regulators are seeking investment in infrastructure to improve the security and resilience of energy networks while also decarbonising those networks.	Negotiations for a new international agreement on climate change concluded in Paris at the 21st session of the Conference of Parties (COP21) in December 2015. A commitment to have clear goals and a system of governance and review were put in place. The published advice of the Climate Change Committee is that the UK's fifth carbon budget should be a target of 57% reduction on 1990 levels between 2028 and 2032. Legislation is expected to be proposed in summer 2016. The US EPA's Clean Power Plan sets standards for power plants and agrees state level targets for reductions in carbon emissions.
Our response	**UK response** We are investing up to £16 billion over the eight years to 2021 to make sure Britain's energy system is fit and ready to support a low-carbon economy. Despite this significant increase in investment, our network costs will remain flat in real terms over the coming years. All network costs are heavily scrutinised through the UK energy regulator Ofgem and are the only part of consumers' bills that are regulated. Ofgem's incentives encourage innovation, so if we are more efficient, consumers share the benefits. **US response** Improving the customer experience and helping ratepayers manage their energy costs is a critical component of our business operations. To help reduce New England's energy costs, we are partnering with the developer of one major proposed regional pipeline expansion project to improve transport capacity, upgrade existing facilities, and enhance market area storage assets.	**UK response** We are supporting the UK Government by providing analysis through our role as delivery body for Electricity Market Reform (EMR). We have put in place new products to ensure that the SO has the right tools to maintain supplies over winter. We are developing DSR products that reduce reliance on traditional generation sources. We have also started construction on two new interconnectors (see page 43). **US response** In addition to supporting new investments in gas and electricity infrastructure projects, we have submitted grid modernisation proposals that aim to improve the region's reliability, sustainability and affordability of its energy supply and services. We have filed rate cases in Massachusetts and New York proposing to update our distribution rates.	**Group response** Reducing greenhouse gas emissions forms part of the Company's KPIs (see page 21). **UK response** We have facilitated the connection of 4.5 GW of solar PV generation at the distribution network level, working with industry to remove barriers to entry and find solutions to network operability issues. We have set out our vision for the Future of Gas, exploring opportunities to bring forward bio-substitute natural gas and compressed natural gas vehicle fuels. **US response** We continue to support the EPA's Clean Power Plan, the Northeast's cap-and-trade scheme of the Regional Greenhouse Gas Initiative, and other state-level initiatives. We also support technological partners and innovative tools, such as energy storage, electric transportation and distributed generation, which can help meet sustainability and energy diversity objectives.

In focus

Our business model
pages 14–15

Real-time balancing
Through our Electricity Network Control Centre we balance the UK's energy needs in real time. Read more about this on pages 34–35.

What we do

Electricity The electricity industry connects generation sources to homes and businesses through transmission and distribution networks. Companies that pay to use transmission networks buy electricity from generators and sell it to consumers.

System operator
As system operator (SO) for England and Wales, we coordinate and direct electricity flows onto and over the transmission system, balancing generation supply and user demand. Where necessary, we pay sources of supply and demand to increase or decrease their generation or usage.

We have the same role for the two high voltage electricity transmission networks in Scotland and we are SO for the offshore electricity transmission regime.

Our charges for SO services in the UK are subject to a price control approved by Ofgem. System users pay us for connection, for using the system and balancing services.

As electricity transmission SO, our price control includes incentives to minimise the costs and associated risks of balancing the system through buying and selling energy, as well as procuring balancing services from industry participants.

In the US, similar services are provided by independent system operators.

1
Generation
Generation is the production of electricity from fossil fuel and nuclear power stations, as well as renewable sources such as wind and solar. In the US, we own and operate 50 fossil fuel-powered stations on Long Island and 7.9 MW of solar generation in Massachusetts. We do not own or operate any electricity generation in the UK.

We sell the electricity generated by our plants on Long Island to LIPA under a long-term power supply agreement. The contract allows us to recover our efficient operating costs and provides a return on equity on our investment in the generation assets.

For solar generation, we recover our costs and a reasonable return from customers in Massachusetts through a solar cost-adjustment factor. This is added to the electricity rate, net of revenues earned from the solar assets.

2
Interconnectors
Transmission grids are often interconnected so that energy can flow from one country or region to another. This helps provide a safe, secure, reliable and affordable energy supply for citizens and society across the region. Interconnectors also allow power suppliers to sell their energy to customers in other countries.

Great Britain is linked via interconnectors with France, Ireland, Northern Ireland and the Netherlands. We own part of the interconnectors with France and the Netherlands. We are also now entering the construction phase for two new interconnectors, between the UK and Belgium and the UK and Norway. We are continuing to work on developing additional interconnector projects, which we believe will deliver significant benefits to consumers. These include opportunities for interconnection with Iceland, Denmark and a further link with France.

We also jointly own and operate a 224 kilometre interconnector between New England in the US and Canada.

We sell capacity on our UK interconnectors through auctions and on our US interconnector through wholesale markets and bilateral contracts.

3
Transmission
Transmission systems generally include overhead lines, underground cables and substations. They connect generation and interconnectors to the distribution system.

We own and operate the transmission network in England and Wales. We operate but do not own the Scottish networks. We are also working in a joint venture with Scottish Power Transmission to construct an interconnector to reinforce the GB transmission system between Scotland and England and Wales.

In the US, we jointly own and operate transmission facilities spanning upstate New York, Massachusetts, New Hampshire, Rhode Island and Vermont.

4
Distribution
Distribution systems carry lower voltages than transmission systems over networks of overhead lines, underground cables and substations. They take over the role of transporting electricity from the transmission network, and deliver it to consumers at a voltage they can use.

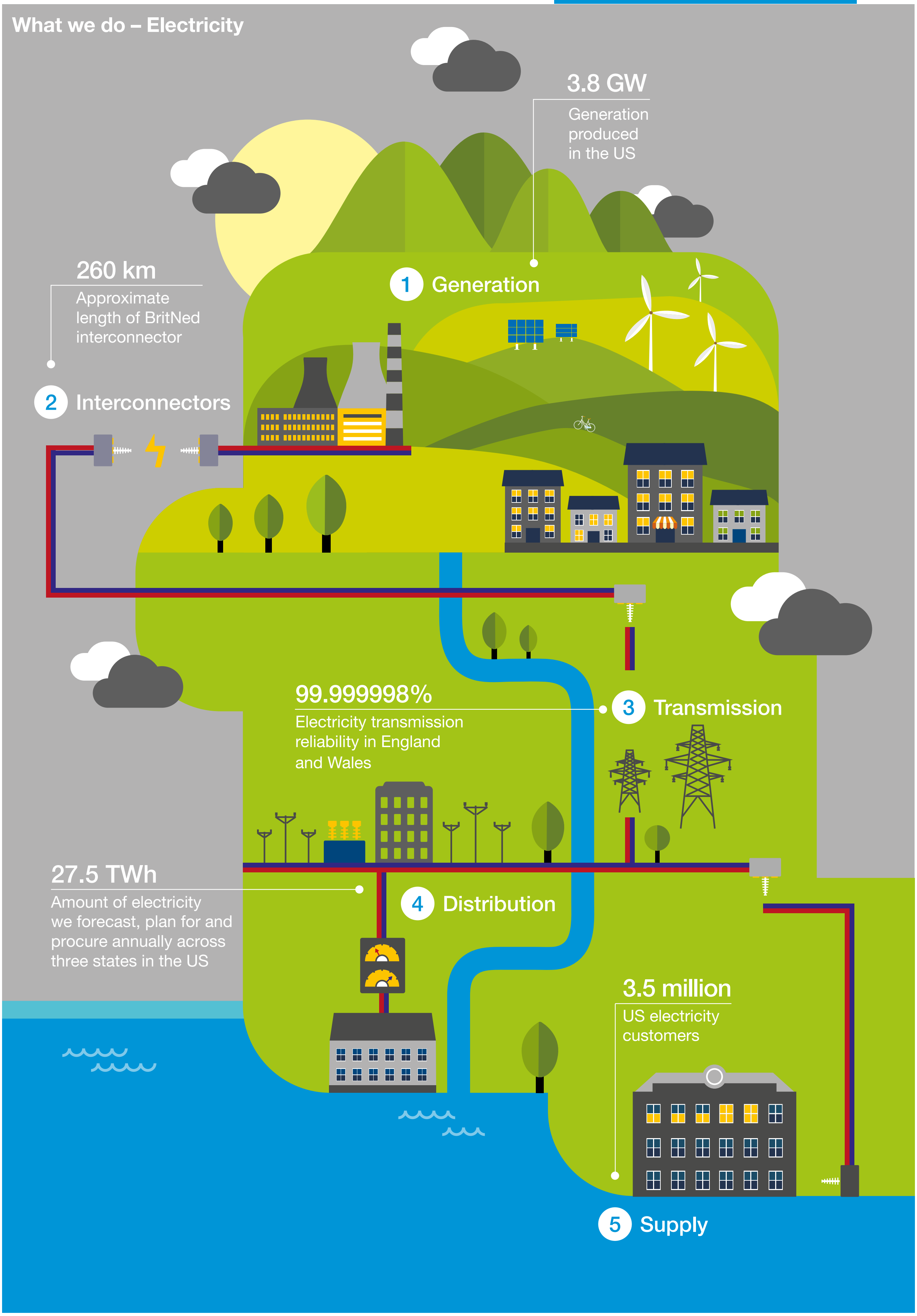
We do not own or operate electricity distribution networks in the UK.

In the US, our distribution networks serve around 3.5 million customers in upstate New York, Massachusetts and Rhode Island.

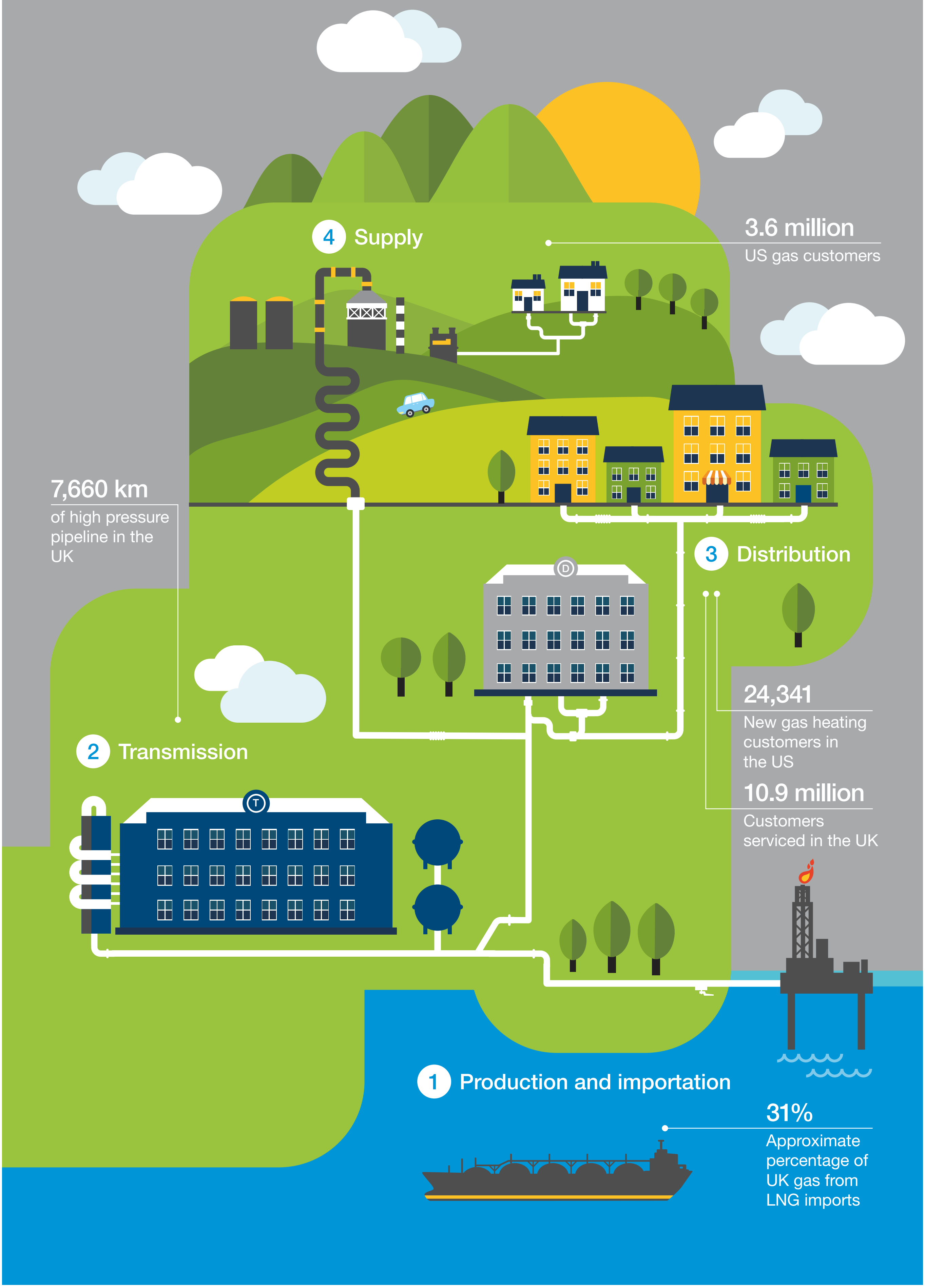
5
Supply
The supply of electricity involves buying electricity and selling it on to customers. It also involves customer services, billing and the collection of customer accounts.

We do not sell electricity to consumers in the UK.

All our customers in the US can select a competitive supplier for the supply component of electricity utility services. Where customers choose National Grid, they pay us for distribution and electricity costs. Where they choose to buy electricity from third parties, they pay us for distribution only and pay the third-party supplier for the electricity. Our base charges for electricity supply are calculated to recover the purchased power costs.


What we do – Electricity
3.8 GW
Generation produced in the US
1 Generation
260 km
Approximate length of BritNed interconnector
2 Interconnectors
99.999998%
Electricity transmission reliability in England and Wales
3 Transmission
27.5 TWh
Amount of electricity we forecast, plan for and procure annually across three states in the US
4 Distribution
3.5 million
US electricity customers
5 Supply

What we do – Gas



In focus

Our business model
pages 14–15

Biomethane milestone
We connected the UK's first 100% renewable biomethane HGV filling station in Leyland, Lancashire (see page 37).

What we do

Gas The gas industry connects producers, processors, storage, transmission and distribution network operators, as well as suppliers to industrial, commercial and domestic users.

1
Production and importation
We do not produce gas in either the UK or the US. Gas used in the UK is mainly sourced from gas fields in the North and Irish seas, piped from Europe and imported as LNG.

There are seven gas reception terminals, three LNG importation terminals and three interconnectors connecting Great Britain via undersea pipes with Ireland, Belgium and the Netherlands. Importers bring LNG from the Middle East, the Americas and other places.

Gas used in the US is produced mainly in North America. We import LNG from a number of countries.

In the UK, we own and operate Grain LNG, an importation terminal and storage facility at the Isle of Grain in Kent, which charges customers under long-term contracts for various services. These include access to our importation terminal, storage facilities and capacity rights.

In the US, we own and operate LNG storage and vaporisation facilities, as well as an LNG storage facility in Providence, Rhode Island, where we store gas for third parties for a fee. We also buy gas directly from producers and LNG importers for resale to our customers.

2
Transmission
The transmission systems generally include pipes, compressor stations and storage facilities, including LNG storage. They connect production through terminals to the distribution systems.

In the UK, gas enters the transmission system through importation and reception terminals and interconnectors and may include gas previously held in storage. Compressor stations located along the network play a vital role in keeping large quantities of gas flowing through the system, particularly at times of high demand.

The gas transmission system has to be kept constantly in balance, which is achieved by buying, selling and using stored gas. This means that, under normal circumstances, demand can be met. We are the sole owner and operator of gas transmission infrastructure in Great Britain. In the US, we hold a minority interest in two interstate pipelines: Millennium Pipeline Company and Iroquois Gas Transmission System. Interstate pipelines are regulated by the Federal Energy Regulatory Commission (FERC).

System operator
As SO we are responsible for the high pressure gas NTS in Great Britain. We have responsibility for the residual balancing activities on the NTS and for keeping the physical system within safe operating limits.

Our price control, set by Ofgem, includes incentives that aim to maintain and improve our daily operational efficiency and are subject to renegotiation at set intervals.

3
Distribution
In the UK, gas leaves the transmission system and enters the distribution networks at high pressure. It is then transported through a number of reducing pressure tiers until it is finally delivered to consumers.

There are eight regional gas distribution networks in the UK, four of which are owned by National Grid. In the US, gas is delivered by the interstate pipeline companies to local distribution networks. Each local distribution company has a geographically defined service territory and is the only local distribution company within that territory. Local distribution companies are regulated by the relevant local state's utility commission.

Our networks deliver gas to 10.9 million consumers in the UK and 3.6 million customers in the US.

4
Supply
Pipeline shippers bring gas from producers to suppliers, who in turn sell it to customers.

We do not supply gas in the UK. However, we own National Grid Metering, which provides meters and metering services to supply companies, under contract.

In the UK, customers pay the supplier for the cost of gas and for its transportation. We transport the gas through our network on behalf of shippers, who pay us transportation charges.

In the US, gas distribution companies, including National Grid, sell gas to consumers connected to their distribution systems.

In most cases in the US, where customers choose National Grid, they pay us for distribution and gas costs. Where they choose to buy gas from third parties, they pay us for distribution only and pay the third-party supplier for the gas and upstream transportation capacity.

Also in the US, except for residential consumers in Rhode Island, customers may purchase their supply from independent providers with the option of billing for those purchases to be provided by us.

Our business model

How we generate long-term value

The foundations of our business model

Our people, being a responsible business, and encouraging innovation are at the heart of our business model and are reflected in our strategy.

Our people
Our business is built on our people. We work hard to make sure that we keep them as safe as possible as well as providing an inclusive culture and encouraging development.

Being a responsible business
Doing the right thing is a responsibility we take seriously. Being a responsible and sustainable business is fundamental to the way we work and how we manage our impact on the communities in which we operate.

Innovation
Thinking differently and challenging the norms allow our people to develop innovative and more efficient ways of delivering our services and maintaining our networks.

Principal operations
pages 31–43

Our business

Our strategy is to be a recognised leader in the development and operation of safe, reliable and sustainable energy infrastructure, to meet the needs of our customers and communities and to generate value for our investors.

We own and operate gas and electricity transmission and distribution infrastructure in the UK and US. Our principal operations are:

- UK Electricity Transmission
- UK Gas Transmission
- UK Gas Distribution
- US Regulated
- Other activities (such as Grain LNG, Interconnectors and Metering)

We aim to maintain a clear and consistent strategy over the long term to provide stable returns to our investors and consistent levels of service to our customers and communities.

Our transmission and distribution businesses operate as regulated monopolies. Regulators safeguard customers' interests by setting the level of charges we are allowed to pass on and the standards of performance we must achieve.

In the UK, we have one regulator for our businesses: Ofgem. In the US, for the areas in which we operate, we are regulated by the relevant state regulators and FERC.

Our value proposition

We are a long-term, asset-based business. Our operations are regulated, which means we create value for our stakeholders through predictable revenue streams and cash flows.

These cash flows are then reinvested to provide future growth, or returned to shareholders.

1 Revenue

Most of our revenue is set in accordance with our regulatory agreements. This is referred to as our 'allowed revenue' and is calculated based on a number of factors. These include:

- investment in network assets;
- performance against incentives;
- return on equity and cost of debt; and
- customer satisfaction scores.

You can find more information about calculating our allowed revenue under our UK and US regulatory agreements on pages 176 to 182.

Our allowed revenue gives us a level of certainty over future revenues if we continue to meet safety and reliability targets, as well as the efficiency and innovation targets included in the RIIO licence agreements in our UK regulated businesses.

2 Cash flow

Our ability to convert revenue to cash is an important factor in the ongoing reinvestment in our business. Securing low-cost funding, carefully managing our cash flows and efficient development of our networks are essential to maintaining strong, sustainable returns for our shareholders. Cash generation is underpinned by agreeing appropriate regulatory arrangements.

3 Investment

We invest efficiently in our networks to deliver strong, regulated asset growth over the long term. This allows us to continue generating revenue growth and growth in our regulated asset base. This in turn generates additional cash flows and allows us to continue reinvesting in our networks and providing sustainable dividends to our shareholders.

This approach is critical to the sustainability of our business. By challenging our investment decisions, we continue to deliver reliable, cost-effective networks that benefit our customers. The way in which our investment is funded is also an important part of our business. The long-term, sustainable nature of our assets and our credit ratings help us secure efficient funding from a variety of sources.

Our stakeholders

Our stakeholders include customers, the communities in which we operate, shareholders, governments and regulators.

We create value for our customers and communities by:

- operating safely, reliably and sustainably;
- focusing on affordability to reduce the impact on customer bills;
- delivering essential services that meet the needs of our customers;
- providing emergency services; and
- aiming to improve customer satisfaction at all times.

We create value for our shareholders by:

- making sure our regulatory frameworks maintain an acceptable balance between risk and return;
- operating within our regulatory frameworks as efficiently as possible;
- maximising incentives to make the most of our allowed returns;
- careful cash flow management and securing low-cost funding;
- disciplined investment in our networks and non-regulated assets; and
- protecting our reputation (including a focus on compliance across all areas of our business).

Using our knowledge and expertise, we engage widely in the energy policy debate to help guide future policy direction. We also work with our regulators to help them develop the frameworks within which we can meet the changing energy needs of the communities we serve.

Our vision and strategy

Our vision is to connect you to your energy today, trusted to meet your energy needs tomorrow.

Our strategy is to be a recognised leader in the development and operation of safe, reliable and sustainable energy infrastructure, to meet the needs of our customers and communities and to generate value for our investors.

Our strategic objectives set out what we believe we need to do to achieve our vision and strategy. Further information on all our KPIs is provided on pages 18–21.

Strategic objective	Deliver operational excellence	Engage our people	Stimulate innovation
Description	Achieve world-class levels of safety, reliability, security and customer service.	Create an inclusive, high-performance culture by developing all our employees.	Promote new ideas to work more efficiently and effectively.
How we deliver	Our customers, communities and other stakeholders demand safe, reliable and secure supply of their energy. This is reflected in our regulatory contracts where we are measured and rewarded on the basis of meeting our commitments to customers and other stakeholders. Pursuing excellence in all our operational processes will allow us to manage our assets efficiently, deliver network improvements quickly and provide services that meet the changing demands of our customers.	It is through the hard work of our employees that we will achieve our vision, respond to the needs of our stakeholders and create a competitive advantage. Encouraging engaged and talented teams that are in step with our strategic objectives is vital to our success. Our presence within the communities we serve, the people we work with and our opportunities to grow both individually and as a business are all important to making National Grid a great place to work.	Our commitment to innovation allows us to run our networks more efficiently and effectively and achieve our regulatory incentives. Across our business, we explore new ways of thinking and working to benefit every aspect of what we do. Embedding innovation and new technology into our operations helps us deliver continuous improvements in the quality and cost of our services.
Relevant KPIs	**Employee injury frequency rate** Number of employee lost time injuries per 100,000 hours worked in a 12 month period. Our ambition is to achieve a world-class safety performance of below 0.1. **Network reliability** The reliability of our electricity and gas networks. **Customer satisfaction** A measure of customer satisfaction across our segments and differing customer groups. **Group return on equity** Measure of value generation for our shareholders.	**Employee engagement index** A measure of how engaged our employees feel, based on the percentage of favourable responses to certain indicator questions repeated annually in our employee engagement survey. **Workforce diversity** Percentage of women and ethnic minorities in our workforce.	**Network reliability** The reliability of our electricity and gas networks.

Strategic objective	Engage externally	Embed sustainability	Drive growth
Description	Work with external stakeholders to shape UK, EU and US energy policy.	Integrate sustainability into our decision-making to create value, help preserve natural resources and respect the interests of our communities.	Grow our core businesses and develop future new business options.
How we deliver	Policy decisions by regulators, governments and others directly affect our business. We engage widely in the energy policy debate, so our position and perspective can influence future policy direction. We also engage with our regulators to help them provide the right mechanisms so we can deliver infrastructure that meets the changing needs of our customers and stakeholders.	Our long-term sustainability strategy sets our ambition to deliver these aims and to embed a culture of sustainability within our organisation. This culture allows us to make decisions that balance affordability with helping to protect and preserve natural resources and benefit the communities in which we operate. We remain committed to our targets of a 45% reduction in Scope 1 and Scope 2 greenhouse gas emissions by 2020 and 80% by 2050.	We continue to maximise value from our existing portfolio, while exploring and evaluating opportunities for growth. Making sure our portfolio of businesses maintains the appropriate mix of growth and cash generation is necessary to meet the expectations of our shareholders. We review investment opportunities carefully and will only invest where we can reasonably expect to earn acceptable returns. Combining this disciplined approach with operational and procurement efficiencies gives us the best possible opportunity to drive strong returns and meet our commitments to investors.
Relevant KPIs		**Climate change** A measure of our reduction of Scope 1 and Scope 2 greenhouse gas emissions of the six primary Kyoto greenhouse gases (excluding electricity transmission and distribution line losses).	**Regulated asset base growth** Maintaining efficient growth in our regulated assets ensures we are well positioned to provide consistently high levels of service to our customers and increases our revenue allowances in future years. **Adjusted EPS** Adjusted earnings represent profit for the year attributable to equity shareholders. This excludes exceptional items and remeasurements (see page 111). Adjusted earnings per share provides a measure of shareholder return that is comparable over time.

Our KPIs

Delivering our strategy The Board uses a range of financial and non-financial metrics, reported periodically, against which we measure Group performance.

KPI and definition

Adjusted EPS

Adjusted earnings represent profit for the year attributable to equity shareholders. This excludes exceptional items and remeasurements (see page 111).

Adjusted earnings per share provides a measure of shareholder return that is comparable over time.

Group return on equity (RoE)

We measure our performance in generating value for our shareholders by dividing our annual return by our equity base.

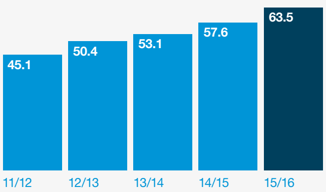
This calculation provides a measure of the performance of the whole Group compared with the amounts invested by the Group in assets attributable to equity shareholders.

Regulated asset base growth

Maintaining efficient growth in our regulated assets ensures we are well positioned to provide consistently high levels of service to our customers and increases our revenue allowances in future years.

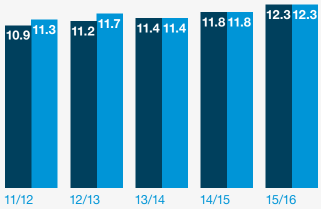
Our performance

Adjusted EPS pence[1]

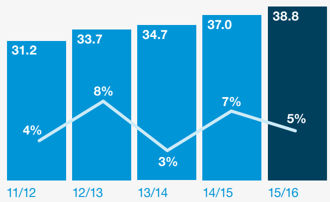


1 Comparatives have been restated to reflect the impact of additional shares issued as scrip dividends.

Group return on equity %



Total regulated asset base and regulated asset base growth £bn



Commentary

Adjusted EPS: For the year ended 31 March 2016, adjusted earnings attributable to equity shareholders increased by £197 million to £2,386 million. This increase in earnings resulted in an adjusted earnings per share of 63.5p, an increase of 10.2% on 2014/15.

The earnings increase was driven by a £233 million increase in adjusted operating profit. With the exception of our UK Electricity Transmission business, operating profit increased in all of our business segments.

Overall adjusted net finance costs were £20 million lower than 2014/15 at £1,013 million. The effective tax rate for the year was 24.0%.

Group return on equity (RoE): Group RoE has increased during the year to 12.3%, from 11.8% in 2014/15. During the year, the UK regulated businesses delivered a solid return of 13.3% in aggregate (2014/15: 13.7%), including an assumption of 3% long run average RPI inflation. US returns (calculated on a calendar year) of 8.0% were slightly down on last year, reflecting high winter gas leak and snow removal costs at the start of 2015, together with rate base growth.

Further details of how this is calculated are on page 202.

Regulated asset base growth: Our UK regulated asset value (RAV) and US rate base increased by £1.8 billion (5%) to £38.8 billion. This reflects the continued high levels of investment in our networks in both the UK and US, together with the impact of the stronger US dollar.

Target

Adjusted EPS: The adjusted EPS target set as part of executive remuneration for Annual Performance Plan ('APP') was more than met with 100% of maximum achieved (see page 76).

Group return on equity (RoE): The Group RoE target set as part of executive remuneration for APP was more than met with 100% of maximum achieved (see page 76).

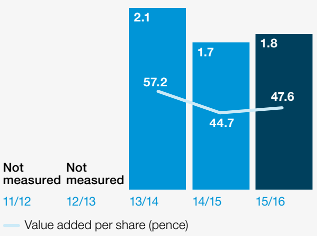
The Group RoE is one of the performance measures for the Long Term Performance Plan, outturns for which are calculated on a three year basis.

Regulated asset base growth: No specific target. Our overall aim is to achieve between 5% and 7% of regulated asset base growth each year.

Value added

Reflects value to shareholders of dividend and growth in National Grid's assets, net of the growth in overall debt.

Value added £bn



Value added in the year increased by £0.1 billion to £1.8 billion.

Of the £1.8 billion value added in 2015/16, £1,337 million was paid to shareholders as cash dividends and £267 million as share repurchases (offsetting the scrip issuance during the year), with £183 million retained in the business.

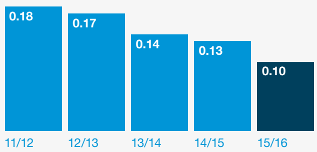
See page 23 for further details.

No specific target. Our overall aim is to sustainably grow value added over the long term while maintaining performance of our other financial KPIs.

Employee lost time injury frequency rate

Number of employee lost time injuries per 100,000 hours worked in a 12-month period. Our ambition is to achieve a world-class safety performance of below 0.1.

Employee lost time injury frequency rate
per 100,000 hours worked



In the UK we improved our employee safety performance during 2015/16, with an employee injury frequency rate of 0.07. Our US business improved its safety performance, with an employee injury frequency rate of 0.11.

Overall, our Company-wide employee injury frequency rate has fallen to 0.10 and has been consistently around this level throughout the year. In real terms, this means 17 fewer employees had a lost time injury this year than last.

We have met our ambition of achieving below 0.1 in the UK but not in the US.

Network reliability

The reliability of our electricity and gas networks.

Network reliability is measured separately for each of our business areas. The table below is meant to provide a simple visual representation of our performance across all of our networks.

Detailed data for each of the prior four years is provided on page 18 of our 2014/15 Annual Report and Accounts, which you can find in the investors section of our Company website.

		Target/ base %	15/16	Prior four years (11/12–14/15)
UK Electricity Transmission	T	99.9999	99.999998	exceeded
UK Gas Transmission	T	100	100	achieved
UK Gas Distribution	T	99.999	99.999	achieved
US Electricity Transmission	B	99.9	99.972	no target
US Electricity Distribution	B	99.9	99.995	no target

Key:
T – Target
B – No target set or set individually by each jurisdiction. Accordingly, we set a base and report performance above the base.

We aim to deliver reliability by: planning our capital investments to meet challenging demand and supply patterns; designing and building robust networks; risk-based maintenance and replacement programmes; and detailed and tested incident response plans. In the UK, our networks performed well. Ahead of winter 2015/16, we assessed the margin and procured additional electricity system balancing tools on both supply and demand-side. We successfully used our new demand side tool for the first time and saw the market respond to market notifications. In the US, despite numerous winter snow storms and summer wind storms in parts of New England and New York, our network resilience held up well. We invested millions of dollars in our electricity infrastructure to improve resilience and help reduce the impact of service interruptions.

See UK Principal operations: pages 31–37
and US Principal operations: pages 38–41

We achieved our targets, which are set out in the table for our UK networks, and are set individually for each of our US jurisdictions.

Our KPIs continued

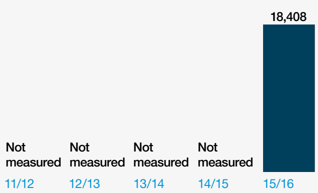
Delivering our strategy The Board uses a range of financial and non-financial metrics, reported periodically, against which we measure Group performance.

KPI and definition

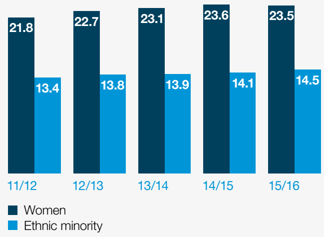
	Skills and capabilities	Workforce diversity	Community engagement and investment in education
KPI and definition	We support developing the skills and capabilities of young people through skills-sharing employee volunteering, especially in the STEM subjects, because it supports our future talent recruitment and our desire to see young people gain meaningful employment.	Percentage of women and ethnic minorities in our workforce.	Working with our communities is important in creating shared value for us as a business and the people we serve. We use the London Benchmarking Group (LBG) measurement framework to provide an overall community investment figure which includes education.

Our performance

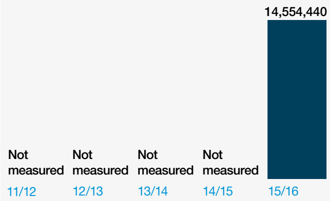
Skills and capabilities



Workforce diversity %



Community engagement and investment in education £

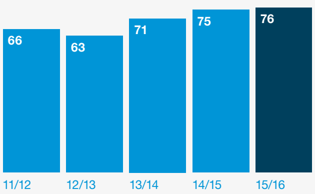


	Skills and capabilities	Workforce diversity	Community engagement and investment in education
Commentary	We measure quality (>1 hour) interactions with young people on STEM subjects. In the UK we have had 9,733 interactions with young people on STEM subjects, and 8,675 interactions in the US.	We continue to closely track the demographics of our employee population in terms of gender and ethnicity. To find out more about how we promote an inclusive and diverse workforce go to page 44.	In the UK our community engagement and investment in education is £7,984,720, and in the US it is £6,566,647 and £3,073 in other countries. This is a financial measurement of a number of activities including the time our employees give through volunteering, the money our employees raise through fundraising and also the support we give to our charity partners. Overall our Company-wide investment is £14,554,440.
Target	No specific target. Our overall aim is to encourage young people to get involved in the STEM subjects.	No specific target. We aim to develop and operate a business that has an inclusive and diverse culture.	We do not have a specific target on how much we invest in this area; our overall aim is to make sure we are creating shared value for the communities that we serve and work in.

Employee engagement index

A measure of how engaged our employees feel, based on the percentage of favourable responses to certain indicator questions repeated annually in our employee engagement survey.

Employee engagement index %



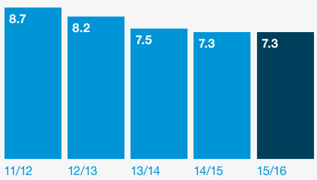
We measure employee engagement through our employee engagement survey. The results of our 2016 survey, which was completed by 87% of our employees, have helped us identify specific areas where we are performing well and those areas we need to improve. Our engagement index has risen one point to 76% favourable. Managers receive a scorecard that aims to create greater leadership accountability and we produce survey reports and action plans at company, regional, business unit, function and team levels.

We achieved our target of increasing engagement compared with the previous year.

Climate change

Scope 1 and Scope 2 greenhouse gas emissions of the six primary Kyoto greenhouse gases (excluding electricity transmission and distribution line losses). Our target is to reduce our greenhouse gas emissions by 45% by 2020 and 80% by 2050, compared with our 1990 emissions of 19.6 million tonnes.

Greenhouse gas emissions
Million tonnes carbon dioxide equivalent



Our Scope 1 greenhouse gas emissions for 2015/16 equate to 7.0 million tonnes carbon dioxide equivalent (2015: 7 million tonnes) and our Scope 2 emissions (excluding electricity transmission and distribution line losses) equate to 0.3 million tonnes (2015: 0.3 million tonnes); combined this is a 62% reduction against our 1990 baseline. These are equivalent to an intensity of around 496 tonnes per £million of revenue (2015: 478). Our Scope 3 emissions for 2015/16 were 35.6 million tonnes. We measure and report in accordance with the World Resources Institute and World Business Council on Sustainable Development Greenhouse Gas Protocol: Corporate Accounting and Reporting Standard (Revised Edition) for all six Kyoto gases, using the operational approach for emissions accounting. 100% of our Scope 1 and 2 emissions and 95% of our Scope 3 emissions are independently assured against ISO 14064-3 Greenhouse Gas assurance protocol. This statement is available on our Company website.

We forecast that we will continue to significantly exceed (better) the 45% by 2020 reduction target. We expect the 2050 target to be extremely challenging.

Customer satisfaction

The table summarises how we measure customer satisfaction:

	Methodology	Measure
UK	Use RIIO-related metrics agreed with Ofgem	Score out of 10
US	J.D. Power and Associates customer satisfaction surveys	Quartile ranking

The table below focuses on the past two years. Detailed data for the prior four years is provided on page 18 of our 2014/15 Annual Report and Accounts, which you can find in the investors section of our Company website.

	Performance 14/15	Performance 15/16	Target
UK Electricity Transmission	7.4	7.5	6.9[1]
UK Gas Transmission	7.6	7.6	6.9[1]
UK Gas Distribution	8.3	–[2]	8.3[1]
US Gas Distribution – Residential	4th	4th	To improve
US Gas Distribution – Commercial	4th	3rd	To improve
US Electricity – Residential	3rd	3rd	To improve
US Electricity – Commercial	2nd	4th	To improve

1. Figures represent our baseline targets set by Ofgem for reward or penalty under RIIO.
2. Our customer satisfaction results are now reported on an annual basis with the results being published later this year.

Our customer satisfaction KPI comprises seven components; Ofgem's UK electricity and gas transmission and distribution customer satisfaction scores and four J.D. Power and Associates customer satisfaction surveys in the US. We have exceeded the two UK Electricity and Gas Transmission targets; the outcome for the third UK Gas Distribution survey will be published later this year.

In the US, we did not achieve our targets. Customers were again concerned about higher-than-normal winter bills as a result of electricity commodity price increases and higher gas usage due to cold weather. In an effort to rebuild trust and customer satisfaction, we put in place a customer outreach and education programme similar to last year that focused on energy-saving solutions and bill management.

Our targets for each business area are set out in the table above.

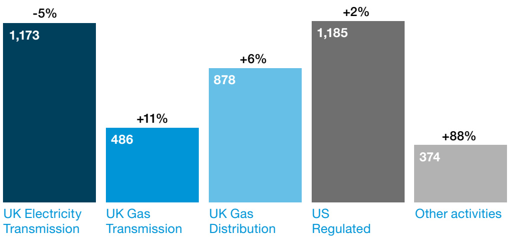
National Grid delivered another strong performance in 2015/16. This included significant levels of investment in our gas and electricity assets providing important services for millions of customers in the UK and US.

Additional commentary on financial KPIs

Adjusted operating profit

Adjusted operating profit for the year ended 31 March 2016 was £4,096 million, up £233 million (6%) compared to last year. With the exception of our UK Electricity Transmission business, operating profit increased in all of our business segments.

Adjusted operating profit by segment £m



For the year ended 31 March 2016, adjusted operating profit in the UK Electricity Transmission segment decreased by £64 million to £1,173 million. Revenue was £223 million higher, mainly reflecting the recovery of higher pass-through costs such as payments to other UK network owners and system balancing costs. In addition, £43 million of legal settlement revenue in 2014/15 was not repeated this year. As mentioned above, pass-through costs were £209 million higher. Regulated controllable costs were £28 million higher due to inflation and salary growth, together with legal cost recoveries in the prior year, higher tower maintenance costs and transformation costs associated with our System Operator business. Depreciation and amortisation costs were £14 million higher, reflecting the continued capital investment programme, and other costs were £36 million higher than prior year including additional asset impairments this year and lower scrap and disposal proceeds.

UK Gas Transmission adjusted operating profit increased by £49 million to £486 million. Revenue was £25 million higher, including over-recovery of allowed revenues in the year, partly offset by lower pass-through cost recoveries. After deducting pass-through costs, net revenue was £46 million higher than prior year. Regulated controllable costs were £10 million higher than last year, mainly as a result of inflation, higher gas system service charges and organisational change costs. Depreciation and amortisation costs were £6 million higher, reflecting ongoing investment. Other operating costs were £19 million lower than last year, mostly reflecting additional costs in 2014/15 relating to the closure of LNG facilities.

UK Gas Distribution adjusted operating profit increased by £52 million to £878 million. Revenue was £51 million higher, principally reflecting increased regulatory revenue allowances. In part, these allowances were increased to compensate for expected increases in taxation costs reflecting a change to the tax treatment of replacement expenditure. Regulated controllable costs were £21 million higher due to inflation, recruitment, property costs and higher charges from strategic partners to cover connections and flexible winter resourcing. Depreciation and amortisation costs were £12 million higher reflecting the continued capital investment programme. Pass-through costs charged to customers were £11 million lower this year, and other costs were £23 million lower than prioryear, which included provisions for additional asset protection costs.

Within our US Regulated business, adjusted operating profit increased by £21 million to £1,185 million. The effect of the stronger dollar was to increase operating profit in the year by £81 million. Excluding this impact from exchange rate movements, revenue decreased by £1,051 million, principally as a result of lower commodity costs passed on to customers and unfavourable timing of recoveries year on year, partly offset by higher increased revenue allowances under the Niagara Mohawk three-year rate plan and the benefit of capex trackers. The reduction in revenue was mostly offset by a £1,027 million reduction in pass-through costs (excluding the impact of foreign exchange). Regulated controllable costs reduced by £71 million at constant currency, partly as a result of lower gas leak and compliance work this year and additional costs incurred last year to improve data quality and bring regulatory filings up to date. Depreciation and amortisation costs were £51 million higher this year at constant currency as a result of ongoing investment in our networks. Pension costs were £15 million higher at constant currency, while other operating costs were £41 million higher at constant currency, including higher asset removal costs.

Adjusted operating profit in Other activities was £175 million higher at £374 million. In the US, adjusted operating profit was £143 million higher, reflecting lower spend on upgrades to our finance systems which were completed last year. In addition, we benefited from a £49 million gain on disposal of our investment in the Iroquois pipeline, and a reduction in the costs associated with our investment in Clean Line. In the UK, adjusted operating profit was £32 million higher mainly as a result of strong auction revenues in our French interconnector (IFA) business and higher property sales proceeds.

Adjusted earnings

For the year ended 31 March 2016, adjusted net finance costs were £20 million lower than they were in 2014/15 at £1,013 million, with lower UK RPI inflation, continued focus on management of cash balances, and the benefit of last year's debt buybacks offsetting the impact of the stronger US dollar and increasing net debt.

Our adjusted tax charge was £58 million higher than it was in 2014/15. This was mainly due to higher profits before tax. The effective tax rate for 2015/16 was 24.0% (2014/15: 24.2%).

This section provides additional commentary on our KPIs and other performance metrics we use to monitor our business performance. Analysis of our financial performance and position as at 31 March 2016, including detailed commentary on the performance of our operating segments, is located in the financial statements. However, this analysis still forms part of our Strategic Report financial review.

See pages 197 to 199 for commentary on our financial performance and position for the year ended 31 March 2015 compared with 31 March 2014. We have also included analysis of our UK regulated financial performance by segment on page 108.

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Use of adjusted profit measures
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Commentary on results of our principal operations by segment
pages 107–108

Further details of how our performance metrics are calculated
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In focus

Reconciliations of adjusted profit measures
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Commentary on statement of financial position
page 99

The earnings performance described on the previous page has translated into adjusted earnings of £2,386 million, up £197 million on last year. This equates to adjusted earnings per share (EPS) of 63.5 pence, up 5.9 pence (10%) on 2014/15.

Scrip restatement

In accordance with IAS 33, all EPS and adjusted EPS amounts for comparative periods have been restated as a result of shares issued via scrip dividends.

Measurement of financial performance

We describe and explain our results principally on an adjusted basis and explain the rationale for this on page 196. We present results on an adjusted basis before exceptional items and remeasurements. See page 196 for further details and reconciliations from the adjusted profit measures to IFRS, under which we report our financial results and position. A reconciliation between reported operating profit and adjusted operating profit is provided below. Further commentary on movements in the income statement is provided on page 95.

	Year ended 31 March		
£m	**2016**	**2015**	**2014**
Total operating profit	**4,085**	3,780	3,735
Exceptional items	**22**	–	(55)
Remeasurements – commodity contracts	**(11)**	83	(16)
Adjusted operating profit	**4,096**	3,863	3,664
Adjusted net finance costs	**(1,013)**	(1,033)	(1,108)
Share of post-tax results of joint ventures	**59**	46	28
Adjusted taxation	**(753)**	(695)	(581)
Attributable to non-controlling interests	**(3)**	8	12
Adjusted earnings	**2,386**	2,189	2,015
Adjusted EPS (pence)	**63.5**	57.6	53.1

Group return on equity (RoE)

We measure our performance in generating value for our shareholders by dividing our annual return by our equity base.

Group RoE has increased during the year to 12.3%, from 11.8% in 2014/15. During the year, the UK regulated businesses delivered a solid operational return of 13.3% in aggregate (2014/15: 13.7%), including an assumption of 3% long run average RPI inflation. US operational returns (calculated on a calendar year) of 8.0% were slightly down on last year, reflecting high winter gas leak and snow removal costs at the start of 2015, together with rate base growth.

Overall, other activities in the Group delivered a good performance, including an improved result from the French and BritNed interconnectors, higher property sales, the gain on sale of our interest in the Iroquois pipeline and lower US other costs following the completion of our financial system upgrade last year. Treasury performance also helped the result, through lower RPI accretions on the Group's index linked debt, ongoing focus on effective cash management and the benefit of last year's debt repurchases. Together, these helped to offset the headwind from a lower cost of debt allowance under the tracker within the UK price controls.

Regulated asset base growth

In total, our UK regulated asset value (RAV) and US rate base increased by £1.8 billion (5%) to £38.8 billion. This reflects the continued high levels of investment in our networks in both the UK and US, together with the impact of the stronger US dollar.

The UK RAV increased by £0.7 billion, reflecting significant capital expenditure, together with inflation, although RPI inflation at 1.6% (March to March), was below our 3% long term expectation. UK RAV growth also included capitalised efficiencies or 'performance RAV' of £115 million this year.

US rate base has increased by £1.1 billion this year. Of this, £0.4 billion was due to foreign exchange movements increasing the rate base reported in sterling. Excluding foreign exchange, rate base increased by £0.7 billion, reflecting a significant year of US investment.

Value added

Our dividend is an important part of returns to shareholders along with growth in the value of the asset base attributable to equity investors. These are reflected in the value added metric that underpins our approach to sustainable decision-making and long-term incentive arrangements.

Overall value added in the year was £1.8 billion or 47.6 pence per share as set out below:

	Year ended 31 March		
£bn at constant currency	**2016**	**2015**	**Change**
UK regulated assets[1]	**26.0**	25.5	+0.5
US regulated assets[1]	**14.1**	13.9	+0.2
Other invested capital	**1.9**	1.5	+0.4
Total assets	**42.0**	40.9	**+1.1**
Dividend paid			+1.3
Share buyback			+0.3
Movement in goodwill			–
Net debt	**(25.3)**	(24.4)	-0.9
Value added			**+1.8**
Value added per share			**47.6p**

1. Includes assets held outside RAV and rate base.

Value added in the year was higher than 2014/15 (£1.7 billion or 44.7p per share), primarily as a result of higher inflation on UK regulated assets (March 2016 RPI of 1.6%, prior year 0.9%), together with the gain on disposal of our share of the Iroquois pipeline. Of the £1.8 billion value added in 2015/16, £1,337 million was paid to shareholders as cash dividends and £267 million as share repurchases (offsetting the scrip issuance during the year), with £183 million retained in the business.

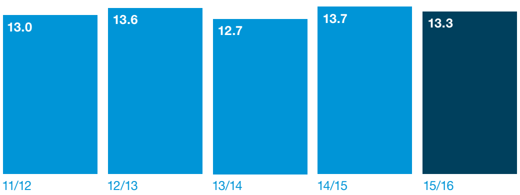
The Board is confident that growth in assets, earnings and cash flows, supported by improving cash efficiency and an exposure to attractive regulatory markets, should help the Group to maintain strong, stable credit ratings and a consistent prudent level of gearing, while delivering attractive returns for shareholders.

Other performance measures

UK regulated return on equity

UK RoE has decreased 40bps to 13.3%. This reduction in RoE reflects a reduction in incentive performance year on year, particularly as a result of the end of the gas permit incentive scheme last year. Totex out-performance was at a similar level to last year. This performance represents 320bps of outperformance over allowed returns.

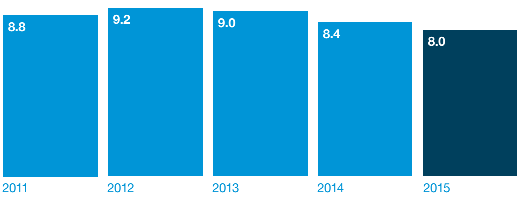
UK return on equity %



US regulated return on equity

US RoE for calendar year 2015 decreased 40bps to 8.0%, reflecting high winter gas leak and snow removal costs at the start of 2015, together with rate base growth as a result of record capital investment spend.

US return on equity[1] %

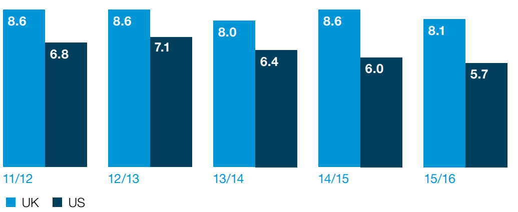


1. Calculated on a calendar year basis.

Return on capital employed

RoCE provides a performance comparison between our regulated UK and US businesses and is one of the measures that we use to monitor our portfolio of businesses. The table below shows our RoCE for our businesses over the last five years:

Return on capital employed %



The UK RoCE has decreased from 8.6% to 8.1% in 2015/16. This reduction reflects one-off benefits of legal settlements last year in Electricity Transmission that did not repeat and the reduction in gas permit and legacy incentive revenues in our Gas Transmission business in the year. Excluding these two items, operational performance, incentives and returns are at similar levels to last year.

US RoCE has decreased by 30bps in the year to 5.7%. Regulated financial performance was at a similar level to last year, however the overall return has decreased as high levels of capital investment have driven rate base growth.

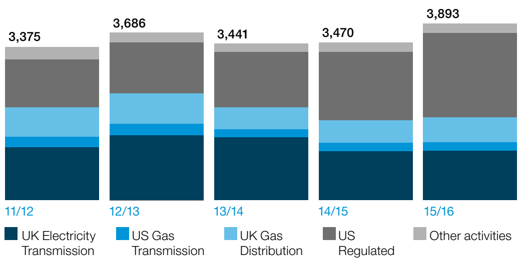
Capital expenditure

For the year ended 31 March 2016, capital expenditure of £3,893 million was £423 million higher than last year. The Group also invested £63 million in the St William Homes joint venture with Berkeley Group and £53 million in other joint ventures including a new electricity interconnector between the UK and Belgium.

Our US Regulated business continues to increase levels of investment in both electricity and gas distribution reinforcement. Capital expenditure in 2015/16 was £355 million higher than last year, and reflected higher spend on gas mains replacement, gas customer growth, system reinforcement and initial spend on a solar project in Massachusetts, together with the impact of a stronger US dollar.

UK Gas Distribution capital expenditure was £51 million higher than last year, reflecting an increased level of mains replacement work, in line with our target to replace a pre-determined length of main over the course of the RIIO-GD1 period.

Capital expenditure £m



Dividend growth

We remain committed to our dividend policy to grow the dividend at least in line with the rate of average RPI inflation each year for the foreseeable future.

During the year we generated £1.9 billion of business net cash flow after our capital expenditure programmes. This has enabled the growth of the dividend in line with average RPI, being 1.1% (2014/15: 2.0%; 2013/14: 2.9%), taking into account the recommended final dividend of 28.34 pence.

During the year, the Company has repurchased shares in the market with the overall goal being to reduce the dilutive effect of the scrip as much as possible to the extent that is consistent with maintaining the Group's strong financial position as reflected in its credit rating.

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page 101

Commentary on borrowings
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In focus

UK regulation
pages 176–177

US regulation
pages 178–182

Net debt and credit metrics

We expect capital investment programmes and network enhancement will continue to be funded by market borrowings. We continue to borrow at attractive rates when needed and the level of net debt remains appropriate for the size of our business.

During 2015/16, net debt has increased by £1.4 billion. This is driven by net business cash inflows (after capex) of £1.9 billion, more than offset by outflows from interest, dividends, tax and other financing flows of £2.6 billion, with other non cash movements such as foreign exchange and accretion increasing net debt by a further £0.7 billion.

A key measure we use to monitor financial discipline is retained cash flow divided by adjusted net debt (RCF/net debt). This is a measure of the operating cash flows we generate, before capital investment but after dividends paid to shareholders, compared with the level of debt we hold. The principal adjustments made to net debt are in respect of pension deficits and hybrid debt instruments. RCF/net debt was 11.5% for the year (2014/15: 11.2%; 2013/14: 10.5%). For the current year, we have used this measure to actively manage scrip uptake through buying back shares when supported by sufficient headroom. Deducting the costs of buying back these shares reduces RCF/net debt to 10.5% for the year.

Our long-term target range for RCF/net debt is to exceed 9.0%, which is consistent with the A3 rating threshold used by Moody's, the rating agency.

We additionally monitor interest cover, which is a measure of the cash flows we generate compared with the net interest cost of servicing our borrowings. Interest cover for the year was 5.5 times (2014/15: 5.1 times; 2013/14: 4.1 times).

Our target long-term rate for interest cover is in excess of 3.0 times.

Regulatory financial performance

Timing and regulated revenue adjustments

As described on pages 176 to 182, our allowed revenues are set in accordance with our regulatory price controls or rate plans. We calculate the tariffs we charge our customers based on the estimated volume of energy we expect will be delivered during the coming period. The actual volumes delivered will differ from the estimate. Therefore, our total actual revenue will be different from our total allowed revenue. These differences are commonly referred to as timing differences.

If we collect more than the allowed revenue, the balance must be returned to customers in subsequent periods, and if we collect less than the allowed level of revenue we may recover the balance from customers in subsequent periods. In the US, a substantial portion of our costs are pass-through costs (including commodity and energy efficiency costs) and are fully recoverable from our customers. Timing differences between costs of this type being incurred and their recovery through revenue are also included in timing.

The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are final.

Our operating profit for the year includes a total estimated in-year over-collection of £25 million (2014/15: £64 million under-collection). Our closing balance at 31 March 2016 was £48 million over-recovered. In the UK, there was cumulative under-recovery of £87 million at 31 March 2016 (2015: under-recovery of £177 million). In the US, cumulative timing over-recoveries at 31 March 2016 were £135 million (2015: £150 million over-recovery). The majority of that balance will be returned to customers next year.

In addition to the timing adjustments described above, as part of the RIIO price controls in the UK, outperformance against allowances as a result of the totex incentive mechanism, together with changes in output-related allowances included in the original price control, will almost always be adjusted in future revenue recoveries, typically starting in two years' time.

Our current IFRS revenues and earnings include these amounts that will need to be repaid or recovered in future periods. Such adjustments will form an important part of the continuing difference between reported IFRS results and underlying economic performance based on our regulatory obligations.

For our UK regulated businesses as a whole, regulated revenue adjustments totalled £262 million in the year (2014/15: £174 million). This is based on our estimates of: work carried out in line with allowances; in expectation of future allowances; or work avoided altogether – either as a result of us finding innovative solutions or of the need being permanently removed. In the US, accumulated regulatory entitlements to future revenue net of over- or under-recoveries amounted to £1,335 million at 31 March 2016 (2015: £1,528 million). These entitlements cover a range of different areas, with the most significant being environmental remediation and pension assets, as well as deferred storm costs.

All regulatory entitlements are recoverable (or repayable) over different periods, which are agreed with the regulators to match the expected payment profile for the liabilities. As at 31 March 2016, these extend until 2071.

Internal control and risk management

The Board is committed to protecting and enhancing our reputation and assets, while safeguarding the interests of our shareholders. It has overall responsibility for the Group's system of risk management and internal control.

National Grid is exposed to a variety of uncertainties that could have a material adverse effect on the Group's financial condition, our operational results, our reputation, and the value and liquidity of our shares.

The Board oversees risk management, and, as part of this role, it sets and monitors the amount of risk the Company is prepared to seek or accept at any given time in pursuing our strategic objectives (our risk appetite). The Board also regularly monitors and reviews our internal controls and risk management processes. You can read more about this on page 29.

This year we refined our risk management processes as a result of changes implemented by the UK Corporate Governance Code 2014 (the Code). Most notably, we now specifically test the impact of our principal risks on a reasonable worst case basis, alone and in clusters, over a five-year assessment period. The aim of this is to establish their impact on the Group's ability to continue operating and meet its liabilities over the assessment period. The reason for selecting a five-year assessment period and the results of this exercise are described in the viability statement on page 30.

Risk management approach

Our Group-wide corporate risk management process provides a framework through which we can consistently identify, assess and prioritise, manage, monitor and report risks, as shown in the diagram below. The process is designed to support the delivery of our vision and strategy, as described on pages 16–17.

Our process involves a continuous cycle of bottom-up review and reporting and top-down review and feedback.

All our business functions participate in the bottom-up risk management process. They identify the main risks to our business model and to achieving their business objectives and the actions being taken to manage and monitor them. They assess each risk by considering the financial and reputational impacts, and how likely the risk is to materialise. The identified risks are collated in risk registers and reported at functional and regional levels of the Group. The risk registers also describe the adequacy of our existing risk controls.

An important feature of our risk management process is our three lines of defence model. Each business function owns and is responsible for managing its own particular risks (the first line of defence). A central risk management team (the second line of defence) acts as an advisory function and also provides independent challenge and review. This team partners with the business functions through nominated risk liaisons and collaborates with assurance teams and specialists, such as safety and compliance management. Our internal audit function then audits selected controls and mitigation activities (the third line of defence).

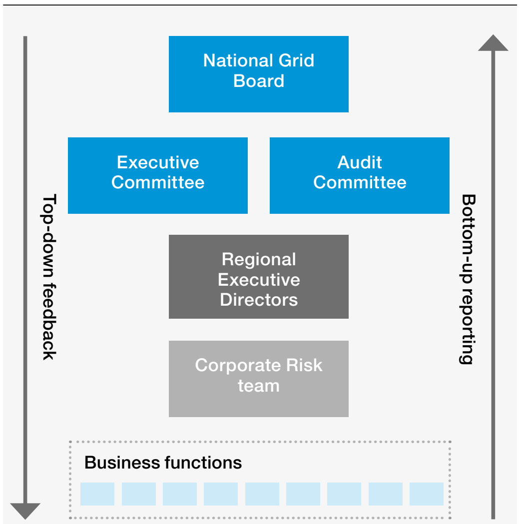
Regional senior management regularly reviews and debates the outputs of the bottom-up risk management process and agrees the prioritisation of the risks. The main risks for the UK and US businesses are highlighted in regional risk profiles and reported to the CEO.

Our main strategic uncertainties or 'principal risks' for the Company are developed through discussing the Group risk profile with the Executive leadership team and the Board. These risks are reported and debated with the Executive Committee and Board every six months.

The Board participates in risk workshops to make sure that the principal risks remain closely aligned to our strategic aims and that no important risks (or combination of risks) are being overlooked. This year, several sessions were conducted to discuss our principal risks and to assess the potential of those risks to impact the Company's

Risk management process

Feedback and reporting



viability over the next five years. Through the testing and review process we decided to adopt two new principal risks in relation to emerging technology and the potential impact of sustained inflation and deflation in the US and UK respectively.

The outcomes from each level of the risk review process are fed back to the relevant teams and incorporated as appropriate into the next cycle of our ongoing process as shown on page 26.

Our principal risks

Accepting that it is not possible to identify, anticipate or eliminate every risk that may arise and that risk is an inherent part of doing business, our risk management process aims to provide reasonable assurance that we understand, monitor and manage the main uncertainties that we face in delivering our objectives.

This includes consideration of inherent risks, which exist because of the nature of day-to-day operations in our industry, and financial risks, which exist because of our financing activities. The principal risks we face are provided below. An overview of the key inherent risks we face are provided on pages 183–186, as well as our key financial risks, which are incorporated within the Notes to our consolidated financial statements on pages 102 to 167.

Our corporate risk profile contains the principal risks that the Board considers to be the main uncertainties currently facing the Group as we endeavour to achieve our strategic objectives. We have provided an overview of these risks below, together with examples of the relevant controls and current mitigating actions we are taking.

Strategic objective	Risk description	Example of mitigations
Drive growth	Failure to identify and execute the right opportunities to deliver our growth strategy. Failure to grow our core business and have viable options for new business over the longer term would adversely affect the Group's credibility and jeopardise the achievement of intended financial returns. Our ability to achieve our ambition for growth is subject to a wide range of external uncertainties, including the availability of potential investment targets and attractive financing and the impact of competition for onshore transmission in both the UK and US; and internal uncertainties, such as the performance of our operating businesses and our business planning model assumptions.	• We regularly monitor and analyse market conditions, competitors and their potential strategies, the advancement and proliferation of new energy technologies, as well as the performance of our Group portfolio. We are also looking to access new sources of finance and capabilities through partnering. • We have internal processes for reviewing and approving investments in new businesses, disposals of existing ones and organic growth investment opportunities. These processes are reviewed regularly to make sure our approach supports our short- and long-term strategies. We undertake due diligence exercises on investment or partnering opportunities and carry out post-investment reviews to make sure we learn lessons for the future.
	Sustained deflation/inflation in the UK/US. Sustained deflation in the UK would result in a loss of inflationary indexation of UK RIIO networks' RAV. In the US our asset base is not indexed by inflation, therefore higher inflation erodes value even if our cost of service is periodically updated through rate case filings.	• The primary measures we have to manage this risk include our business planning process (five-year plan approved each year by the Board), annual portfolio review by the Board, financing strategies (including hedging policies approved by the Finance Committee) and regulatory strategies (e.g. US rate case filing schedule).
Engage externally	Failure to secure satisfactory regulatory outcomes/ failure to influence future energy policy. Policy decisions by regulators, governments and others directly affect our business. We must engage widely in the energy policy debate, making sure our position and perspective help to shape future policy direction.	• In both the UK and the US we strive to maintain a good understanding of the regulatory agenda and emerging issues, so that robust, public interest aligned responses can be selected and developed in good time. Our reputation as a competent operator of important national infrastructure is critical to our ability to do this.
Engage our people	Failure to secure skills and leadership capacity (including effective succession planning) required to deliver our vision and strategy. It is through the high-quality work of our employees that we will achieve our vision, respond to the changing needs of our stakeholders and create a competitive advantage. Obtaining and fostering an engaged and talented team that has the knowledge, training, skills and experience to deliver on our strategic objectives is vital to our success. We must attract, integrate and retain the talent we need at all levels of the business.	• Strategic workforce planning allows us to effectively inform our strategic resourcing plans. • Our entry level talent development schemes (graduate training and apprenticeships) are a potential source of competitive advantage in the market place. • Improvements to our talent processes mean that we are now much better at identifying talent and accelerating development of future leaders (e.g. our Accelerated Development Programme). • The rigour of our succession planning and development planning process has been improved, particularly at senior levels and is now being applied deeper into the organisation. • We are involved in a number of initiatives to help secure the future engineering talent required (see page 44). • We continue to promote inclusion and diversity. • We monitor employee engagement and formally solicit employee opinions via a Group-wide employee survey annually.

Strategic objective	Risk description	Example of mitigations
Deliver operational excellence	Failure to deliver appropriate information systems and data integrity. The Company is increasingly reliant on technology to support and maintain our business-critical processes. We must be able to rely on the performance of these systems and the underlying data to demonstrate the value of our business to our shareholders, meet our obligations under our regulatory agreements, and comply with agreements with bond holders and other providers of finance.	• Following the implementation of a new US enterprise resource planning system at the end of 2012, we undertook a significant effort to combat programme difficulties. This system is now stabilised and enhancements to drive business value have been successfully implemented throughout 2015. • Over the financial year we have implemented improved project management practices for IS projects. • We have taken action to bring back in-house knowledge of critical systems, processes and data. • We have rebuilt the US Program Delivery organisation, to build back programme delivery skills. • Globally, our Information Management Framework is being rolled out to improve data management. • Data and its effective management is also central to our compliance action plan, which is being rolled out across the Group.
	We experience a catastrophic/major cyber security breach. Due to the nature of our business we recognise that our critical national infrastructure (CNI) systems may be a potential target for cyber threats. We must protect our business assets and infrastructure and be prepared for any malicious attack.	• We use industry best practices as part of our cyber security policies, processes and technologies. • Our cyber security programme is a global programme of work which started in 2010 and continues to be modified and updated to this day. This programme is intended to reduce the risk that a cyber threat could adversely affect the Company's business resilience. • We continually invest in cyber strategies that are commensurate with the changing nature of the security landscape. This includes collaborative working with DECC and the Centre for Protection of National Infrastructure (CPNI) on key cyber risks and development of an enhanced CNI security strategy and our involvement in the US with developing the National Institute of Standards and Technology Cyberspace Security Framework.
	Catastrophic asset failure. Safety is paramount. Some of the assets that we own and operate are inherently hazardous and process safety incidents, while extremely unlikely, may occur.	• We continue to commit significant resources and financial investment to maintain the integrity of our assets and we strive to continuously improve our key process safety controls. • We continue to implement our Group-wide process safety management system to ensure a robust and consistent framework of risk management exists across our higher hazard asset portfolio. • We have a mature insurance strategy that uses a mix of self-insurance, captives and direct (re)insurance placements. This provides some financial protection in respect of property damage, business interruption and liability risks. Periodically, independent surveys of key assets are undertaken, which provide risk engineering knowledge and best practices to the Group with the aim to further reduce our exposure to hazard risks.
	We fail to effectively respond to the threats and opportunities presented by emerging technology, particularly the challenge of adapting our networks to meet the challenges of increasing distributed energy resources.	• We have relaunched our dedicated Group Technology Team within the Strategy Function. • We undertake biannual reviews and briefings of emerging trends and developments and their implications for the Company with the Board.

Our internal control process

We have a number of processes to support our internal control environment. These processes are managed by dedicated specialist teams, including risk management, ethics and compliance management, corporate audit and internal controls, and safety, environment and health. Oversight of these activities is provided through regular review and reporting to the appropriate Board committees as outlined in the Corporate Governance section on pages 46–67.

Reviewing the effectiveness of our internal control and risk management

Each year the Board reviews the effectiveness of our internal control systems and risk management processes covering all material systems, including financial, operational and compliance controls, to make sure they remain robust. The latest review covered the financial year to 31 March 2016 and the period to the approval of this Annual Report and Accounts. It included:

- the Certificate of Assurance from the CEO to the Board following consideration by the Audit Committee, which provides overall assurance around the effectiveness of our risk management and internal controls systems;
- where appropriate, assurance from our committees, with particular reference to the reports received from the Audit, and Safety, Environment and Health Committees on reviews undertaken at their meetings; and
- assurances about the certifications required under the Sarbanes-Oxley Act 2002 (Sarbanes-Oxley) as a result of our US reporting obligations.

The Board evaluated the effectiveness of management's processes for monitoring and reviewing internal control and risk management. It noted that no significant failings or weaknesses had been identified by the review and confirmed that it was satisfied the systems and processes were functioning effectively.

Our internal control and risk management processes comply with the requirements of the UK Corporate Governance Code. They are also the basis of our compliance with obligations set by Sarbanes-Oxley and other internal assurance activities.

Internal control over financial reporting

We have specific internal mechanisms to govern the financial reporting process and the preparation of the Annual Report and Accounts. Our financial controls guidance sets out the fundamentals of internal control over financial reporting, which are applied across the Company.

Our financial processes include a range of system, transactional and management oversight controls. In addition, our businesses prepare detailed monthly management reports that include analysis of their results, along with comparisons to relevant budgets, forecasts and prior year results. These are presented to, and reviewed by, senior management within our Finance function.

These reviews are supplemented by quarterly performance reviews, attended by the CEO and Finance Director. These reviews consider historical results and expected future performance and involve senior management from both operational and financial areas of the business. Each month, the Finance Director presents a consolidated financial report to the Board.

As part of our assessment of financial controls in previous years, we identified a number of weaknesses in our US financial control framework. We are making progress in remediating these weaknesses. For more information, including our opinion on internal control over financial reporting, see page 183.

Viability statement

The Board's consideration of the longer-term viability of the Company is an extension of our business planning process, which includes financial forecasting, a robust risk management assessment, regular budget reviews and scenario planning. This activity is strengthened by a culture throughout the Company of review and challenge. Our vision and business strategy aim to make sure that our operations are sustainable and our finances are sustainable and robust.

As part of National Grid's risk appetite framework, each year the Board reviews our target risk appetite levels and reflects on whether our decision-making behaviours over the past year have aligned with these targets. The Board confirmed that the Company's behaviours over the past year had been in line with our target risk appetite.

We believe that five years is the most appropriate timeframe over which the Board should assess the long-term viability of the Company. The following factors have been taken into account in making this decision:

1. We have reasonable clarity over a five-year period, allowing an appropriate assessment of our principal risks to be made;
2. The Board considered whether there are specific, foreseeable risk events relating to the principal risks that are likely to materialise within a five to ten year period, and which might be substantial enough to affect the Company's viability and therefore should be taken into account when setting the assessment period. No risks of this sort were identified; and
3. It matches our business planning cycle.

We have set out the details of the principal risks facing our Company on pages 26 to 29, described in relation to our ability to deliver our strategic objectives. We identify our principal risks through a robust assessment that includes a continuous cycle of bottom-up reporting and review, and top-down feedback and horizon scanning. Through this assessment, priorities are elevated appropriately and transparently. This process is described in more detail on pages 26 to 27.

Over the course of the year the Board has also considered the following specific areas of our principal risks in detail:

The Board has considered the proposed sale of a majority share in our UK Gas Distribution business and has concluded that it will not have an adverse impact on the viability of the Company. It will continue to assess the strategic risks that the proposed sale presents when considering the approval of the transaction.

The Board has discussed the potential financial and reputational impact of the principal risks against our ability to deliver the Company's business plan. This describes and tests the significant solvency and liquidity risks involved in delivering our strategic objectives within our business model.

The Board has also reviewed the stress testing of the principal risks. The Board started by considering our reputational and financial risk capacity. It then considered how that capacity might be tested by the principal risks. Each of the principal risks was tested for its individual impact based on assessing reasonable worst case scenarios over a five-year period, and considering reputational impacts and financial impacts (to the nearest £500m). The figure of £500m was selected because our financial risk capacity is very substantial and the Board was satisfied that this figure was appropriate in the context of an exercise aimed at testing threats to viability.

In addition to testing individual principal risks, the Board also considered the impact of a cluster of the principal risks materialising over the assessment period. They focused on the effect these could have on our reputation and stakeholder trust and how that could impact our business.

In assessing the impact of the principal risks on the Company, the Board has considered the fact that we operate in stable markets and the robust financial position of the Group, including the ability to sell assets, raise capital and suspend or reduce the payment of dividends. It has also considered Ofgem's legal duty to have regard for the need to fund licenced National Grid Gas plc and National Grid Electricity Transmission plc activities.

Each Director was satisfied that they had sufficient information to judge the viability of the Company. Based on the assessment described above and on page 27, the Directors have a reasonable expectation that the Company will be able to continue operating and meet its liabilities over the period to May 2021.

Principal risk	Matters considered by the Board
Securing satisfactory regulatory outcomes and influencing future energy policy.	Updates and reviews of: • the regulatory situation in the US (including the position with our rate case filings); • the impact of the UK General Election on our business; • our regulatory position in the UK, including our RIIO mid-period review strategy; • the impact of the introduction of onshore competition in the UK; • the future of our System Operator and Transmission Owner roles; • the possible impact of greater European integration of energy markets; and • the potential impact of Brexit on our business.
Failure to deliver appropriate information systems and reliable data.	An update on our global IS systems.
We experience a catastrophic/major cyber breach.	An update on cyber security risks and a review of critical questions to be addressed.
Failure to respond effectively to the threats and opportunities presented by emerging technology, particularly the challenge of adapting our networks to meet the challenges of increasing distributed energy resources. Failure to identify and execute the right opportunities to deliver our growth strategy.	A Board review of our US business and consideration of potential investment opportunities. Two Board strategy sessions to consider our growth strategy and looking at emerging technology and other industry developments.

Principal operations

Introduction to our UK operations by Ian Galloway

In focus

Safety performance

7,700+

employees and contractors completed a driver safety programme on the risk of distractions while driving

Our networks

We continue to invest in new infrastructure and update our existing networks to deliver energy safely and reliably to our customers.

KPIs pages 18–21
Electricity Transmission
page 32
Gas Transmission
page 33
Gas Distribution
page 37

Innovation

We secured over

£22m

of funding for three major innovative projects. Read more about how this will be invested on pages 32–37

When I look at the different aspects of the UK's energy landscape, it seems that one factor is a constant. Whether it's the sources of energy, or regulatory and government policy developments, or the expectations of customers and industry stakeholders, the common factor that emerges is change.

For us at National Grid, a large part of our success depends on our ability to keep pace with it and adapt to it.

This year we've seen significant regulatory developments. Ofgem launched a consultation on extending competition in electricity transmission. We support this work and recognise that introducing competition is a good way to deliver value for consumers, if the right conditions are met. We outlined this in our response and will continue to use our experience to make sure a thorough assessment is undertaken before any change is finalised.

We have also been working alongside DECC and Ofgem to consider how to evolve the current SO model, to make it more flexible and more independent while remaining cost effective. In doing so, it is vital that there is no disruption to the pivotal role National Grid plays as SO in keeping the energy market working.

In May 2016, Ofgem announced a mid-period review of the RIIO-T1 price control looking at three specific output measures in gas and electricity transmission. The scope of this review is narrow with no changes to key financial parameters. Ofgem will now run a consultation process this summer, with any changes to be implemented in April 2017.

We've seen significant change inside the Company too. In November 2015 we announced our plans to commence a process to sell a majority stake in our Gas Distribution business. Since then we have been working on how we separate Gas Distribution from National Grid and create a stand-alone business ready for sale; making sure it has the right people, assets, systems and technology it needs to be successful in the future.

Set against all these developments, I'm delighted that our UK businesses have continued to perform well during the last year with continued world class safety levels and network reliability, as well as further developing our interconnector businesses with two new projects. You can read more about our UK operating highlights over the next six pages.

We can't be complacent though. If we are to be trusted to provide a safe and reliable service today, to deliver a clean and sustainable future for energy, and to deliver on our promises to customers, we need to improve our performance.

This is why performance has been such an important area of focus for our UK businesses during 2015/16 – and it remains a priority for the year ahead, as you can read below.

Looking ahead to 2016/17

The coming year promises to be a challenge as we continue to respond and adapt to change across our businesses. Our priorities are very clear. We will create and subsequently sell a majority stake in a stand-alone Gas Distribution business and continue to work externally to influence future regulatory changes, while meeting the ever-changing needs of our stakeholders.

It's important for us to be prepared for the possible introduction of competition in electricity transmission, that our people understand its implications, and that we are ready to review and respond to the mid-period review consultation. I am confident that as a business we will be ready for these changes.

At the same time we will continue our drive to improve performance, and make sure we develop a high performance culture to serve our customers as best we can.

Principal operations

Electricity Transmission We own and manage the electricity transmission system in England and Wales. Our networks comprise approximately 7,200 kilometres (4,470 miles) of overhead line, 1,500 kilometres (932 miles) of underground cable and 338 substations.

Market context

Although demand for electricity is generally increasing around the world, in the UK it is expected to remain broadly flat over the next five to 10 years.

Changes in the sources and characteristics of generation connecting to our network, such as wind and nuclear generation, mean we need to respond by developing the way we balance and operate our network to accommodate these sources.

Over the last two years, some generators have delayed their connection dates to the network and this means our future investment profile for electricity transmission is flatter than in previous years. However, we are ready to respond to connection dates when we need to. We will continue to renew our network to deliver the network reliability our customers require as efficiently as possible.

What we've achieved in 2015/16

The overall reliability of supply for our transmission system in 2015/16 was 99.999998%.

We have delivered an excellent safety performance; our safest year on record. Our lost time injury rate reduced by over 60% and our high potential incident rate fell by nearly 10%. We have focused on our key risk areas, such as safe driving and working at height and continue to work with our contractors to share best practice in safety management.

Following a seven year period of consultation, community engagement and planning applications we received a development consent order (DCO) for the construction of a new transmission circuit to connect the nuclear power station at Hinkley Point. To connect the power station to the network we will be removing existing pylons and constructing new overhead lines, undergrounding and using the award-winning T-Pylon.

We were granted a £12 million award from this year's Network Innovation Competition (NIC) which will be used to convert a substation at Deeside into an off-grid research facility. This will replicate a live substation and allow us to test the effects of future low-carbon generation on the network with no risk to security of supply. Once complete this will be the first facility of its kind in Europe.

Working with the stakeholder advisory group we have identified and recommended four projects to receive funding from the Visual Impact Provision project. These projects are in National Parks and Areas of Outstanding Natural Beauty across England and Wales and we have now started feasibility studies to review the existing overhead lines and develop proposals that will help further enhance these areas.

The North West Coast Connection Project continues to progress and maintain engagement with a broad range of stakeholders. This includes holding community information events along the preferred route corridor and meeting government officials, local authorities and focus groups to build support for the statutory formal consultation.

We have developed a mobile application which allows our operations teams to provide instant feedback on supplier performance. This is designed to save time, improve supplier performance and reduce costs in our supply chain, helping to deliver further value for consumers.

Priorities for the year ahead

Change: prepare for the potential challenge of increased competition in the transmission market, making sure we can deliver for our customers in both competitive and monopoly markets.
Programme delivery: increase the amount of work we can deliver, and reduce our costs through improving processes.
Operational efficiency: continue our drive for efficiency so we can improve productivity.
Project delivery: complete delivery of key projects such as the London Power Tunnels.
Safety: maintain our world class safety performance.

In focus

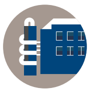
Electricity transmitted across our network

253,981
(GWh)

Circuit breaker replacement programme
We have piloted a new approach to circuit breakers aiming to halve the time and cost of our replacements over the RIIO-T1 period. Completing additional condition assessments and interface engineering allows our new high voltage circuit breakers to be installed on top of existing structures, saving more than four weeks of time. We expect this new innovative approach to reduce our RIIO-T1 costs by more than £100m.

"We are ready to respond to connection dates when we need to"

Gas Transmission We own and manage the gas national transmission system in Great Britain, with day-to-day responsibility to maintain a safe, reliable, and available operation. Our network comprises approximately 7,660 kilometres (4,760 miles) of high pressure pipe and 24 compressor stations. In 2015/16 the gas throughput across the system was more than 80 billion cubic metres.



In focus

X20,000

The gas throughput across the system in 2015/16 was more than 80 billion cubic metres, enough to fill Wembley Stadium more than 20,000 times.

Efficient robotics
Our pioneering robotics will negotiate complex pipework, withstanding extreme pressures. By avoiding unnecessary excavations, this technology has the potential to save almost £60 million in 20 years and generate carbon savings of over 2,000 tonnes.

Market context

The UK's gas market and sources of gas are changing. Domestic demand has fallen over the last five years and a significant increase is not expected in future years. The UK continental shelf (UKCS) now makes up less than half our total gas supply, with the remainder coming from Norway, continental Europe, or further afield via shipped imports of LNG.

Overall, supply capacity now exceeds peak demand by more than 30%, giving our customers significant flexibility over which sources of gas they choose to meet demand. Flexible sources of supply, such as LNG importation terminals, interconnectors and storage sites, can respond to demand more quickly than traditional UKCS supplies. Therefore, our network needs to be able to respond to changing day-to-day and within-day supply and demand patterns.

We also need to prepare for an uncertain energy landscape in the long term. UK reliance on imported gas supplies will vary depending on the level of gas supply from the UKCS and the development of indigenous gas sources.

We are working closely with our customers and stakeholders to meet these operational challenges. We are focused on continuing to develop our network and services to meet their needs safely, reliably and efficiently.

What we've achieved in 2015/16

We have increased our annual network investment by a further £18 million and maintained excellent levels of network availability throughout the year.

We are committed to safety and are working to improve the fall protection equipment on all our trailers following our first lost time injury in more than two and a half years, when a contractor sustained a minor injury unloading a lorry in December 2015.

We have undertaken a detailed review of our end-to-end processes, focusing on removing waste and increasing value for our customers. One result from this efficiency work has been our ability to increase the volume of in-house maintenance work we deliver. We have also reduced the time we expect to take in connecting customers to the NTS as a result of these process improvements.

We received a further £4.8 million from Ofgem's NIC to support our customer low-cost connections project. This project will introduce new technology that changes the connections process for customers, making it easier and reducing the cost for new customers to connect to the NTS.

We are investing in our Aylesbury, Huntingdon and Peterborough compressor stations to make sure they comply with the stricter environmental limits set out in the Industrial Emissions Directive (IED). We plan to complete the necessary upgrade works to all our sites affected by this legislation by 2023.

Priorities for the year ahead

Safety: build on, and further improve our safety culture and statistics through a review of our risk management approach.
Reliability: increase the amount of maintenance and replacement work on our assets, in line with our RIIO commitments and develop an improved asset health risk methodology.
Efficiency: improve the quality of data on our assets to enable better decisions on investments and to drive efficiencies in our project work. In response to customer feedback, work to reduce the time taken to connect customers to our network.
Innovation: continue to create value for customers and the wider industry through innovation, development and implementation.
Emissions compliance projects: meet the IED requirements by delivering our agreed asset enhancement and replacement programme.

Case study

Security of supply

Claire Spedding
National Grid, Contingency Balancing Reserve Manager

> "Are we prepared for tighter winter margins?"

Security of supply

Britain's energy landscape continues to change at an unprecedented rate, which creates challenges for the industry. We're acutely aware of these challenges, which have implications for how we operate the system.

As System Operator, our job is to keep the energy flowing so it's there when homes and businesses need it. It's crucial for us to make sure we have robust contingency plans and a variety of commercial tools in place to help balance supply and demand.

We use our expertise, knowledge and engagement with industry stakeholders to make sure we are well prepared. And that's been the case for one of the changes we've seen – tighter winter margins.

When we assessed the margin for the winter of 2015/16, we procured additional commercial tools that raised the margin to a tight but manageable 5.1%.

On 4 November wind generation was low and there was a series of unexpected generation plant breakdowns. We issued a notice to market participants, informing them of the forecasted position and requesting more capacity to be made available for the tea time peak in electricity demand. We used our new demand side tool for the first time and the market responded, helping meet peak demand.

We can't be complacent though. We will continue to work with DECC and Ofgem to make sure we have the right tools in place to balance the system in the future.

“We play a leading role in helping develop the UK’s future energy strategy”

Power Responsive
In June 2015, we launched the Power Responsive programme, designed to help drive demand side response (DSR) growth through greater customer awareness and clear participation policies. We believe DSR will play an increasingly vital role in building a secure, affordable, sustainable electricity system by providing greater flexibility.

Power Responsive offers a means for suppliers, businesses and policy makers to collaborate, build awareness and deliver improved DSR solutions, helping to reduce total energy costs. The goal is to achieve 30–50% of balancing capability from the demand side by 2020.

You can find out more about the programme and case studies from customers signed up to DSR at www.powerresponsive.com

System Operator

As System Operator (SO) we are responsible for making sure Britain’s gas and electricity is transported safely and efficiently from where it is produced to where it is consumed, when it is needed. We make sure that supply and demand are balanced in real time and we facilitate the connection of assets to the transmission system.

Market context
Sources of energy are changing. In electricity, an increase in renewable generation such as wind, solar and tidal power, together with a decrease in more conventional generation such as coal and gas, is leading to greater variability and uncertainty. In gas, the changing location of gas being input into the transmission system will drive greater need for flexibility as the traditional north-south flow diminishes.

This makes our role in matching supply and demand more challenging, so we work with the market to make sure we have appropriate tools in place to balance the transmission system. We work with our customers and stakeholders to shape the future of the energy market, providing analysis and insight into the changing nature of energy. We also facilitate changes to the market frameworks to accommodate new technologies and ways of working, while considering how the role of the SO should evolve over time.

The SO is at the forefront of this debate helping to find solutions with industry.

What we have delivered in 2015/16
We continue to play a leading role in helping develop the UK’s future energy strategy, and that of Europe. Our approach includes working with customers and stakeholders on initiatives such as the translation of new EU code requirements for gas, the development of new demand side services in the form of the Power Responsive programme, the harmonisation of gas trading arrangements across Europe, our Future Energy Scenarios reports, and System Operability Framework workshops and webinars.

Building on customer and stakeholder feedback, we have reviewed our operations and restructured our organisation to deliver what our customers need. Our customer survey process has been improved, so we can better understand our performance and develop action plans to improve the services we deliver.

We continue to balance the UK’s energy needs in real time. We contracted additional balancing services of 2.4 GW for the 2015/16 winter period to be available to help manage periods of peak demand. This includes 133 MW from demand side balancing reserve arrangements.

In our role as Electricity Market Reform delivery body we facilitated the market capacity auction, which secured over 46 GW of capacity at a final clearing price of £18 per kW per year. It was also the first time that interconnectors participated.

Priorities for the year ahead
We will continue to find better ways to provide timely, cost effective and innovative solutions to balance supply and demand for gas and electricity.

Market developments
We will continue to work with Ofgem and DECC as they develop proposals to help meet the energy challenges of the future, including options for greater SO independence and ensuring there is no disruption to the vital role of the SO. We will work closely with our stakeholders as proposals for roles and responsibilities of the SO become clearer.

Customers and stakeholders
We will continue to develop our longer-term strategy to understand the issues that will affect our customers and stakeholders in the future, and plan how we will best support them.

Delivering energy
We will continue to support the evolution of market frameworks in the UK and Europe to enable new types of generation and demand to come forward in response as the energy landscape changes.

Case study

Sustainability

David Parkin
National Grid, Network Strategy Director

"How can innovation help us reduce emissions?"

Cleaner gas

Around a third of the UK's greenhouse gas emissions are associated with heat, the majority of which is provided by natural gas.

Decarbonising domestic heat remains one of the major challenges in society's energy trilemma, so our Gas Distribution business is developing sources of renewable gas that can be transported through our existing networks. This approach means we can deliver low carbon heat directly to people's homes without the need for costly new infrastructure.

In 2015/16 we connected 12 new anaerobic digestion plants to our network. These plants generate renewable gas from a range of organic feedstock, including agricultural by-products and sewage waste, which is cleaned and processed.

We are working with the developers who own and operate these plants to reduce the cost and timescales of their connections to our networks.

Other innovative ways of reducing costs include our first high pressure plastic pipeline. We are also working with a range of parties to develop bio-substitute natural gas (BioSNG), which will enable us to generate renewable gas from a broader range of feedstock, including black bag domestic waste.

We are at the forefront of 'greening the gas grid', and foresee a lot more progress in this sector through the RIIO period.

Gas Distribution We own and operate four of the eight regional gas distribution networks in Great Britain. Our networks comprise approximately 131,000 kilometres (81,400 miles) of gas distribution pipeline and we transport gas from the national transmission system to around 10.9 million consumers on behalf of 39 gas shippers.

In focus

263TWh

Gas consumption in our networks

We manage the National Gas Emergency number (0800 111 999) on behalf of all gas distribution networks.

We handled nearly 2.3 million calls during 2015/16, across the emergency number, enquiry lines, appliance repair helpline and meter enquiry service.

Improving customer communications
To provide our customers with a safe and secure supply of gas we continue to invest in the network by replacing the existing metal gas mains pipes, which supply around 150,000 homes every year, with new hard-wearing plastic pipes.

A trial of a new suite of customer communication materials resulted in a 51% reduction in the number of complaints and enquiries in the trial areas. We will introduce these communication materials across all our networks in 2016/17 with the aim of improving our overall customer satisfaction performance, which is not yet at the level we would like.

Market context
We manage our networks to keep our customers safe and warm. We are incentivised through RIIO to operate efficiently and deliver services that our customers and stakeholders value.

Ofgem is able to make comparisons across all eight networks. It establishes outputs they are expected to deliver so we all maintain a safe and reliable network; make a positive contribution to sustainability and protect the environment; provide connections to supply new consumers and support new gas entry points into the network; meet their social obligations; and provide an agreed standard of service to consumers and other stakeholders.

We collaborate with the industry on issues, such as innovation, safety and the future of networks to deliver outcomes that customers value.

Gas remains an important part of the current and future energy mix and we are working with our customers and stakeholders to develop our networks to accommodate gas from new sources, such as biomethane.

What we've achieved in 2015/16
We remain committed to our ambition to be the best gas distribution business in Britain and continue to focus on delivering a safe and reliable service for our customers.

This year we were prosecuted for incidents at Scunthorpe and Dugdale and, after pleading guilty, accepted fines of £3m. We acknowledged that we did not do our job properly on these occasions and have since changed the way certain activities are carried out.

We have worked on improving the services we provide for our customers that make us a more efficient business. Responding to feedback from our employees and stakeholders, we have been improving the mobile technology used by our workforce and reducing the number and size of the holes we dig in the roads. These initiatives improve customer satisfaction and will also help us to continue delivering our RIIO outputs.

We have continued to connect different sources of gas to our network, particularly biomethane. Since the first connection in October 2013, we have now completed 22 biomethane connections in our networks. The most innovative during 2015/16 was Raynham Farms, Norfolk, which saw the first plastic pipe local transmission system connection in the UK.

We also connected the UK's first HGV filling station to the high pressure local transmission system. This new facility in Leyland, Lancashire, supplies 100% renewable biomethane and will therefore play an important part in the UK's rapidly growing renewable refuelling infrastructure. Our industry-leading work on the future of the gas network will ensure the gas distribution business features heavily in the nation's energy infrastructure for many years to come.

We have been preparing our business for the introduction of domestic smart meters, which, following a UK Government coordinated rollout, we expect will be standard across the country by the end of 2020.

We have invested further in technology for our strategic partners. The Tier One Replacement System (TORS) enables us to replace the pipes beneath our feet without the need for excavations. TORS promises a revolution in working practices and less disruption for our customers. Following trials, we are looking to use this technology in 2016/17 and further improve safety, network efficiency and customer satisfaction.

Priorities for the year ahead
Maintain a stable and strong business throughout the process for the potential sale, to maximise shareholder value and continue to deliver a safe and reliable network.

Create a truly customer-focused business by removing inconsistencies in service delivery, reducing the number and size of excavations, and introducing the new customer communication materials.

Optimise our processes and work more collaboratively to continue to operate an efficient network for employees and customers.

Create further value in the business to improve financial stability and customer satisfaction, and increase operational efficiency.

We will also strive to have our safest year yet, and continue to work with the UK Government on the future role of gas and increase the use of new technologies.

Principal operations continued

Overview of our US Regulated business by Dean Seavers

In focus

3.5m
electricity consumers in New England and upstate New York.

174km
(108 miles) of underground cable, 491 transmission substations and 668 distribution substations we operate in New England and upstate New York.

15 year
Our Power Supply Agreement (PSA) with LIPA is for 3,634 MW of capacity, comprising eight dual fuel (gas/oil-fired) steam units at three sites, 11 dual fuel combustion turbine units, and 27 oil-fired combustion turbine/diesel units.

27.5TWh
of electricity we forecast, plan for and procure annually across three states.

3.6m
consumers received services from our gas distribution networks including 24,341 new gas heating customers in 2015/16.

I believe there's something special about living, working, and playing in the communities we serve. We have approximately 15,000 employees serving the energy needs of more than seven million customers in our service territories in Massachusetts, New York and Rhode Island.

Our shared sense of community has taught us that today's customer is savvy, forward-thinking, and deeply mindful of the environment. We all want the same thing – to keep our communities healthy and prosperous. Together we can do it by working to solve what I believe is the greatest challenge of our time – climate change – while delivering innovation and economic development.

This makes our next steps as an energy provider straightforward: we need to make sure our energy becomes cleaner, more efficient, resilient and reliable, and with more customer choices.

We've promised to meet the energy needs of our customers in New England and New York. Let me tell you how we've done that over the past year, and what we have planned for the future.

A balanced approach

Our energy is becoming cleaner. All three of the states we serve have established goals of 80% reductions in emissions economy-wide versus 1990 levels by 2050. These states have already made progress toward their targets, but almost all emission reductions have come from cleaning up power generation.

We are also committed to working towards a decarbonised energy network by 2050. It's why we advocate for a balanced solution that includes renewables, energy efficiency, and increasing gas transmission.

We are taking the lead on innovating ways to make solar connections easier and more affordable. We support the Deepwater Wind project off the coast of Block Island, the first offshore wind project in the US. We are also proponents of the Maine Green Line, which would use a submarine cable to transmit wind power from northern Maine to Massachusetts, supplemented by imports of hydropower from Canada.

In both New England and New York, we are planning for new or expanded gas pipelines. You can read about what we're doing in each of our service territories in our regulated business section, pages 39 to 41.

In 2015, we received a number of accolades: ACEEE scored all three states in which we operate in the top 10 in energy efficiency; we are number five in the nation for solar megawatts installed per customer (according to the Solar Electric Power Association); and we were named the number one green utility in the US according to Newsweek's 'Top Green Companies in the World 2015'.

Looking forward

Connect21 remains our strategy to build and operate a better energy distribution network for the 21st century digital economy. Also gas forms a bridge that will help take us to a decarbonised future. It supports our intent to bring on more intermittent renewable energy generation until reliable large-scale energy storage technologies become available.

While aggressive, our strategy establishes a platform for a decarbonised energy supply chain without economic disruption in local communities.

US Regulated business

"We filed three rate cases in 2015 – one in Massachusetts and two in downstate New York"

What we do and where we do it

Electricity
We jointly own and operate transmission facilities across upstate New York, Massachusetts, New Hampshire, Rhode Island and Vermont. We own and operate electricity distribution networks in upstate New York, Massachusetts and Rhode Island.

Gas
We own and operate gas distribution networks across the northeastern US, located in upstate New York, New York City, Long Island, Massachusetts and Rhode Island.

What we've achieved during 2015/16

Safety
Our safety performance continues to improve. Through to March 2016 we've seen a 9% reduction in the number of injuries requiring medical attention and a 26% reduction in the number of injuries requiring employees to be out of work. We believe these improvements are the result of our safety plans, aimed at reducing key risks and preventing incidents, along with enhanced and targeted communications on lessons learned and intended to prevent reoccurrence.

During 2016/17, we will continue to build on safety plans with a significant focus on the prevention of soft tissue injuries, slips/trips/falls, and road traffic collisions.

Rate cases
We filed three rate cases in 2015 – one in Massachusetts and two in downstate New York.

In Massachusetts, we proposed to set new electricity distribution rates that will allow us to continue investing in our electricity infrastructure and improving service to our 1.3 million electricity customers. This submission covers only the distribution rates, found in the delivery portion of National Grid's electricity bills. This is the cost of delivering electricity to our customers and includes costs such as poles, wires, utility trucks, customer computer systems and taxes – all the costs to operate our business.

In New York, we proposed to update and reset our gas delivery rates that will allow us to continue investing in our natural gas networks and improving service to our 1.8 million gas customers in Brooklyn, Queens and Staten Island and Long Island/Rockaway Peninsula.

These proposals will let us:

- modernise and enhance the safety, reliability and resilience of our gas infrastructure;
- upgrade our gas network to deliver economic and environmental benefits;
- extend our gas expansion programme and add more gas heating customers each year;
- improve customer service capabilities; and
- deliver economic development funding and promote STEM education programmes.

These three proposals are undergoing a thorough review process by our regulators in each state. If approved, new charges will take effect from 1 October 2016 in Massachusetts and 1 January 2017 in New York.

Additionally, the New York Public Service Commission (PSC) will soon decide on two important items related to Niagara Mohawk. In December 2015, we filed a capex petition for Niagara Mohawk, which builds upon similar successful interim capex filings done for KEDNY and KEDLI in the past, and seeks to provide funding for $1.4bn of capex across FY17 and FY18. This 'extension filing' should allow us to use deferral account money, so that customer rates do not increase until we make our next full rate filing. Secondly, we are also waiting for approval for our Niagara Mohawk's financing plans, which will enable us to fund future construction and meet the mandatory redemptions. The petitions also afforded us with an opportunity to replace higher cost debt when economic to do so.

New Energy Solutions
In July, we announced the creation of our New Energy Solutions (NES) team. This team is focusing on driving cleaner energy, improving efficiency, affordability, and choice for customers. The goal of NES is to deliver state-mandated initiatives such as New York State's Reforming the Energy Vision (REV) and Grid Modernization (GridMod) in Massachusetts. It is also driving other innovative energy initiatives, like large-scale solar, electric vehicles, and battery storage.

Our jurisdictions

Each of our jurisdictions has projects under way to develop economic and environmental health in three ways: by driving economic growth; providing cleaner energy; and advancing innovative technologies. The following highlights some of our 2015/16 achievments.

Massachusetts
Year one of a two-year smart energy solutions smart grid pilot achieved a 98% retention rate from the original 15,000 customers who started in the pilot, a 72% customer satisfaction rate, and for active participants, an average energy saving of $100 or more.

Earlier this year, we submitted a proposal for a two-pipeline solution to address natural gas constraints in New England that included contracts with Access Northeast and the Northeast Energy Direct gas pipeline project. MADPU began a review of those proposals.

In April, Kinder Morgan decided not to move forward with Northeast Energy Direct. We have begun work to identify alternative solutions that can help meet the needs of our current and future gas customers.

The project was part of a two-pipeline solution intended to provide additional gas delivery capacity into the region for electricity generators. So, to stabilise electricity supply prices for our customers, Spectra's proposed Access Northeast project now becomes increasingly critical for the region.

Customers have been subjected to billions of dollars in electricity price increases over the last three winters. Supply prices are market-driven and are largely due to the increased demand for natural gas. An increase in supply capacity will help meet demand and lower prices for our customers.

We installed 28 miles of new gas mains, replaced 150 miles of gas mains, and added more than 6,900 new natural gas customers.

New York
In December 2015, we energised the Five Mile Road substation in rural Cattaraugus County, south of Buffalo. The $51.7 million project was several years in the making, and brings increased reliability and capability to the Company's bulk power transmission network across the southwest portion of New York state. It also involved upgrades to existing transmission circuits in the region.

We opened a new gas control centre on Long Island. This monitors and controls the gas system in our downstate and upstate regions. It also houses the Academy, a centre for technical and management training. High school students are welcome here through

US Regulated business

our Engineering Pipeline Program, to explore engineering safety, natural gas operations, electric power systems and smart grid technologies.

We awarded our two largest energy efficiency grants since our energy efficiency incentive programme began in 2009. With a $1.8 million incentive, Finch Paper in Glens Falls, New York purchased new equipment to remove bark and chip wood, reduce its energy use, yield more fibre, and secure a long-term supply of eight-foot logs, the company's primary raw material. Quad Graphics in Saratoga Springs, New York used a $1.1 million grant to install a more efficient printing press that has increased production by more than 60%.

We continue to invest more in replacing gas mains. The NYPSC approved $414 million gas infrastructure investment in Long Island to speed up the replacement of ageing pipe and extend the use of natural gas to more customers. We added more than 15,600 new gas customers.

Rhode Island
As part of our sea2shore project, we've begun installing an underwater 34.5 kV cable in preparation for Deepwater Wind, the nation's first offshore wind farm. The approximate 20-mile underwater cable will link Deepwater's five turbine project off Block Island to the mainland power grid.

The 30 MW wind farm has the capacity to generate enough power for 17,000 homes and will also include a fibreoptic line, bringing high-speed internet service to Block Island for the first time. The wind farm is expected to start operating this autumn.

We added seven miles of new gas mains, replaced 50 miles of gas mains, and added more than 1,800 new natural gas customers.

FERC
Partnering with Eversource, we completed the interstate reliability project, completing the New England East West Solution – a suite of projects designed to strengthen the reliability of the regional power grid.

Our costs for the project, $267.6 million, include station upgrades and the installation of a 75-mile, 345 kV transmission line along rights-of-way in Connecticut, Massachusetts and Rhode Island.

Along with three other leading energy companies, we announced in January 2016, a proposal – The Wind and Hydro Response – to deliver 400 MW of reliable, cost-effective clean energy to New England. The Wind and Hydro Response is our answer to a request for clean energy solutions that was issued jointly by state agencies and electricity distribution companies (including National Grid) in Massachusetts, Rhode Island and Connecticut.

Priorities for the year ahead

Our Connect21 journey continues to evolve with these three priorities for 2016/17: Performance excellence, customer value, and future customer expectations.

Performance excellence: Continue our safety compliance and performance excellence journey. Drive new ways of working, including performance excellence, compliance improvement programmes, and safety plans.

Customer value: Maximise and communicate customer value. Deliver tangible value to customers as identified and measured by our service-level agreements.

Future customer expectations: Anticipate future customer needs and transform our customer experience. Leverage jurisdictional model, digital customer experience, Connect21 platform, New Energy Solutions, and REV/Grid Mod filings.

Solar initiative in Massachusetts
Our Solar Phase II initiative installs large solar systems on sites we believe will bring the most benefit to the electric distribution system, regardless of the construction challenges it may pose.

Approved by MADPU in 2014, the initiative allows us to install up to 20 MW of utility-owned solar capacity.

During 2015/16 we partnered with local solar developers and municipalities to secure 18 sites in 12 municipalities across Massachusetts for projects ranging from 650 kW to 1 MW. So far, we have constructed and connected four sites, providing 3.3 MW of solar capacity to the grid.

In focus

Connect21

Connect21 is our strategy to advance America's natural gas and electricity infrastructure beyond its 20th century limitations, and create a more customer-centric, resilient, agile, efficient and environmentally sound energy network.

16.5bn

standard cubic metres of gas that we forecast, plan for and procure annually.

Case study

Cost

Khaled Halabi
National Grid,
Commercial Energy Efficiency
Senior Sales Representative

"How are we helping customers with energy efficiency?"

Quad Graphics
In Saratoga, New York, we have supported customer Quad Graphics with an energy efficiency incentive offer of $1,095,000. Our support is helping achieve significant energy savings while boosting productivity.

Quad Graphics, a print company, planned to invest in a new printing press that would increase its production output and help grow the business. Our energy efficiency consultant Khaled Halabi worked alongside the company, studying its printing process, determining that the proposed new press would use substantially less energy than the existing one.

With the new press in place, Quad Graphics will save 4.3 million kilowatts of electricity each year, achieving annual savings of around $380,000, while productivity is set to increase by more than 60%. The company was also expecting to take on 50 additional employees.

Case study

Growth

Nick Sides
National Grid,
Head of Interconnectors

> "How can interconnectors play a vital role in our energy future?"

Interconnectors

Electricity interconnectors are an absolutely vital part of the UK's energy mix. They physically link the UK to other European energy systems, giving the country access to a much larger and more diverse supply of power. This provides significant benefits for both UK energy consumers and for National Grid. Interconnectors provide a flexible supply of power in times of system stress and are an efficient way of transporting energy from where there is excess supply to where it's needed most.

We're currently operating two electricity interconnectors – IFA to France and BritNed to the Netherlands. We're constructing NEMO to Belgium and NSL to Norway, which will be the world's longest subsea interconnector when completed. We're also developing a number of new interconnector projects, including IFA2 to France and Viking Link to Denmark.

There are challenges of course. We need to manage an increasingly complex regulatory environment, while providing the highest levels of technical excellence.

We're constantly looking to create value for our customers.

Principal operations continued

Other activities

"We sold two sites this year, creating the potential for more than 1,750 new homes in London"

In focus

31%

Approximate percentage of UK gas from LNG imports, up from 27% in 2014.

LNG ship reloading

During 2015/16, we completed our first LNG ship reload where more than 157,000m³ of LNG, at around -158°C, was transferred onto another ship for onward transport. The reload process, coupled with the storage capability available at Grain, provides greater flexibility for customers.

Creating potential for new homes

In April 2015 we sold our site at Leeside Road, Tottenham to the London Borough of Enfield. The 17 acre site has potential for 840 homes. We dismantled two gas holders before the sale, using clay from the London Power Tunnels project to fill in the holder bases.

In the same month we sold our 90 acre site at Ebbsfleet Green to Redrow homes. The site has potential for 950 homes and forms part of the wider garden city proposal championed by Chancellor of the Exchequer George Osborne.

Interconnectors

The England-France interconnector (IFA) is a 2,000 MW HVDC link between the French and British transmission systems with ownership shared between National Grid and Réseau de Transport d'Electricité. Average availability for 2015/16 was 92.94%, up from 90.46% in 2014/15. A substantial proportion of the flow continues to be in the import direction, from France to Great Britain.

In July 2015, we launched a new process that gives customers vital information before an outage, meaning they are more able to accurately react and adjust their market position – improving the service they receive from IFA.

BritNed is a joint venture between National Grid and TenneT, the Dutch transmission system operator. It owns and operates a 1,000 MW HVDC link between England and the Netherlands. As with IFA, a substantial proportion of the flow is in the import direction from the Netherlands to Great Britain.

Following Board approval for the Belgium (Nemo Link) and Norway (North Sea Link) interconnectors in 2015, construction is now under way for both projects.

Nemo Link, developed between National Grid Interconnector Holdings Ltd and Elia, the Belgium transmission system operator, will connect Richborough in the UK and Herdersbrug in Belgium. The subsea cable will be 130 kilometres in length and have the capacity of 1 GW. Nemo Link is due to be operational in 2019.

North Sea Link (NSL) will connect Blyth in the UK and Kvilldal in Norway. Developed between National Grid and Statnett, the Norwegian transmission system operator, at 720 kilometres, NSL will be the world's longest subsea cable and will have a capacity of 1.4 GW. NSL is expected to be operational in 2021.

Grain LNG

Grain LNG is one of three LNG importation facilities in the UK. It operates under long-term contracts with customers and provides importation services of ship berthing, temporary storage and re-gasification into the national transmission system.

Our road tanker loading facility was commissioned in November 2015. The new loading hub offers a more environmentally-friendly alternative fuel and allows road tanker operators to load and transport LNG in bulk.

Metering

National Grid Metering (NGM) provides installation and maintenance services to energy suppliers in the regulated market in Great Britain. It maintains an asset base of around 13.4 million domestic, industrial and commercial meters.

Customer satisfaction scores for NGM remain positive for both its domestic, industrial and commercial businesses. We continue to work with our customers on areas for improvement by exploring additional products and services so we can respond to the rapidly changing non-domestic sector.

We continue to evaluate the opportunity of participating directly in the smart metering market by providing an end-to-end, dual-fuel smart metering offering to energy suppliers.

UK Property

National Grid Property is responsible for the management, clean-up and disposal of surplus sites in the UK, most of which are former gas works.

During 2015/16, we sold two sites and exchanged contracts on several high-profile land disposals with our joint venture partners under St William Homes LLP. Our estate management, gas holder dismantling and contaminated land clean-up programmes continue to reduce operational risk across our portfolio. In April 2016 BNP Paribas Real Estate took on our new real estate management services.

Xoserve

Xoserve delivers transactional services on behalf of all the major gas network transportation companies in Great Britain, including National Grid. Xoserve is jointly owned by National Grid, as majority shareholder, and the other gas distribution network companies. Xoserve celebrated its 10 year anniversary as a company on 1 May 2015.

US non-regulated businesses

Some of our US businesses are not subject to state or federal rate-making authority. These include interests in some of our LNG road transportation, some gas transmission pipelines (our minority equity interests in these are not regulated) and certain commercial services relating to solar installations, fuel cells and other new technologies that are an important part of our future.

Corporate activities

Corporate activities comprise central overheads, Group insurance and expenditure incurred on business development.

Our people

If we are to achieve our strategic objectives, we need to make sure our employees have the right skills and capabilities.

Safeguarding the future

We remain committed to helping address the significant skills challenge facing the engineering profession in both the UK and US.

In the UK, engineering companies are projected to need 182,000 people with engineering skills each year until 2022, according to the 2016 Engineering UK Report – yet the estimated shortfall is 69,000 annually.

A particular concern has been the low number of young women interested in engineering. Our initiatives include our residential work experience week, which in 2015 extended to around 100 young people, balanced 50/50 between girls and boys. 99% of the students said that the experience increased their interest in engineering, while 69% of the female students said that it persuaded them to follow a career in the energy industry.

We are helping schools, parents and children see engineering as a modern, dynamic, desirable career with a great future. Our employees act as education ambassadors who volunteer their time for a range of activities in the classroom and at science and engineering fairs, most notably on STEM enrichment, careers education and our work experience programmes.

In the US, we completed the sixth year of our National Grid Engineering Pipeline Program, designed to inspire high school students to pursue an engineering education and career. To date, 258 promising students have participated in the programme.

We promoted STEM education and careers to more than 300 middle and high school students during our Engineering our Future initiative. We also partner with seven local community colleges to deliver programmes designed to produce future electric line workers.

We have begun a partnership with the State University of New York to develop a Natural Gas Technician Certificate Program, designed to address future hiring needs for our gas operations.

We are continuing our partnership with the Center for Energy Workforce Development on its ‘energy industry fundamentals’.

Our US work experience opportunities include summer internships. Some interns start their journey into the energy industry through our Engineering Our Future programme and go on to join our Company through our graduate development programme.

We also offer summer internships in the UK, as well as 12 month industrial placements to undergraduates in their penultimate year. These programmes offer students the opportunity to experience our Company before deciding to join the organisation as graduates.

Building skills and expertise

Providing high-quality development opportunities for our employees is essential for us to construct, maintain and operate our electricity and gas networks safely and reliably. This year, our Academy has delivered 154,025 days of technical, safety, leadership and personal effectiveness training across our global workforce.

In January 2016, we inducted 75 high-potential employees onto our accelerated development programme; designed to enhance our leadership succession planning.

We have also developed our performance leadership programme, designed to help strengthen our performance leadership capability for leaders who manage functions or organisations.

Promoting an inclusive and diverse workforce

Our inclusion and diversity activities include attraction and recruitment, development, leadership, role modelling and cultural change.

A number of UK leaders were paired with mentors representing a range of diverse characteristics, allowing them to increase their knowledge of a particular area of diversity. Feedback was very positive and a further wave of the programme is planned.

In the US, we have continued to promote inclusiveness through programmes designed to raise awareness of unconscious bias and disability employment. Senior leaders have also shared personal experiences about inclusion through a series of videos.

We support 10 employee resource groups in the US, and six in the UK, that encompass inclusion and diversity. These groups are chaired by senior business leaders, so they can shape change within the business and the communities we serve, while providing professional development to the members.

In addition to our well-established Springboard and Spring Forward programmes for women, we are introducing a programme targeted at other under-represented groups – mainly ethnic minorities. We are also piloting a new online professional development platform for women and an initiative in the US is introducing more women into our field force.

Externally, we continue to be recognised as an employer of choice and work in partnership with a number of organisations that promote inclusion and diversity.

National Grid employees were named as the EY Young Energy Professional of the year 2015; a finalist in the Black British business awards; and one of six women profiled in the EY Women in Power and Energy Index 2015.

At the end of 2015, we were one of the first FTSE organisations to publish UK gender pay data.

In the UK, we have signed up to the Living Wage Foundation. We have committed to making sure our employees and those of our new suppliers are paid at least the Living Wage and have also pledged to take this further than the accreditation requires, including a commitment that our apprentices, interns and graduates at National Grid are also paid at least the Living Wage.

In focus

1.8m

Number of engineers, technicians and crafts people needed in the UK over the period 2012–2022.

7

Number of US local community colleges with whom we partner to deliver utility technology training programmes.

KPIs
pages 18–21

Board diversity
page 62

EmployAbility
In the UK, the EmployAbility programme targeted at young people with special needs is a notable example of the work done by our employee resource groups. The programme has now expanded to offer work experience internships at a number of our sites, and has garnered public recognition for its innovation and impact. Our US business has now launched its own pilot of the EmployAbility programme.

Troops to energy jobs
We work with veterans through the US troops to energy jobs programme, designed to help veterans make the transition from military service to the energy industry. Through our role with the US Joining Forces initiative, launched by the White House, we are aiming for 10% of our new hires to come from veterans over the next 10 years.

> "Our UK employees raised over £600,000 in support of Macmillan, our chosen charity partner"

The table below shows the breakdown by gender at different levels of the organisation. We have included information relating to subsidiary directors, as this is required by the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We define 'senior management' as those managers who are at the same level, or one level below, our Executive Committee. It also includes those who are directors of subsidiaries, or who have responsibility for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company, and are employees of the Company.

	Financial year ended 31 March 2016				
	Male	Female	Total	Male %	Female %
Our Board	8	3	11	72.7	27.3
Senior management	189	63	252	75	25
Whole Company*	19,177	5,891	25,068	76.5	23.5

* This measure is also one of our Company KPIs. See page 20 for more information.

Health and wellbeing

During 2015/16 we have continued to raise awareness of mental wellbeing across our UK business.

We have a leading role in the Business in the Community Workwell campaign that is focusing on mental wellbeing in the workplace, and also an alumni network supporting the Time to Change campaign.

More than 670 of our employees have pledged to support this campaign, and others have shared their personal stories, encouraging colleagues to talk about mental health. During 2015/16, we have trained more than 250 employees on mental health first aid.

Initiatives designed to improve employees' understanding of good nutrition have included a nutritional challenge. Our wellbeing kiosks were used more than 16,000 times by our employees during 2015/16, recording data such as blood pressure and weight.

In the US, our focus on soft tissue injury prevention included a sports therapy initiative. Our educational programmes focused on diseases such as diabetes and cancer.

Our employee engagement survey results continue to show that employees have a good awareness of our wellbeing programmes.

Volunteering

Our employees continue to share their skills, time and expertise through skills-based volunteering and fundraising activities.

In the UK, employees provided more than 14,000 hours of support to community projects. They participated in a number of fundraising activities to help our employee chosen charity partnership with Macmillan Cancer Support reach its fundraising target. Their efforts helped us exceed our target, raising more than £600,000, which provided 3,121 emergency fuel grants to people affected by cancer. We also raised more than £17,000 for Special Olympics Great Britain by organising a summer games event and supported the organisation's Athletes Leadership Programme.

In the US, our Power to Serve employee volunteering programme supports our stewardship and safety principles. It seeks to acknowledge existing community service, as well as to create new volunteer opportunities for employees.

Human rights

National Grid does not have a specific policy relating to human rights, but respect for human rights is incorporated into our employment practices and our values, which include respecting others and valuing diversity. See page 194 for more information.

Letter from the Chairman and Corporate Governance contents

Sir Peter Gershon
Chairman

Corporate Governance contents

Dear Shareholders,

This has been an interesting and exciting year for the Company and the Board, with the Board agenda focusing on some significant topics. External influences on the Board agenda included cyber security, the future of the System Operator, political developments and how the referendum on continued UK membership of the EU will affect the Company. The Board has also been spending time on the Company's strategy for the short and long term, the Group's principal risks and risk appetite, US rate case filings and the proposed sale of our UK Gas Distribution business, all of which are referenced in more detail later in this report.

Changes to the UK Corporate Governance Code 2014 (the Code)

Following the changes introduced in the Code and the Financial Reporting Council's (FRC) guidance on risk management, the risk team and Audit Committee reviewed our risk processes to make sure we have effective systems and processes in place to meet the new requirements. You can read more about our processes on pages 26 and 27.

The Board also reviewed and approved the Company's principal risks. This has been a very valuable process for the Board and played an important part in its approval of the viability statement required by the Code. You can read our new viability statement on page 30. After many recent changes to the Code, including the final draft of the UK Corporate Governance Code 2016, I welcome the FRC's commitment to avoid further updates to the Code until at least 2019, which will allow the UK governance landscape to settle and establish itself.

External Board evaluation

This year we appointed Independent Audit to undertake a formal and rigorous externally facilitated Board and committee evaluation. With the recent changes to the Code we thought it would be appropriate for the evaluation to focus on risk. Independent Audit concluded that the Board was working well and that it benefits from a good mix of experience from both the UK and US. They noted there was a good balance between strategic, operational and regulatory matters, with good engagement supported by thorough work by management. They made a number of recommendations in relation to risk, principally focused on cascading risk management further down the business. The results of the evaluation were presented to the Board in April, and a number of recommendations to take forward were considered by the Board in May. We will be monitoring the outcome during the year and will report on progress in next year's Annual Report and Accounts. You can find more information about the evaluation on pages 52 and 53.

Cyber security

During the year, the Board considered the threats we face and the effectiveness of our cyber security strategy to mitigate the inherent risks. In June 2015, the Board received an in-depth presentation so it could gain a comprehensive overview of the Company's long-term strategy on this issue. The focus was on establishing guiding principles for cyber security, deciding what questions the Board should be asking of the cyber security team and the development of a new cyber programme. This will improve the existing programme and help enhance the level of security to protect the business and to keep pace with the increasing scale and sophistication of threats. The Board will be receiving cyber security training and additional updates later in the year.

Board changes

As previously announced, Steve Holliday retired as Chief Executive on 31 March 2016, and will step down from the Board on 22 July 2016. He was succeeded as Chief Executive by John Pettigrew. Steve will leave National Grid after nearly a decade as Chief Executive and 15 years on the Board. Following John's appointment, we will also welcome Nicola Shaw on to the Board as Executive Director, UK from 1 July 2016.

In my role as Chairman, I am responsible for making sure the Board operates effectively, by promoting effective relationships and open communication between Directors. This is particularly important as the membership of the Board changes and new relationships are formed. Maintaining and promoting a culture of openness and debate and making sure the Board work together as a team are also important aspects considered during an appointment process.

The Nominations Committee oversaw the rigorous selection process in the search for Steve's successor and for our new Executive Director, UK. You can read more about this on page 61. These appointments were key to the Board and the fit with the current membership and how the individuals combine to add value was an important consideration in the decision-making process.

Sir Peter Gershon
Chairman

Our Board

Key
A Audit Committee
F Finance Committee
N Nominations Committee
R Remuneration Committee
S Safety, Environment and Health Committee
(ch) Chairman of committee
^ Including National Grid Group plc

Tenure as at 31 March 2016

Charts and committee membership are as at 18 May 2016

Sir Peter Gershon CBE FREng (69)
Chairman [N (ch)]

Appointed: 1 August 2011 as Deputy Chairman and became Chairman with effect from 1 January 2012

Tenure: 4 years

Career: Sir Peter is a Fellow of the Royal Academy of Engineering and has held a number of senior positions across multiple industries. His previous appointments include Chief Executive of the Office of Government Commerce, Managing Director of Marconi Electronic Systems and a member of the UK Defence Academy Advisory Board. Sir Peter is currently Chairman of Tate & Lyle plc and a Non-executive Chairman of the Aircraft Carrier Alliance Management Board and most recently a Trustee of The Sutton Trust Board.

Skills and experience: Sir Peter has significant board level experience gained across multiple industries, with considerable experience in Government through previous roles. He also has significant experience of general management both in the city and internationally and brings to the Board an in-depth understanding of the high-tech industry.

John Pettigrew FEI, FIET (47)
Chief Executive [F]

Appointed: 1 April 2014 and became Chief Executive with effect from 1 April 2016

Tenure: 2 years

Career: A Fellow of the Energy Institute and of the Institution of Energy and Technology, John joined the Company in 1991 and has over 25 years of experience at National Grid in a variety of senior management roles. John's previous appointments include Director of Engineering from 2003, Chief Operating Officer and Executive Vice President for the US Electricity Distribution & Generation business between 2007 and 2010, Chief Operating Officer for UK Gas Distribution between 2010 and 2012, and UK Chief Operating Officer from 2012 to 2014. John was appointed to the role of Chief Executive on 1 April 2016.

Skills and experience: Through his wide variety of roles in the UK and US businesses John has extensive knowledge of the Company as well as the engineering and utilities industries as a whole. He has an in-depth understanding of the Government and regulatory landscape.

Steve Holliday FREng (59)
Executive Director

Appointed: National Grid Group plc on 30 March 2001, to the Board in October 2002 and as Chief Executive from January 2007 through to 31 March 2016

Tenure: 15 years[^]

Career: A Fellow of the Royal Academy of Engineering, Steve was an Executive Director at British Borneo Oil and Gas before joining National Grid in 2001. Most recently Steve was Chairman of the UK Business Council for Sustainable Energy, a Prince's National Ambassador and Non-executive Director of Marks and Spencer Group plc. Steve is currently Chairman of Crisis UK and of the Energy, and Efficiency Industrial Partnership, Vice Chairman for Business in the Community and of The Careers and Enterprise Company and Lead Non-executive Director and Board member for the Department for Energy, Food and Rural Affairs (DEFRA).

Skills and experience: Steve has significant knowledge and experience of the energy and utilities industries in the UK and internationally. He has considerable board level, Government and regulatory experience.

Andrew Bonfield (53)
Finance Director [F, S]

Appointed: 1 November 2010

Tenure: 5 years

Career: Andrew is a chartered accountant with significant financial experience having previously been Chief Financial Officer at Cadbury plc until March 2010; he also spent five years as Executive Vice President & Chief Financial Officer of Bristol-Myers Squibb Company. As well as this, Andrew also has previous experience in the energy sector as Finance Director of BG Group plc and is currently a Non-executive Director of Kingfisher plc.

Skills and experience: Andrew brings significant finance experience to the Board and has extensive knowledge of international industries. Through his appointments in senior positions across several industries, Andrew has an in-depth knowledge of the energy and utilities industries both in the UK and internationally, in particular the US energy market.

Dean Seavers (55)
Executive Director, US

Appointed: 1 April 2015

Tenure: 1 year

Career: Dean began his career at the Ford Motor Company and held various senior management positions at Tyco International Ltd. before joining General Electric Company/United Technologies Corporation. He was President and Chief Executive Officer of General Electric Security and then President, Global Services of United Technologies Fire & Security. Dean was also a member of the Board of Directors of the National Fire Protection Association from 2010 to 2014 and lead network member at City Light Capital from 2011 to 2015 and President and Chief Executive at Red Hawk Fire & Security, LLC from 2012 to 2014. Dean is currently a Board member of Red Hawk Fire & Security, LLC.

Skills and experience: Dean has a wide range of financial and customer experience. He has significant general management experience with a particular focus on change and performance improvement programmes. Dean also has extensive knowledge of international markets, the city, corporate finance and financial services.

Alison Kay (52)
Group General Counsel & Company Secretary

Appointed: 24 January 2013

Career: Alison has undertaken several roles since joining National Grid in 1996 including UK General Counsel and Company Secretary from 2000 to 2008 and Commercial Director, UK Transmission from 2008 to 2012. Before joining National Grid she was a corporate/commercial solicitor in private practice.

Skills and experience: Alison is an experienced commercial lawyer bringing a wealth of practical advice and guidance to her current role. She has developed expertise in regulatory and contractual law and legal risk management through her experience at National Grid. She also brings rigour around corporate governance and reporting to the Board, gained partly through her current role and also in her previous role as Secretary to the boards of the subsidiary companies, National Grid Gas plc and National Grid Electricity Transmission plc.

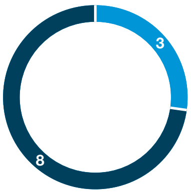
Corporate Governance continued

Key
A Audit Committee
F Finance Committee
N Nominations Committee
R Remuneration Committee
S Safety, Environment and Health Committee
(ch) Chairman of committee
^ Including National Grid Group plc

Tenure as at 31 March 2016

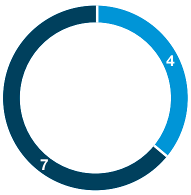
Charts and Committee membership are as at 18 May 2016

Board gender



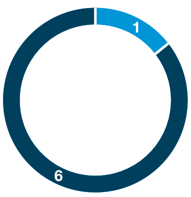
Women Men

Executive and Non-executive Directors



Executive
Non-executive (includes Chairman)

Non-executive Director tenure



0–3 years
3+ years (includes Chairman)

Nora Mead Brownell (69)
Non-executive Director [N, R, S]
Independent

Appointed: 1 June 2012

Tenure: 3 years

Career: A key individual in the US energy industry, Nora has significant experience gained in a variety of roles including Commissioner of the Pennsylvania Public Utility Commission and the Federal Energy Regulatory Commission (FERC) and former President of the National Association of Regulatory Utility Commissioners. Most recently, Nora sat on the Boards of ONCOR Electric Delivery Holding Company LLC and Comverge, Inc. Nora is currently a member of the Board of Spectra Energy Partners LP, Direct Energy Advisory Board and the Advisory Board of Morgan Stanley Infrastructure Partners as well as a partner in ESPY Energy Solutions, LLC.

Skills and experience: Through her Non-executive directorships, Nora brings extensive experience in US Government and regulation and has significant expertise in the US utilities industry in particular through her role as a Commissioner with FERC.

Jonathan Dawson (64)
Non-executive Director [F, N, R, (ch)]
Independent

Appointed: 4 March 2013

Tenure: 3 years

Career: Jonathan started his career in the Ministry of Defence before moving to Lazard where he spent more than 20 years. He was a Non-executive Director of Galliford Try plc, National Australia Group Europe Limited and Standard Life Investments (Holdings) Limited. Most recently he was Chairman of the Remuneration Committee, Non-executive and Senior Independent Director of Next plc until May 2015. Jonathan is currently a Non-executive Director of Jardine Lloyd Thompson Group plc and Chairman and a founding partner of Penfida Limited.

Skills and experience: Jonathan has a wide range of city experience with a significant and in-depth understanding of the corporate finance, pensions and banking industries.

Therese Esperdy (55)
Non-executive Director [A, F, (ch), N]
Independent

Appointed: 18 March 2014, and appointed to the Board of National Grid USA from 1 May 2015

Tenure: 2 years

Career: Having started her banking career at Lehman Brothers, Therese joined Chase Securities in 1997 and then held a variety of senior roles at JP Morgan Chase & Co. These included appointments as Head of US Debt Capital Markets and Global Head of Debt Capital Markets, co-head of Banking, Asia Pacific and Global Chairman of the Financial Institutions Group.

Skills and experience: Therese has significant experience in city, corporate finance and banking through her previous appointments. She also has a wide range of international experience having worked in a number of international markets.

Paul Golby CBE FREng (65)
Non-executive Director [A, N, R, S, (ch)]
Independent

Appointed: 1 February 2012

Tenure: 4 years

Career: A fellow of the Royal Academy of Engineering, Paul has held a variety of roles within the energy and utilities industries. Paul was an Executive Director of Clayhithe plc, before later joining E.ON UK plc where he was Chief Executive and later Chairman. He was also a Non-executive Chairman of AEA Technology Group plc. Paul is currently the Chairman of EngineeringUK, the UK National Air Traffic System, the Engineering and Physical Sciences Research Council and a member of the Council for Science and Technology. Most recently, Paul was appointed as Chairman of Costain Group plc on 5 May 2016.

Skills and experience: Paul has experience in energy utilities, Government and regulatory industries. Paul also has a wide range of board level experience gained through his Chief Executive and Chairman appointments.

Ruth Kelly (48)
Non-executive Director [A, F, N]
Independent

Appointed: 1 October 2011

Tenure: 4 years

Career: Ruth began her career in Government where she held various senior roles, including Secretary of State for Transport, for Communities and Local Government, for Education and Skills as well as Financial Secretary to the Treasury. She was also a senior executive at HSBC until August 2015. Ruth is currently appointed as Governor for the National Institute of Economic and Social Research and Pro Vice Chancellor at St Mary's University; she has also been a Non-executive Director on the Financial Conduct Authority Board since April 2016.

Skills and experience: Ruth brings in-depth knowledge of Government and regulatory practice; she also has experience in banking and corporate finance.

Mark Williamson (58)
Non-executive Director and Senior Independent Director [A, (ch), N, R]
Independent

Appointed: 3 September 2012

Tenure: 3 years

Career: A qualified accountant with significant financial experience, Mark was Chief Accountant and then Group Financial Controller of Simon Group plc before joining International Power plc as Group Financial Controller and later as Chief Financial Officer. Mark was a Non-executive Director at Alent plc where he was Chairman of the Audit Committee and Senior Independent Director. Mark is currently the Chairman of Imperial Brands PLC.

Skills and experience: Mark has extensive city, international accounting and finance experience in addition to senior and board level experience across multiple industries. Mark's experience in energy utilities amongst other industries has provided a good understanding of Government and regulatory matters.

Corporate Governance

Board composition

The successful delivery of our strategy depends upon attracting and retaining the right talent. This starts with having a high-quality Board. Balance is an important requirement for the composition of the Board, not only in terms of the number of Executive and Non-executive Directors, but also in terms of expertise, diversity and backgrounds.

While traditional diversity criteria such as gender and ethnicity are important, we also value diversity of skills, experience, knowledge and thinking styles. You can read about our Board diversity policy in the Nominations Committee report on page 61.

This year we said goodbye to Steve Holliday as Chief Executive and welcomed John Pettigrew as his successor. We will also be welcoming Nicola Shaw onto the Board as Executive Director, UK, from 1 July 2016. Apart from the appointment of Dean Seavers on 1 April 2015, as noted in last year's Annual Report and Accounts, there have been no other changes to the Board composition that have come into effect during the financial year. We continue to look forward, with succession planning being an important focus for the Nominations Committee and the Board.

Our Board and its committees

The Board delegates authority to its Board committees to carry out certain tasks on its behalf, so that it can operate efficiently and give the right level of attention and consideration to relevant matters.

The committee structure, reporting and communication lines are set out in the diagram below and the role and responsibilities of the committees are set out in their respective terms of reference, available on our website. Committee agendas and schedules of items to be discussed at future meetings are prepared in accordance with the terms of reference of each committee and take account of other topical and ad-hoc matters.

In addition to the vertical lines of reporting, the committees communicate and work together where required. For example, during the appointment process for John Pettigrew the Remuneration Committee worked closely with the Nominations Committee.

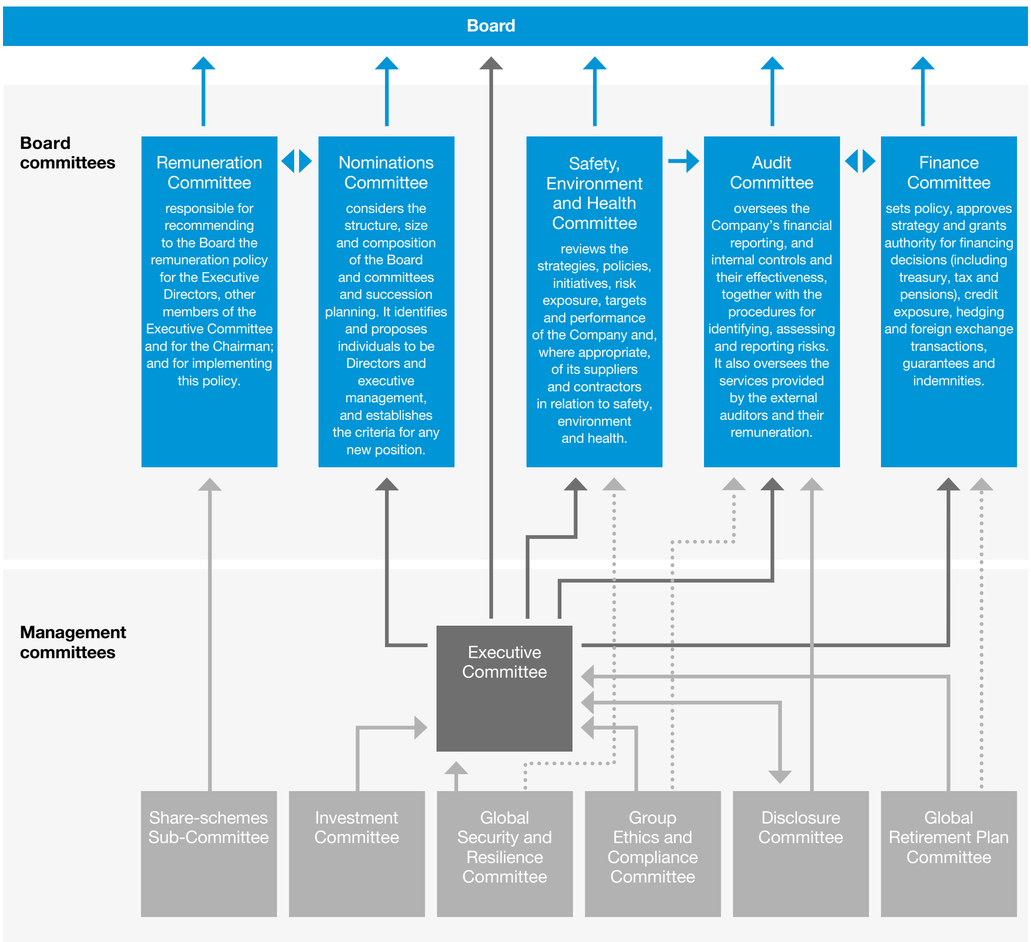
At Board committee meetings, items are discussed and, as appropriate, endorsed, approved or recommended to the Board, by the committee. Following Board committee meetings, the chairman of each committee provides the Board with a summary of the main decisions and discussion points so the non-committee members are kept up to date with the work undertaken by each Board committee.

Below the Board committees are a number of management committees, including the Executive Committee. You can read more about some of the management committees, including the membership and operation of the Executive Committee, on page 63.

Reports from each of the Board committees together with details of their activities during the year are set out on the following pages.

Key
Lines of reporting
Board/Board committees
Executive Committee to Board/Board committees
Management committees to Executive Committee/Board committees
Lines of communication

Board and committee interactions



Looking back. Examples of Board focus during the year included:

Areas of focus	Commentary
Cyber security	The Board is responsible for overseeing cyber security, and this year the Board has seen an increase in their focus on this issue. As mentioned in the Chairman's letter, the cyber security team provided the Board with a detailed overview in relation to cyber security, so that the Board had increased visibility and understanding of the Company's long-term strategy on cyber security. The focus was on the guiding principles and on determining what questions the Board should be asking of the cyber security team. The Board's discussions concluded that they needed to have greater visibility of cyber security and there should be training for the Board members in dealing with cyber security risks.
Proposed majority sale of the UK Gas Distribution business	The Board regularly reviews the composition of the Company's portfolio. As part of this review the Board received a strategy briefing in September, outlining the proposed commencement of a process for the potential sale of a majority stake in the UK Gas Distribution business. The discussion included: various transaction options; detailed financial impacts; significant challenges to be addressed; the communication strategy; return of proceeds to shareholders and the future dividend policy; and the transaction timeline. Following discussion and challenge on a number of issues, the Board unanimously agreed to the commencement of the sale process. The Board has been kept up to date on progress.
Principal risks and viability	The risk team provided updates on the UK Corporate Governance Code 2014 requirement for the Company to produce a viability statement. Discussions at Board meetings included: a review of the Company's principal risks; the viability statement period; the management and mitigation of the principal risks; and how we would test the impact of the risks on the Company, including through the use of scenario planning. In May 2016, the Audit Committee recommended the viability statement to the Board which was approved.
US regulatory rate case filings	In April 2015, the Board received an update on work being undertaken by the US finance and regulatory groups for the preparation of the Company's first rate case filings since 2012. During the year the Board received regular progress reports on the rate case filings for our downstate New York gas companies, KEDNY and KEDLI, and also Massachusetts Electric. An overview of each filing was received by the Board before they were submitted, including a term sheet outlining the key metrics of each submission. An extension request for the rate case filing in Niagara Mohawk was also seen by the Board before filing. This extension proposed electricity and natural gas delivery prices for customers being frozen at current levels through to March 2018 while allowing the Company to increase investments to enhance its gas and electricity systems.
European energy and the politics of energy	The Board received an update on important UK and EU political developments prior to the UK General Election in May 2015. Following the General Election, the Board received a paper on the potential implications for the Company and an engagement plan. The Board was also kept up to date on the referendum on the continued UK membership of the EU and the potential effects of exiting Europe, including on the development of interconnector projects and on our continuing involvement and benefits of being in the Integrated Energy Market.
The future of the System Operator	The future of the SO has been considered previously by the Board and was reviewed again in detail in September 2015. In particular, Ofgem's Integrated Transmission Planning and Regulation (ITPR) project and emerging DECC thinking on the possible creation of a 'super System Operator' were developments the Board considered. Additional updates on progress were provided in January, March and April 2016 when the Board received updates on future option modelling following discussions with Government.
UK onshore competition	In addition to defining our role on the future of the SO, the Board has recently discussed the Company's position on where consenting activity to support competitively tendered onshore transmission should be undertaken. In conclusion, the Company's view was that competition should only be taken forward where it was in the interests of consumers. In March 2016, the Board discussed specific questions posed by Ofgem in relation to the Company's position on onshore competition and discussed working with Ofgem to explore an enduring consenting solution, taking into account shareholder and consumer benefits.
Strategy sessions	In addition to time allocated during the year at Board meetings, the Board participated in two interactive strategy sessions involving a combination of a full Board discussion and breakout groups. The Board's focus was on the state of the market in the UK and US, future opportunities for the Company including business development, merger and acquisition opportunities, and how the Company's core capabilities could be used to best effect.
Site visits	In January 2016, the Non-executive Directors visited the Company's UK cyber security operations centre, which provided an insight into its day-to-day operations and highlighted awareness of the direct security threats to the Company as they occur and are analysed 24 hours a day. Other visits by the Directors included safety site visits, including a visit to Power Plant Operations to celebrate over 10 years of no accidents, a field visit in Brooklyn to one of our LNG trucking provider locations to see facilities and meet management, and a site tour in Eakring. Another visit was to the Western Link project to review the Scotland/England interconnector and new sub-station. In September 2016, the Board members will be visiting our Buffalo, New York office which will include a site tour. These visits provide the opportunity for Directors to meet local management teams, discuss aspects of the business with employees, and gain insight into our day-to-day business.

Looking forward. The Board's focus for next year is expected to include:

- regular reviews of safety activities;
- updates on the UK Gas Distribution sale process;
- European energy update following the outcome of the UK's EU referendum;
- UK and US operational business overviews;
- continued detailed review of strategy and financing;
- the outcome of US rate case filings;
- implications of the ITPR project on our activities;
- future options for the SO;
- cyber security updates and training;
- innovation;
- results and follow up on the action planning from the external Board and committee evaluation;
- the 2016 UK Winter Outlook; and
- results of the 2016 employee engagement survey.

Directors' induction programme

Following new appointments to the Board, the Chairman, Chief Executive and Group General Counsel & Company Secretary arrange a comprehensive induction programme. The programme is tailored based on experience and background and the requirements of the role.

John Pettigrew has been a Board member since April 2014. Following his succession to the role of Chief Executive he has been meeting external and internal stakeholders and external advisors and brokers as necessary. From 1 April 2016 John became a member of the Finance Committee and he will receive training and development as appropriate. He will also attend other committee meetings where appropriate. A tailored induction programme will be created for Nicola Shaw and monitored accordingly.

Director development and training

As our internal and external business environment changes, it is important to make sure that Directors' skills and knowledge are refreshed and updated regularly. Our Chairman is responsible for the ongoing development of all Directors.

To strengthen the Directors' knowledge and understanding of the Company, Board meetings regularly include updates and briefings on specific aspects of the Company's activities, such as the development of our new cyber security programme and updates on the UK's EU referendum. Updates on corporate governance and regulatory matters are also provided at Board meetings and there are training and development opportunities available for our Directors. Additionally, the Non-executive Directors are expected to visit at least one operational site annually.

In focus

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meetings held with institutional and private investors during the year in 11 countries

Further detail on
www.investors.nationalgrid.com

Investor engagement

We believe it is important to maintain effective channels of communication with our debt and equity institutional investors and individual shareholders. This helps us to understand their views about the Company and allows us to make sure they are provided with timely and appropriate information on our strategy, performance, objectives, financing and other developments.

Institutional investors

We carry out a comprehensive engagement programme for institutional investors and research analysts, providing the opportunity for our current and potential investors to meet with executive and operational management.

This includes:

- meetings, presentations and webinars;
- attendance at investor conferences across the world;
- holding road shows in major investor centres, mainly in the UK, Europe and the US; and
- offering the opportunity for individual stewardship meetings.

In the last year, our engagement programme has focused on clarifying our Group growth expectations. This included communicating the rationale behind our decision to commence the proposed sale of the majority stake in our UK Gas Distribution business, and explaining to investors how we expect the Company to continue to perform against its regulatory contracts in both the UK and US businesses.

In November, we arranged a meeting in London to provide institutional investors and research analysts with an opportunity to meet our US leadership team, led by Dean Seavers, and to understand more about the current performance of our US business and its outlook. A copy of the presentation and associated materials are available in the Investors section of our website.

The Board receives regular feedback on investor perceptions and opinions about the Company. Specialist advisors and the Director of Investor Relations provide updates on market sentiment.

Additionally, each year, the Board receives the results of an independent audit of investor perceptions. Interviews are carried out with investors to establish their views on the performance of the business and management. The findings and recommendations of the audit are then discussed by the Board.

Debt investors

Over the last year senior group treasury representatives have met debt investors in Europe, Canada and the US to discuss various topics such as our full-year results and upcoming US rate case filings.

We also communicated with our debt investors through regular announcements and the debt investor section of our website. This contains bond information, credit ratings and materials relating to the subsidiary year-end reports. The website also contains information about our long-term debt maturity profile, so investors can see our future refinancing needs.

Individual shareholders

Engagement with individual shareholders, who represent more than 95% of the total number of shareholders on our share register, is led by the Group General Counsel & Company Secretary.

Shareholders are invited to learn more about the Company through our shareholder networking programme. The programme includes visits to UK operational sites and presentations by senior managers and employees over two days. UK resident shareholders can apply to take part in this programme via the Investors section of our website.

For information on the 2016 Annual General Meeting, please see page 66.

Board and committee membership and attendance

The table below sets out the Board and committee attendance during the year to 31 March 2016. Attendance is shown as the number of meetings attended out of the total number of meetings for the individual Director during the year.

If any Directors are unable to attend a meeting, they are encouraged to communicate their opinions and comments on the matters to be considered via the Chairman of the Board or the relevant committee chairman. Instances of non-attendance during the year were considered and determined as being reasonable in each case due to the individual circumstances. In relation to the Board meeting non-attendances, John Pettigrew and Steve Holliday were precluded from attending the ad hoc Board meeting in November as it related to CEO succession and they were therefore both conflicted from attending. Dean Seavers was unable to attend a Board meeting due to personal reasons. Non-attendance at the Committee meeting was due to the short notice of the Nominations and Remuneration Committees ad hoc meetings and members having prior commitments, and also for personal reasons.

The Board has determined that Mark Williamson, Chairman of the Audit Committee, has recent and relevant financial experience; is a suitably qualified audit committee financial expert within the meaning of the SEC requirements; and is independent within the meaning of the New York Stock Exchange listing rules.

Director	Board Meetings	Audit	Finance	Nominations	Remuneration	Safety, Environment & Health
Sir Peter Gershon	10 of 10	–	–	7 of 7	–	–
Steve Holliday[1]	9 of 10	–	3 of 4	–	–	–
John Pettigrew[2]	9 of 10	–	–	–	–	–
Andrew Bonfield	10 of 10	–	4 of 4	–	–	4 of 4
Dean Seavers	9 of 10	–	–	–	–	–
Nora Mead Brownell	10 of 10	–	–	7 of 7	6 of 6	4 of 4
Jonathan Dawson	10 of 10	–	4 of 4	7 of 7	6 of 6	–
Therese Esperdy	10 of 10	5 of 5	4 of 4	7 of 7	–	–
Paul Golby	10 of 10	5 of 5	–	7 of 7	5 of 6	4 of 4
Ruth Kelly	10 of 10	5 of 5	4 of 4	6 of 7	–	–
Mark Williamson	10 of 10	5 of 5	–	7 of 7	6 of 6	–

Attendance notes
1. Steve Holliday stepped down as Chief Executive with effect from 31 March 2016.
2. John Pettigrew became Chief Executive with effect from 1 April 2016.

Board and committee evaluation

We are back to the first year of the Company's three-year performance evaluation cycle. The last externally facilitated evaluation took place in 2012/13. In line with the Code, for the year 2015/16 we have undertaken a formal and rigorous externally facilitated Board effectiveness review. We appointed Independent Audit to undertake the evaluation. Independent Audit, which has no other connection to the Company, considered the Board and committees' performance with a particular focus on risk.

The evaluation was conducted between November 2015 and April 2016 and included:

- an initial planning meeting with the Chairman, Group General Counsel & Company Secretary and Independent Audit to agree the approach and expectations of the evaluation;
- one-to-one interviews based on the same set of questions conducted by Independent Audit with the Board members, Group General Counsel & Company Secretary, Head of Secretariat and other members of senior management who regularly interact with the Board and its committees;
- Independent Audit attending the Board meeting in January to observe behaviours and interactions;
- a review of the 2015 Board and committee papers and minutes, and a selection of other relevant governance documents to form a view of the effectiveness of the Board and its committees;
- the preparation of a report by Independent Audit which was initially shared with the Chairman and Group General Counsel & Company Secretary; and
- the presentation of results presented for discussion at the Board in April with the proposed recommendations presented in May.

The effectiveness of each of the Board committees was taken into account in the evaluation. All committees received an update on the external evaluation and discussed any recommended actions. The evaluation identified a number of specific recommendations to take forward for the Audit and Nominations Committees. Independent Audit concluded that the Board was working well even though it had seen changes in membership over the past few years and thought the Board now benefitted from a good mix of experience in both the UK and US. The Board agenda demonstrated there was balance between strategic, operational and regulatory matters, with good engagement of the Board members supported by thorough work by management. They also made a number of recommendations in relation to risk, principally focused on cascading risk management further down the business.

Actions for 2016/17

Independent Audit concluded there were six main recommendations for further development. In May the Board discussed and agreed the following actions:

- to give a renewed push to improve Board and committee papers, including the enforcement of standards of papers and timely submissions;
- to bring out strategic themes more clearly in the Board papers, pre-read papers and the Chief Executive's report;
- the Chairman will discuss with the Non-executive Directors the strategy items on the draft agenda for the next following meeting and articulate the views from the Non-executive Directors as to what is required at the Board meeting including any questions that need answering;
- integrate risk more effectively into strategy development and planning;
- continue to consider the skills and capabilities needed on the Board for executing the Company's future strategy; and
- to review whether there is enough focus on people on the Board agenda.

Board and committee evaluation cycle

Year 1 2015/16	Year 2 2016/17	Year 3 2017/18
Externally facilitated evaluation → conducted by independent consultants	Internal review →	Internal review (returns to Year 1)

Individual performance

As part of our annual evaluation process, Mark Williamson, as Senior Independent Director, led a review of the Chairman's performance. The Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfill his role as Chairman. It was concluded that the Chairman continued to show effective leadership of the Board and his actions continued to influence the Board and the wider organisation. Mark Williamson discussed the feedback and development opportunities with the Chairman.

Progress against actions from 2014/15

Progress against the actions from last year's internally facilitated evaluation have been monitored by the Group General Counsel & Company Secretary and the Chairman throughout the year and an update on progress was provided at the April Board meeting. A commentary against each action from last year's review is set out below.

Last year an evaluation of committee performance was also conducted by the Chairman of each of the Board committees, following a similar process to that conducted by the Board. Where relevant, action plans were prepared for the committees and progress against the actions was monitored throughout the year.

Update on actions from last year

Area	Actions	Commentary
Environment	Optimise the boardroom layout to create a more inclusive environment for members and presenters. **Responsibility: Board members/ Group General Counsel & Company Secretary**	For all meetings the Group General Counsel & Company Secretary makes sure the boardroom layout is appropriate to enable open discussion and promote an effective meeting. The Group General Counsel & Company Secretary also highlights any new presenters to the Board in the Chairman's briefing material and the relevant Executive Director introduces the presenter to the meeting.
Environment	Continue to create a more open boardroom atmosphere and culture. **Responsibility: Chairman/ Board members**	The Chairman manages the boardroom environment throughout meetings, encouraging open discussion on all matters and making sure all Board members are involved. A definite upward trend of contribution by all Board members has been seen. The Group General Counsel & Company Secretary makes sure there is appropriate time allocated to all agenda items and makes arrangements to foster an open atmosphere and culture.
Board discussions	Maximise the effectiveness of Board discussions. **Responsibility: Chairman/ Executive Directors/Group General Counsel & Company Secretary**	The information going to the Board is reviewed every six months through meetings between the Chairman, the Chief Executive and the Group General Counsel & Company Secretary. The new reporting framework delivered by external specialists last year has continued to provide the Board and committees with clearer, more concise papers. This has helped improve Board discussions and decision making. At the December 2015 Executive Committee meeting the Group General Counsel & Company Secretary updated the Executive members on the role they play in drafting the papers. We will continue to review and make sure only relevant information is provided to the Board. A further refresh of the Board paper process will commence this year. After large discussion items, the Chairman summarises the key points from the discussion. He also confirms what is expected next, if anything, and if there are any actions for relevant Board members.
Board discussions	Use a diversity of thinking styles. **Responsibility: Chairman/ Board members**	The Board members have become more flexible with their questioning taking into account their thinking styles, which varies according to the topic. At the post meetings with the Non-executive Directors, the Chairman makes sure they provide feedback on behaviours displayed during the meeting.
Board focus	Continue to manage the strategy agenda. **Responsibility: Chairman/ Chief Executive/Group General Counsel & Company Secretary**	Significant time has been scheduled for strategy on the Board meeting agendas. In addition, we usually hold two half-day strategy sessions during the year which take place on a separate day to the Board meeting, to make sure the strategy discussions are productive and stimulating. In July 2016 there will be a full strategy away day. Additionally, the Chief Executive has developed a detailed schedule of Board strategy updates for the forthcoming year and has recently circulated to the Board the material to be covered at the July strategy day.

Mark Williamson
Committee chairman

Audit Committee

Review of the year

This report aims to provide an insight into the work of the Audit Committee over the year in relation to the UK and US businesses, the external auditors, and our role within the Company's internal assurance functions, as well as the significant issues debated by the Committee during the year.

US business review

Last year, I reported on the work undertaken and progress made in relation to the US financial controls environment. This has remained a focus for the Committee this year and we expect the strengthened US leadership team to substantially complete the US finance transformation plan by 31 March 2017.

In September, the US finance senior leadership team joined the Committee meeting to give an in-depth update on the initiatives underpinning the US finance team transformation plan with each senior leader presenting on their area of responsibility. This provided us with an opportunity to hear directly from members of the team, raise questions and challenge as necessary.

I also took the opportunity in September to visit the Service Delivery Centre in Syracuse, New York to meet the US Shared Services and Finance teams. The visit highlighted the credit and collections process, a critical component of the larger revenue recognition process employed by the Company. I received presentations highlighting the work performed by each team, accomplishments, and areas of focus, together with an in-depth review of the credit and collections activities.

Additionally, in February I joined a video conference with the Finance Director and US finance leadership team for a progress update and to discuss the sustainable improvements being made to the overall US financial controls environment. The Finance Director and the US Chief Financial Officer have continued to keep the Committee up to date on progress with regular reports throughout the year on priorities and proposed improvements to support the transformation plan.

UK business review

While the US financial controls environment has remained an area of focus for the Committee, during the year we have also received regular updates of the overall Group control environment, including a presentation from the UK finance team on the status of the UK finance change programme.

Following the introduction of RIIO, the UK business has undergone significant change, which in turn demanded a different level of support from the UK finance team. The change programme is intended to improve the capability and capacity of the function to better support the business in a RIIO environment. The Committee challenged management on the status of the change programme and the revised processes and controls.

Audit tender

Overseeing the competitive tender process for the external audit was a significant undertaking for the Committee and management. You can read more about the process on page 56. I kept the Board up to date on our progress and in November recommended to the Board, for its consideration, that Deloitte LLP be appointed as our new external auditors. Our current auditors, PricewaterhouseCoopers LLP, will continue in their role and undertake the audit for the year ending 31 March 2017, subject to reappointment by shareholders at the 2016 AGM. The appointment of Deloitte will be recommended to our shareholders for consideration at the 2017 AGM. We look forward to working with Deloitte in the future.

Looking forward, we will continue to receive updates on the UK Gas Distribution sale and will support the Board as appropriate in relation to this potential transaction.

Mark Williamson
Committee chairman

Examples of Committee focus during the year included:

Areas of focus	Commentary	
Risk management	The Committee has been delegated responsibility by the Board for monitoring and assessing the effectiveness of our risk management processes. During the year, the risk team undertook a review of our risk processes to make sure we have effective systems and processes in place to meet the requirements of the 2014 UK Corporate Governance Code and the FRC guidance on Risk Management, Internal Control and Related Financial and Business Reporting. Going forwards, the Committee will also receive reports to be considered by the Board on risk process developments to enable the Committee to keep fully appraised of changes in the risk profile of the Company and to allow it to monitor the management of risk throughout the year.	The Committee continues to monitor the effectiveness of the risk management and internal control processes during the year and reports to the Board on the outcome of its annual review which covers all material controls, including financial, operational and compliance controls. You can read more about our risk management process and the review of effectiveness on pages 26 to 29. Details of our internal control systems, including those relating to the financial reporting process, can be found on pages 29 and 183.
Viability statement	Following the new requirement in the Code, the Annual Report and Accounts must now include a viability statement, which you can find on page 30. The viability statement requires the Board to confirm that it has assessed the Company's principal risks and viability. At its meeting in September, the Committee considered the outcome of a review of the Company's	risk processes and proposed improvements to make sure there were effective systems and processes in place to support the Board in making this statement. At the Committee meeting in May, it considered the viability statement and recommended the statement to the Board for approval at its May meeting.
Going concern statement	In addition, the Committee considered the Group's short-term liquidity and capital and considered it appropriate to adopt the going concern basis in the financial statements. The Board considered and	approved the Committee's recommendation at its May meeting. The Company's going concern statement is set out on page 102, note 1A.
Fair, balanced and understandable	The Committee considered the requirement of the Code to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable in the	context of the applicable accounting standards and confirmed this view to the Board.
Financial reporting	The Committee monitors the integrity of the Company's financial information and other formal documents relating to its financial performance and makes appropriate recommendations to the Board before publication. An important factor in the integrity of financial statements is making sure that suitable and compliant accounting policies are adopted and applied consistently on a	year-on-year basis and across the Company. In this respect, the Committee also considers the estimates and judgements made by management when accounting for non-standard transactions, including the treatment of exceptional items. See page 57 for further details.
Disclosure Committee reports	When reviewing the half and full-year announcements, the Committee considers reports of the Disclosure Committee. The Disclosure Committee also reports the results of its evaluation of the effectiveness of the Company's	disclosure controls to the Audit Committee. See page 63 for more information on the role of the Disclosure Committee.
Sarbanes-Oxley Act 2002 testing and attestations	The Committee receives regular updates on the status of testing and considers the impact of deficiencies reported in the past year.	See page 29 for the Company's statement on the effectiveness of internal control over financial reporting.
Cyber security risk management	Responsibility for reviewing the governance processes in relation to cyber security has been delegated to the Committee by the Board. An update on the status of our	cyber security risk management process and cyber security strategy was presented to the Committee in September.
Compliance management	Compliance management is part of the Global Assurance function, which incorporates ethics, risk management, licence management and records management. Biannual reports to the Committee focus on compliance with external legal obligations and regulatory commitments. Additional detail has been added to the reports this year, providing information on trends, root cause of incidents, and action tracking to help prioritise and prevent recurrence.	The Committee also received an update on the compliance improvement programme in September. The objective of the programme is to make sure the Company understands its external compliance obligations, that effective control frameworks are in place, and that compliance issues are managed with the right level of priority. The paper also set out the steps to help further embed compliance activities within the business. Strengthening existing control frameworks will be an important part of progressing compliance performance improvements in the business.

Areas of focus	Commentary	
Confidential reporting procedures and whistleblowing	The Committee reviews these procedures annually to make sure that complaints are treated confidentially and that a proportionate, independent investigation is carried out in all cases.	The Committee also receives annual reports on the Company's anti-bribery procedures and reviewed their adequacy. It noted that no material instances of non-compliance had been identified.
Internal audit charter	In accordance with best practice, the Corporate Audit Charter was reviewed against the Institute of Internal Auditors (IIA) international standards and the IIA model charter.	This review assessed the purpose, authority and responsibility, as defined in the charter, to make sure they are sufficient to enable the Corporate Audit function to complete its objectives. Minor changes to the charter were approved by the Committee in November.
Performance review	The 2015/16 Board and committee evaluation was conducted externally by Independent Audit and included a high level review of the Board committees.	The recommended actions for the Audit Committee were considered by the Committee in May and an action plan agreed.

The Committee in action – audit tender
PwC have been the Company's external auditors since the merger with Lattice Group plc in 2002, and were the incumbent external auditors of both the merging parties. Their performance has been reviewed annually by the Committee since that time.

As described in last year's Annual Report and Accounts, it was decided to tender the audit this year having considered the Competition and Market Authority Order requiring FTSE 350 companies to hold an audit tender every 10 years as well as the final European Commission (EC) regulations, which came into EU legislation in June 2014. Based on the EC transitional arrangements, the final year in which PwC could have been appointed as the Group's auditors would have been for the year ending 31 March 2020. As such PwC were not invited to be part of the tender process.

The following tender process was undertaken:

- a pre-qualification questionnaire was issued to interested parties;
- the submissions were scored by the finance and procurement teams against a detailed scoring mechanism focusing on areas such as audit quality, relevant industry experience and understanding of our business;
- the scores were presented to the Committee in July together with a proposed short list of firms; and
- at its July meeting, the Committee discussed and agreed the short list of firms and approved the issue of a formal Request for Proposal (RFP) to the short-listed firms.

The key stages of the RFP were as follows:

- **meetings** were held between the potential firms and members of the Board and senior finance team to set out the requirements for the audit and provide a better understanding of the expectations of key stakeholders and our business;
- **references** for the proposed key team members of each firm were sought;
- **technology workshops** were held with finance team members to give the potential firms the opportunity to demonstrate their audit technology tools and their relevance to the Company; and
- **written tender documents** were submitted by each firm covering specific areas including audit approach, risk identification, audit scope, independence and the proposed audit fee.

Throughout the process, we were mindful of the need to preserve the independence of the external audit. Each potential firm was required to disclose all existing relationships with the Company and explain their proposals to make sure these relationships would not cause any conflict of interest in line with SEC and proposed EU rules on auditor independence.

In early November, each potential firm presented to a panel (comprising the Committee, other members of the Board and senior finance team members and chaired by the Chairman of the Committee) setting out why they should be selected to be our external auditors. These sessions provided the panel with the opportunity to question each firm and follow up on queries from their written submissions.

The Committee discussed the outcome of the presentations and views of other members of the panel at its November meeting and recommended that Deloitte LLP was the most suitable firm to be our next auditors based on the principal evaluation criteria of audit quality, team experience and cultural fit. This recommendation from the Committee was subsequently approved by the Board at its November meeting.

Deloitte's appointment, subject to approval at the 2017 AGM, will be effective for the year ending 31 March 2018. The timing of the change in auditors will help ensure both an orderly transition and compliance with external regulations on the provision of non-audit services.

PwC, National Grid's current external auditor, will continue in their role until Deloitte's appointment. They have expressed their willingness to continue as auditors of the Company for the year ending 31 March 2017 and the Committee has therefore recommended to the Board that a resolution proposing the re-appointment of PwC as external auditors be put to shareholders at the 2016 AGM. There are no contractual obligations restricting our choice of external auditors and we have not entered into any auditor liability agreement.

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 – statement of compliance. The Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

Significant issues

The most significant issue the Committee considered in relation to the financial statements during the year was the US financial control environment and in particular these related to property, plant and equipment. The Committee also considered a paper presented by management highlighting the Company's policy for presenting items as exceptional and the immediate accounting implications of the proposed sale of a majority stake in our UK Gas Distribution business.

The independent auditors' report (pages 85 to 92) also includes some other areas of focus, including the accuracy and valuation of treasury derivative transactions, accounting for net pension obligations, revenue recognition, and valuation of environmental provisions which were not considered in detail by the Committee during the year, as nothing significant arose that warranted extensive Committee attention.

US financial control environment

The Committee has continued to devote a significant amount of time to reviewing the actions management are taking to improve the US financial controls environment. The two main areas of focus and challenge by the Committee on this issue were:

- progress made by management against the measures taken to remediate the US financial control deficiencies. In particular the Committee asked management to produce a clear timetable for clearing the control deficiencies; and
- the status of the US finance organisational design programme, in particular, understanding the structure of the new US finance senior leadership team and management's plans to fill key vacancies.

Presentation of exceptional items

There were two specific items that the Committee considered this year in respect of exceptional items:

- as part of the half-year results announcement, the Committee considered the treatment of the £49m gain recognised when National Grid exchanged its share of the Iroquois pipeline joint venture for shares in Dominion Midstream Partners, LP. The Committee was satisfied that this item should not be recognised as exceptional based on the size of the transaction; and
- at year end, the Committee considered the treatment of the costs incurred in preparation for the UK Gas Distribution sale. The Committee agreed with management's proposal that these be treated as exceptional to reflect the nature of the costs. This presentation would be consistent with the treatment of the overall profit on the sale when the transaction completes.

Potential sale of majority stake in the UK Gas Distribution business

The Committee considered the immediate accounting implications following the announcement of the sale plans in November. In particular, the Committee was satisfied with the conclusion reached that, based on the separation work remaining and the overall status of the transaction, the assets and liabilities did not need to be classified as held for sale at 31 March 2016. The Committee will continue to monitor this during 2016/17 as the potential transaction progresses.

External audit

The Committee is responsible for overseeing relations with the external auditors, including the proposed external audit plan, the approval of fees, and makes recommendations to the Board on their appointment or reappointment. Details of total remuneration paid to auditors for the year, including audit services, audit-related services and other non-audit services, can be found in note 3(e) of the consolidated financial statements on page 110.

Auditor independence and objectivity

The independence of the external auditors is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Auditor independence and objectivity is safeguarded by a number of control measures, including:

- limiting the nature and value of non-audit services performed by the external auditors;
- ensuring that employees of the external auditors who have worked on the audit in the past two years are not appointed to senior financial positions within the Company in line with our internal code;
- monitoring the changes in legislation related to auditor objectivity and independence to help ensure we remain compliant;
- providing a business conduct helpline that employees can use to report any concerns, including those relating to the relationships between Company personnel and the external auditor;
- the rotation of the lead engagement partner at least every five years (a new lead engagement partner was appointed for the 2015/16 financial year);
- PwC's internal independence rules and processes, which have been designed to exceed professional standards and focus on both personal independence and scope of services;
- independent reporting lines from PwC to the Committee and the opportunity to meet with the Committee independently; and
- an annual review by the Committee of the structures, policies and practices in place to make sure the external auditors' objectivity and independence is maintained.

Audit quality

To maintain audit quality and provide comfort on the integrity of financial reporting, the Committee reviews and challenges the proposed external audit plan, including its scope and materiality prior to approval, to make sure that PwC has identified all key risks and developed robust audit procedures and communication plans.

The Committee also considers PwC's response to accounting, financial control and audit issues as they arise, and meets with them at least annually without management present, providing the external auditors with the opportunity to raise any matters in confidence.

Auditor appointment

An annual review is conducted by the Committee of the level and makeup of the external audit and non-audit fees and the effectiveness, independence and objectivity of the external auditors.

The annual review includes consideration of:

- audit quality and the external audit process globally;
- the auditors' performance and delivery against the audit plan;
- the expertise of the firm and our relationship with them including the level of challenge; and
- the initial results of online questionnaires completed by the Chairman, Committee members, Executive Directors and senior representatives from the finance team. The questions focused on: the quality of service; sufficiency of resources; planning and execution of the audit; communication and interaction; and overall satisfaction.

Following this year's annual review, the Committee was satisfied with the effectiveness, independence and objectivity of the external auditors, and recommended to the Board their reappointment for a further year. A resolution to reappoint PwC and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2016 AGM.

Internal (corporate) audit

The corporate audit function provides independent, objective assurance to the Audit, Safety, Environment and Health and Executive Committees on whether our existing control and governance frameworks are operating effectively in order to meet our strategic objectives. Assurance work is conducted and managed in accordance with the IIA international standards for the Professional Practice of Internal Auditing and Code of Ethics.

To keep the Committee informed of trends identified from the assurance work and to update on progress against the corporate audit plan, the Head of Corporate Audit reports to the Committee at least twice each year. These reports present information on specific audits, as appropriate, summarise common control themes arising from the work of the team and update on progress with implementing management actions. Where control issues are identified, senior leaders may be invited to attend Committee meetings to provide commentary on the actions they are taking to improve the control environment within their area of responsibility.

In order to meet the objectives set out in the Corporate Audit Charter, audits of varying types and scopes are conducted as part of the annual corporate audit plan. The audit plan is based on a combination of risk-based and cyclical reviews, together with a small amount of work that is mandated, typically by US regulators.

Inputs to the audit plan include risk registers, corporate priorities, external research of emerging risks and trends, and discussions with senior management to make sure the plan aligns with the Committee and Company's view of risk. The audit plan is considered and approved by the Committee annually and progress against the plan is monitored throughout the year.

The Committee is responsible for the appointment and removal of the Head of Corporate Audit. The Committee met privately with the Head of Corporate Audit during the year.

Non-audit services provided by the external auditors

In accordance with our policy, non-audit services provided by the external auditors above a threshold of £50,000 require approval in advance by the Committee.

Below this threshold, all requests must be approved in advance by the Finance Director but do not require Committee pre-approval. This reduces the administrative burden on the Committee. A full list of all Committee and Finance Director approved non-audit work requests is presented to the Committee annually to ensure the Committee is aware of all non-audit services provided.

Additionally, the Committee receives quarterly reports from management on non-audit services and other consultants' fees to monitor the types of services being provided and fees incurred.

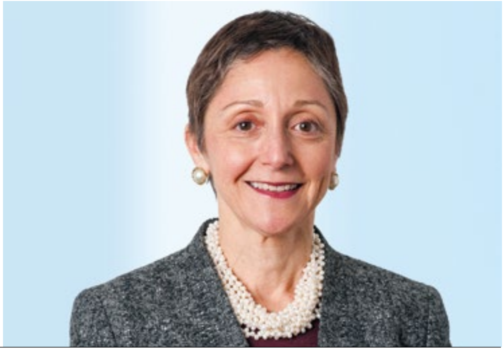
Approval for the provision of non-audit services is given on the basis the service will not compromise independence and is a natural extension of the audit, or if there are overriding business or efficiency reasons making the external auditors most suited to provide the service. Certain services are prohibited from being performed by the external auditors, as required under the Sarbanes-Oxley Act 2002.

Total non-audit services provided by PwC during the year ended 31 March 2016 were £8.9 million (2015: £0.9 million), representing 63% (2015: 7%) of total audit and audit-related fees (see note 3(e)). The increase in the year relates to two significant projects: vendor due diligence and separation support in respect of the potential UK Gas Distribution transaction and 'data scrub' work on financial information prior to inclusion in US rate case filings. For both of these projects it was concluded that the work would be most efficiently performed by the external auditor based on their understanding of our businesses and that most of the information used was derived from audited financial statements. Both projects were discussed by the Committee and pre approved by the Chairman of the Audit Committee prior to work commencing.

Total audit and audit-related fees include the statutory fee and fees paid to PwC for other services that the external auditors are required to perform, such as regulatory audits and Sarbanes-Oxley Act attestation. Non-audit fees represent all other services provided by PwC not included in the above.

Non-audit services provided by PwC in the year included tax compliance services in territories other than the US (£0.5 million), the significant majority of which related to the UK.

The Committee considered that tax compliance services were most efficiently provided by the external auditors, as much of the information used in preparing computations and returns was derived from audited financial information. In order to maintain the external auditors' independence and objectivity, management reviewed and considered PwC's findings and PwC did not make any decisions on behalf of management.



Therese Esperdy
Committee chairman

Finance Committee

Review of the year

This was my first full year as Committee chairman, during which we have focused on our funding programme taking into account international market conditions, as well as overseeing the early stages of the treasury and other finance related aspects of the proposed sale of a majority stake in our UK Gas Distribution business.

At the end of the year, we said farewell to Steve Holliday as a member of the Committee as he stepped down from his Chief Executive role, and from the start of April we welcomed John Pettigrew to the Committee as he transitioned into that role. I would like to thank Steve for his contribution to this Committee as part of his wider leadership of National Grid over many years.

2015/16 has also seen changes within the treasury team, with a new Group Tax and Treasury Director taking on the role in early 2016. With accompanying changes in the UK and US treasury teams I look forward to working with the new management team to build on the strong base they have inherited.

The Committee has met with management and employees across the treasury, tax, pensions and insurance functions in both the UK and US through the course of our routine meetings. In addition, all members of the Committee met separately with the new Group Tax and Treasury Director as part of his induction into the role.

As part of our continuous review of counterparty risk, in June we received a presentation from external advisors on the banking market initiatives designed to improve the capital position of banks. Following the Committee's approval to simplify our liquidity policies last year, the revised policy was successfully implemented and we reviewed performance during the year.

The Committee approved the issuance of a non-dilutive convertible bond in September. This innovative funding transaction demonstrates our focus on funding diversification and cost effectiveness, and was recognised with the Deal of the Year Award for 2015 by the Association of Corporate Treasurers.

During the year, the Committee received an update on the activities and performance of our captive insurance companies, which highlighted the cost savings generated by these arrangements. We also reviewed the future strategy for the insurance function, our outsource arrangements, and the ongoing plans for the captive insurance companies.

In the second half of the year, the Committee spent time on the financing related aspects of the proposed sale of a majority stake in our UK Gas Distribution business. This included reviewing the pension and tax aspects of the proposed transaction, together with planning our approach to the associated liability management exercise. This will continue to be a major focus for the Committee in the year ahead.

In April 2016, the Committee received an external update on the potential impact of the forthcoming referendum on the UK's membership of the European Union. We assessed the treasury and other issues that might arise, together with their potential impact on the Company.

We will also continue to review our ongoing funding needs, liquidity management, pension funding and our future insurance strategy.

Examples of key matters the Committee considered during the year included:

- funding requirements and financing for the business plan;
- setting and reviewing treasury policies;
- treasury performance updates;
- UK and US tax updates;
- update on US energy procurement activities and electricity and gas trading activities in the UK;
- foreign exchange policy and interest rate risk management;
- the draft going concern statement for the half- and full-year results prior to consideration by the Board;
- update on pension and post-retirement healthcare arrangements; and
- insurance renewal programme and overall insurance strategy.

The Committee in action – rebalancing our debt portfolio

The Committee has had oversight of management's plans to rebalance our debt portfolio relating to the potential sale of a majority stake in our UK Gas Distribution business.

We initially reviewed and challenged management's overall strategy for the restructuring programme, and subsequently received presentations over multiple meetings on the proposed methodology and risks associated with delivering it.

Various options were considered and we concurred with management's proposed approach on this important issue. We will continue to oversee progress in the coming year.

Thérèse Esperdy

Therese Esperdy
Committee chairman

Paul Golby
Committee chairman

Safety, Environment and Health Committee

Review of the year

Over the year the Safety, Environment and Health Committee has seen the Company make further progress in process safety management and the safety performance of both the UK and US businesses. The US has closed the gap on the UK in terms of combined employee and contractor Lost Time Injuries and the Company overall now has an injury frequency rate of 0.10.

Road traffic collisions remain higher than we would like in both the UK and the US. Starting in the UK, the Company has therefore required many of its employees to attend safe driver training with the aim of reducing incidents. We have also benchmarked our approach to safe driving externally and ascertained that it represents good industry practice.

The Committee receives reports from the Engineering Assurance Committee (EAC) every six months. In particular, we considered work being done by the EAC in succession planning for the Company's engineering employee population. Following recommendations from the Committee, the collection and analysis of data on the Company's engineers was accelerated to facilitate the development of a strategy for recruitment and retention of employees, which recognises the value of engineering qualifications particularly in relation to safety critical roles.

We have continued to focus on process safety and establishing a safety management system across both UK and US businesses. We also received reports on the measures being introduced at key US LNG plants located close to areas that have pockets of relatively dense population. This includes the installation of automatic shutdown mechanisms and, for four plants, dike remodelling to improve the containment of LNG in the low probability event of an incident.

We continued to monitor the Company's approach to compliance with US gas safety regulations (see the 'Committee in action' box opposite). The Committee spent time reviewing how the Company benchmarks its performance against that of other bodies, both in the utilities' sector and elsewhere in the fields of safety, environment and health. It also considered other areas in which it may be beneficial to extend such benchmarking.

In terms of the environment, we have continued to monitor our strategy and approach to sustainability. In particular, we have looked at how we are working with governments and bodies to influence regulations that directly affect our business.

Our performance to date in reducing greenhouse gas (GHG) emissions has been successful and we expect to exceed our 2020 reduction target significantly. However, the necessary reductions in GHG emissions to meet our 2050 target will be a greater challenge. Following the UN Climate Change Conference in Paris in December 2015 (COP21), the Committee met to consider the outcomes of the conference and how these affect the Company.

Further work is planned for 2016/17, as the impact on national legislation is expected to become clearer and we review our emissions reduction strategy and our ability to meet our 2050 GHG reduction targets.

We also considered the Company's health and wellbeing strategy and the work being undertaken to improve data management, implement better line management awareness training and provide support and guidance to employees.

Examples of other matters the Committee reviewed during the year included:

- ongoing monitoring of safety performance and significant incidents in the UK and US;
- update on lessons learnt and steps taken following a fatality of a member of the public in the UK in April 2014, for which the Company was fined £2m in December 2015;
- compliance and risk reporting for safety, environment and health;
- the introduction and application by the Company of the accounting for sustainability (A4S) methodology for new projects;
- programmes for musculo-skeletal injury prevention and mental well-being in the UK; and
- the impact that the so called 'Obama Care' laws may have on the provision of health care plans for our US employees.

The Committee in action – US gas pipeline safety management

Following several years of very significant pipeline incidents, the US Congress and regulators have changed their approach to enforcing gas pipeline safety legislation, becoming impatient with companies that are not showing continuous improvement in compliance-related matters. This is demonstrated by a recent series of compliance orders in New York State, record-setting penalties nationwide and further demands for compliance improvement plans.

The Company's response has been to heighten its focus on compliance and investment in people, training and systems to meet these requirements through new gas enablement initiatives and the setting up of a gas pipeline safety monitoring system. This will involve using the Company's process safety management system and expanding its approach to gas distribution assets. The US business has reviewed its standards and procedures and has worked to build a consistent and integrated approach to gas pipeline safety compliance across the Company.

Over the past couple of years, the Committee has monitored the progress of these measures, stressing the importance of compliance with legislation rather than tolerance of fines. It has encouraged the Company to improve communications with regulators in order to help shape solutions to evolving regulatory issues. These include recent changes to New York State's definition of service lines, affecting where jurisdictional piping responsibility ends and therefore where the Company's responsibility for gas pipeline safety commences and ends.

Paul Golby
Committee chairman

Sir Peter Gershon
Committee chairman

Nominations Committee

Review of the year

During the year, succession planning has been the main area of focus for the Committee. The process of building a strong and effective Board requires a good balance of continuity and refreshment and the Committee has borne this in mind in its deliberations.

Appointment of new Chief Executive

As described in my foreword to the Corporate Governance report, during the year we have undertaken a rigorous recruitment process to appoint a successor to Steve Holliday, which resulted in the appointment of John Pettigrew as our new Chief Executive. You can read more about the Chief Executive succession search and appointment process in the 'Committee in action' box opposite.

Succession planning

The Committee also spent time considering succession planning over the long term, for both Executive and Non-executive Director positions, to make sure we have the right mix of skills and experience for the future. The main focus of these discussions was to take account of the recruitment process for the Chief Executive role and subsequently the appointment of our new Executive Director, UK, following John's appointment as Chief Executive. Following a thorough and rigorous appointment process, Nicola Shaw was appointed to the role of Executive Director, UK and we will be welcoming Nicola on to the Board from 1 July 2016; see opposite for more details on this search and appointment process.

Diversity

Balance and fit with current Board members are important considerations in recruitment to the Board. Therefore part of the selection process for Board appointments is for the Committee to review the existing skills and experience of the Board and to also undertake external benchmarking and a review of potential external candidates. The Board also takes into account the need to make sure there is appropriate diversity, including diversity in thinking styles. Further details on the Company's approach to diversity are set out overleaf.

Board and Committee membership

Following the changes in Board membership, the composition of the committees was also reviewed. As a result of his appointment as Chief Executive, John Pettigrew joined the Finance Committee with effect from 1 April 2016.

Examples of other matters the Committee considered during the year included:

- Executive succession planning focusing on the identification, development and readiness of successors to the Executive Committee in particular; and
- a review of the Chairman's performance, led by Mark Williamson, the Senior Independent Director.

The Committee in action – Chief Executive succession search and appointment process

A formal process was undertaken by the Committee over a three year period in order to find an appropriate successor to Steve Holliday as Chief Executive. Luke Meynell, an external advisor, initially of Russell Reynolds Associates and subsequently of The Zygos Partnership, supported the Committee to make sure there was rigour and challenge to our process which was as follows:

- a Chief Executive role profile was prepared and agreed by the Committee;
- the external advisor conducted initial searches and assessed a long list of internal and external candidates against the agreed profile to produce a shortlist of potential candidates;
- shortlisted internal candidates were considered and interviews and assessments were undertaken;
- the Chairman and some of the Non-executive Directors met the potential external candidates;
- following a review of the ratings from all the interviews and assessments the Committee agreed its preferred internal candidate;
- the preferred candidate was benchmarked against external candidates;
- following discussion of the impact of the proposed appointment on the succession plans of the Company, the Committee confirmed its preferred candidate and recommended John Pettigrew for appointment as Chief Executive to the Board;
- the Board approved the appointment as recommended.

Search and appointment process

Executive Director, UK

A formal recruitment process was also undertaken for the replacement of John Pettigrew as Executive Director, UK, as follows.

The Nominations Committee appointed Korn Ferry as the search consultancy. With input from the Committee members a role and person specification was agreed.

Korn Ferry conducted initial searches for potential external candidates, with eight candidates being put forward for the role. Following this, a series of interviews were undertaken by the Chairman and members of the Board and Executive Committee. The Committee considered the outcomes from the interviews and selected two candidates for further consideration.

Final interviews with the two candidates were carried out by Steve Holliday, John Pettigrew, Ruth Kelly, Mark Williamson and members of the Executive Committee. Additionally, the two shortlisted candidates were externally assessed by YSC, a business management consultancy that undertakes executive director profiling assessments.

Following discussion, the Nominations Committee recommended Nicola Shaw as its preferred candidate for appointment to the Board. The Board approved the appointment as recommended and Nicola will join the Board on 1 July 2016.

In addition to providing external search consultancy services to the Company, Korn Ferry also provide HR consultancy services.

Sir Peter Gershon
Chairman

Board diversity and the Davies Review

At National Grid, we believe that creating an inclusive and diverse culture supports the attraction and retention of talented people, improves effectiveness, delivers superior performance and enhances the success of the Company.

Our Board diversity policy promotes this culture and reaffirms our aspiration to meet and exceed the target of 25% of Board positions being held by women by 2015, as set out by Lord Davies. In October 2015, Lord Davies published his final report on women in the boardroom and recommended a new voluntary target of 33% of board positions to be held by women by 2020. In April 2016, the Nominations Committee discussed progress made against our Board diversity policy and noted the new target.

We currently have 27% women on our Board and 22% women on our Executive Committee. The number of women in senior management positions and throughout the organisation is set out on page 45 along with examples of the initiatives to promote and support inclusion and diversity throughout our Company.

In February 2014, the Nominations Committee set out eight measurable objectives to support our Board diversity policy. During the year, the Committee reviewed the Board diversity policy and progress made against the objectives which support the implementation of the policy as set out below.

	Objectives	Progress
1	The Board aspired to exceed the target of 25% of Board positions to be held by women by 2015.	**Objective met**. We currently have 27% women on our Board, which will increase to 33% when Nicola Shaw joins in July 2016. Lord Davies recommended in his final report that the target be increased to a voluntary 33% target by 2020. The Board has noted this new target.
2	All Board appointments will be made on merit, in the context of the skills and experience that are needed for the Board to be effective.	**Objective met**. The appointment of John Pettigrew as Chief Executive and Nicola Shaw as Executive Director, UK were made on merit.
3	We will only engage executive search firms who have signed up to the Voluntary Code of Conduct on Gender Diversity.	**Objective met**. Korn Ferry, Russell Reynolds Associates and The Zygos Partnership are signed up to the Voluntary Code of Conduct on Gender Diversity.
4	Where appropriate, we will assist with the development and support of initiatives that promote gender and other forms of diversity among our Board, Executive Committee and other senior management.	**Objective met**. See page 44 for further details.
5	Where appropriate, we will continue to adopt best practice in response to the Davies Review.	**Ongoing – as appropriate**. The Nominations Committee reviewed and noted the recommendations of the Lord Davies report published in October 2015 and best practice will be adopted as appropriate and reported on next year.
6	We will review our progress against the Board diversity policy annually.	**Objective met**. Ongoing.
7	We will report on our progress against the policy and our objectives in the Annual Report and Accounts along with details of initiatives to promote gender and other forms of diversity among our Board, Executive Committee and other senior management.	**Objective met**. Ongoing.
8	We will continue to make key diversity data, both about the Board and our wider employee population, available in the Annual Report and Accounts.	**Objective met**. Ongoing.

Progress against the objectives, the policy and the new targets will continue to be reviewed annually and reported in the Annual Report and Accounts.

Executive Committee membership key

1 John Pettigrew Chief Executive and Committee chairman

2 Andrew Bonfield Finance Director

3 Stephanie Hazell Group Strategy & Corporate Development Director

4 Alison Kay Group General Counsel & Company Secretary

5 Richard Adduci Chief Information Officer

6 George Mayhew Group Corporate Affairs Director

7 Dean Seavers Executive Director, US

8 Mike Westcott Group Human Resources Director

9 Steve Holliday Executive Director

Management committees

To help make sure we allocate time and expertise appropriately, the Company has a number of management committees, which include the Executive Committee, Disclosure Committee, Investment Committee, Group Ethics and Compliance Committee, Global Retirement Plan Committee and Group Security, and Resilience Committee. These committees provide reports, where relevant, to the appointing committee in line with our governance framework on the responsibilities they have been delegated. See page 49 for management committee reporting lines.

Executive Committee

Led by the Chief Executive, the Executive Committee oversees the safety, operational and financial performance of the Company. It is responsible for making day-to-day management and operational decisions it considers necessary to safeguard the interests of the Company and to further the strategy, business objectives and targets established by the Board. It approves expenditure and other financial commitments within its authority levels and discusses, formulates and approves proposals to be considered by the Board.

The Committee in action – rate case filings

During the year, the Committee reviewed and discussed our proposed rate case filings for both Massachusetts electricity operations (MECO) and our downstate New York gas companies (KEDNY/KEDLI). These filings aim to increase our allowed revenue in line with increased operating costs since base rates were reset after the last full rate review for each company (2010 for MECO, 2008 for KEDNY/KEDLI) and also to fund future investment needed to meet our customers' requirements and improve reliability.

A key focus of the Committee discussions was on understanding the impact of the requested rate increases on our customers, and considering stakeholder perspectives. Following discussion, the proposals were approved for filing at the October meeting for MECO and at the January meeting for KEDNY/KEDLI.

There are currently nine Committee members, with Steve Holliday remaining a member of the Committee until he leaves the Company in July 2016. As previously announced, Nicola Shaw will become a member of the Committee with effect from 1 July 2016, on joining the Company as Executive Director, UK. The Committee members have a broad range of skills and expertise, which are updated through training and development. Some members also hold external non-executive directorships, giving them valuable board experience. The Committee officially met 12 times this year, but the members interact much more regularly. Those members of the Committee who are not Directors regularly attend Board and committee meetings for specific agenda items. This means that knowledge is shared and all members are kept up to date with business activities and developments.

Disclosure Committee

The role of the Disclosure Committee is to assist the Chief Executive and the Finance Director in fulfilling their responsibility for overseeing the accuracy and timeliness of the disclosures made – whether in connection with our presentations to analysts, financial reporting obligations, or other material stock exchange announcements, including the disclosure of price sensitive information.

This year the Committee met to consider the announcements of the full- and half-year results and reported on relevant matters to the Audit Committee. In doing so it spent time considering the Company's disclosure obligations relating to the announcement of the proposed UK Gas Distribution sale process and the expected impact this would have on the Company's growth rate.

The Committee also reports the results of its evaluation of the effectiveness of the Company's disclosure controls to the Audit Committee.

The Committee is chaired by the Finance Director and its members are the Group General Counsel & Company Secretary, the Global Tax and Treasury Director, the Global Financial Controller, the Director of Investor Relations, the Head of Corporate Audit and the Deputy Group General Counsel, with other attendees as appropriate.

Statement of compliance with the UK Corporate Governance Code

The UK Listing Rules require that listed companies must include in their annual report a statement of whether the Company has complied with all the relevant provisions of the UK Corporate Governance Code. The UK Corporate Governance Code was published in September 2014 (the Code), available in full at www.frc.org.uk.

For the year ended 31 March 2016, the Board considers that it has complied in full with the provisions of the Code. Our statement of compliance opposite explains the main aspects of the Company's governance structure to give a greater understanding of how the Company has applied the principles and complied with the provisions in the Code. The main report also explains compliance with the Disclosure Rules and Transparency Rules. The index on page 67 sets out where to find each of the disclosures required in the Directors' Report in respect of Listing Rule 9.8.4, together with the Board's sign-off on the report.

A. Leadership

A.1 The role of the Board
Our Board is collectively responsible for the effective oversight of the Company and its businesses. It also determines the strategic direction, business plan, objectives, principal risks, viability of the Company and governance structure that will help achieve the long-term success of the Company and deliver sustainable shareholder value.

The Board sets the risk appetite and principal risks for the Company and takes the lead in areas such as safeguarding the reputation of the Company and its financial policy, as well as making sure we maintain a sound system of internal control and risk management (see pages 26 to 29).

There is a clear schedule of matters reserved for the Board and a schedule of delegation, which were both updated in January 2016. The schedule of matters reserved for the Board is available on our website, together with other governance documentation.

A.2 A clear division of responsibilities
The Board supports the separation of the roles of the Chairman and Chief Executive. The key responsibilities are clearly documented and reviewed when appropriate. The Chairman manages and leads the Board. The Chief Executive is responsible for the executive leadership and day-to-day management of the Company and the Group's businesses, to ensure the delivery of the strategy agreed by the Board.

A.3 Role of the Chairman
The Chairman, who was independent on appointment, is responsible for the leadership and management of the Board and its governance. He makes sure the Board is effective in its role by promoting a culture of openness and debate, facilitating the effective contribution of all Directors and helping to maintain constructive relations between Executive and Non-executive Directors. The Chairman sets the Board's agenda making sure consideration is given to the main challenges and opportunities facing the Company, and adequate time is available to discuss all items, including strategic issues.

A.4 Role of the Non-executive Directors
Our Senior Independent Director acts as a sounding board for the Chairman and serves as an intermediary for the other Directors, as well as shareholders when required.

Independent of management, our Non-executive Directors bring diverse skills and experience, vital to constructive challenge and debate. Exclusively, they form the Audit, Nominations and Remuneration Committees, and their views are actively sought when developing proposals on strategy.

Around the Board meetings, the Chairman holds meetings with the Non-executive Directors without the Executive Directors present.

B. Effectiveness

B.1 The composition of the Board
The Board believes it operates effectively with an appropriate balance of independent Non-executive and Executive Directors who have the right balance of skills, experience, independence and knowledge of the Company.

Details of our Board, their individual biographies and Committee membership are set out on pages 47 and 48. Board and Committee attendance during the year to 31 March 2016 is set out on page 52.

The independence of the Non-executive Directors is considered at least annually along with their character, judgement, commitment and performance on the Board and relevant committees. The Board took into consideration the Code and indicators of potential non-independence, including length of service.

The Board considered Paul Golby's independence separately following the announcement of his appointment as Chairman of Costain Group plc (a major supplier to the Company). The situational conflict was authorised (including putting in place protective measures to ensure the conflict is appropriately managed) and his independence was confirmed.

At year end, all of the Non-executive Directors, with the exception of the Chairman, who's independence is only determined on appointment, have been determined by the Board to be independent.

B.2 Appointments to the Board
The Nominations Committee, which comprises the Chairman and Non-executive Directors leads the process for Board appointments and makes recommendations to the Board. The process for the appointment of John Pettigrew as Chief Executive and Nicola Shaw as Executive Director, UK were formal, rigorous and transparent. Further details of each appointment process, succession planning and the role of the Nominations Committee can be found on page 61.

B.3 Time commitment
Non-executive Directors are advised of the time commitment expected from them on appointment. External commitments, which may impact existing time commitments, must be agreed with the Chairman. Details of external appointments are set out in the biographies on pages 47 and 48.

As part of the evaluation of the Chairman, the Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfill his role as Chairman, taking into account other significant appointments.

With the agreement of the Board, Executive Directors gain experience of other companies' operations, governance frameworks and boardroom dynamics through non-executive appointments. The fees for these positions are retained by the individual.

For further details about the Directors' service contracts and letters of appointment, see page 74 of the Directors' Remuneration Report.

B.4 Development
All new Directors are provided with a full induction programme when they are appointed to the Board. Details of Director induction and development can be found on page 51.

B.5 Information and support
The Group General Counsel & Company Secretary makes sure that appropriate and timely information is provided to the Board and its Committees and is responsible for advising and supporting the Chairman and the Board on all governance matters. All Directors have access to the Group General Counsel & Company Secretary and may take independent professional advice at the Company's expense in conducting their duties.

To support discussion and decision making, Board and committee members receive papers sufficiently in advance of meetings so that they can prepare for and consider agenda items. Additionally, the Chairman holds a short meeting with the Non-executive Directors before each Board meeting to discuss the focus of the upcoming meeting as well as afterwards to share feedback from the meeting. Similarly, the Chief Executive holds a short meeting with the Executive Directors and the Group General Counsel & Company Secretary after each meeting and shares the feedback from these meetings with the Chairman.

Last year we engaged external specialists to review our current papers and develop a new reporting framework for the Board and its Committees. This has continued to result in clearer more concise reporting, allowing more time for quality discussions and questions. A clear set of guidelines are in place to assist the Executive Directors and management on the content and presentation of papers to the Board and committees. A further refresh of the Board paper process will commence this year.

B.6 Evaluation
See pages 52 and 53 for more information on our externally facilitated Board evaluation, undertaken by Independent Audit Limited.

During the year, the Chairman met each Director individually to discuss their contribution, performance over the year and training and development needs. Following these meetings, Sir Peter confirmed to the Nominations Committee that he considered that each Director demonstrated commitment to the role and their performance continued to be effective.

At a private meeting of the Non-executive Directors, Mark Williamson, as Senior Independent Director, led a review of the Chairman's performance. The Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman and considered the arrangements he has in place, given he is also chairman of a FTSE 250 company and the Aircraft Carrier Alliance Management Board and a Trustee of The Sutton Trust Board. They concluded that Sir Peter's performance continued to be effective.

B.7 Election/re-election
Each Director is subject to election at the first AGM following their appointment, and re-election at each subsequent AGM. Following recommendations from the Nominations Committee the Board considers all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties. Therefore, in accordance with the Code, Nicola Shaw will seek election and all other Directors will seek re-election at the 2016 AGM as set out in the Notice of Meeting, with the exception of Steve Holliday who is retiring from the Company with effect from 22 July 2016.

Statement of compliance with the UK Corporate Governance Code continued

C. Accountability

C.1 Financial and business reporting
The requirement for Directors to state that they consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable remains a key consideration in the drafting and review process. The coordination and review of the Annual Report is conducted in parallel with the formal audit process undertaken by the external auditors and the review by the Board and its committees (of relevant sections).

The drafting and assurance process supports the Audit Committee's and Board's assessment of the overall fairness, balance and clarity of the Annual Report and the statement of Directors' responsibilities as set out on page 84. The independent auditor's report is on pages 85 to 92 and the Company's business model is on pages 14 and 15.

C.2 Risk management and internal control
The Board has carried out a robust assessment of the principal risks facing the Company including those that would threaten the business model, future performance, solvency or liquidity. Further details can be found on pages 27 and 28.

The Board also sets the Company's risk appetite, internal controls and risk management processes. The Board undertakes a review of their effectiveness annually. Further details are set out on pages 26–29.

The activities of the Audit Committee, which assists the Board with its responsibilities in relation to risk and assurance, are set out on pages 54 to 58.

C.3 Audit Committee and auditors
The Audit Committee report on pages 54 to 58 sets out details of how the Committee has discharged its duties during the year, matters reviewed by the Committee and how it ensures the auditor's objectivity, effectiveness and continued independence. The Audit Committee report also explains the audit tender process that was undertaken during the year.

D. Remuneration

D.1 The level and components of remuneration
The Remuneration Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and other members of the Executive Committee and for the Chairman, and for implementing this policy. The aim is to align remuneration policy to Company strategy and key business objectives and make sure it reflects our shareholders', customers' and regulators' interests.

The Remuneration Report on pages 68 to 81 outlines the activities of the Committee during the year and sets out excerpts of the Directors' remuneration policy table as approved by shareholders at the 2014 AGM.

D.2 Procedure
For further information on the work of the Remuneration Committee and Directors' remuneration packages see the Directors' Remuneration Report on pages 68 to 81. The Committee's terms of reference are available on our website.

E. Relations with shareholders

E.1 Dialogue with shareholders
The Board as a whole is responsible for making sure that satisfactory dialogue with shareholders takes place. We believe that effective channels of communication with the Company's debt and equity institutional investors and individual shareholders are very important. More information about our approach to relations with shareholders can be found on page 51.

E.2 Constructive use of General Meetings
The AGM provides a key opportunity for the Board to communicate with and meet shareholders. Shareholders are able to learn more about the Company through exhibits and can ask questions directly of the Board. Company representatives and our Registrar are also on hand to answer any questions shareholders might have.

Our AGM will be held on Monday 25 July 2016 at The International Convention Centre in Birmingham and broadcast via our website. The Notice of Meeting for the 2016 AGM, available on our website, sets out in full the resolutions for consideration by shareholders, together with explanatory notes and further information on the Directors standing for election and re-election.

Index to Directors' Report and other disclosures
(starting on page indicated)

Jonathan Dawson
Committee chairman

Annual statement from the Remuneration Committee chairman

Overview

At the Company's AGM in 2015 more than 97% of votes cast were to approve the Remuneration Report for that year. As with last year we are not proposing any changes to the formal remuneration policy for National Grid and so this year there is only a vote on the implementation of this policy.

The key elements of our policy are:

- significant weighting towards long-term incentives versus short-term incentives;
- the bulk of senior executive remuneration to be paid in National Grid shares, with all of the Long Term Performance Plan (LTPP) paid only in shares, and half of the Annual Performance Plan (APP) paid in shares;
- very high levels of personal shareholding required to be held by senior executives – 500% of pre-tax salary for the CEO and 400% for other Executive Directors;
- three-year performance period for measuring potential awards under the LTPP coupled with a holding period of a further two years irrespective of whether the mandatory personal shareholding target has been attained; and
- performance metrics for the LTPP are RoE (measuring management's performance in generating profit from the business) and Value Growth (measuring management's longer term performance in creating shareholder value).

We believe that our policy ensures that the rewards paid to senior executives are closely matched with shareholders' experience. In particular, we regard it as very important that senior executives see their annual remuneration in the context of a long-term build-up of their investment in National Grid and that the growth in value of their shareholding and the dividends paid on those shares represent a material personal financial exposure to the success of the Company. As a result we think that the overall remuneration structure illustrates a high level of alignment with shareholders, and promotes an appropriate focus on long-term value within the Company.

Performance for the year

APP

National Grid has had another successful year overall. Record capital investment of £3.9 billion has been undertaken, split equally between the UK and US, and a programme of critical rate case filings has been successfully initiated in the US. As in prior years, the EPS figure used for APP purposes, 62.3 pence, differs slightly from the reported figure of 63.5 pence as it is adjusted for the impact of timing, scrip dividend uptake and exchange rate effects. It has also been reduced to take account of the absence of an increase in the UK corporate tax rate originally included in the Group budget. The overall impact of these adjustments was a decrease of 1.2 pence. Similarly, the Group RoE figure used for the APP calculation, 12.0%, has been reduced by 0.3 percentage points to take account of the absence of the increase in the UK corporate tax rate referred to above. Notwithstanding this, the EPS of 62.3 pence and Group RoE of 12.0% both met or exceeded the stretch performance levels set by the Committee at the start of the year, benefitting from realised gains achieved from the exchange of National Grid USA's share in the Iroquois pipeline joint venture and strong results from our Other businesses led by the performance of the French interconnector. In the UK, the regulated businesses delivered good returns of 13.3%. Regulated US RoE was 8.0%, which reflected steady performance though was down on last year due to continued cost pressures as the business awaits outcomes of rate case filings. This figure, however, does not capture the gains achieved from the exchange of National Grid USA's share in the Iroquois pipeline joint venture referred to above, and therefore has been adjusted by the Committee to reflect half of this gain for US participants in the APP, which the Committee believes properly reflects performance.

As a result, in respect of the financial measures for the APP (representing 70% of the value of the APP) the Committee made awards to Executive Directors ranging from 75% to 100% of the maximum potential for financial performance. The balance of the award (30% by value) is represented by individual executives' assessed performance against specific objectives set by the Committee at the start of the year, resulting in awards ranging from 80% to 86% of the maximum potential for individual performance. In aggregate, therefore, Executive Directors' APP awards fall in the range of 95% to 119% of salary. This compares with last year's APP awards where the range was 65% to 119% of salary.

Because of commercial sensitivity we retrospectively disclose annual targets for the APP, which are set out on page 76. This year, we have sought to enhance our disclosure, including the retrospective disclosure of threshold and stretch performance levels for EPS and Group RoE, which now sits alongside the disclosure of our LTPP threshold and stretch performance levels. Target performance levels for both EPS and Group RoE were higher than for 2014/15; however, the target performance levels for UK RoE and US RoE were reduced, due to the expected returns under the RIIO framework in the UK and the impact of the timing of rate plan filings in the US. We have decided to maintain the same performance metrics for the 2016/17 APP awards and we will repeat our retrospective disclosure of performance levels in next year's remuneration report.

LTPP

The LTPP that vested in 2015/16 was that awarded in 2012. Vesting outcomes ranged from 63% to 76% of maximum. Before making its final determination of executives' annual and long-term awards, the Committee gives careful consideration to a number of important non-financial measures including our safety performance, reliability and levels of customer satisfaction in both the UK and the US, and considers whether a downward adjustment should be made to any executive's award. This year the Committee concluded that there was no reason to make any adjustment. As our Executive Director, US, Dean Seavers, only joined the Board at the beginning of 2015/16, he has not received any vested LTPP for this year, and will not do so until 2017.

The award made in 2015 is the second award in respect of the LTPP granted under the new remuneration policy in 2014. This is a three-year plan with a maximum award of 350% of salary for the CEO and 300% for the other Executive Directors. Its outcome will only be known following the results for the year ending March 2017. I reported last year that, at the end of the first performance year, Group RoE and Value Growth were on target in relation to the parameters set by the Committee, with UK RoE around stretch and US RoE below threshold. For this year the position is broadly comparable in respect of both the 2014 and 2015 LTPP grants. Taking account of performance to date of the 2014 and 2015 LTPP awards, the Committee has decided to make no changes to the performance metrics and targets for the 2016 LTPP award.

Executive Director shareholdings

Two years ago, we introduced high levels of shareholding requirements for our Executive Directors, in order to further align them to our shareholders. At 31 March 2016, both Andrew Bonfield and Steve Holliday have exceeded these shareholding requirements. As John Pettigrew and Dean Seavers were appointed to the Board relatively recently, neither of them has yet met their shareholding requirements and will therefore not be given permission to sell shares until they have done so, other than to pay tax on receipt of the vested shares or in exceptional circumstances.

Changes to the Board

Following the announcement of Steve Holliday's retirement as CEO, John Pettigrew was promoted to CEO with effect from 1 April 2016. John's salary has been set at £825,000. His APP opportunity remains at 125% of salary, and his LTPP opportunity has increased to 350% of salary from 2016 onwards. Steve stepped down as CEO on 31 March 2016 but will remain on the Board until 22 July to facilitate a successful transition. In March, we announced that Nicola Shaw will join the Board as our new UK Executive Director on 1 July 2016, succeeding John. Nicola's salary has been set at £450,000. Her APP opportunity is 125% of salary and her LTPP opportunity is 300% of salary. Nicola will be eligible to receive a 2016 LTPP award. In addition, she will receive a cash payment of up to £485,000 to compensate her for incentive cash awards that were due to vest in June 2016 that she has foregone on leaving her former employer. Subject to their individual performance, the Committee intends to increase each of John's and Nicola's salaries towards market level by way of future phased increases from 2017 in excess of those awarded to other Company employees. All of these arrangements are in line with the approved policy on recruitment remuneration and have already been announced.

Annual salary review

Steve Holliday's and Andrew Bonfield's annual salaries were increased by approximately 1% in 2015. In line with the US managerial pay budget, Dean Seavers' annual salary was not increased in 2015. John Pettigrew's salary was increased by 7% to move his salary closer towards market as Executive Director, UK in 2015. In line with regional managerial pay budgets in 2016, salary increases in 2016 are 2% for Andrew Bonfield and 2.5% for Dean Seavers.

Impact of the expected sale of a majority interest in the UK Gas Distribution business

Ahead of the expected sale of a majority interest in the Gas Distribution business in 2016/17, the Committee is considering the impact on inflight LTPP and APP awards, and will make appropriate adjustments to relevant metrics within both the parameters and the spirit of the remuneration policy following any such sale. We will report this to you in next year's remuneration report.

Conclusion

As I reported last year, remuneration continues to be in a transitional phase since the APP maximum has been lowered to 125% of salary from 150% while the LTPP represents previous bases of measurements, timescales and policy limits. This transition will continue for a further year when the final element of the 2013 LTPP vests in 2017 and the 2014 LTPP (the first awarded under the current remuneration policy) matures.

As with last year, we are not seeking any changes to the current remuneration policy, which will expire at the 2017 AGM. The Committee has begun to address whether the current policy should be proposed without any material changes or whether some modification may be required to reflect changes in the market and the evolution of the Company. I will report on the outcome of this review next year when we will seek your authority for a new three-year policy mandate.

Regarding the 2015/16 year, the Committee believes that it has correctly implemented the approved policy and that the remuneration earned last year by senior executives properly reflects the performance of the Company and the value generated for shareholders. Accordingly, I commend this remuneration report to you on behalf of the Committee, and ask for your support for the resolution to approve the report at the AGM.

Jonathan Dawson
Committee chairman

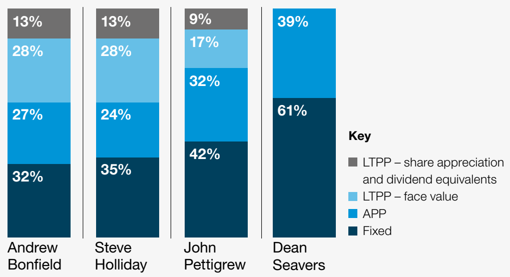
At a glance

Performance

A comparison of the total 2015/16 single total figure of remuneration to the maximum remuneration if variable pay had vested in full is set out below.

Total remuneration

Executive Director	Maximum remuneration £'000	2015/16 single figure remuneration £'000
Andrew Bonfield	4,077	3,228
Steve Holliday	6,478	5,151
John Pettigrew	1,815	1,569
Dean Seavers	1,883	1,684



At a glance continued

	Key features of policy	Annual report on remuneration for 2015/16
Base salary	• Targeted broadly at mid-market against FTSE 11-40 for UK Executive Directors and general industry and energy services companies with similar revenue for US Executive Directors	• Salary increases of 0–7% for 2015 • Salary increases of 2–2.5% for 2016 • Hired Nicola Shaw as new Executive Director, UK on an annual base salary of £450,000 • Appointed John Pettigrew as CEO on an annual base salary of £825,000
Annual Performance Plan (APP)	• Maximum opportunity is 125% of salary • 50% paid in cash, 50% paid in shares, which must be retained until later of two years and meeting shareholding requirement • Subject to both clawback and malus	• 70% based on financial metrics (35% EPS, 35% RoE), 30% based on individual objectives • Group RoE for CEO and Finance Director; UK RoE for Executive Director, UK; US RoE for Executive Director, US • Individual objectives cover: safety and compliance; Group and financial strategy; business growth; operational excellence; customer experience; employee engagement; capability development; and stakeholder relations
Long Term Performance Plan (LTPP)	• Maximum award level is 350% of salary for CEO and 300% for other Executive Directors • Vesting subject to long-term performance conditions. Shares must be retained until later of two years from vesting and meeting shareholding requirement • Subject to both clawback and malus	• 50% value growth, 50% RoE • Group RoE for CEO and Finance Director; even split of Group and UK RoE for Executive Director, UK; even split of Group and US RoE for Executive Director, US • Three-year performance period
Pension and other benefits	• External appointees participate in Defined Contribution (DC) plan or cash in lieu of pension; internal appointees retain current benefits, subject to capping of pensionable pay increases for Defined Benefit (DB) plans • Pensionable pay is salary only in UK and salary and APP in US in alignment with the market • Other benefits as appropriate	• UK DB (Steve Holliday, John Pettigrew): maximum of two-thirds final capped pensionable pay or (Steve Holliday) one thirtieth accrual • UK cash allowance (Andrew Bonfield): 30% of salary • US DC (Dean Seavers): 9% of pensionable pay with additional match of up to 4% • Other benefits include private medical insurance, life assurance, and, for UK Executive Directors, either a fully expensed car or a cash alternative to a car and the use of a driver when required
Share ownership guidelines	• 500% of salary for CEO • 400% of salary for other Executive Directors	• Steve Holliday and Andrew Bonfield have both met their shareholding requirements • John Pettigrew and Dean Seavers were appointed to the Board relatively recently, and therefore have not yet met their shareholding requirements

Directors' remuneration policy – approved by shareholders in 2014

Key aspects of the Directors' remuneration policy, along with elements particularly applicable to the 2015/16 financial year are shown on pages 71–74 for ease of reference only. This policy was approved for three years from the date of the 2014 AGM held on 28 July 2014. A shareholder vote on the remuneration policy is not required in 2016. Please note that the information shown has been updated to take account of the fact that the policy is now approved and current rather than proposed. A copy of the full remuneration policy is available on the Company website at www.investors.nationalgrid.com/reports/2013-14.

There may be circumstances from time to time when the Committee will consider it appropriate to apply some judgement and exercise discretion in respect of the approved policy. This ability to apply discretion is highlighted where relevant in the policy, and the use of discretion will always be in the spirit of the approved policy.

Our peer group
The Committee benchmarks its remuneration policy against appropriate peer groups annually to make sure we remain competitive in the relevant markets. The primary focus for reward benchmarking is the FTSE 11-40 for UK-based Executive Directors and general industry and energy services companies with similar levels of revenue for US-based Executive Directors. These peer groups are considered appropriate for a large, complex, international and predominantly regulated business.

Approved policy table – Executive Directors

Salary — Purpose and link to strategy: to attract, motivate and retain high-calibre individuals, while not overpaying.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Salaries are targeted broadly at mid-market level. They are generally reviewed annually. Salary reviews take into account: • business and individual contribution; • the individual's skills and experience; • scope of the role, including any changes in responsibility; and • market data in the relevant comparator group.	No prescribed maximum annual increase. Any increases are generally aligned to salary increases received by other Company employees and to market movement. Increases in excess of this may be made at the Committee's discretion in circumstances such as a significant change in responsibility; progression in the role; and alignment to market level.	Not applicable.

Benefits — Purpose and link to strategy: to provide competitive and cost-effective benefits to attract and retain high-calibre individuals.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Benefits provided include: • company car or a cash alternative (UK only); • use of a driver when required; • private medical insurance; • life assurance; • personal accident insurance; • opportunity to purchase additional benefits under flexible benefits schemes available to all employees; and • opportunity to participate in the following HM Revenue & Customs (UK) or Internal Revenue Service (US) tax-advantaged all-employee share plans: Sharesave: UK employees may make monthly contributions from net salary for a period of three or five years. The savings can be used to purchase shares at a discounted price, set at the launch of each plan period. Share Incentive Plan (SIP): UK employees may use gross salary to purchase shares. These shares are placed in trust. Incentive Thrift Plans (401(k) plans): US employees may participate in these tax-advantaged savings plans. They are DC pension plans in which employees can invest their own and Company contributions. Employee Stock Purchase Plan (ESPP) (423(b) plan): eligible US employees may purchase ADSs on a monthly basis at a discounted price. Other benefits may be offered at the discretion of the Committee.	Benefits have no predetermined maximum, as the cost of providing these varies from year to year. Participation in tax-approved all-employee share plans is subject to limits set by the relevant tax authorities from time to time.	Not applicable.

Directors' remuneration policy – approved by shareholders in 2014 continued

Pension Purpose and link to strategy: to reward sustained contribution and assist attraction and retention.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Pension for a new Executive Director will reflect whether they are internally promoted or externally appointed. If internally promoted: • retention of existing DB benefits without enhancement, except for capping of pensionable pay increases following promotion to Board; or • retention of existing UK DC benefits or equivalent cash in lieu; or • retention of existing US DC benefits plus 401(k) plan match, provided through 401(k) plan and non-qualified plans. If externally appointed: • UK DC benefits or equivalent cash in lieu; or • US DC benefits plus 401(k) plan match. Andrew Bonfield, John Pettigrew and Dean Seavers are treated in line with the above policy. Steve Holliday is provided with final salary pension benefits. For service prior to 1 April 2013, pensionable pay is normally the base salary in the 12 months prior to leaving the Company. For service from 1 April 2013 increases to pensionable pay are capped at the lower of 3% or the increase in inflation. The pension scheme rules allow for indexed prior salaries to be used for all members. He participates in the unfunded scheme in respect of benefits in excess of the Lifetime Allowance. In line with market practice, pensionable pay for UK-based Executive Directors includes salary only and for US-based Executive Directors it includes salary and APP award.	**UK DB** a maximum pension on retirement, at age 60, of two thirds final capped pensionable pay or up to one thirtieth accrual. On death in service, a lump sum of four times pensionable pay and a two thirds dependant's pension is provided. **UK DC** annual contributions of 30% of salary. Life assurance provision of four times pensionable salary and a spouse's pension equal to one third of the Director's salary are provided on death in service. **US DB** an Executive Supplemental Retirement Plan provides for an unreduced pension benefit at age 62. For retirements at age 62 with 35 years of service, the pension benefit would be approximately two thirds of pensionable pay. Upon death in service, the spouse would receive 50% of the pension benefit (100% if the participant died while an active employee after the age of 55). **US DC** 9% of base salary plus APP with additional 401(k) plan match of up to 4%.	Not applicable.

Annual Performance Plan Purpose and link to strategy: to incentivise and reward the achievement of annual financial and strategic business targets and the delivery of annual individual objectives.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Performance metrics and targets are agreed at the start of each financial year. Performance metrics are aligned with strategic business priorities. Targets are set with reference to the budget. Awards are paid in June. For APP awards made in 2013/14, 50% of any award was deferred into shares in the Deferred Share Plan (DSP). The DSP has no performance conditions and vests after three years, subject to continued employment. These shares are subject to forfeiture for leavers in certain circumstances. The DSP was discontinued for APP awards made in respect of years from 2014/15. Instead, 50% of awards are paid in shares, which (after any sales to pay tax) must be retained until the shareholding requirement is met, and in any event for two years after receipt. Awards are subject to clawback and malus provisions.	The maximum award is 125% of salary.	A significant majority of the APP is based on performance against corporate financial measures, with the remainder based on performance against individual objectives. Individual objectives are role-specific. The Committee may use its discretion to set measures that it considers appropriate in each financial year and reduce the amount payable, taking account of significant safety or customer service standard incidents, environmental and governance issues. The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100% respectively.

Long Term Performance Plan Purpose and link to strategy: to drive long-term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Awards of shares may be granted each year, with vesting subject to long-term performance conditions. The performance metrics have been chosen as the Committee believes they reflect the creation of long-term value within the business. Targets are set each year with reference to the business plan. Awards are subject to clawback and malus provisions. Notwithstanding the level of award achieved against the performance conditions, the Committee may use its discretion to reduce the amount vesting, and in particular will take account of compliance with the dividend policy. For awards granted from 2014, participants must retain vested shares (after any sales to pay tax) until the shareholding requirement is met, and in any event for a further two years after vesting.	The maximum award for the CEO is 350% of salary and it is 300% of salary for the other Executive Directors. For awards made between 2011 and 2013, the maximum award for the CEO was 225% of salary and 200% for the other Executive Directors.	For awards between 2011 and 2013 the performance measures and weightings were: • adjusted EPS (50%) measured over three years; • TSR relative to the FTSE 100 (25%) measured over three years; and • UK or US RoE relative to allowed regulatory returns (25%) measured over four years. From 2014, the performance measures are: • value growth and Group RoE (for the CEO and Finance Director); and • value growth, Group RoE and UK or US RoE (for the UK and US Executive Directors respectively). All are measured over a three-year period. The weightings of these measures may vary year to year, but would always remain such that the value growth metric would never fall below a 25% weighting and never rise above a 75% weighting. Between 2011 and 2013, 25% of the award vested at threshold and 100% at stretch, with straight-line vesting in between. From 2014, only 20% of the award vests at threshold.

Approved policy table – Non-executive Directors (NEDs)

Fees for NEDs Purpose and link to strategy: to attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
NED fees (excluding those of the Chairman) are set by the Executive Committee in conjunction with the Chairman; the Chairman's fees are set by the Committee. Fee structure: • Chairman fee; • basic fee, which differs for UK- and US-based NEDs; • committee membership fee; • committee chair fee; and • Senior Independent Director fee. Fees are reviewed every year and are benchmarked against those in companies of similar scale and complexity. NEDs do not participate in incentive or pension plans and, with the exception of the Chairman, are not eligible to receive benefits. The Chairman is covered by the Company's private medical and personal accident insurance plans and receives a fully expensed car or cash alternative to a car, with the use of a driver, when required. There is no provision for termination payments.	There are no maximum fee levels. The benefits provided to the Chairman are not subject to a predetermined maximum cost, as the cost of providing these varies from year to year.	Not applicable.

Directors' remuneration policy – approved by shareholders in 2014 continued

Shareholding requirement

The requirement of Executive Directors to build up and hold a relatively high value of National Grid shares ensures they share a significant level of risk with shareholders and their interests are aligned.

From 2014/15, Executive Directors are required to build up and retain shares in the Company. The level of holding required is 500% of salary for the CEO and 400% of salary for the other Executive Directors.

Unless the shareholding requirement is met, Executive Directors will not be permitted to sell shares, other than to pay tax or in exceptional circumstances.

Policy on recruitment remuneration

Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment, and in particular will take account of the appointee's skills and experience as well as the scope and market rate for the role.

Where appropriate, salaries may be set below market level initially, with the Committee retaining discretion to award increases in salary in excess of those of the wider workforce and inflation to bring salary to a market level over time, where this is justified by individual and Company performance.

Benefits consistent with those offered to other Executive Directors under the approved remuneration policy in force at the time of appointment will be offered, taking account of local market practice. The Committee may also agree that the Company will meet certain costs associated with the recruitment, for example legal fees, and the Committee may agree to meet certain relocation expenses or provide tax equalisation as appropriate.

Pensions for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment.

Ongoing incentive pay (APP and LTPP) for new Executive Directors will be in accordance with the approved remuneration policy in force at the time of appointment. This means the maximum APP award in any year would be 125% of salary and the maximum LTPP award would be 300% of salary (350% of salary for a new CEO).

For an externally appointed Executive Director, the Company may offer additional cash or share-based payments that it considers necessary to buy out current entitlements from the former employer that will be lost on recruitment to National Grid. Any such arrangements would reflect the delivery mechanisms, time horizons and levels of conditionality of the remuneration lost.

In order to facilitate buy-out arrangements as described above, existing incentive arrangements will be used to the extent possible, although awards may also be granted outside of these shareholder-approved schemes if necessary and as permitted under the Listing Rules.

For an internally appointed Executive Director, any outstanding variable pay element awarded in respect of the prior role will continue on its original terms.

Fees for a new Chairman or Non-executive Director will be set in line with the approved policy in force at the time of appointment.

Policy on payment for loss of office

In line with our policy, all Executive Directors have service contracts which are terminable by either party with 12 months' notice.

The contracts contain provisions for payment in lieu of notice, at the sole and absolute discretion of the Company. Such payments are limited to payment of salary only for the remainder of the notice period. In the UK such payments would be phased on a monthly basis, over a period no greater than 12 months, and the Executive Director would be expected to mitigate any losses where employment is taken up during the notice period. In the US, for tax purposes the policy is to make any payment in lieu of notice as soon as reasonably practicable, and in any event within two and a half months of the later of 31 December and 31 March immediately following the notice date.

In the event of a UK Director being made redundant, statutory compensation would apply and the relevant pension plan rules may result in the early payment of an unreduced pension.

On termination of employment, no APP award would generally be payable and any DSP awards would generally lapse. However, the Committee has the discretion to deem an individual to be a 'good leaver', in which case an APP award would be payable on the termination date, based on performance during the financial year up to termination, and DSP awards would vest on the termination date. Examples of circumstances in which a Director would be treated as a 'good leaver' include redundancy, retirement, illness, injury, disability and death. Any APP award would be prorated and would be subject to performance achieved against the objectives for that year.

On termination of employment, outstanding awards under the share plans will be treated in accordance with the relevant plan rules approved by shareholders. Share awards would normally lapse. 'Good leaver' provisions apply at the Committee's discretion and in specified circumstances, including redundancy, retirement, illness, injury, disability and death, where awards will be released to the departing Executive Director or, in the case of death, to their estate. Long-term share plan awards held by 'good leavers' may vest subject to performance measured at the normal vesting date and are prorated. Such awards would vest at the same time as for other participants.

The Chairman's appointment is subject to six months' notice by either party; for the other Non-executive Directors, notice is one month. No compensation is payable to Non-executive Directors if required to stand down.

Annual report on remuneration
Statement of implementation of remuneration policy in 2015/16

Role of Remuneration Committee
The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and the other members of the Executive Committee and for the Chairman, and for implementing this policy. The aim is to align remuneration policy to Company strategy and key business objectives and ensure it reflects our shareholders', customers' and regulators' interests. The members of the Remuneration Committee in 2015/16 were Nora Mead Brownell, Jonathan Dawson (chair), Paul Golby and Mark Williamson.

The Committee activities during the year

Meeting	Main areas of discussion
April	2014/15 individual objectives scoring for Executive Committee Discussion of 2015/16 objectives for Executive Committee Review of Executive Committee shareholdings Review of Committee terms of reference
May	Annual salary review and LTPP proposals for Executive Committee 2014/15 APP financial outturns and individual performance and confirmation of awards Final approval of 2015/16 objectives for Executive Committee Final approval of APP targets for 2015/16 financial year Review of gender and ethnicity pay statistics
October	Approval of remuneration package for incoming CEO and of payments on retirement for outgoing CEO
November	Update on corporate governance and disclosure issues and review of AGM outcomes Directors' Remuneration Report planning for 2016 Review of competitive benchmarking for secondary comparator groups Review of gender and ethnicity pay statistics disclosure for external website Update on 2015/16 APP and outstanding LTPPs
March	Approval of remuneration package for incoming Executive Director, UK Benchmarking data review for Executive Committee remuneration 2016 Directors' Remuneration Report – review of first draft Discussion of metrics and targets for APP and LTPP for 2016/17 Review of objectives for Executive Committee for APP 2016/17

Single total figure of remuneration – Executive Directors (audited information)
The following table shows a single total figure in respect of qualifying service for 2015/16, together with comparative figures for 2014/15:

	Salary £'000		Benefits in kind £'000		APP £'000		LTPP £'000		Pension £'000		Other £'000		Total £'000	
	2015/16	2014/15	**2015/16**	2014/15	**2015/16**	2014/15	**2015/16**	2014/15	**2015/16**	2014/15	**2015/16**	2014/15	**2015/16**	2014/15
Andrew Bonfield	**736**	727	**61**	58	**865**	854	**1,345**	1,271	**221**	218	**–**	–	**3,228**	3,128
Steve Holliday	**1,033**	1,021	**41**	40	**1,222**	1,210	**2,125**	2,004	**730**	523	**–**	–	**5,151**	4,798
John Pettigrew	**503**	475	**14**	18	**503**	527	**406**	396	**143**	451	**–**	–	**1,569**	1,867
Dean Seavers	**678**	–	**39**	–	**649**	–	**–**	–	**148**	–	**170**	–	**1,684**	–
Total	**2,950**	2,223	**155**	116	**3,239**	2,591	**3,876**	3,671	**1,242**	1,192	**170**	–	**11,632**	9,793

Notes:
Salary: Base salaries were last increased on 1 June 2015. At this time Andrew Bonfield and Steve Holliday received salary increases of approximately 1%, in line with the salary increases given to other managerial employees of the Company in the UK. John Pettigrew was given an increase of 7% to move closer towards market as Executive Director, UK in 2015/16. Dean Seavers joined the Board on 1 April 2015 and was not given a salary increase at 1 June 2015, in line with other managerial employees of the Company in the US. Dean Seavers' base salary has been converted at $1.4744:£1 for 2015/16.
Benefits in kind: Benefits in kind include private medical insurance, life assurance, and for UK Executive Directors, either a fully expensed car or a cash alternative to a car and the use of a driver when required. For Andrew Bonfield, it also includes the benefits of Sharesave options granted during the year. For Dean Seavers, this amount includes relocation payments.
Other: For Dean Seavers, Other includes the second $250,000 cash payment for forfeited bonuses from his former employer.
LTPP: A portion of the 2012 LTPP award vested in July 2015, and the remainder is due to vest in July 2016. The above value for 2015/16 is based on the share price (818 pence) on the vesting date (1 July 2015) for that portion that vested on 1 July 2015, and the average share price over the three months from 1 January 2016 to 31 March 2016 (958 pence) for that portion due to vest on 1 July 2016. The 2014/15 LTPP amount has been restated to reflect the actual amounts vested on 1 July 2015 for RoE, rather than the estimate shown in last year's Annual Report. Due to a lower share price at vesting of 818 pence ($64.17 per ADS) versus the estimate of 899 pence ($70.33 per ADS), the actual value at vesting was £29,358, £46,335, and £12,441 lower than the estimate for Andrew Bonfield, Steve Holliday and John Pettigrew respectively.

Annual report on remuneration continued

Performance against targets for APP 2015/16 (audited information)

APP awards are earned by reference to the financial year and paid in June. Fifty percent of awards are paid in shares which (after any sales to pay tax) must be retained until the shareholding requirement is met, and in any event for two years after receipt. In relation to both the financial measures and individual objectives, threshold, target and stretch performance levels are pre-determined and pay out at 0%, 50% and 100% respectively and on a straight-line basis in between threshold and target performance and target and stretch performance. Individual objectives of the Executive Directors reflect the primary focus areas within the Company's overall strategic priorities:

- building on our strong safety performance;
- the drive for business growth in the UK and US;
- delivery of operational excellence and improvement in overall Company performance and service to customers;
- promotion of innovative ideas to work more efficiently and effectively;
- strengthening the talent pipeline and keeping all our employees fully engaged; and
- working with external stakeholders to shape energy policy and embed sustainability into our decision-making to preserve natural resources and focus on environmental issues.

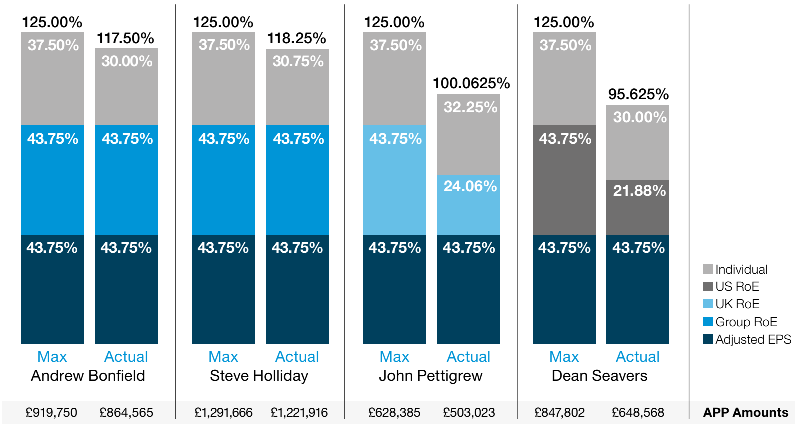
The outcomes of APP awards earned in 2015/16, along with detail of individual objectives, are shown in the figures below:

	Proportion of max opportunity	Threshold	Target	Stretch	Actual	Proportion of max achieved
Adjusted EPS (p/share)	35%	56.2	59.2	62.2	62.3	100%
Group RoE (%)		11.2	11.6	12.0	12.0	100%
UK RoE (%)	35%		13.25		13.3	55%
US RoE (%)			8.25		8.25	50%
Individual objectives	30%			See adjacent table		80–86%

Notes:
Overall: Group RoE pertains to the CEO and Finance Director, whilst UK RoE and US RoE pertain to the Executive Director, UK and Executive Director, US, respectively. RoE in some form comprises 35% of the total maximum APP opportunity.
Adjusted EPS: Adjusted EPS actual is reduced by 1.2 pence to account for the impact of timing, absence of a budgeted rise in the UK corporate tax rate, and the impact of scrip dividend uptake and currency adjustments.
Group RoE: Group RoE actual is reduced by 30 basis points to account for the absence of a budgeted rise in the UK corporate tax rate.
US RoE: US RoE actual is adjusted to capture half of the realised gains achieved from the exchange of National Grid USA's share in the Iroquois pipeline joint venture.

	Andrew Bonfield	Steve Holliday	John Pettigrew	Dean Seavers
Safety	•	•	•	•
Group strategy		•		
Financial strategy	•			
Business growth	•	•	•	•
Operational excellence	•		•	•
Customer experience			•	•
Employee engagement	•	•	•	•
Capability development	•	•	•	•
Stakeholder relations		•	•	•
Proportion of maximum achieved	**80%**	**82%**	**86%**	**80%**

2015/16 APP as proportion of base salary



2015/16 LTPP performance (audited information)

The LTPP value included in the 2015/16 single total figure relates to vesting of the conditional LTPP award granted in 2012. The 2012 award is determined based on differing performance periods and vesting dates:

- performance over the three years ending 31 March 2015 for the EPS measure (50% weighting), which vested on 1 July 2015;
- performance over the three years ending 30 June 2015 for the TSR measure (25% weighting), which vested on 1 July 2015; and
- performance over the four years ending 31 March 2016 for the UK RoE measure and 31 December 2015 for the US RoE measure (25% weighting overall, split by Executive Director as shown overleaf), which will vest on 1 July 2016.

The performance achieved against the targets, including the expected vesting percentage for the RoE measures, was:

Performance measure	Threshold – 25% vesting	Maximum – 100% vesting	Actual/expected vesting	Actual/expected proportion of maximum achieved
TSR ranking (25% weighting)	Ranked at median of the comparator group (FTSE 100)	7.5 percentage points or more above median	2.99 percentage points above median	55.0%
Adjusted EPS (50% weighting)	EPS growth exceeds RPI increase by 3 percentage points	EPS growth exceeds RPI increase by 8 percentage points or more	Exceeded RPI increase by 6.3 percentage points	74.4%
UK RoE (12.5% weighting for the CEO and Finance Director; 25% weighting for the Executive Director, UK)	RoE is equal to the average allowed regulatory return	RoE is 2 percentage points or more above the average allowed regulatory return	Exceeded average allowed regulatory return by 3.2 percentage points	100.0%
US RoE (12.5% weighting for the CEO and Finance Director; 25% weighting for the former Executive Director, US)	RoE is 1 percentage point below the average allowed regulatory return	RoE is 1 percentage point or more above the average allowed regulatory return	1.1 percentage points below the average allowed regulatory return	0%

The amounts vesting under the 2012 LTPP during the year and included in the 2015/16 single total figure are shown in the table below. The valuation is based on the following share prices:

- 818 pence ($64.17 per ADS) on the vesting date of 1 July 2015 for the EPS and TSR elements of the award; and
- average share price over the three months from 1 January 2016 to 31 March 2016 of 958 pence ($69.23 per ADS) for the RoE element of the award.

	Original number of share awards in 2012 LTPP	Overall vesting percentage (including expected vesting percentage for RoE measure)	Number of awards vesting (including expected vesting for RoE measure)	Dividend equivalent shares	Total value of awards vesting (including expected vesting for RoE measure) and dividend equivalent shares (£'000)
Andrew Bonfield	213,095	63.45%	135,203	23,787	1,345
Steve Holliday	336,702	63.45%	213,628	37,586	2,125
John Pettigrew	52,395	75.95%	39,793	7,136	406
Dean Seavers	–	–	–	–	–

Last year's Directors' Remuneration Report covering remuneration for 2014/15 included an estimated vesting of the US and UK RoE portions of the 2011 LTPP award. These awards vested on 1 July 2015 and the performance achieved against the performance targets was the same as the expected vesting disclosed in the 2014/15 report. As a result of the actual achievement against the performance targets being the same as estimated, the vesting percentage and number of awards vesting are the same as disclosed in the 2014/15 report. However, the actual number of dividend equivalent shares varied as did the total value of awards vesting due to share price changes between the estimate and the actual date of vesting of the RoE portion. Specifically, the actual price on 1 July 2015 was 818 pence ($64.17 per ADS) rather than the estimate of 899 pence ($70.33 per ADS) disclosed in the 2014/15 report based on the average price from 1 January 2015 to 31 March 2015. As a result, the actual numbers of dividend equivalent shares granted for the 2011 LTPP were 22,454, 35,440 and 7,261 and the actual values of the awards at vesting were £29,358, £46,335 and £12,441 lower than originally estimated for Andrew Bonfield, Steve Holliday and John Pettigrew respectively.

Total pension benefits (audited information)

The table below provides details of the Executive Directors' pension benefits. Steve Holliday and John Pettigrew participate in a Defined Benefit pension plan, whilst Andrew Bonfield receives cash in lieu of participation in a pension plan, and Dean Seavers participates in a Defined Contribution arrangement. The UK-based Executive Directors in a Defined Benefit pension participate in a salary sacrifice arrangement (FPS), under which the individual's salary is reduced by an amount equal to the employee pension contribution that would have been paid into the scheme. An equivalent contribution is paid into the scheme by the employer. There are no additional benefits in the event of early retirement.

	Total contributions to DC arrangement £'000	Cash in lieu of pension contributions £'000	Accrued DB pension at 31 March 2016 £'000 pa	Increase in accrued DB pension over year £'000 pa	Reduction in salary due to FPS £'000	Increase/ (decrease) in any lump sum £'000	Value of pension benefit calculated using BIS methodology £'000	Normal retirement date
Andrew Bonfield	–	221	–	–	–	–	221	17/08/2027
Steve Holliday	–	–	591	39	62	2	730	26/10/2016
John Pettigrew	–	–	151	7	29	23	143	26/10/2031
Dean Seavers	148	–	–	–	–	–	148	30/08/2025

Notes:
Steve Holliday: In addition to the accrued DB pension at 31 March 2016 above, there is an accrued lump sum entitlement of £129,000 as at 31 March 2016. The increase to the accumulated lump sum, net of inflation, was £2,000 in the year to 31 March 2016. The increase in accrued DB pension over the year shown above is net of inflation, as UK pensions in payment or deferment increase in line with inflation.
John Pettigrew: In addition to the accrued DB pension at 31 March 2016 above, there is an accrued lump sum entitlement of £452,000 as at 31 March 2016. The increase to the accumulated lump sum, net of inflation, was £23,000 in the year to 31 March 2016. The increase in accrued DB pension over the year shown above is net of inflation, as UK pensions in payment or deferment increase in line with inflation.
Dean Seavers: The average exchange rate for 2015/16 was $1.4744:£1. Through his participation in the 401(k) plan in the US (a DC arrangement) the Company made contributions worth £27,400. The Company also made contributions worth £121,049 to the Non-Qualified Executive Supplemental Retirement Plan which pays the portion of core contributions that cannot be paid under the qualified plan due to IRS limitations. The plan also provides a supplemental top-up benefit through additional company contributions to yield an overall company contribution of 9% of pensionable pay, including both the qualified and non-qualified plan benefits. The retirement date shown is the typical retirement age in the US. The 401(k) plan does not have a retirement age. Benefits can be taken without penalty on leaving the Company from age 55 (subject to vesting requirements) or can be rolled over into another qualifying plan.
BIS calculation: In accordance with BIS methodology, the pension benefit for Andrew Bonfield and Dean Seavers is calculated as the aggregate of contributions made to a DC arrangement and cash in lieu of pension contributions. Also in accordance with BIS methodology, the pension benefit for Steve Holliday and John Pettigrew is calculated as the increase in accrued DB pension over the year shown above multiplied by 20 plus the increase in the lump sum shown above, less the reduction in salary due to FPS. Each element is calculated separately and rounded to produce the numbers in the table above.

Annual report on remuneration continued

Single total figure of remuneration – Non-executive Directors (audited information)

The following table shows a single total figure in respect of qualifying service for 2015/16, together with comparative figures for 2014/15:

	Fees £'000		Other emoluments £'000		Total £'000	
	2015/16	2014/15	**2015/16**	2014/15	**2015/16**	2014/15
Nora Mead Brownell	**94**	91	**–**	–	**94**	91
Jonathan Dawson	**99**	96	**–**	–	**99**	96
Therese Esperdy	**128**	91	**–**	–	**128**	91
Sir Peter Gershon	**494**	488	**15**	16	**509**	504
Paul Golby	**103**	81	**–**	–	**103**	81
Ruth Kelly	**82**	79	**–**	–	**82**	79
Mark Williamson	**121**	118	**–**	–	**121**	118
Total	**1,121**	1,044	**15**	16	**1,136**	1,060

Therese Esperdy: Fees for 2015/16 include £22,917 in fees for serving on the National Grid USA Board.
Sir Peter Gershon: Other emoluments comprise private medical insurance, cash in lieu of a car and the use of a driver when required.

In accordance with the Company's expenses policies, Non-executive Directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where those costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC.

The total emoluments paid to Executive and Non-executive Directors in the year was £13 million (2014/15: £15 million).

LTPP (conditional award) granted during the financial year (audited information)

The face value of the awards is calculated using the volume-average weighted share price at the date of grant (25 June 2015) (£8.5147 per share and $66.9618 per ADS).

LTPP	Basis of award	Face value '000	Proportion vesting at threshold performance	Number of shares	Performance period end date
Andrew Bonfield	300% of salary	£2,211	20%	259,668	June 2018
Steve Holliday	350% of salary	£3,622	20%	425,440	June 2018
John Pettigrew	300% of salary	£1,525	20%	179,072	June 2018
Dean Seavers	300% of salary	$3,000	20%	44,801 (ADSs)	June 2018

Performance conditions for LTPP awards granted during the financial year (audited information)

	Weighting				Conditional share awards granted – 2015	
Performance measure	Andrew Bonfield	Steve Holliday	John Pettigrew	Dean Seavers	Threshold – 20% vesting	Maximum – 100% vesting
Group RoE	50%	50%	25%	25%	11.0%	12.5% or more
UK RoE			25%		1 percentage point above the average allowed regulatory return	3.5 percentage points or more above the average allowed regulatory return
US RoE				25%	90% of the average allowed regulatory return	105% or more of the average allowed regulatory return
Value growth	50%	50%	50%	50%	10.0%	12.0% or more

Payments for loss of office (audited information)

There were no payments made for loss of office during 2015/16.

Payments to past Directors (audited information)

Nick Winser stepped down from the Board at the 2014 AGM and left the Company on 31 July 2015. Tom King stepped down from the Board and left the Company on 31 March 2015. Mr Winser and Mr King held awards over shares and ADSs, respectively, which were pro-rated according to their departure date. The vesting of all these awards will occur at the normal vesting dates subject to satisfaction of their specified performance conditions at that time. Portions of these awards vested on 1 July 2015 and pertain to the RoE portion of the 2011 LTPP and the TSR and EPS portions of the 2012 LTPP.

	Pro-rated number of share awards in 2011 (RoE portion) and 2012 LTPP	Overall vesting percentage	Number of awards vesting	Dividend equivalent shares	Total value of awards vesting and dividend equivalent shares (£'000)
Tom King	44,846 (ADSs)	56.12%	25,168 (ADSs)	4,063 (ADSs)	1,202
Nick Winser	166,305	76.37%	127,000	24,035	1,235

Shareholder dilution

Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive share-based incentives will not exceed 5% in any 10-year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any 10-year period. The Committee reviews dilution against these limits regularly and under these limits the Company, as at 31 March 2016, had headroom of 4.01% and 7.98% respectively.

Statement of Directors' shareholdings and share interests (audited information)

The Executive Directors are required to build up and hold a shareholding from vested share plan awards. Deferred share plan awards are not taken into account for these purposes until the end of the deferral period. Shares are valued for these purposes at the 31 March 2016 price, which was 987 pence per share ($71.42 per ADS).

The following table shows how each Executive Director complies with the shareholding requirement and also the number of shares owned by the Non-executive Directors, including connected persons, as Non-executive Directors do not have a shareholding requirement.

The shareholding is as at 31 March 2016 and the salary used to calculate the value of shareholding is the gross annual salary as at 31 March 2016:

- The normal vesting dates for the conditional share awards subject to performance conditions are 1 July 2016; 1 July 2016 and 1 July 2017; 1 July 2017; and 1 July 2018 for the LTPP 2012, LTPP 2013, LTPP 2014 and LTPP 2015 respectively.
- The normal vesting dates for the conditional share awards subject to continuous employment are 13 June 2016 and 17 June 2017 for the DSP 2013 and DSP 2014 respectively.
- In each of April and May 2016 a further 15 shares were purchased on behalf of Andrew Bonfield, Steve Holliday and John Pettigrew via the Share Incentive Plan (an HMRC approved all-employee share plan), thereby increasing their beneficial interests. There have been no other changes in Directors' shareholdings between 1 April 2016 and 18 May 2016.
- Both Andrew Bonfield and Steve Holliday have met their shareholding requirement of 400% and 500% of base salary, respectively. As both John Pettigrew and Dean Seavers were relatively new in post, they have not yet met their requirements and will not be allowed to sell shares other than to pay tax on receipt of vested shares or in exceptional circumstances until this requirement is met.

Directors	Share ownership requirements (multiple of salary)	Number of shares owned outright (including connected persons)	Number of shares held as a multiple of current salary	Number of options granted under the Sharesave Plan	Conditional share awards subject to performance conditions (LTPP 2012, 2013, 2014 and 2015)	Conditional share awards subject to continuous employment (DSP 2013 and 2014)
Executive Directors						
Andrew Bonfield	400%	317,711	426%	6,651	756,209	92,754
Steve Holliday	500%	1,306,289	1,246%	3,542	1,224,546	126,771
John Pettigrew	400%	198,749	386%	4,286	417,251	28,691
Dean Seavers (ADSs)	400%	1,225	9%	–	85,767	–
Non-executive Directors						
Nora Mead Brownell (ADSs)	–	5,000	n/a	–	–	–
Jonathan Dawson	–	36,586	n/a	–	–	–
Therese Esperdy (ADSs)	–	1,600	n/a	–	–	–
Sir Peter Gershon	–	83,363	n/a	–	–	–
Paul Golby	–	2,500	n/a	–	–	–
Ruth Kelly	–	800	n/a	–	–	–
Mark Williamson	–	4,726	n/a	–	–	–

Notes:
Overall: Sharesave options are valued using fair values. Andrew Bonfield was the only Director who made a gain on the exercise of share options during the year.
Andrew Bonfield: On 31 March 2016 Andrew Bonfield held 6,651 options granted under the Sharesave plan. 2,022 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020. 1,208 options were granted at a value of 745 pence per share and they can be exercised at 745 pence per share between April 2019 and September 2019. On 1 April 2016, he exercised a Sharesave option over 3,421 shares at the option price of 455 pence per share for expiration in September 2016 at a gain of £18,549. For Andrew Bonfield, the number of conditional share awards subject to performance conditions is as follows: LTPP 2012: 53,273; LTPP 2013: 194,798; LTPP 2014: 248,470; LTPP 2015: 259,668. The number of conditional share awards subject to continuous employment is as follows: DSP 2013: 45,706; DSP 2014: 47,048.
Steve Holliday: On 31 March 2016 Steve Holliday held 3,524 options granted under the Sharesave plan. 1,502 options were granted at a value of 599 pence per share, and they can be exercised at 599 pence per share between April 2017 and September 2017. 2,022 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020. For Steve Holliday, the number of conditional share awards subject to performance conditions is as follows: LTPP 2012: 84,175; LTPP 2013: 307,793; LTPP 2014: 407,138; LTPP 2015: 425,440. The number of conditional share awards subject to continuous employment is as follows: DSP 2013: 57,118; DSP 2014: 69,653.
John Pettigrew: On 31 March 2016 John Pettigrew held 4,286 options granted under the Sharesave plan. 1,252 options were granted at a value of 599 pence per share, and they can be exercised at 599 pence per share between April 2019 and September 2019. 3,034 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020. The number of conditional share awards subject to performance conditions is as follows: LTPP 2012: 13,098; LTPP 2013: 63,361; LTPP 2014: 161,720; LTPP 2015: 179,072. The number of conditional share awards subject to continuous employment is as follows: DSP 2013: 14,341; DSP 2014: 14,350.
Dean Seavers: The number of conditional share awards subject to performance conditions is as follows: LTPP 2014: 40,966; LTPP 2015: 44,801.
Dean Seavers, Nora Mead Brownell and Therese Esperdy: Holdings and, for Dean Seavers, awards are shown as ADSs and each ADS represents five ordinary shares.

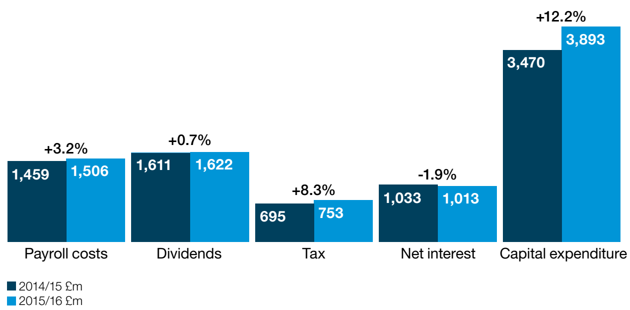
External appointments and retention of fees

The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2016 and were allowed to retain fees for their services.

	Company	Retained fees (£)
Andrew Bonfield	Kingfisher plc	82,400

Relative importance of spend on pay

This chart shows the relative importance of spend on pay compared with other costs and disbursements (dividends, tax, net interest and capital expenditure). Given the capital-intensive nature of our business and the scale of our operations, these costs were chosen as the most relevant for comparison purposes. All amounts exclude exceptional items and remeasurements.



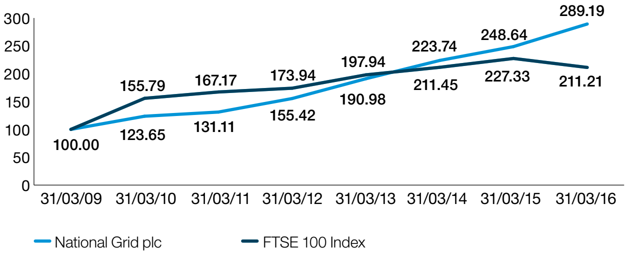
Annual report on remuneration continued

Performance graph and table

This chart shows National Grid plc's seven-year annual total shareholder return (TSR) performance against the FTSE 100 Index since 31 March 2009. The FTSE 100 Index has been chosen because it is the widely recognised performance benchmark for large companies in the UK. The Company's TSR has outperformed that of the FTSE 100 for the last five years and underpins the pay shown for the CEO in the table below, using current and previously published single total remuneration figures.

The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30-day period up to and including that date. It assumes dividends are reinvested.

Total shareholder return



Source: Thomson Reuters

CEO's pay in the last seven financial years

Steve Holliday was the CEO throughout this seven-year period.

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Total single figure £'000	3,931	3,738	3,539	3,170	4,801	4,845	5,151
APP (proportion of maximum awarded)	95.33%	81.33%	68.67%	55.65%	77.94%	94.80%	94.60%
PSP/LTPP (proportion of maximum vesting including expected vesting for RoE measure)	100.00%	65.15%	49.50%	25.15%	76.20%	55.81%	63.45%

Percentage change in CEO's remuneration

The table below shows how the percentage change in the CEO's salary, benefits and APP between 2014/15 and 2015/16 compares with the percentage change in the average of each of those components of remuneration for non-union employees in the UK. The Committee views this group as the most appropriate comparator group, as the CEO is UK-based and this group excludes employees represented by trade unions, whose pay and benefits are negotiated with each individual union.

	Salary			Taxable benefits			APP		
	£'000	£'000	Increase	£'000	£'000	Increase	£'000	£'000	Increase
	2015/16	2014/15		2015/16	2014/15		2015/16	2014/15	
Steve Holliday	1,033	1,021	1.2%	41	40	2.5%	1,222	1,210	1.0%
UK non-union employees (increase per employee)			1.9%			7.9%			(9.1)%

Note:
The APP for UK non-union employees decreased, which is a reflection of the reduction in payout level for the UK RoE measure which forms a key part of the APP for this population.

Statement of implementation of remuneration policy in 2016/17

The remuneration policy adopted at the 2014 AGM will continue to be implemented during 2016/17 as described below. Steve Holliday is retiring in July 2016 and will be stepping down from the Board at that time. He will be treated as a 'good leaver' in line with our remuneration policy. He is intending to draw from his pension from October 2016.

Salary

Salary increases will normally be in line with the increase awarded to other employees in the UK and US, unless there is a change in role or responsibility. In line with the policy on recruitment remuneration, salaries for new directors may be set below market level initially and aligned to market level over time (provided the increase is merited by the individual's contribution and performance). John Pettigrew's base salary was increased to £825,000 upon his appointment as CEO. This was some £210,000 below that of Steve Holliday, the retiring CEO.

	From 1 June 2016	From 1 June 2015	Increase
Andrew Bonfield	£751,740	£737,000	2.0%
Steve Holliday	£1,035,000	£1,035,000	0%
Nicola Shaw from 1 July 2016	£450,000	–	n/a
John Pettigrew from 1 April 2016	£825,000	£508,250	62.3%
Dean Seavers	$1,025,000	$1,000,000	2.5%

APP measures for 2016/17

The APP targets are considered commercially sensitive and consequently will be disclosed after the end of the financial year in the 2016/17 annual report on remuneration. Steve Holliday will be eligible to receive a prorated portion of the 2016/17 APP.

	Weighting
Adjusted EPS	35%
Group or UK or US RoE	35%
Individual objectives	30%

Performance measures for LTPP to be awarded in 2016

Steve Holliday will not receive a 2016 LTPP award. John Pettigrew's 2016 award will increase to 350% of salary.

	Andrew Bonfield	John Pettigrew	Dean Seavers	Nicola Shaw	Threshold – 20% vesting	Maximum – 100% vesting
Group RoE	50%	50%	25%	25%	11.0%	12.5% or more
UK RoE	–	–	–	25%	1 percentage point above the average allowed regulatory return	3.5 percentage points or more above the average allowed regulatory return
US RoE	–	–	25%	–	90% of the average allowed regulatory return	105% or more of the average allowed regulatory return
Value growth	50%	50%	50%	50%	10.0%	12.0% or more

NEDs' fees

Committee chair fees are in addition to committee membership fees. Therese Esperdy was appointed as a Non-executive Director to the National Grid USA Board on 1 May 2015 with an annual fee of £25,000 in addition to her current NED fees.

	£'000		
	From 1 June 2016	From 1 June 2015	Increase
Chairman	500	495	1%
Senior Independent Director	22	22	0%
Board fee (UK-based)	66	64	3%
Board fee (US-based)	78	76	3%
Committee membership fee	9	9	0%
Chair Audit Committee	19	17	12%
Chair Remuneration Committee	19	17	12%
Chair (other Board committee)	12.5	12.5	0%

Advisors to the Remuneration Committee

The Committee received advice during 2015/16 from independent remuneration consultants New Bridge Street (NBS), a trading name of Aon Hewitt Ltd (part of Aon plc). NBS were selected as advisors by the Committee from 1 August 2013 following a competitive tendering process.

Work undertaken by NBS included updating the Committee on trends in compensation and governance matters and advising the Committee in connection with benchmarking of the total reward packages for the Executive Directors and other senior employees. NBS are a member of the Remuneration Consultants Group and have signed up to that group's Code of Conduct. The Committee is satisfied that any potential conflicts were appropriately managed. NBS does not provide any other advice or services to the Company. In the year to 31 March 2016 the Committee paid a total of £77,820 to NBS, with fees being charged on a time incurred basis.

The Committee also received specialist advice from the following organisations:

- Alithos Limited: provision of TSR calculations for the LTPP (£10,417 paid in 2015/16);
- Linklaters LLP: advice relating to share schemes and to Directors' service contracts (£44,621 paid in 2015/16); and
- Willis Towers Watson: advice relating to the benchmarking of the total reward packages for the Executive Committee and the Chairman (£58,509 paid in 2015/16).

The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that they all provided credible and professional advice.

The Committee considers the views of the Chairman on the performance and remuneration of the CEO; and of the CEO on the performance and remuneration of the other members of the Executive Committee. The Committee is also supported by the Group General Counsel & Company Secretary who acts as Secretary to the Committee, the Group HR Director, the Group Head of Reward & Performance and the Group Head of Pensions. No other advisors have provided significant services to the Committee in the year.

Voting on 2013/14 Directors' Remuneration Policy at 2014 AGM

The voting figures shown refer to votes cast at the 2014 AGM and represent 61.76% of the issued share capital. In addition, shareholders holding 74 million shares abstained.

	For	Against
Number of votes	2,223,573,203	85,131,552
Proportion of votes	96.31%	3.69%

Voting on 2014/15 Annual Remuneration Report at 2015 AGM

The voting figures shown refer to votes cast at the 2015 AGM and represent 62.61% of the issued share capital. In addition, shareholders holding 30 million shares abstained.

	For	Against
Number of votes	2,240,539,614	63,053,994
Proportion of votes	97.26%	2.74%

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

Jonathan Dawson
Chairman of the Remuneration Committee
18 May 2016

Financial Statements contents

Introduction to the Financial Statements

Throughout these financial statements we have provided explanations of the disclosures and why they are important to the understanding of our financial performance and position. In places we have also highlighted 'Our strategy in action', drawing out the key elements of our business model (set out in the Strategic Report on pages 14 to 15), and showing how the disclosures reflect this strategy.

Audit opinions

We have two audit opinions on our financial statements, reflecting our listing on both the London Stock Exchange and the New York Stock Exchange. Due to the different reporting requirements for each listing, our auditors are required to confirm compliance with each set of standards in a prescribed format. The audit opinion as required under our UK listing (starting on page 85) continues to provide more detail as to how our auditors have planned and conducted their audit, as well as their views on significant matters they have noted and that were discussed by the Audit Committee.

Notes

Notes to the financial statements provide additional information required by statute, accounting standards or other regulations to assist in a more detailed understanding of the primary financial statements. In many notes we have included an accounting policy that describes how the transactions or balance in that note have been measured, recognised and disclosed. The basis of preparation section (note 1) provides details of accounting policies that apply to transactions and balances in general. There are also additional specific disclosure requirements due to our US listing which are included in the notes.

Unaudited commentary

We have presented with the financial statements certain analysis as part of the Strategic Report of our Annual Report. This approach provides a clearer narrative, a logical flow of information and reduces duplication. We have created a combined financial review, including a commentary on items within the primary statements, on pages 94 to 101. Unless otherwise indicated, all analysis provided in the financial statements is on a statutory IFRS basis. All information in ruled boxes styled in the same manner as this one does not form part of the audited financial statements. This has been further highlighted by including the word 'unaudited' at the start of each box header. Unaudited commentary boxes appear on pages 95 to 97, 99, 101, 107 to 108, 117, 119 and 131.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, including the consolidated financial statements and the Company financial statements, the Directors' Report, including the Remuneration Report and the Strategic Report, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the Company financial statements and the Remuneration Report in accordance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), and applicable law – United Kingdom Generally Accepted Accounting Practice (UK GAAP). In preparing the consolidated financial statements, the Directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB). 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 on a consolidated and individual basis and of the profit or loss of the Company on a consolidated basis 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 and prudent;
- state that the consolidated financial statements comply with IFRS as issued by the IASB and IFRS adopted by the European Union and, with regard to the Company financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated financial statements and Company financial statements on a going concern basis unless it is inappropriate to presume that the Company, on a consolidated and individual basis, will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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 on a consolidated and individual basis, and to enable them to ensure that the consolidated financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation, and the Company financial statements and the Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Each of the Directors, whose names and functions are listed on pages 47 and 48, confirms that:

- to the best of their knowledge, the consolidated financial statements and the Company financial statements, which have been prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the European Union and UK GAAP FRS 101 respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Company on a consolidated and individual basis;
- to the best of their knowledge, the Strategic Report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces; and
- they consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Directors' Report
The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Listing Rules, and Disclosure Rules and Transparency Rules, comprising pages 08 to 81 and 174 to 202, was approved by the Board and signed on its behalf.

Strategic Report
The Strategic Report, comprising pages 02 to 45, was approved by the Board and signed on its behalf.

By order of the Board

Alison Kay
Group General Counsel & Company Secretary
18 May 2016
Company number: 4031152

Independent auditors' report
to the Members of National Grid plc

Report on the financial statements

Our opinion
In our opinion:
- National Grid's Group and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and the Company's affairs as at 31 March 2016 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB
As explained in note 1 to the financial statements, the Group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the Group financial statements comply with IFRSs as issued by the IASB.

What we have audited
The financial statements, included within the Annual Report, comprise the statements and notes on pages 94 to 173 with the exception of the unaudited commentary sections. Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the Group financial statements is IFRSs as adopted by the European Union and applicable law. The financial reporting framework that has been applied in the preparation of the Company financial statements is United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law (UK GAAP).

Overview of our audit

Materiality

£157m

(2015: £132m)

Based on 5% of Group profit before tax, exceptional items and remeasurements.

Areas of focus	Component	Change in level of risk year on year
Event-driven		
US financial controls	US	No change
Potential disposal of UK Gas Distribution business	UK	New
Recurring		
Accuracy of capital expenditures	UK & US	Increased
Accuracy and valuation of treasury derivative transactions	US & Corporate centre	Decreased
Valuation of environmental provisions	UK & US	No change
Accounting for net pension obligations	US & Corporate centre	No change
Revenue recognition	UK & US	No change

Scope

80%

(2015: 80%)

Coverage of Group profit before tax, exceptional items and remeasurements.

Highlights of what we reported to the Audit Committee

- While areas for improvement remain, in particular property, plant and equipment, there has been progress in improving the US financial controls.
- Although they contain significant judgements, estimates for pensions and environmental provisions fall within what we consider to be an acceptable range.
- With respect to revenue and treasury we completed our work in accordance with our audit plan and had no specific matters of concern to report.

Our audit team
In building our audit team for National Grid we focused on continuity and relevant industry experience, whilst meeting the rotation requirements set by Ethical Standards.

This is my fourth year working on the National Grid audit (but first as Senior Statutory Auditor). I have also been the Senior Statutory Auditor for three other large LSE Listed companies. With regards to the components, our NG US lead partner has had three years of involvement, and this is the first year of involvement of our NG UK lead partner as a result of audit partner rotation. The NG UK and NG US lead partners and I all have significant electricity and gas utility audit experience, averaging 15 years each. Our core audit team, excluding specialists who support us in treasury, accounting technical, IT, tax, pensions, and valuations, comprises approximately 74 people. At manager grade and above we have continuity from the prior year of 65% and an average of three years' experience on the National Grid audit and six years of electricity and gas utility audit experience.

Context for our audit
Our recurring areas of focus largely reflect National Grid's key activities of network investment and the associated financing, where it seeks to maximise returns allowable under the regulatory frameworks in the UK and US, as well as fulfilling their social and environmental responsibilities and remunerating their staff.

The most notable development during the year was National Grid's announcement of the potential sale of a majority stake in UK Gas Distribution. The changes in business processes and financial control in National Grid US continued throughout the year.

Independent auditors' report
to the Members of National Grid plc continued

Materiality
Materiality is the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of reasonably knowledgeable members would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Area	Commentary
Overall Group materiality £157m	£157m (2015: £132m) is 5% of profit before tax, exceptional items and remeasurements ('adjusted profit before tax'). Whilst the benchmark has not changed, this is higher than the level we set for last year reflecting the increased profitability of the Group during the period.
Rationale for benchmark applied 5% of adjusted profit before tax, exceptional items and remeasurements	We have chosen adjusted profit before tax because it is disclosed on the face of the consolidated income statement as the consistent year on year measure of performance and excludes the non-recurring disproportionate impact of exceptional items and remeasurements. We also considered this measure to be suitable having compared to other benchmarks: our materiality is 5.2% of statutory profit before tax, 0.3% of total assets and 1.2% of net assets.
Performance materiality £117m	We set a lower level of performance materiality for planning our audit to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole to an appropriately low level. Our judgement was that performance materiality for the Group should be 75% (2015: 75%) of overall materiality, being £117m (2015: £105m). In planning our audit we allocate a specific performance materiality to each of our component audit teams. This is used to determine the extent of our audit procedures at a component level for the purposes of reporting on the National Grid Group financial statements. These are summarised below.

Component performance materiality

	2016 £m	2015 £m
US Regulated (full scope audit)	**65**	60
UK Electricity Transmission (full scope audit)	**38**	32
UK Gas Transmission (full scope audit)	**30**	19
UK Gas Distribution (full scope audit)	**39**	29
Corporate activities		
UK treasury and UK tax	**68**	65
UK pensions	**83**	65
UK Property (environmental provisions only) and Insurance (accounts payable and financial investments only)	**8**	8

Area	Commentary
Reporting level £7m	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £7m (2015: £6m) being 5% of our overall materiality. We also report misstatements below that amount that, in our view, warrant reporting for qualitative reasons.

Scope of our audit procedures
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The UK Electricity Transmission, UK Gas Transmission, UK Gas Distribution and US Regulated business required an audit of their complete financial information due to their size.

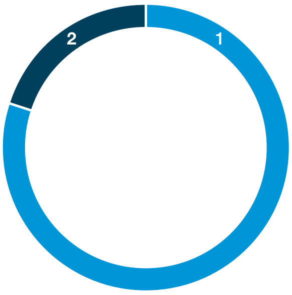
In addition due to the size and location of certain balances, specified procedures were performed on environmental provisions (by the UK Property audit team) and on amounts payable and financial investments (by the PwC Insurance audit team in the Isle of Man).

The Group has a number of separate operations in the US and UK and each of these operations maintain their own accounting records and report to Group through an integrated consolidation system. For this reason we used component auditors within PwC UK and PwC US who are familiar with the local laws and regulations to perform this audit work.

We ensured our involvement in the work of our component auditors was sufficient to allow us to conclude on our opinion on the Group financial statements as a whole. Given both the developing control environment discussed below and the potential UK Gas Distribution transaction, the Group team visited both components on a number of occasions for meetings with our team and local National Grid management.

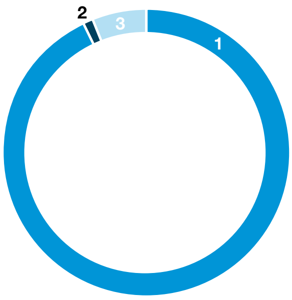
The Group consolidation, financial statement disclosures and corporate activities including tax, treasury related activities and UK pensions were audited by the Group team using specialists where appropriate. The charts on the following page illustrate the coverage obtained from the territories and functions where we performed our audit work.

Profit before tax after exceptionals



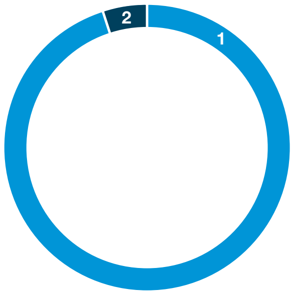
1. Full scope audit	80%
2. Other procedures	20%

Total assets



1. Full scope audit	93%
2. Specified procedures	1%
3. Other procedures	6%

Total revenue



1. Full scope audit	95%
2. Other procedures	5%

Our areas of focus

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both. As a consequence of being listed in both London and New York, we conducted our audit in accordance with International Standards on Auditing (UK and Ireland) and the standards of the Public Company Accounting Oversight Board (PCAOB). Accordingly our audit approach combines high reliance on controls over financial reporting for the purpose of our audit where we consider them to be operating effectively along with evidence gained from substantive testing (an 'integrated audit' approach).

Based on materiality and our understanding of the business, the risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, were identified in the following table.

We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context.

Area of focus	How our audit addressed the area of focus and what we reported to the Audit Committee
US financial controls National Grid US are going through a finance function reorganisation and a programme of process and control improvements. In this period of change and until processes and controls are finalised and the new finance structure is embedded, there is higher risk of error in the financial information reported by the US Regulated business. Change in level of risk year on year: No change We are seeing progress in some processes on control remediation and additional focus on the control environment. Some areas, in particular property, plant and equipment (PPE) are proving more complex and will take longer.	As a consequence of the higher risk of error in financial information reported by National Grid US, a significant portion of both US and Group senior audit team members' time has been spent developing our audit response to the US control environment, which is summarised below, and discussing this with management and the Audit Committee. We performed additional testing of key account reconciliations across a number of different general ledger accounts, ensuring that significant reconciling items were supported with sufficient and appropriate documentation. Management continue to operate their additional control of preparing an aggregation of unreconciled items across all accounts in order to assess the potential impact of adjusting for these items. We tested this aggregation to ensure it was complete and accurate by agreeing these items to the underlying account reconciliations and vice versa. The net impact on the income statement if all unsupported reconciling items were to be resolved was below our reporting level for the Audit Committee. We tested the design and operating effectiveness of journal review controls and found nothing that would cause us to believe these controls were not working as intended. We also tested manual journal entries based on a risk assessment of value and nature, with no matters arising that required reporting to the Audit Committee.

Independent auditors' report
to the Members of National Grid plc continued

Area of focus	How our audit addressed the area of focus and what we reported to the Audit Committee
Accuracy of capital expenditures A key focus for National Grid is network investment with total capital expenditures across the Group of £3.9bn during 2015/16 (2014/15: £3.5bn). Depending upon its nature, expenditure may be capitalised as PPE or expensed in the year the cost is incurred. In making this decision the directors have to consider whether the expenditure will generate future economic benefits which necessarily involves judgment, for example in determining whether activities or items are adding value or maintaining existing assets. In relation to the US, there was a heightened risk that the controls over: the classification of costs between PPE and expenses; and the controls over the transfer of assets under construction to assets in service may not have been working effectively due to control weaknesses previously identified. In addition, there are complex adjustments that are required to translate local plant accounting records prepared under generally accepted accounting principles in the United States (US GAAP) to comply with IFRS. In relation to the UK, our interim review work highlighted weaknesses in relation to some reconciliations and classifications within PPE. Change in level of risk year on year: Increased Because of significantly increased level of capital expenditures in the US and the control weaknesses identified in the US and UK.	We assessed whether the Group's accounting policies in relation to the capitalisation of expenditures complied with IFRSs, and tested the implementation of those policies through a combination of controls testing, including IT General Controls over the PPE accounting systems, and substantive testing of the supporting documentation behind the costs and we found no material issues that would impact our audit approach. In the US, we performed additional testing to ensure the completeness and accuracy of capitalisation. Our procedures included identification of projects where the proportions of costs capitalised were different to those we would expect based on the nature of the work performed, and procedures around the appropriateness of capitalisation of payroll costs, noting that amounts had been properly recorded. As a result of issues identified by our testing, we extended our sample of certain types of open work orders. Our work identified a small factual adjustment which we reported to the Audit Committee together with a larger projected adjustment. Taken together, these were considered to be not material for adjustment in the financial statements. With respect to the IFRS adjustments to US GAAP reporting, we tested the analysis to underlying accounting records, recalculations and supporting documentation, identifying no adjustments that required reporting to the Audit Committee. In the UK, we focused our testing on the capital expenditures that had the most significant value, with a particular focus on Electricity Transmission which is the largest area of UK capital expenditures. As part of our testing, we inspected contracts and underlying invoices to ensure the classification between capital and operating expenditure was appropriate. We reviewed the ageing of the assets under construction balance for indicators of impairment and key judgments associated with the PPE balance. Our approach is supported by comfort obtained from our testing of the key controls within the PPE process, which included reconciliations and controls over classification. Based on year-end tests we performed, the weaknesses identified at our interim review had been rectified by management. We found no material issues arising from this work.
Accuracy and valuation of treasury derivative transactions In order to fund its activities, at 31 March 2016 National Grid had total borrowings of £28.3bn, of which £6.4bn is denominated in currencies other than Sterling or US Dollars and exposes the Group to foreign exchange and interest rate risk. As a result, the Group has a significant treasury operation with sophisticated risk management activities and uses financial instruments including complex derivatives to manage the foreign exchange and interest rate risks, primarily interest rate swaps and cross-currency interest rate swaps. The valuation of a number of the derivative contracts entered into by National Grid is a complex and judgemental area and includes key assumptions over estimates of future interest, exchange rates and determination of appropriate discount rates to apply to future cash flows. Change in level of risk year on year: Decreased Because our work in 2014/15 on the introduction of regression for hedge effectiveness testing identified no issues.	We tested the design and operating effectiveness of IT General Controls including user access, change management and segregation of duties within the treasury management system and we found no material issues that would impact our audit approach. We tested the design and operating effectiveness of key controls that relate to recording and valuing derivative transactions in the treasury management system. We also tested the accuracy and completeness of the information held within the system by agreeing to third-party confirmations and found no differences when compared to the system data. We tested the models and key assumptions used by management to value complex derivatives which were agreed as appropriate. Where management entered into new significant contracts in the year, we tested the contracts and assumptions used to assess whether the accounting treatment adopted is in accordance with IAS 39.

Area of focus	How our audit addressed the area of focus and what we reported to the Audit Committee
Potential disposal of UK Gas Distribution business In November 2015, National Grid announced its intention to dispose of a majority share of the UK Gas Distribution (UKGD) business. This will be a significant transaction as UKGD comprises approximately 21% of Group profit/net assets and in addition is currently part of the National Grid Gas plc legal entity. Due to the expected timing of any transaction, this is not an area of significant risk for our 2015/16 audit, but it has had a major impact on the resource and timing of our audit. Change in level of risk year on year: New	Although there are no significant accounting impacts in 2015/16 as a result of the transaction process, we have reassessed our risks and materiality benchmarks for UKGD and have worked with management to plan for a significantly accelerated UK component audit timetable.
Valuation of environmental provisions Over time National Grid has acquired, owned and operated a number of businesses that have created an environmental impact that will require remediation. This is particularly significant in the US partly as a result of National Grid's exposure to certain 'Superfund' sites. At 31 March 2016, the total liability in respect of environmental provisions is £1.2bn, of which £0.9bn relates to the US. Environmental provisions require significant judgement in determining the form of remediation and the timing and value of projected cash flows associated with it, including the impact of regulation, accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. Change in level of risk year on year: No change	In the US and UK, National Grid uses external and internal experts to help determine the total expenditure required to remediate sites. As part of the audit we obtained and inspected these experts' reports and assessed their independence and competence and we found no material issues that would impact our audit approach. For all material sites and a sample of other sites, we corroborated information on the nature of each of these sites to National Grid's underlying site usage records. In addition, to assess the reliability of the experts' estimates, we compared previous estimates against actual spend for sites which have been remediated, without material issue. In the US, due to the individually significant sites, we utilised our own environmental specialists to review management's key assumptions underlying the calculations. Where possible we confirmed other inputs into the calculation by reference to publicly available information and noted no exceptions. We inspected responses to our confirmation requests from National Grid's legal advisors in order to identify any issues related to the valuation of the Group's exposure to environmental remediation costs and noted no issues. In order to assess the reasonableness of management's discount rate assumptions we compared these to our internally developed benchmarks, including performing sensitivity analysis. We identified a potential adjustment related to one discount rate which was marginally outside our expected range and reported this to the Audit Committee. We considered this immaterial for adjustment in the Group financial statements.
Accounting for net pension obligations National Grid provides defined pension and other post-employment benefits to employees in the UK and US through a number of schemes. At 31 March 2016, National Grid's gross defined benefit obligation is £29.0bn which is offset by scheme assets of £26.4bn which are significant in the context of both the overall balance sheet and the results of the Group. The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Changes to the key assumptions including salary increases, inflation, discount rates, and mortality can have a material impact on the calculation of the liability. Also, the pension plan assets include a number of investments for which there is no observable input to the fair value (i.e. no quoted market price); the valuation technique used to measure the fair value of these assets involves a number of subjective judgements. Change in level of risk year on year: No change	We have tested the significant judgements made by National Grid's third party actuaries as set out below and assessed their independence and competence. We found no material issues that would impact our audit approach. We agreed the discount and inflation rates used in the valuation of the pension liability to our internally developed benchmarks. We compared the assumptions around salary increases and mortality to national and industry averages. All of the assumptions used fell within our acceptable range. We obtained details of the measurement of fair value for assets with unobservable inputs. Such assets were typically private equity or real estate fund investments for which we obtained audited financial statements in support of the measurement of net asset value. We found no material issues from this testing.

Area of focus	How our audit addressed the area of focus and what we reported to the Audit Committee
Revenue recognition During the year National Grid has recognised revenue of £15.1bn; £14.2bn of which is mostly related to the regulated segments in the UK and US. In the UK, National Grid's revenue is derived from a number of price controls imposed by the UK regulator, Ofgem, when combined with the application of IFRS, revenue recognition involves limited judgement. The majority of revenue is derived from a small number of customers who settle within agreed terms. In the US, different services and locations are regulated by different authorities and are subject to numerous price controls. Unlike the UK, revenue is earned through the transportation and supply of gas and electricity to end customers, which does involve judgement as a result of the estimate of accrued income for services delivered but not yet billed to these customers. This is determined using a long-established methodology within the Group. As such revenue recognition is not an area of significant risk for our audit but does require significant time and resource to audit due to the magnitude. Change in level of risk year on year: No change	In the UK, we have tested the design and operating effectiveness of key controls in relation to the recognition of revenue, with particular focus on controls over the setting of prices compared to those allowed by the Ofgem price controls and we found no material issues that would impact our audit approach. We have tested the revenue recognised to amounts invoiced to customers and the subsequent receipt of payment from those customers, with no material exceptions noted. In the US, in respect of transmission and other non-utility revenues, we selected and tested individual transactions to ensure they were appropriately recorded as revenue in the correct period. We inspected proof of cash payments or confirmed amounts with customers where it was possible to do so. We also inspected regulator-approved tariffs to test that amounts charged were consistent with such tariffs. We found no material issues arising from our work. For utility revenues, we selected samples of rate classes to test that customer rates were properly updated in the billing systems, and that rate types were assigned to customers consistent with the type of customer and (where appropriate) the volume of usage. We also selected samples of customer bills and tested that such bills were paid by customers and were consistent with the regulator-approved rate plans. For those bills selected that were outstanding at the end of the year, we confirmed the balance with customers, and tested amounts to subsequent cash receipts where no confirmation was received. With respect to unbilled revenue we tested management's assumptions in relation to consumption by reference to historical data as well as specific current year factors, including weather patterns. In so doing, we did not note any significant issues which would impact the Group financial statements.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 102, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions
In our opinion, the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting
We are required to report to you if, in our opinion:

- Information in the Annual Report is:
  - materially inconsistent with the information in the audited financial statements; or
  - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or
  - otherwise misleading.
- The statement given by the Directors on page 84, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.
- The section of the Annual Report on pages 54 to 58, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- the Directors' confirmation on page 66 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; or
- the Directors' explanation on page 66 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit.

We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

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
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report – Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. Our procedures have been performed to a threshold of £1,000.

Other Companies Act 2006 reporting
We are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code.

We have nothing to report having performed our review.

Independent auditors' report
to the Members of National Grid plc continued

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London 18 May 2016

Report of Independent Registered Public Accounting Firm
to the Board of Directors and Shareholders of National Grid plc

Audit opinion for Form 20-F

In our opinion, the accompanying consolidated statement of financial position and the related consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity, present fairly, in all material respects, the financial position of National Grid plc and its subsidiaries at 31 March 2016 and 31 March 2015, and the results of their operations and their cash flows for each of the three years in the period ended 31 March 2016 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union.

Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of 31 March 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Additional Information section appearing on page 183 of the 2016 Annual Report and Accounts.

Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
London
United Kingdom
18 May 2016

Consolidated income statement
for the years ended 31 March

	Notes	2016 £m	2016 £m	2015 £m	2015 £m	2014 £m	2014 £m
Revenue	2(a)		**15,115**		15,201		14,809
Operating costs	3		**(11,030)**		(11,421)		(11,074)
Operating profit							
Before exceptional items and remeasurements	2(b)	**4,096**		3,863		3,664	
Exceptional items and remeasurements	4	**(11)**		(83)		71	
Total operating profit	2(b)		**4,085**		3,780		3,735
Finance income	5		**22**		36		36
Finance costs							
Before exceptional items and remeasurements	5	**(1,035)**		(1,069)		(1,144)	
Exceptional items and remeasurements	4,5	**(99)**		(165)		93	
Total finance costs	5		**(1,134)**		(1,234)		(1,051)
Share of post-tax results of joint ventures and associates	14		**59**		46		28
Profit before tax							
Before exceptional items and remeasurements	2(b)	**3,142**		2,876		2,584	
Exceptional items and remeasurements	4	**(110)**		(248)		164	
Total profit before tax	2(b)		**3,032**		2,628		2,748
Tax							
Before exceptional items and remeasurements	6	**(753)**		(695)		(581)	
Exceptional items and remeasurements	4,6	**315**		78		297	
Total tax	6		**(438)**		(617)		(284)
Profit after tax							
Before exceptional items and remeasurements		**2,389**		2,181		2,003	
Exceptional items and remeasurements	4	**205**		(170)		461	
Profit for the year			**2,594**		2,011		2,464
Attributable to:							
Equity shareholders of the parent			**2,591**		2,019		2,476
Non-controlling interests			**3**		(8)		(12)
			2,594		2,011		2,464
Earnings per share[1]							
Basic	7(a)		**69.0p**		53.2p		65.2p
Diluted	7(b)		**68.7p**		52.9p		64.9p

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

Unaudited commentary on the consolidated income statement

The consolidated income statement shows all revenue earned and costs incurred in the year, with the difference being the overall profit for the year.

Revenue

Revenue for the year ended 31 March 2016 decreased by £86m to £15,115m. This decrease was driven by lower revenues in our US Regulated business, partly offset by revenue growth across all of our other businesses, in particular UK Electricity Transmission. US Regulated revenues were £493m lower year on year due to lower commodity costs passed on to customers and unfavourable timing of recoveries. This was partly offset by higher increased revenue allowances under the Niagara Mohawk three year rate plan and the benefits of capex trackers and the stronger US dollar. UK Electricity Transmission revenue increased by £223m, mostly reflecting the recovery of higher pass-through costs such as payments to other UK network owners and system balancing costs.

Operating costs

Operating costs for the year ended 31 March 2016 of £11,030m were £391m lower than the prior year. This decrease in costs included a £72m impact in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £319m lower, principally due to lower pass-through costs such as gas and electric commodity costs in the US and additional costs incurred last year in the US to improve data quality and bring regulatory filings up to date, partially offset by higher depreciation as a result of newly commissioned assets and the impact of the stronger US dollar on sterling results.

Net finance costs

For the year ended 31 March 2016, net finance costs before exceptional items and remeasurements were £20m lower than 2014/15 at £1,013m, mainly as a result of lower UK RPI inflation, continued focus on management of cash balances and the benefit of last year's debt repurchases, partially offset by increased borrowings and the impact of the stronger US dollar.

Tax

The tax charge on profits before exceptional items and remeasurements was £58m higher than 2014/15. This was mainly a result of increased taxable profits in the year. The effective tax rate for the year was 24.0% (2014/15: 24.2%).

Exceptional items and remeasurements

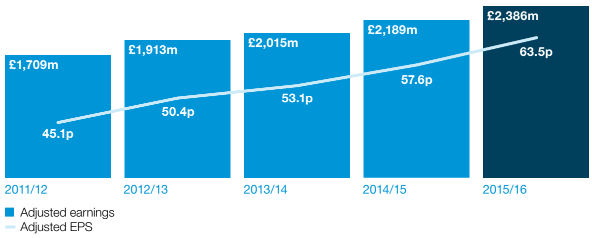
Operating costs for the year ended 31 March 2016 included an £11m gain on remeasurement of commodity contracts, together with £22m exceptional costs associated with the Gas Distribution sales process. In the previous year, operating costs included a net £83m loss on remeasurements.

Finance costs for the year ended 31 March 2016 included a loss of £99m on financial remeasurements, relating to net losses on derivative financial instruments. For the previous year ended 31 March 2015, we incurred exceptional debt redemption costs of £131m and a loss of £34m on financial remeasurements. Exceptional tax for 2015/16 was a credit of £315m which represents tax credits on the exceptional items and remeasurements above, together with a deferred tax credit on the recalculation of deferred tax liabilities as a result of the reduction in the UK tax rate from 20% to 18%.

Adjusted earnings and EPS

Adjusted earnings and EPS, which exclude exceptional items and remeasurements, are provided to reflect the business performance subtotals used by the Company. The following chart shows the five year trend in adjusted profit attributable to equity shareholders of the parent (adjusted earnings) and adjusted earnings per share. See page 196 for a reconciliation of adjusted basic EPS to EPS.

Adjusted earnings and adjusted EPS[1]



1. Adjusted earnings and adjusted EPS are attributable to equity shareholders of the parent.

The above earnings performance translated into adjusted EPS growth in 2015/16 of 5.9p (10%).

In accordance with IAS 33, all earnings per share and adjusted earnings per share amounts for comparative periods have been restated for shares issued via scrip dividends.

Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars, so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate. The table below shows the average and closing exchange rates of sterling to US dollars.

	2015/16	2014/15	% change
Weighted average (income statement)	1.47	1.58	(7)%
Year end (balance sheet)	1.44	1.49	(3)%

The movement in foreign exchange during 2015/16 has resulted in a £560m increase in revenue, a £73m increase in adjusted operating profit and a £67m increase in operating profit.

Consolidated statement of comprehensive income
for the years ended 31 March

	Notes	2016 £m	2015 £m	2014 £m
Profit for the year		**2,594**	2,011	2,464
Other comprehensive income/(loss)				
Items that will never be reclassified to profit or loss:				
Remeasurements of net retirement benefit obligations	22	**539**	(771)	485
Tax on items that will never be reclassified to profit or loss	6	**(125)**	299	(172)
Total items that will never be reclassified to profit or loss		**414**	(472)	313
Items that may be reclassified subsequently to profit or loss:				
Exchange adjustments		**69**	175	(158)
Net gains/(losses) in respect of cash flow hedges		**50**	(154)	63
Transferred to profit or loss in respect of cash flow hedges		**29**	13	27
Net gains on available-for-sale investments		**43**	41	6
Transferred to profit or loss on sale of available-for-sale investments		**–**	(8)	(14)
Tax on items that may be reclassified subsequently to profit or loss	6	**(32)**	11	(2)
Total items that may be reclassified subsequently to profit or loss		**159**	78	(78)
Other comprehensive income/(loss) for the year, net of tax		**573**	(394)	235
Total comprehensive income for the year		**3,167**	1,617	2,699
Attributable to:				
Equity shareholders of the parent		**3,164**	1,624	2,711
Non-controlling interests		**3**	(7)	(12)
		3,167	1,617	2,699

Unaudited commentary on consolidated statement of comprehensive income

The consolidated statement of comprehensive income records certain items as prescribed by the accounting rules. For us, the majority of the income or expense included here relates to movements in actuarial assumptions on pension schemes and the associated tax impact. These items are not part of profit for the year, yet are important to allow the reader to gain a more comprehensive picture of our performance as a whole.

Remeasurements of net retirement benefit obligations
We had a net gain after tax of £414m (2014/15: net loss of £472m) on our pension and other post-retirement benefit schemes which is due to changes in key assumptions made in the valuation calculation of pension liabilities and differences between the expected and actual pension asset returns.

Exchange adjustments
Adjustments are made when we translate the results and net assets of our companies operating outside the UK, as well as debt and derivative transactions designated as a net investment hedge of our foreign currency operations. The net movement for the year resulted in a gain of £69m (2014/15: £175m gain).

Net gains/(losses) in respect of cash flow hedges
The value of derivatives held to hedge cash flows is impacted by changes in expected interest rates and exchange rates. The net gain for the year was £50m (2014/15: £154m loss).

Consolidated statement of changes in equity
for the years ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Other equity reserves[1] £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
At 1 April 2013	433	1,344	13,133	(4,681)	10,229	5	10,234
Profit for the year	–	–	2,476	–	2,476	(12)	2,464
Total other comprehensive income/(loss) for the year	–	–	313	(78)	235	–	235
Total comprehensive income/(loss) for the year	–	–	2,789	(78)	2,711	(12)	2,699
Equity dividends	–	–	(1,059)	–	(1,059)	–	(1,059)
Scrip dividend related share issue[2]	6	(8)	–	–	(2)	–	(2)
Issue of treasury shares	–	–	14	–	14	–	14
Purchase of own shares	–	–	(5)	–	(5)	–	(5)
Other movements in non-controlling interests	–	–	(4)	–	(4)	15	11
Share-based payment	–	–	20	–	20	–	20
Tax on share-based payment	–	–	7	–	7	–	7
At 31 March 2014	439	1,336	14,895	(4,759)	11,911	8	11,919
Profit for the year	–	–	2,019	–	2,019	(8)	2,011
Total other comprehensive (loss)/income for the year	–	–	(472)	77	(395)	1	(394)
Total comprehensive income/(loss) for the year	–	–	1,547	77	1,624	(7)	1,617
Equity dividends	–	–	(1,271)	–	(1,271)	–	(1,271)
Scrip dividend related share issue[2]	4	(5)	–	–	(1)	–	(1)
Purchase of treasury shares	–	–	(338)	–	(338)	–	(338)
Issue of treasury shares	–	–	23	–	23	–	23
Purchase of own shares	–	–	(7)	–	(7)	–	(7)
Other movements in non-controlling interests	–	–	(3)	–	(3)	11	8
Share-based payment	–	–	20	–	20	–	20
Tax on share-based payment	–	–	4	–	4	–	4
At 31 March 2015	443	1,331	14,870	(4,682)	11,962	12	11,974
Profit for the year	–	–	2,591	–	2,591	3	2,594
Total other comprehensive income for the year	–	–	414	159	573	–	573
Total comprehensive income for the year	–	–	3,005	159	3,164	3	3,167
Equity dividends	–	–	(1,337)	–	(1,337)	–	(1,337)
Scrip dividend related share issue[2]	4	(5)	–	–	(1)	–	(1)
Purchase of treasury shares	–	–	(267)	–	(267)	–	(267)
Issue of treasury shares	–	–	16	–	16	–	16
Purchase of own shares	–	–	(6)	–	(6)	–	(6)
Other movements in non-controlling interests	–	–	–	–	–	(5)	(5)
Share-based payment	–	–	22	–	22	–	22
Tax on share-based payment	–	–	2	–	2	–	2
At 31 March 2016	**447**	**1,326**	**16,305**	**(4,523)**	**13,555**	**10**	**13,565**

1. For further details of other equity reserves, see note 25.
2. Included within share premium account are costs associated with scrip dividends.

Unaudited commentary on consolidated statement of changes in equity

The consolidated statement of changes in equity shows additions and reductions to equity. For us, the main items are profit earned and dividends paid in the year.

Dividends
The Directors are proposing a final dividend of 28.34p, bringing the total dividend for the year to 43.34p, a 1.1% increase on 2014/15. The Directors intend to continue the policy of increasing the annual dividend by at least the rate of RPI inflation for the foreseeable future.

Consolidated statement of financial position
as at 31 March

	Notes	2016 £m	2015 £m
Non-current assets			
Goodwill	9	**5,315**	5,145
Other intangible assets	10	**887**	802
Property, plant and equipment	11	**43,364**	40,723
Other non-current assets	12	**82**	80
Pension assets	22	**410**	121
Financial and other investments	13	**482**	330
Investments in joint ventures and associates	14	**397**	318
Derivative financial assets	15	**1,685**	1,539
Total non-current assets		**52,622**	49,058
Current assets			
Inventories and current intangible assets	16	**437**	340
Trade and other receivables	17	**2,472**	2,836
Financial and other investments	13	**2,998**	2,559
Derivative financial assets	15	**278**	177
Cash and cash equivalents	18	**127**	119
Total current assets		**6,312**	6,031
Total assets		**58,934**	55,089
Current liabilities			
Borrowings	19	**(3,611)**	(3,028)
Derivative financial liabilities	15	**(337)**	(635)
Trade and other payables	20	**(3,285)**	(3,292)
Current tax liabilities		**(252)**	(184)
Provisions	23	**(236)**	(235)
Total current liabilities		**(7,721)**	(7,374)
Non-current liabilities			
Borrowings	19	**(24,733)**	(22,882)
Derivative financial liabilities	15	**(1,732)**	(1,764)
Other non-current liabilities	21	**(2,071)**	(1,919)
Deferred tax liabilities	6	**(4,634)**	(4,297)
Pensions and other post-retirement benefit obligations	22	**(2,995)**	(3,379)
Provisions	23	**(1,483)**	(1,500)
Total non-current liabilities		**(37,648)**	(35,741)
Total liabilities		**(45,369)**	(43,115)
Net assets		**13,565**	11,974
Equity			
Share capital	24	**447**	443
Share premium account		**1,326**	1,331
Retained earnings		**16,305**	14,870
Other equity reserves	25	**(4,523)**	(4,682)
Shareholders' equity		**13,555**	11,962
Non-controlling interests		**10**	12
Total equity		**13,565**	11,974

The consolidated financial statements set out on pages 94 to 167 were approved by the Board of Directors on 18 May 2016 and were signed on its behalf by:

Sir Peter Gershon Chairman
Andrew Bonfield Finance Director

National Grid plc
Registered number: 4031152

Unaudited commentary on consolidated statement of financial position

The consolidated statement of financial position shows all of the Group's assets and liabilities at the year end. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

Goodwill and other intangible assets
Goodwill and intangibles increased by £255m to £6,202m as at 31 March 2016. This increase primarily relates to foreign exchange movements of £184m and software additions of £220m, partially offset by software amortisation of £147m.

Property, plant and equipment
Property, plant and equipment increased by £2,641m to £43,364m as at 31 March 2016. This was principally due to capital expenditure of £3,673m on the renewal and extension of our regulated networks and foreign exchange movements of £543m, offset by depreciation of £1,468m in the year. See page 24 for further details of our capital expenditure.

Investments and other non-current assets
Investments in joint ventures and associates, financial and other investments and other non-current assets have increased by £233m to £961m. This is primarily due to an increase in investments in joint ventures of £79m, together with an increase in available-for-sale investments of £152m.

Inventories and current intangible assets, and trade and other receivables
Inventories and current intangible assets, and trade and other receivables have decreased by £267m to £2,909m as at 31 March 2016. This is due to an increase in inventories and current intangible assets of £97m, more than offset by a net decrease in trade and other receivables of £364m. The £364m decrease consists of a foreign exchange impact of £57m due to the stronger US dollar against sterling offset by a decrease in the underlying balances of £421m, reflecting collection of high 2015 winter billings, coupled with the impact of the recent mild winter.

Trade and other payables
Trade and other payables have decreased by £7m to £3,285m, primarily due to a foreign exchange impact of £48m more than offset by movements in the US related to warmer weather and energy billing settlements.

Current tax balances
Net current tax balances have increased by £51m to £175m as at 31 March 2016, which includes a £77m current tax asset in trade and other receivables (£60m current tax asset in 2014/15). This is primarily due to the tax payments made in 2015/16 being only partially offset by a smaller current year tax charge.

Deferred tax balances
Deferred tax balances have increased by £337m to £4,634m as at 31 March 2016. This was primarily due to the impact of the £125m deferred tax charge on actuarial gains in reserves (£299m tax credit in 2014/15) and foreign exchange movements being offset by the impact of the reduction in the UK statutory tax rate.

Provisions and other non-current liabilities
Provisions (both current and non-current) and other non-current liabilities increased by £136m to £3,790m as at 31 March 2016.

Total provisions decreased by £16m in the year. The underlying movements include additions of £63m, primarily relating to an increase to the provision for the estimated environmental restoration and remediation costs for a number of sites and other provision increases of £33m, together with foreign exchange movements of £42m, offset by utilisation of £200m in relation to all classes of provisions.

Net debt
Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and derivative financial assets and liabilities. See further analysis with the consolidated cash flow statement on page 100.

Net pension and other post-retirement obligations
A summary of the total UK and US assets and liabilities and the overall net IAS 19 (revised) accounting deficit is shown below:

Net plan liability	UK £m	US £m	Total £m
As at 1 April 2015	(672)	(2,586)	(3,258)
Exchange movements	–	(81)	(81)
Current service cost	(74)	(147)	(221)
Net interest cost	(18)	(94)	(112)
Curtailments and other	(24)	(15)	(39)
Actuarial (losses)/gains			
– on plan assets	(18)	(320)	(338)
– on plan liabilities	552	325	877
Employer contributions	239	348	587
As at 31 March 2016	**(15)**	**(2,570)**	**(2,585)**
Represented by:			
Plan assets	19,401	7,033	26,434
Plan liabilities	(19,416)	(9,603)	(29,019)
	(15)	**(2,570)**	**(2,585)**

The principal movements in net obligations during the year include net actuarial gains of £539m and employer contributions of £587m. Net actuarial gains include actuarial gains on plan liabilities of £877m arising as a consequence of decreases in the nominal discount rate in the US and experience gains reflecting liability experience throughout the year including the impact of pension increases being lower than assumed and some updates to the way a section of plan liabilities is estimated. This is partially offset by actuarial losses of £338m arising on plan assets resulting from actual asset returns being less than assumed returns which is based upon the discount rate at the start of the year.

Further information on our pension and other post-retirement obligations can be found in notes 22 and 29 to the consolidated financial statements.

Off balance sheet items
There were no significant off balance sheet items other than the contractual obligations shown in note 30(b) to the consolidated financial statements, and the commitments and contingencies discussed in note 27.

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

Consolidated cash flow statement
for the years ended 31 March

	Notes	2016 £m	2015 £m	2014 £m
Cash flows from operating activities				
Total operating profit	2(b)	**4,085**	3,780	3,735
Adjustments for:				
Exceptional items and remeasurements	4	**11**	83	(71)
Depreciation, amortisation and impairment		**1,614**	1,494	1,417
Share-based payment charge		**22**	20	20
Gain on exchange of associate for available-for-sale investment		**(49)**	–	–
Changes in working capital		**456**	301	(59)
Changes in provisions		**(90)**	(41)	(150)
Changes in pensions and other post-retirement benefit obligations		**(327)**	(270)	(323)
Cash flows relating to exceptional items		**(62)**	(17)	(150)
Cash generated from operations		**5,660**	5,350	4,419
Tax paid		**(292)**	(343)	(400)
Net cash inflow from operating activities		**5,368**	5,007	4,019
Cash flows from investing activities				
Acquisition of investments		**(116)**	–	(4)
Purchases of intangible assets		**(220)**	(207)	(179)
Purchases of property, plant and equipment		**(3,408)**	(3,076)	(2,944)
Disposals of property, plant and equipment		**4**	9	4
Dividends received from joint ventures		**72**	79	38
Interest received		**23**	37	35
Net movements in short-term financial investments		**(391)**	1,157	1,720
Net cash flow used in investing activities		**(4,036)**	(2,001)	(1,330)
Cash flows from financing activities				
Purchase of treasury shares		**(267)**	(338)	–
Proceeds from issue of treasury shares		**16**	23	14
Purchase of own shares		**(6)**	(7)	(5)
Proceeds received from loans		**2,726**	1,534	1,134
Repayment of loans		**(896)**	(2,839)	(2,192)
Net movements in short-term borrowings and derivatives		**(730)**	623	37
Interest paid		**(834)**	(826)	(901)
Exceptional finance costs on the redemption of debt		**–**	(152)	–
Dividends paid to shareholders		**(1,337)**	(1,271)	(1,059)
Net cash flow used in financing activities		**(1,328)**	(3,253)	(2,972)
Net increase/(decrease) in cash and cash equivalents	26(a)	**4**	(247)	(283)
Exchange movements		**4**	24	(26)
Net cash and cash equivalents at start of year		**116**	339	648
Net cash and cash equivalents at end of year[1]	18	**124**	116	339

1. Net of bank overdrafts of £3m (2015: £3m; 2014: £15m).

Unaudited commentary on the consolidated cash flow statement

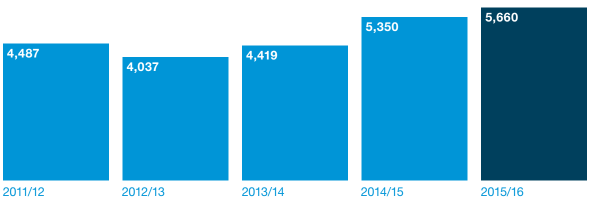
The consolidated cash flow statement shows how the cash balance has moved during the year. Cash inflows and outflows are presented to allow users to understand how they relate to the day-to-day operations of the business (Operating activities); the money that has been spent or earned on assets in the year, including acquisitions of physical assets or other businesses (Investing activities); and the cash raised from debt, share issues or share buybacks and other loan borrowings or repayments (Financing activities).

Reconciliation of cash flow to net debt

	2016 £m	2015 £m
Cash generated from operations	**5,660**	5,350
Net capital expenditure	**(3,740)**	(3,274)
Business net cash flow	**1,920**	2,076
Net interest paid (including exceptional interest)	**(811)**	(941)
Tax paid	**(292)**	(343)
Dividends paid	**(1,337)**	(1,271)
Other cash movements	**(185)**	(243)
Non-cash movements	**(705)**	(2,003)
Increase in net debt	**(1,410)**	(2,725)
Opening net debt	**(23,915)**	(21,190)
Closing net debt	**(25,325)**	(23,915)

Cash generated from operations

Cash generated from operations (£m)



Cash flows from our operations are largely stable when viewed over the longer term. Our electricity and gas transmission and distribution operations in the UK are subject to multi-year rate agreements with regulators. In the UK, we have largely stable cash flows. However, in the US our short-term cash flows are dependent on the price of gas and electricity and the timing of customer payments. The regulatory mechanisms for recovering costs from customers can result in significant cash flow swings from year to year. Changes in volumes in the US, for example as a consequence of abnormally mild or extreme weather can affect revenues and hence, cash flows, particularly in the winter months.

For the year ended 31 March 2016, cash flow from operations increased by £310m to £5,660m.

Changes in working capital improved by £155m over the prior year, principally in the US due to the collection of winter 2015 billings and lower closing balances due to milder weather.

Net capital expenditure

Net capital expenditure in the year of £3,740m was £466m higher than the prior year. This was a result of higher spend in our US and UK regulated businesses. Further details of our capital expenditure can be seen on page 24.

Net interest paid

Net interest paid and exceptional finance costs in 2015/16 were £811m, £130m lower than 2014/15 primarily due to prior year debt redemption cash outflows.

Tax paid

Tax paid in the year to 31 March 2016 was £292m, £51m lower than the prior year. This reflected the reduction in the UK corporation tax rate from 21% to 20%, partially offset by repayments received in the US in the prior year.

Dividends paid

Dividends paid in the year ended 31 March 2016 amounted to £1,337m. This was £66m higher than 2014/15, reflecting the increase in the final dividend for the year ended 31 March 2015 paid in August 2015, together with a lower average scrip dividend take-up in the year.

Other cash movements

Other cash flows principally arise from dividends from joint ventures and movements in treasury shares, including the cost of repurchasing shares as part of the share buyback programme (£267m, £71m lower than the prior year).

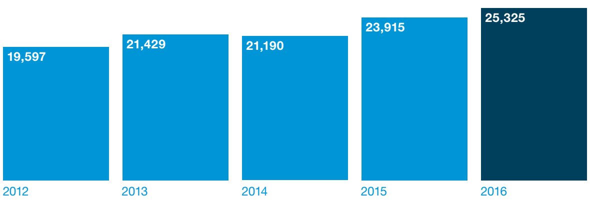
Non-cash movements

The non-cash movements are predominantly due to the strengthening of the US dollar against sterling, resulting in movements in foreign exchange arising on net debt held in US dollars. In the year, the dollar strengthened from $1.49 at 31 March 2015 to $1.44 at 31 March 2016.

Other non-cash movements are from changes in fair values of financial assets and liabilities and interest accretions and accruals.

Net debt

Net debt at 31 March (£m)



Notes to the consolidated financial statements
– analysis of items in the primary statements

1. Basis of preparation and recent accounting developments

Accounting policies describe our approach to recognising and measuring transactions and balances in the year. Accounting policies applicable across the financial statements are shown below. Accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

This section also shows areas of judgement and key sources of estimation uncertainty in these financial statements. In addition, we summarise new EU endorsed accounting standards, amendments and interpretations and whether these are effective in 2016 or later years, explaining how significant changes are expected to affect our reported results.

National Grid's principal activities involve the transmission and distribution of electricity and gas in Great Britain and northeastern US. The Company is a public limited liability company incorporated and domiciled in England and Wales, with its registered office at 1–3 Strand, London WC2N 5EH.

The Company has its primary listing on the London Stock Exchange and is also quoted on the New York Stock Exchange.

These consolidated financial statements were approved for issue by the Board on 18 May 2016.

These consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations as issued by the IASB and IFRS as adopted by the EU. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ended 31 March 2016 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the EU IAS Regulation. The 2015 and 2014 comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on an historical cost basis, except for the recording of pension assets and liabilities, the revaluation of derivative financial instruments and certain commodity contracts and investments classified as available-for-sale.

These consolidated financial statements are presented in pounds sterling, which is also the functional currency of the Company.

The preparation of financial statements requires management to make 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 (see accounting policy D).

A. Going concern
The Directors considered it appropriate to prepare the financial statements on a going concern basis. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed.

B. Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, together with a share of the results, assets and liabilities of jointly controlled entities (joint ventures) and associates using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the share of net assets of the joint venture or associate, less any provision for impairment.

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to affect the returns of an entity to which it is exposed or to which it has rights.

Losses in excess of the consolidated interest in joint ventures and associates are not recognised, except where the Company or its subsidiaries have made a commitment to make good those losses.

Where necessary, adjustments are made to bring the accounting policies used in the individual financial statements of the Company, subsidiaries, joint ventures and associates into line with those used by the Company in its consolidated financial statements under IFRS. Intercompany transactions are eliminated.

The results of subsidiaries, joint ventures and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

1. Basis of preparation and recent accounting developments continued

C. Foreign currencies
Transactions in currencies other than the functional currency of the Company or subsidiary concerned are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Non-monetary assets are not retranslated unless they are carried at fair value.

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the adoption of hedge accounting requires inclusion in other comprehensive income – note 15.

On consolidation, the assets and liabilities of operations that have a functional currency different from the Company's functional currency of pounds sterling, principally our US operations that have a functional currency of US dollars, are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period where these do not differ materially from rates at the date of the transaction. Exchange differences arising are classified as equity and transferred to the consolidated translation reserve.

D. Areas of judgement and key sources of estimation uncertainty
The preparation of financial statements requires management to make 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. Information about such judgements and estimations is contained in the notes to the financial statements, and the key areas are summarised below.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- the categorisation of certain items as exceptional items and the definition of adjusted earnings – notes 4 and 7;
- energy purchase contracts as being for normal purchase, sale or usage – note 27; and
- the recognition of surpluses in respect of defined benefit pension schemes – notes 22 and 29.

IFRS provides certain options available within accounting standards. Choices we have made, and continue to make, include the following:

- Presentational formats: we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented separately on the face of the income statement.
- Customer contributions: contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.
- Financial instruments: we normally opt to apply hedge accounting in most circumstances where this is permitted. For net investment hedges, we have chosen to use the spot rate method, rather than the alternative forward rate method.

Key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – notes 10 and 11;
- estimation of liabilities for pensions and other post-retirement benefits – notes 22 and 29;
- valuation of financial instruments and derivatives – notes 15 and 30;
- revenue recognition and assessment of unbilled revenue – note 2; and
- environmental and decommissioning provisions – note 23.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analysis in note 33.

New IFRS accounting standards and interpretations adopted in 2015/16
The following standards, interpretations and amendments, issued by the IASB and by the IFRS Interpretations Committee (IFRIC), are effective for the year ended 31 March 2016. None of the pronouncements has had a material impact on the Company's consolidated results or assets and liabilities for the year ended 31 March 2016.

- Amendment to IAS 19 'Defined Benefit Plans: Employee Contributions';
- Annual Improvements to IFRSs 2010-2012 Cycle; and
- Annual Improvements to IFRSs 2011-2013 Cycle.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

1. Basis of preparation and recent accounting developments continued

New IFRS accounting standards and interpretations not yet adopted
The Company enters into a significant number of transactions that fall within the scope of IFRS 9 'Financial Instruments' and IFRS 16 'Leases', effective for periods beginning on or after 1 January 2018 and 1 January 2019 respectively, subject to EU endorsement. We are assessing the likely impact of these standards on the Company's financial statements.

IFRS 15 'Revenue from Contracts with Customers' was issued by the IASB in May 2014. Subject to EU endorsement, it is effective for accounting periods beginning on or after 1 January 2018. The new standard provides enhanced detail on the principle of recognising revenue to reflect the transfer of goods and services to customers at a value which the Company expects to be entitled to receive.

The Group has completed an initial impact assessment of the new standard by completing a survey of all businesses identifying the likely impact of IFRS 15. This was a tailored questionnaire based on the known impacts of the new standard on power and utility companies. Whilst no material differences were identified as part of the questionnaire process, further follow-up work will be required to determine the impact, if any, on certain revenue items including, but not limited to, variable consideration contracts, take or pay arrangements and performance obligations where multiple goods or services are provided in individual contracts.

Other standards and interpretations or amendments thereto which have been issued, but are not yet effective, are not expected to have a material impact on the Company's consolidated financial statements.

2. Segmental analysis

This note sets out the financial performance for the year split into the different parts of the business (operating segments). We monitor and manage the performance of these operating segments on a day-to-day basis.

Our strategy in action
We own a portfolio of businesses that range from businesses with high levels of investment and growth (such as UK Electricity Transmission) to cash generative developed assets with minimal investment requirements (such as National Grid Metering, included within Other activities).

We generate the majority of our revenue from our regulated operating segments in the UK and US. We work with our regulators to obtain agreements that balance the risks we face with the opportunity to deliver reasonable returns for our investors. When investing in Other activities we aim to leverage our core capabilities to deliver higher returns for investors.

Our regulated businesses earn revenue for the transmission, distribution and generation services they have provided during the year. In any one year, the revenue recognised may differ from that allowed under our regulatory agreements and any such timing differences are adjusted through future prices. Our Other activities earn revenue in line with their contractual terms.

Revenue primarily represents the sales value derived from the generation, transmission and distribution of energy, together with the sales value derived from the provision of other services to customers. It excludes value added (sales) tax and intra-group sales.

Revenue includes an assessment of unbilled energy and transportation services supplied to customers between the date of the last meter reading and the year-end. This is estimated based on historical consumption and weather patterns.

Where revenue exceeds the maximum amount permitted by a regulatory agreement, adjustments will be made to future prices to reflect this over-recovery. No liability is recognised, as such an adjustment relates to the provision of future services. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. As part of our regulatory agreements we are entitled to recover certain costs directly from customers (pass through costs). These amounts are included in the overall calculation of revenue as stipulated by regulatory agreements and explained further on pages 176 to 182.

We present revenue and the results of the business analysed by operating segment, based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between operating segments. The Board of Directors is National Grid's chief operating decision-making body (as defined by IFRS 8 'Operating Segments') and assesses the performance of operations principally on the basis of operating profit before exceptional items and remeasurements (see note 4).

There have been no changes to our reporting structure for the year ended 31 March 2016.

2. Segmental analysis continued

The following table describes the main activities for each operating segment:

UK Electricity Transmission	High voltage electricity transmission networks in Great Britain.
UK Gas Transmission	The gas transmission network in Great Britain and UK LNG storage activities.
UK Gas Distribution	Four of the eight regional networks of Great Britain's gas distribution system.
US Regulated	Gas distribution networks, electricity distribution networks and high voltage electricity transmission networks in New York and New England and electricity generation facilities in New York.

Other activities primarily relate to non-regulated businesses and other commercial operations not included within the above segments, including: UK gas metering activities; the Great Britain-France Interconnector; UK property management; a UK LNG import terminal (National Grid Grain LNG Limited); US LNG operations; US unregulated transmission pipelines; together with corporate activities.

Sales between operating segments are priced considering the regulatory and legal requirements to which the businesses are subject. The analysis of revenue by geographical area is on the basis of destination. There are no material sales between the UK and US geographical areas.

(a) Revenue

	2016			2015			2014		
	Total sales £m	**Sales between segments £m**	**Sales to third parties £m**	Total sales £m	Sales between segments £m	Sales to third parties £m	Total sales £m	Sales between segments £m	Sales to third parties £m
Operating segments:									
UK Electricity Transmission	**3,977**	**(20)**	**3,957**	3,754	(12)	3,742	3,387	(14)	3,373
UK Gas Transmission	**1,047**	**(109)**	**938**	1,022	(107)	915	941	(104)	837
UK Gas Distribution	**1,918**	**(36)**	**1,882**	1,867	(43)	1,824	1,898	(49)	1,849
US Regulated	**7,493**	**–**	**7,493**	7,986	–	7,986	8,040	–	8,040
Other activities	**876**	**(31)**	**845**	762	(28)	734	736	(26)	710
	15,311	**(196)**	**15,115**	15,391	(190)	15,201	15,002	(193)	14,809
Geographical areas:									
UK			**7,522**			7,191			6,759
US			**7,593**			8,010			8,050
			15,115			15,201			14,809

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

2. Segmental analysis continued

(b) Operating profit
A reconciliation of the operating segments' measure of profit to total profit before tax is provided below. Further details of the exceptional items and remeasurements are provided in note 4.

	Before exceptional items and remeasurements			After exceptional items and remeasurements		
	2016 £m	2015 £m	2014 £m	2016 £m	2015 £m	2014 £m
Operating segments:						
UK Electricity Transmission	**1,173**	1,237	1,087	**1,173**	1,237	1,027
UK Gas Transmission	**486**	437	417	**486**	437	406
UK Gas Distribution	**878**	826	904	**878**	826	780
US Regulated	**1,185**	1,164	1,125	**1,196**	1,081	1,388
Other activities	**374**	199	131	**352**	199	134
	4,096	3,863	3,664	**4,085**	3,780	3,735
Geographical areas:						
UK	**2,889**	2,820	2,723	**2,867**	2,820	2,531
US	**1,207**	1,043	941	**1,218**	960	1,204
	4,096	3,863	3,664	**4,085**	3,780	3,735
Reconciliation to profit before tax:						
Operating profit	**4,096**	3,863	3,664	**4,085**	3,780	3,735
Finance income	**22**	36	36	**22**	36	36
Finance costs	**(1,035)**	(1,069)	(1,144)	**(1,134)**	(1,234)	(1,051)
Share of post-tax results of joint ventures and associates	**59**	46	28	**59**	46	28
Profit before tax	**3,142**	2,876	2,584	**3,032**	2,628	2,748

(c) Capital expenditure

	Net book value of property, plant and equipment and other intangible assets			Capital expenditure			Depreciation and amortisation		
	2016 £m	2015 £m	2014 £m	2016 £m	2015 £m	2014 £m	2016 £m	2015 £m	2014 £m
Operating segments:									
UK Electricity Transmission	**11,907**	11,276	10,635	**1,084**	1,074	1,381	**(390)**	(376)	(343)
UK Gas Transmission	**4,140**	4,132	4,120	**186**	184	181	**(178)**	(172)	(172)
UK Gas Distribution	**8,378**	8,130	7,921	**549**	498	480	**(298)**	(286)	(271)
US Regulated	**17,490**	15,664	12,948	**1,856**	1,501	1,219	**(535)**	(452)	(419)
Other activities	**2,336**	2,323	2,224	**218**	213	180	**(213)**	(196)	(211)
	44,251	41,525	37,848	**3,893**	3,470	3,441	**(1,614)**	(1,482)	(1,416)
Geographical areas:									
UK	**25,914**	25,073	24,285	**1,952**	1,864	2,155	**(1,018)**	(983)	(938)
US	**18,337**	16,452	13,563	**1,941**	1,606	1,286	**(596)**	(499)	(478)
	44,251	41,525	37,848	**3,893**	3,470	3,441	**(1,614)**	(1,482)	(1,416)
By asset type:									
Property, plant and equipment	**43,364**	40,723	37,179	**3,673**	3,263	3,262	**(1,467)**	(1,361)	(1,289)
Non-current intangible assets	**887**	802	669	**220**	207	179	**(147)**	(121)	(127)
	44,251	41,525	37,848	**3,893**	3,470	3,441	**(1,614)**	(1,482)	(1,416)

Total non-current assets other than financial instruments and pension assets located in the UK and US were £26,261m and £23,784m respectively as at 31 March 2016 (31 March 2015: UK £25,278m, US £21,790m; 31 March 2014: UK £24,531m, US £18,349m).

Unaudited commentary on the results of our principal operations by segment

As a business, we have three measures of operating profit that are used on a regular basis and disclosed in this Annual Report.

Statutory operating profit: This is operating profit as calculated under International Financial Reporting Standards (IFRS). Statutory operating profit by segment is shown in note 2 on page 106.

Adjusted operating profit: Adjusted operating profit (business performance) excludes items that if included could distort understanding of our performance for the year and the comparability between periods. Further details of items that are excluded in adjusted operating profit are shown in note 4 on page 111.

Regulated financial performance: This is particularly relevant for our UK operations and is a measure of operating profit that reflects the impact of the businesses' regulatory arrangements when presenting financial performance.

Reconciliations between statutory and adjusted operating profit can be found on page 196. Reconciliations between adjusted operating profit and regulated financial performance for UK Electricity Transmission, UK Gas Transmission and UK Gas Distribution can be found on page 108.

Commentary on segmental adjusted operating profit results

We have summarised the results of our principal operating segments here by segment to provide direct reference to the results as disclosed in note 2. This analysis has been prepared based on adjusted operating profit (operating profit before exceptional items and remeasurements) as set out in note 2(b).

UK Electricity Transmission

For the year ended 31 March 2016, revenue in the UK Electricity Transmission segment increased by £223m to £3,977m, and adjusted operating profit decreased by £64m to £1,173m.

The revenue growth of £223m was principally due to the recovery of higher pass-through costs such as payments to other UK network owners and system balancing costs, and under-recoveries of allowed revenues in the prior year. This was partly offset by reductions in allowed revenues this year and a legal settlement received in 2014/15 that did not repeat this year. Net revenue (after deducting pass-through costs) was £14m higher. Regulated controllable costs were £28m higher due to inflation and salary growth, together with legal cost recoveries in the prior year, higher tower maintenance costs and transformation costs associated with our System Operator business. Depreciation and amortisation was £14m higher reflecting the continued capital investment programme. Other costs were £36m higher than prior year due to additional asset impairments this year and lower scrap and disposal proceeds.

Capital investment remained around the same level as last year at £1,084m.

UK Gas Transmission

Revenue in the UK Gas Transmission segment increased by £25m in 2015/16 to £1,047m and adjusted operating profit increased by £49m to £486m.

Revenue was £25m higher, principally due to over-recoveries of allowed revenues in the year. Regulated controllable costs were £10m higher than last year, mainly as a result of inflation, higher gas system service charges and organisational change costs. Depreciation costs were £6m higher due to ongoing investment (investment in the year was £186m, similar to last year). Other operating costs were £19m lower than last year, mostly reflecting additional costs in 2014/15 relating to the closure of LNG facilities.

UK Gas Distribution

UK Gas Distribution revenue increased by £51m in the year to £1,918m, and adjusted operating profit increased by £52m to £878m.

Revenue was £51m higher, principally reflecting increased regulatory allowances. In part, these allowances were increased to compensate for expected increases in taxation costs reflecting a change to the tax treatment of replacement expenditure. Regulated controllable costs were £21m higher due to inflation, recruitment, property costs and higher charges from our strategic partners to cover connections and winter resourcing. Depreciation and amortisation was £12m higher reflecting the continued mains replacement programme (investment in the year was £51m higher at £549m). Pass-through costs charged to customers were £11m lower this year, and other costs were £23m lower than prior year, which included provisions for additional asset protection costs.

US Regulated

Revenue in our US Regulated businesses was £493m lower at £7,493m, while adjusted operating profit increased by £21m to £1,185m.

The stronger US dollar increased operating profit in the year by £81m. Excluding the impact of foreign exchange rate movements, revenue decreased by £1,051m, principally as a result of lower commodity costs passed on to customers and unfavourable timing of recoveries year over year, partly offset by higher revenue allowances under the Niagara Mohawk three year rate plan and the benefit of capex trackers. The reduction in revenue was mostly offset by a £1,027m reduction in pass-through costs incurred (excluding the impact of foreign exchange). Regulated controllable costs reduced by £71m at constant currency, partly as a result of lower gas leak and compliance work this year and additional costs incurred last year to improve data quality and bring regulatory filings up to date. Depreciation and amortisation costs were £51m higher this year at constant currency as a result of ongoing investment in our networks. Pension costs were £15m higher at constant currency due to changes in actuarial discount rates, while other operating costs were £41m higher at constant currency including higher asset removal costs.

Our capital investment programme continues in the US, with a further £1,856m invested in 2015/16, including spend on gas mains replacement, gas customer growth and electric system reinforcement.

Other activities

Revenue in Other activities increased by £114m to £876m in the year ended 31 March 2016. Adjusted operating profit was £175m higher at £374m.

In the US, adjusted operating profit was £143m higher, reflecting lower spend on upgrades to our finance systems which completed last year. In addition, we benefited from a £49m gain on disposal of our investment in the Iroquois pipeline, and the deconsolidation of our investment in Clean Line. In the UK, adjusted operating profit was £32m higher as a result of strong auction revenues at the French interconnector and higher property sales. Capital investment in our Other activities was at a similar level to last year at £218m.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

Unaudited commentary on the results of our principal operations by segment continued

Commentary on UK regulated financial performance

The regulated financial performance calculation provides a measure of the performance of the regulated operations before the impacts of interest and taxation. It adjusts reported operating profit under IFRS to reflect the impact of the businesses' regulatory arrangements when presenting financial performance.

Adjustments in calculating regulatory financial performance
The principal adjustments from reported operating profit to UK regulated financial performance are:

Movement in regulatory 'IOUs': Revenue related to performance in one year may be recovered in later years. Revenue may be recovered in one year but be required to be returned to customers in future years. IFRS recognises these revenues when they flow through invoices to customers and not in the period to which they relate.

Performance RAV: UK performance efficiencies are in part remunerated by the creation of additional RAV which is expected to result in future earnings under regulatory arrangements.

Pension adjustment: Cash payments against pension deficits in the UK are recoverable under regulatory contracts.

3% RAV indexation: Future UK revenue allowances are expected to be set using an asset base adjusted for inflation. These will be billed in future periods and recognised under IFRS at that time. A 3% RPI inflation assumption is used, reflecting the long-run expectation.

Deferred taxation adjustment: Future UK revenues are expected to recover cash taxation costs, including the unwinding of deferred taxation balances created in the current year.

Regulatory depreciation: UK regulated revenues include an allowance for a return of regulatory capital in accordance with regulatory assumed asset lives. This return does not form part of regulatory profit.

Fast/slow money adjustment: The regulatory remuneration of costs incurred is split between in year revenue allowances and the creation of additional RAV. This does not align with the classification of costs as operating costs and fixed asset additions under IFRS accounting principles.

UK Electricity Transmission
Regulated financial performance for UK Electricity Transmission decreased to £1,195m from £1,232m, down 3%. The slight year-on-year decrease is principally a result of a one-off legal settlement of £56m included in last year's results. Electricity Transmission underlying performance and operational return on equity were broadly similar this year.

Reconciliation of regulated financial performance to operating profit	2016 £m	2015 £m	% change
Reported operating profit	**1,173**	1,237	(5)
Movement in regulatory 'IOUs'	**(147)**	(130)	
Deferred taxation adjustment	**80**	88	
RAV indexation (average 3% long-run inflation)	**339**	326	
Regulatory vs IFRS depreciation difference	**(368)**	(352)	
Fast/slow money adjustment	**92**	34	
Pensions	**(54)**	(48)	
Performance RAV created	**80**	77	
Regulated financial performance	**1,195**	1,232	(3)

UK Gas Transmission
Regulated financial performance for UK Gas Transmission decreased to £535m from £648m, down 17%. This reflected a lower operational return on equity, mainly as a result of the expiration of the gas permit incentive scheme.

Reconciliation of regulated financial performance to operating profit	2016 £m	2015 £m	% change
Reported operating profit	**486**	437	11
Movement in regulatory 'IOUs'	**(80)**	(16)	
Deferred taxation adjustment	**45**	85	
RAV indexation (average 3% long-run inflation)	**166**	166	
Regulatory vs IFRS depreciation difference	**(18)**	(22)	
Fast/slow money adjustment	**18**	54	
Pensions	**(77)**	(49)	
Performance RAV created	**(5)**	(7)	
Regulated financial performance	**535**	648	(17)

UK Gas Distribution
Regulated financial performance for UK Gas Distribution was unchanged at £819m. This reflects similar achieved operational return on equity year-on-year, with the benefit of a higher asset base being offset by lower allowed cost of debt.

Reconciliation of regulated financial performance to operating profit	2016 £m	2015 £m	% change
Reported operating profit	**878**	826	6
Movement in regulatory 'IOUs'	**(35)**	(28)	
Deferred taxation adjustment	**(34)**	60	
RAV indexation (average 3% long-run inflation)	**255**	255	
Regulatory vs IFRS depreciation difference	**(104)**	(148)	
Fast/slow money adjustment	**(168)**	(182)	
Pensions	**(13)**	(5)	
Performance RAV created	**40**	41	
Regulated financial performance	**819**	819	–

3. Operating costs

Below we have presented separately certain items included in our operating costs. These include a breakdown of payroll costs (including disclosure of amounts paid to key management personnel) and fees paid to our auditors.

Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

	Before exceptional items and remeasurements			Exceptional items and remeasurements			Total		
	2016 £m	2015 £m	2014 £m	**2016 £m**	2015 £m	2014 £m	**2016 £m**	2015 £m	2014 £m
Depreciation and amortisation	**1,614**	1,482	1,416	**–**	–	–	**1,614**	1,482	1,416
Payroll costs	**1,506**	1,459	1,373	**–**	–	(155)	**1,506**	1,459	1,218
Purchases of electricity	**1,304**	1,615	1,513	**8**	70	(49)	**1,312**	1,685	1,464
Purchases of gas	**1,003**	1,403	1,722	**(19)**	13	33	**984**	1,416	1,755
Rates and property taxes	**1,050**	1,004	963	**–**	–	–	**1,050**	1,004	963
Balancing Services Incentive Scheme	**907**	874	872	**–**	–	–	**907**	874	872
Payments to other UK network owners	**971**	801	630	**–**	–	–	**971**	801	630
Other	**2,664**	2,700	2,656	**22**	–	100	**2,686**	2,700	2,756
	11,019	11,338	11,145	**11**	83	(71)	**11,030**	11,421	11,074
Operating costs include:									
Inventory consumed							**303**	365	422
Operating leases							**99**	98	115
Research and development expenditure							**29**	23	12

(a) Payroll costs

	2016 £m	2015 £m	2014[1] £m
Wages and salaries[1]	**1,720**	1,598	1,377
Social security costs	**137**	129	126
Other pension costs (note 22)	**238**	224	229
Share-based payment	**22**	20	20
Severance costs (excluding pension costs)	**5**	4	30
	2,122	1,975	1,782
Less: payroll costs capitalised	**(616)**	(516)	(564)
	1,506	1,459	1,218

1. Included within wages and salaries are US other post-retirement benefit costs of £52m (2015: £39m; 2014: £44m) and a curtailment gain on LIPA MSA transaction of £nil (2015: £nil; 2014: £198m). For further information refer to note 22.

(b) Number of employees

	31 March 2016	**Monthly average 2016**	31 March 2015	Monthly average 2015	31 March 2014	Monthly average 2014
UK	**10,238**	**10,035**	9,701	9,670	9,693	9,641
US	**14,830**	**14,775**	14,573	14,434	14,216	15,094
	25,068	**24,810**	24,274	24,104	23,909	24,735

The vast majority of employees in the US are either directly or indirectly employed in the transmission, distribution and generation of electricity or the distribution of gas, while those in the UK are either directly or indirectly employed in the transmission and distribution of gas or the transmission of electricity. At 31 March 2016, there were 2,232 (2015: 2,131; 2014: 2,044) employees in other operations, excluding shared services.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

3. Operating costs continued

(c) Key management compensation

	2016 £m	2015 £m	2014 £m
Short-term employee benefits	**9**	10	9
Post-employment benefits	**1**	9	1
Share-based payment	**4**	4	5
	14	23	15

Key management compensation relates to the Board, including the Executive Directors and Non-executive Directors for the years presented.

(d) Directors' emoluments
Details of Executive Directors' emoluments are contained in the audited part of the Remuneration Report on page 75 and those of Non-executive Directors on page 78.

(e) Auditors' remuneration
Auditors' remuneration is presented below in accordance with the requirements of the Companies Act 2006 and the principal accountant fees and services disclosure requirements of Item 16C of Form 20-F:

	2016 £m	2015 £m	2014 £m
Audit fees[1] payable to the parent Company's auditors and their associates in respect of:			
Audit of the parent Company's individual and consolidated financial statements	**1.3**	1.3	0.9
The auditing of accounts of any associate of the Company	**9.2**	8.1	9.2
Other services supplied[2]	**3.6**	3.3	3.2
	14.1	12.7	13.3
Total other services[3]			
Tax fees[4]:			
Tax compliance services	**0.5**	0.4	0.5
Tax advisory services	**–**	0.1	0.3
All other fees[5]:			
Other assurance services	**4.3**	0.1	0.1
Services relating to corporate finance transactions not covered above	**1.6**	–	–
Other non-audit services not covered above	**2.5**	0.3	0.8
	8.9	0.9	1.7
Total auditors' remuneration	**23.0**	13.6	15.0

1. Audit fees in each year represent fees for the audit of the Company's financial statements and regulatory reporting for the years ended 31 March 2016, 2015 and 2014, and the review of interim financial statements for the six month periods ended 30 September 2015, 2014 and 2013 respectively.
2. Other services supplied represent fees payable for services in relation to other statutory filings or engagements that are required to be carried out by the auditors. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley) and audit reports on regulatory returns.
3. There were no audit related fees as described in Item 16C(b) of Form 20-F.
4. Tax fees include amounts charged for tax compliance, tax advice and tax planning.
5. All other fees include amounts incurred in respect of the potential disposal of a majority stake in the Gas Distribution business (vendor due diligence and separation support), as well as data assurance work in respect of financial information included in US rate filings all of which have been subject to approval by the Audit Committee. Total other fees for the year ended 31 March 2016 were £8.4m (2015: £0.4m; 2014: £0.9m).

PwC has contracted with Ofgem to assess the UK gas industry's readiness for the introduction of new settlement processes and systems. Fees for these services are paid by Xoserve Limited, a subsidiary of National Grid, on behalf of the industry, under instruction from Ofgem. As PwC has no contract with or duty of care to Xoserve Limited, these amounts are not included above.

In addition, fees of £0.1m were incurred in 2016 in relation to the audits of the pension schemes of the Company (2015: £0.2m; 2014: £0.1m).

Subject to the Company's Articles of Association and the Companies Act 2006, the Audit Committee is solely and directly responsible for the approval of the appointment, reappointment, compensation and oversight of the Company's independent auditors. It is our policy that the Audit Committee must approve in advance all non-audit work in excess of £50,000 to be performed by the independent auditors to ensure that the service will not compromise auditor independence. The Audit Committee has delegated the approval in advance for all non-audit work below this level, up to a maximum of 5% of the total audit fee, to the Finance Director. Certain services are prohibited from being performed by the external auditors under Sarbanes-Oxley. All of the above services were pre-approved pursuant to this policy.

4. Exceptional items and remeasurements

To monitor our financial performance, we use a profit measure that excludes certain income and expenses. We call that measure 'business performance' or 'adjusted profit'. We exclude items from business performance because, if included, these items could distort understanding of our performance for the year and the comparability between periods. This note analyses these items, which are included in our results for the year but are excluded from business performance.

Our financial performance is analysed into two components: business performance, which excludes exceptional items and remeasurements; and exceptional items and remeasurements. Business performance is used by management to monitor financial performance as it is considered that it improves the comparability of our reported financial performance from year to year. Business performance subtotals are presented on the face of the income statement or in the notes to the financial statements.

Management utilises an exceptional items framework that has been discussed and approved by the Group Audit Committee. This follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the Group's control and how frequently such an event typically occurs. In determining the facts and circumstances management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, precedent for similar items, number of periods over which costs will be spread or gains earned and the commercial context for the particular transaction.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and significant debt redemption costs as a consequence of transactions such as significant disposals or issues of equity.

Costs arising from restructuring programmes include redundancy costs. Redundancy costs are charged to the income statement in the year in which a commitment is made to incur the costs and the main features of the restructuring plan have been announced to affected employees.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective. These fair values increase or decrease because of changes in commodity and financial indices and prices over which we have no control.

	2016 £m	2015 £m	2014 £m
Included within operating profit			
Exceptional items:			
Transaction costs	**(22)**	–	–
Restructuring costs	**–**	–	(136)
Gas holder demolition costs	**–**	–	(79)
LIPA MSA transition	**–**	–	254
Other	**–**	–	16
	(22)	–	55
Remeasurements – commodity contracts	**11**	(83)	16
	(11)	(83)	71
Included within finance costs			
Exceptional items:			
Debt redemption costs	**–**	(131)	–
Remeasurements – net (losses)/gains on derivative financial instruments	**(99)**	(34)	93
	(99)	(165)	93
Total included within profit before tax	**(110)**	(248)	164
Included within tax			
Exceptional credits/(charges) arising on items not included in profit before tax:			
Deferred tax credit arising on the reduction in the UK corporation tax rate	**296**	6	398
Deferred tax charge arising from an increase in US state income tax rates	**–**	–	(8)
Tax on exceptional items	**4**	28	(57)
Tax on remeasurements	**15**	44	(36)
	315	78	297
Total exceptional items and remeasurements after tax	**205**	(170)	461
Analysis of total exceptional items and remeasurements after tax			
Exceptional items after tax	**278**	(97)	388
Remeasurements after tax	**(73)**	(73)	73
Total exceptional items and remeasurements after tax	**205**	(170)	461

Further detail of operating exceptional items specific to 2015/16
In November 2015, the Group announced that it was considering disposing of a majority stake in its UK Gas Distribution business. In the year ended 31 March 2016, sale preparation costs of £22m were recognised in respect of this potential transaction. These costs have been treated as exceptional, achieving a consistent presentation with the expected treatment of the transaction on completion.

Further detail of operating exceptional items in respect of previous years
Debt redemption costs in the year ending 31 March 2015 represents costs arising from a liability management programme. We reviewed and restructured the Group debt portfolio following the commencement of the RIIO price controls in 2013 and the slow down in our planned UK capital investment programme as the industry assessed the impact of Electricity Market Reform.

£16m was received in year ending 31 March 2014 following the sale to a third party of a settlement award which arose as a result of a legal ruling in 2008. The business to which this item related had previously been treated as discontinued.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

4. Exceptional items and remeasurements continued

Remeasurements
Commodity contracts represent mark-to-market movements on certain physical and financial commodity contract obligations in the US. These contracts primarily relate to the forward purchase of energy for supply to customers, or to the economic hedging thereof, that are required to be measured at fair value and that do not qualify for hedge accounting. Under the existing rate plans in the US, commodity costs are recoverable from customers although the timing of recovery may differ from the pattern of costs incurred.

Net (losses)/gains on derivative financial instruments comprise (losses)/gains arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt. The tax charge in the year includes a credit of £1m (2015: £1m credit; 2014: £nil) in respect of prior years.

Items included within tax
The Finance No. 2 Bill 2015 included a reduction in the UK corporation tax rate from 20% to 19% for the year beginning 1 April 2017, with a further reduction from 19% to 18% for the year beginning 1 April 2020.

The Finance Act 2013 enacted reductions in the UK corporation tax rate from 23% to 21% from 1 April 2014, and from 21% to 20% from 1 April 2015. Other UK tax legislation also reduced the UK corporation tax rate in prior periods (2013: from 24% to 23%). These reductions have resulted in decreases to UK deferred tax liabilities in these periods.

5. Finance income and costs

This note details the interest income generated by our financial assets and interest expense incurred on our financial liabilities. It also includes the expected return on our pensions and other post-retirement assets, which is offset by the interest payable on pensions and other post-retirement obligations and presented on a net basis. In reporting business performance, we adjust net financing costs to exclude any net gains or losses on derivative financial instruments included in remeasurements. In addition, the prior year debt redemption costs have been treated as exceptional (see note 4).

	2016 £m	2015 £m	2014 £m
Finance income			
Interest income on financial instruments:			
Bank deposits and other financial assets	**22**	28	22
Gains on disposal of available-for-sale investments	**–**	8	14
	22	36	36
Finance costs			
Net interest on pensions and other post-retirement benefit obligations	**(112)**	(101)	(128)
Interest expense on financial liabilities held at amortised cost:			
Bank loans and overdrafts	**(38)**	(45)	(61)
Other borrowings	**(940)**	(984)	(1,106)
Derivatives	**43**	56	79
Unwinding of discount on provisions	**(73)**	(73)	(73)
Other interest	**(27)**	(8)	(3)
Less: interest capitalised[1]	**112**	86	148
	(1,035)	(1,069)	(1,144)
Exceptional items			
Debt redemption costs	**–**	(131)	–
Remeasurements			
Net gains/(losses) on derivative financial instruments included in remeasurements[2]:			
Ineffectiveness on derivatives designated as:			
Fair value hedges[3]	**39**	36	22
Cash flow hedges	**(15)**	(13)	4
Net investment hedges	**–**	2	38
Net investment hedges – undesignated forward rate risk	**(34)**	33	(7)
Derivatives not designated as hedges or ineligible for hedge accounting	**(89)**	(92)	36
	(99)	(165)	93
	(1,134)	(1,234)	(1,051)
Net finance costs	**(1,112)**	(1,198)	(1,015)

1. Interest on funding attributable to assets in the course of construction in the current year was capitalised at a rate of 3.3% (2015: 3.8%; 2014: 4.5%). In the UK, capitalised interest qualifies for a current year tax deduction with tax relief claimed of £19m (2015: £24m; 2014: £32m). In the US, capitalised interest is added to the cost of plant and qualifies for tax depreciation allowances.
2. Includes a net foreign exchange loss on financing activities of £407m (2015: £636m gain; 2014: £268m gain) offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.
3. Includes a net gain on instruments designated as fair value hedges of £34m (2015: £219m gain; 2014: £183m loss) and a net gain of £5m (2015: £162m loss; 2014: £205m gain) arising from fair value adjustments to the carrying value of debt.

6. Tax

Tax is payable in the territories where we operate, mainly the UK and the US. This note gives further details of the total tax charge and tax liabilities, including current and deferred tax. The current tax charge is the tax payable on this year's taxable profits. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in the accounting and tax bases of profit.

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

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

The calculation of the Group's total tax charge involves a degree of estimation and judgement, and management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Company and its subsidiaries intend to settle their current tax assets and liabilities on a net basis.

Tax charged/(credited) to the income statement

	2016 £m	2015 £m	2014 £m
Tax before exceptional items and remeasurements	**753**	695	581
Exceptional tax on items not included in profit before tax (note 4)	**(296)**	(6)	(390)
Tax on other exceptional items and remeasurements	**(19)**	(72)	93
Tax on total exceptional items and remeasurements (note 4)	**(315)**	(78)	(297)
Total tax charge	**438**	617	284

Tax as a percentage of profit before tax

	2016 %	2015 %	2014 %
Before exceptional items and remeasurements	**24.0**	24.2	22.5
After exceptional items and remeasurements	**14.4**	23.5	10.3

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

6. Tax continued

The tax charge for the year can be analysed as follows:

	2016 £m	2015 £m	2014 £m
Current tax			
UK corporation tax at 20% (2015: 21%; 2014: 23%)	**322**	309	355
UK corporation tax adjustment in respect of prior years	**(7)**	(2)	(9)
	315	307	346
Overseas corporation tax	**38**	51	54
Overseas corporation tax adjustment in respect of prior years	**(19)**	(62)	(88)
	19	(11)	(34)
Total current tax	**334**	296	312
Deferred tax			
UK deferred tax	**(152)**	123	(292)
UK deferred tax adjustment in respect of prior years	**26**	7	(3)
	(126)	130	(295)
Overseas deferred tax	**229**	138	276
Overseas deferred tax adjustment in respect of prior years	**1**	53	(9)
	230	191	267
Total deferred tax	**104**	321	(28)
Total tax charge	**438**	617	284

Tax (credited)/charged to other comprehensive income and equity

	2016 £m	2015 £m	2014 £m
Current tax			
Share-based payment	**(2)**	(7)	(3)
Available-for-sale investments	**5**	5	(5)
Deferred tax			
Available-for-sale investments	**12**	2	2
Cash flow hedges	**15**	(18)	5
Share-based payment	**–**	3	(4)
Remeasurements of net retirement benefit obligations	**125**	(299)	172
	155	(314)	167
Total tax recognised in the statement of comprehensive income	**157**	(310)	174
Total tax relating to share-based payment recognised directly in equity	**(2)**	(4)	(7)
	155	(314)	167

6. Tax continued

The tax charge for the year after exceptional items and remeasurements is lower (2015: higher; 2014: lower) than the standard rate of corporation tax in the UK of 20% (2015: 21%; 2014: 23%):

	Before exceptional items and remeasurements 2016 £m	After exceptional items and remeasurements 2016 £m	Before exceptional items and remeasurements 2015 £m	After exceptional items and remeasurements 2015 £m	Before exceptional items and remeasurements 2014 £m	After exceptional items and remeasurements 2014 £m
Profit before tax						
Before exceptional items and remeasurements	**3,142**	**3,142**	2,876	2,876	2,584	2,584
Exceptional items and remeasurements	**–**	**(110)**	–	(248)	–	164
Profit before tax	**3,142**	**3,032**	2,876	2,628	2,584	2,748
Profit before tax multiplied by UK corporation tax rate of 20% (2015: 21%; 2014: 23%)	**628**	**606**	604	552	594	632
Effect of:						
Adjustments in respect of prior years	**2**	**1**	(3)	(4)	(109)	(109)
Expenses not deductible for tax purposes	**29**	**118**	31	327	32	284
Non-taxable income	**(26)**	**(113)**	(20)	(320)	(24)	(268)
Adjustment in respect of foreign tax rates	**124**	**129**	91	77	98	138
Impact of share-based payment	**(1)**	**(1)**	(1)	(1)	(3)	(3)
Deferred tax impact of change in UK and US tax rates	**–**	**(296)**	–	(6)	–	(390)
Other	**(3)**	**(6)**	(7)	(8)	(7)	–
Total tax charge	**753**	**438**	695	617	581	284
	%	**%**	%	%	%	%
Effective tax rate	**24.0**	**14.4**	24.2	23.5	22.5	10.3

Factors that may affect future tax charges

The Finance Act 2015 (No.2) (the Act) was enacted on 18 November 2015. The Act reduced the main rate of UK corporation tax to 19% with effect from 1 April 2017 and 18% from 1 April 2020 and deferred tax balances have been calculated at 18%.

The Budget in March this year announced a further reduction in the corporate tax rate to 17% from 1 April 2020, from the previously enacted 18%. This has not been substantively enacted at the reporting date. As the change to 17% had not been substantively enacted at the reporting date its effects are not included in these financial statements. The overall effect of that change, if it had applied to the deferred tax balances at the reporting date, would be to reduce the deferred tax liability by an additional £139m and reduce the tax expense for the period by £139m.

There continued to be significant international focus on tax reform during 2015/16, including the OECD's Base Erosion and Profit Shifting (BEPS) project to address mismatches in international rules and European Commission initiatives. We will continue to monitor developments and assess the potential impact for National Grid of these and any further initiatives.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

6. Tax continued

Tax included within the statement of financial position

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current and prior reporting periods:

	Accelerated tax depreciation £m	Share-based payment £m	Pensions and other post-retirement benefits £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax (assets)/liabilities						
Deferred tax assets at 31 March 2014	(1)	(22)	(960)	(13)	(796)	(1,792)
Deferred tax liabilities at 31 March 2014	5,650	–	143	6	75	5,874
At 1 April 2014	5,649	(22)	(817)	(7)	(721)	4,082
Exchange adjustments	408	–	(99)	(2)	(104)	203
Charged/(credited) to income statement	599	1	38	(34)	(280)	324
Charged/(credited) to other comprehensive income and equity	–	3	(299)	(16)	–	(312)
At 31 March 2015	6,656	(18)	(1,177)	(59)	(1,105)	4,297
Deferred tax assets at 31 March 2015	(1)	(18)	(1,337)	(64)	(1,186)	(2,606)
Deferred tax liabilities at 31 March 2015	6,657	–	160	5	81	6,903
At 1 April 2015	6,656	(18)	(1,177)	(59)	(1,105)	4,297
Exchange adjustments and other	141	1	(33)	(1)	(30)	78
Charged/(credited) to income statement	266	3	47	(6)	(203)	107
Charged to other comprehensive income and equity	–	–	125	13	14	152
At 31 March 2016	**7,063**	**(14)**	**(1,038)**	**(53)**	**(1,324)**	**4,634**
Deferred tax assets at 31 March 2016	(1)	(14)	(1,201)	(66)	(1,408)	(2,690)
Deferred tax liabilities at 31 March 2016	7,064	–	163	13	84	7,324
	7,063	(14)	(1,038)	(53)	(1,324)	4,634

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. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £4,634m (2015: £4,297m). Deferred tax of £667m (2015: £461m) has been recognised in respect of net operating losses.

Deferred tax assets in respect of capital losses, trading losses and non-trade deficits have not been recognised as their future recovery is uncertain or not currently anticipated. The deferred tax assets not recognised are as follows:

	2016 £m	2015 £m
Capital losses	**232**	250
Non-trade deficits	**5**	1
Trading losses	**–**	4

The capital losses and non-trade deficits that arise in the UK are available to carry forward indefinitely. However, the capital losses can only be offset against specific types of future capital gains and non-trade deficits against specific future non-trade profits. The trading losses arising in the US have up to a 20 year carry forward time limit.

The aggregate amount of temporary differences associated with the unremitted earnings of overseas subsidiaries and joint ventures for which deferred tax liabilities have not been recognised at the reporting date is approximately £502m (2015: £773m). No liability is recognised in respect of the differences because the Company and its subsidiaries are in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. In addition, as a result of UK tax legislation, which largely exempts overseas dividends received, the temporary differences are unlikely to lead to additional tax.

Unaudited commentary on tax

Tax strategy

National Grid manages its tax affairs in a proactive and responsible way in order to comply with all relevant legislation and minimise reputational risk. As a regulated public utility we are very conscious of the need to manage our tax affairs responsibly in the eyes of our stakeholders. We have a good working relationship with all relevant tax authorities and actively engage with them in order to ensure that they are fully aware of our view of the tax implications of our business initiatives. Management responsibility and oversight for our tax strategy, which is approved by the Finance Committee, rests with the Finance Director and the Group Tax and Treasury Director who monitor our tax activities and report to the Finance Committee.

Total UK tax contribution

This year we have again disclosed additional information in respect of our total UK tax contribution for consistency and to aid transparency in an area in which there remains significant public interest. As was the case in prior years, the total amount of taxes we pay and collect in the UK year on year is significantly more than just the corporation tax which we pay on our UK profits. Within the total, we again include other taxes paid such as business rates and taxes on employment together with employee taxes and other indirect taxes.

For 2015/16 our total tax contribution to the UK Exchequer was £1.6bn (2014/15: £1.5bn). Taxes borne in 2015/16 were £703m, an 8% decrease on taxes borne in 2014/15 of £761m and primarily due to lower corporation tax payments in the current year. The main reasons for this are the impact of the reduction in the UK corporation tax rate, and the impact of our debt redemption costs during the year ended 31 March 2015, which reduced corporation tax payments due for that year but were settled by instalment payments made in the year ended 31 March 2016. However, our taxes collected were £899m, an increase of 21% on 2014/15 of £742m, and this was primarily due to the introduction of the VAT Domestic Reverse Charge on gas and electricity trading (introduced in July 2014) being in force for the full year, rather than for six months in 2014/15.

Our 2014/15 total tax contribution of £1.5bn resulted in National Grid being the 13th highest contributor of UK taxes based on the results of the Hundred Group's 2015 Total Tax Contribution Survey, a position commensurate with the size of our business and capitalisation relative to other contributors to the Survey. In 2014 we were also in 13th position. In 2015 we ranked 7th in respect of taxes borne.

National Grid's contribution to the UK economy is again broader than just the taxes it pays over to and collects on behalf of HMRC. The Hundred Group's 2015 Total Tax Contribution Survey ranks National Grid in 5th place in respect of UK capital expenditure on fixed assets. For instance, National Grid's economic contribution also supports a significant number of UK jobs in our supply chain.

The most significant amounts making up the 2015/16 total tax contribution were as follows:

Tax transparency

The UK tax charge for the year disclosed in the financial statements in accordance with accounting standards and the UK corporation tax paid during the year will differ. For transparency we have included a reconciliation below of the tax charge per the income statement to the UK corporation tax paid in 2015/16.

The tax charge for the Group as reported in the income statement is £438m (2014/15: £617m). The UK tax charge is £189m (2014/15: £437m) and UK corporation tax paid was £285m (2014/15: £353m), with the principal differences between these two measures as follows:

Reconciliation of UK total tax charge to UK corporation tax paid	Year ended 31 March 2016 £m	2015 £m
Total UK tax charge (current tax £315m (2015: £307m) and deferred tax credit £126m (2015: charge £130m))	**189**	437
Adjustment for non-cash deferred tax credit/(charge)	**126**	(130)
Adjustments for current tax credit in respect of prior years	**7**	2
UK current tax charge	**322**	309
UK corporation tax instalment payments not payable until the following year	**(164)**	(127)
UK corporation tax instalment payments in respect of prior years paid in current year	**127**	171
UK corporation tax paid	**285**	353

Tax losses

We have total unrecognised deferred tax assets in respect of losses of £237m (2014/15: £255m) of which £232m (2014/15: £250m) are capital losses in the UK as set out above. These losses arose as a result of the disposal of certain businesses or assets and may be available to offset against future capital gains in the UK.

Development of future tax policy

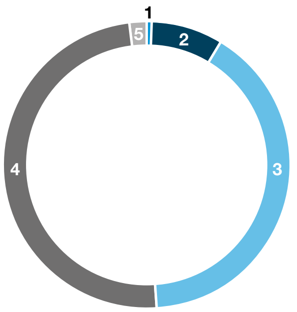
We believe that the continued development of a coherent and transparent tax policy in the UK is critical to help drive growth in the economy.

We continue to contribute to research into the structure of business tax and its economic impact by contributing to the funding of the Oxford University Centre for Business Tax at the Saïd Business School.

We are a member of a number of industry groups which participate in the development of future tax policy, including the Hundred Group, which represents the views of Finance Directors of FTSE 100 companies and several other large UK companies. Our Finance Director is Chairman of its Tax Committee. This helps to ensure that we are engaged at the earliest opportunity on tax issues which affect our business. In the current year we have reviewed and responded to a number of HMRC consultations, the subject matter of which directly impacts taxes borne or collected by our business, with the aim of openly contributing to the debate and development of UK tax legislation.

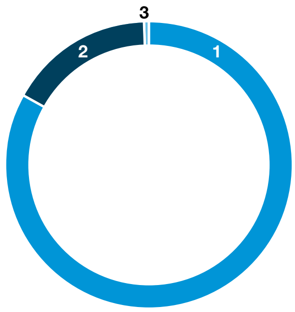
UK total tax contribution 2015/16

Taxes borne



	£m
1. VAT	1
2. PAYE and NIC	57
3. UK corporation tax	285
4. Business rates	347
5. Other	13
Total	**703**

Taxes collected



	£m
1. VAT	751
2. PAYE and NIC	147
3. Other	1
Total	**899**

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

7. Earnings per share (EPS)

EPS is the amount of post-tax profit attributable to each ordinary share. Basic EPS is calculated on profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS shows what the impact would be if all outstanding share options were exercised and treated as ordinary shares at year end. The weighted average number of shares is increased by additional shares issued as scrip dividends and reduced by shares repurchased by the Company during the year.

Adjusted earnings and EPS, which exclude exceptional items and remeasurements, are provided to reflect the business performance subtotals used by the Company. We have included reconciliations from this additional EPS measure to earnings for both basic and diluted EPS to provide additional detail for these items. For further details of exceptional items and remeasurements, see note 4.

(a) Basic earnings per share

	Earnings 2016 £m	**Earnings per share 2016 pence**	Earnings 2015 £m	Earnings per share 2015 (restated)[1] pence	Earnings 2014 £m	Earnings per share 2014 (restated)[1] pence
Adjusted earnings	**2,386**	**63.5**	2,189	57.6	2,015	53.1
Exceptional items after tax	**278**	**7.4**	(97)	(2.6)	388	10.2
Remeasurements after tax	**(73)**	**(1.9)**	(73)	(1.8)	73	1.9
Earnings	**2,591**	**69.0**	2,019	53.2	2,476	65.2

	2016 millions	2015 millions	2014 millions
Weighted average number of shares – basic[1]	**3,755**	3,798	3,798

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

(b) Diluted earnings per share

	Earnings 2016 £m	**Earnings per share 2016 pence**	Earnings 2015 £m	Earnings per share 2015 (restated)[1] pence	Earnings 2014 £m	Earnings per share 2014 (restated)[1] pence
Adjusted earnings	**2,386**	**63.3**	2,189	57.4	2,015	52.8
Exceptional items after tax	**278**	**7.3**	(97)	(2.6)	388	10.2
Remeasurements after tax	**(73)**	**(1.9)**	(73)	(1.9)	73	1.9
Earnings	**2,591**	**68.7**	2,019	52.9	2,476	64.9

	2016 millions	2015 millions	2014 millions
Weighted average number of shares – diluted[1]	**3,771**	3,815	3,817

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

(c) Reconciliation of basic to diluted average number of shares

	2016 millions	2015 (restated)[1] millions	2014 (restated)[1] millions
Weighted average number of ordinary shares – basic	**3,755**	3,798	3,798
Effect of dilutive potential ordinary shares – employee share plans	**16**	17	19
Weighted average number of ordinary shares – diluted	**3,771**	3,815	3,817

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

8. Dividends

Dividends represent the return of profits to shareholders. Dividends are paid as an amount per ordinary share held. We retain part of the profits generated in the year to meet future growth plans and pay out the remainder in accordance with our dividend policy.

Interim dividends are recognised when they become payable to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

	2016			2015			2014		
	Pence per share	**Cash dividend paid £m**	**Scrip dividend £m**	Pence per share	Cash dividend paid £m	Scrip dividend £m	Pence per share	Cash dividend paid £m	Scrip dividend £m
Interim dividend in respect of the current year	**15.00**	**532**	**31**	14.71	531	26	14.49	539	–
Final dividend in respect of the prior year	**28.16**	**805**	**248**	27.54	740	289	26.36	520	444
	43.16	**1,337**	**279**	42.25	1,271	315	40.85	1,059	444

The Directors are proposing a final dividend for the year ended 31 March 2016 of 28.34p per share that will absorb approximately £1,059m of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 10 August 2016 to shareholders who are on the register of members at 3 June 2016 (subject to Shareholders' approval at the AGM). A scrip dividend will be offered as an alternative.

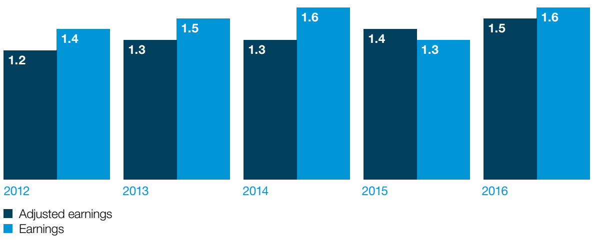
Unaudited commentary on dividends

Following the announcement of our dividend policy in March 2013, the Board remains confident that National Grid is able to support a dividend growing at least in line with RPI inflation for the foreseeable future, while continuing to invest as required in our regulated assets.

With the exception of the 2013/14 interim dividend paid in January 2014, a scrip option has been offered for all interim and final dividends in the last five years.

In August 2014 we began a share buyback programme that will allow us to offer the scrip dividend option for both the full-year and interim dividend. The buyback programme is designed to balance shareholders' appetite for the scrip dividend option with our desire to operate an efficient balance sheet with appropriate leverage.

Dividend cover
Ratio of earnings cover over cash dividend paid and scrip dividend



9. Goodwill

Goodwill represents the excess of what we paid to acquire businesses over the fair value of their net assets at the acquisition date. We assess whether goodwill is recoverable each year by performing an impairment review.

Goodwill is recognised as an asset and is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

Impairment
Goodwill is allocated to cash-generating units and this allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Impairments of goodwill are calculated as the difference between the carrying value of the goodwill and the estimated recoverable amount of the cash-generating unit to which that goodwill has been allocated. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value-in-use at the date the impairment review is undertaken.

Value-in-use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairments are recognised in the income statement and are disclosed separately.

	Total £m
Net book value at 1 April 2014	4,594
Impairment	(12)
Exchange adjustments	563
Net book value at 31 March 2015	5,145
Exchange adjustments	170
Net book value at 31 March 2016	**5,315**

The cost of goodwill at 31 March 2016 was £5,327m (2015: £5,157m) with an accumulated impairment charge of £12m (2015: £12m).

The amounts disclosed above as at 31 March 2016 include balances relating to the following cash-generating units: New York £3,061m (2015: £2,964m); Massachusetts £1,145m (2015: £1,108m); Rhode Island £426m (2015: £412m); and Federal £683m (2015: £661m).

Goodwill is reviewed annually for impairment and the recoverability of goodwill has been assessed by comparing the carrying amount of our operations described above (our cash-generating units) with the expected recoverable amount on a value-in-use basis. In each assessment, the value-in-use has been calculated based on five year plan projections that incorporate our best estimates of future cash flows, customer rates, costs (including changes in commodity prices), future prices and growth. Such projections reflect our current regulatory rate plans taking into account regulatory arrangements to allow for future rate plan filings and recovery of investment. Our plans have proved to be reliable guides in the past and the Directors believe the estimates are appropriate.

The future economic growth rate used to extrapolate projections beyond five years has been lowered to 2% (2015: 2.25%). The growth rate has been determined having regard to data on projected growth in US real gross domestic product (GDP). Based on our business' place in the underlying US economy, it is appropriate for the terminal growth rate to be based upon the overall growth in real GDP and, given the nature of our operations, to extend over a long period of time. Cash flow projections have been discounted to reflect the time value of money, using a pre-tax discount rate of 8% (2015: 9%). The discount rate represents the estimated weighted average cost of capital of these operations.

While it is possible that a key assumption in the calculation could change, the Directors believe that no reasonably foreseeable change would result in an impairment of goodwill, in view of the long-term nature of the key assumptions and the margin by which the estimated fair value exceeds the carrying amount.

As part of their review in 2014/15, the Directors specifically reviewed the carrying value of goodwill associated with Clean Line Energy Partners LLC. This review resulted in a full impairment being recorded of £12m.

10. Other intangible assets

Other intangible assets include software which is written down (amortised) over the length of period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Other intangible assets are tested for impairment only if there is an indication that the carrying value of the assets may have been impaired. Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets, such as software, are recognised only if: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

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

	Years
Software	3 to 10

	Software £m
Cost at 1 April 2014	1,222
Exchange adjustments	59
Additions	207
Reclassifications[1]	16
Cost at 31 March 2015	1,504
Exchange adjustments	22
Additions	220
Disposals	(3)
Reclassifications[1]	1
Cost at 31 March 2016	1,744
Accumulated amortisation at 1 April 2014	(553)
Exchange adjustments	(20)
Amortisation charge for the year	(121)
Reclassifications[1]	(8)
Accumulated amortisation at 31 March 2015	(702)
Exchange adjustments	(8)
Amortisation charge for the year	(147)
Reclassifications[1]	–
Accumulated amortisation at 31 March 2016	(857)
Net book value at 31 March 2016	**887**
Net book value at 31 March 2015	802

1. Reclassifications includes amounts transferred (to)/from property, plant and equipment (see note 11) and reclasses between cost and accumulated amortisation of £nil (2015: £6m).

11. Property, plant and equipment

The following note shows the physical assets controlled by us. The cost of these assets primarily represents the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and the reduced value of the asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economic life) and charging the cost of the asset to the income statement equally over this period.

Our strategy in action
We operate an energy networks business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment is recorded at cost, less accumulated depreciation and any impairment losses.

Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment as well as the cost of any associated asset retirement obligations.

Property, plant and equipment includes assets in which the Company's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets.

Contributions received prior to 1 July 2009 towards the cost of property, plant and equipment are included in trade and other payables as deferred income and credited on a straight-line basis to the income statement over the estimated useful economic lives of the assets to which they relate.

Contributions received post 1 July 2009 are recognised in revenue immediately, except where the contributions are consideration for a future service, in which case they are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided.

No depreciation is provided on freehold land or assets in the course of construction.

Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessments of estimated useful economic lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

	Years
Freehold and leasehold buildings	up to 65
Plant and machinery:	
Electricity transmission plant	15 to 60
Electricity distribution plant	15 to 60
Electricity generation plant	20 to 40
Interconnector plant	15 to 60
Gas plant – mains, services and regulating equipment	30 to 100
Gas plant – storage	15 to 21
Gas plant – meters	10 to 33
Motor vehicles and office equipment	up to 10

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within operating profit in the income statement.

Items within property, plant and equipment are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

Material impairments are recognised in the income statement and are disclosed separately.

Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

11. Property, plant and equipment continued

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2014	2,248	46,425	4,024	853	53,550
Exchange adjustments	132	2,019	82	47	2,280
Additions	55	544	2,514	150	3,263
Disposals	(30)	(334)	(1)	(74)	(439)
Reclassifications[1]	105	1,981	(2,104)	8	(10)
Cost at 31 March 2015	2,510	50,635	4,515	984	58,644
Exchange adjustments	41	669	20	23	753
Additions	60	801	2,686	126	3,673
Disposals	(26)	(393)	(78)	(62)	(559)
Reclassifications[1]	173	3,060	(3,269)	100	64
Cost at 31 March 2016	2,758	54,772	3,874	1,171	62,575
Accumulated depreciation at 1 April 2014	(436)	(15,350)	–	(585)	(16,371)
Exchange adjustments	(15)	(533)	–	(29)	(577)
Depreciation charge for the year[2]	(82)	(1,138)	–	(143)	(1,363)
Disposals	7	307	–	74	388
Reclassifications[1]	(4)	1	–	5	2
Accumulated depreciation at 31 March 2015	(530)	(16,713)	–	(678)	(17,921)
Exchange adjustments	(32)	(168)	–	(10)	(210)
Depreciation charge for the year[2]	(79)	(1,273)	–	(116)	(1,468)
Disposals	6	386	–	61	453
Reclassifications[1]	(5)	(60)	–	–	(65)
Accumulated depreciation at 31 March 2016	(640)	(17,828)	–	(743)	(19,211)
Net book value at 31 March 2016	**2,118**	**36,944**	**3,874**	**428**	**43,364**
Net book value at 31 March 2015	1,980	33,922	4,515	306	40,723

1. Represents amounts transferred between categories, (to)/from other intangible assets (see note 10) and reclasses between cost and accumulated depreciation of £64m (2015: £nil).
2. Includes amounts in respect of capitalised depreciation of £1m (2015: £2m).

	2016 £m	2015 £m
Information in relation to property, plant and equipment		
Capitalised interest included within cost	**1,622**	1,506
Net book value of assets held under finance leases (all relating to motor vehicles and office equipment)	**226**	184
Additions to assets held under finance leases (all relating to motor vehicles and office equipment)	**87**	61
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	**47**	47
Non-current liabilities	**1,649**	1,569

12. Other non-current assets

Other non-current assets include assets that do not fall into any other non-current asset category (such as goodwill or property, plant and equipment) and the benefit to be received from the asset is not due to be received until after 31 March 2017.

	2016 £m	2015 £m
Commodity contract assets	**10**	29
Other receivables	**37**	39
Prepayments	**35**	12
	82	80

13. Financial and other investments

Financial and other investments include two main categories. Assets classified as available-for-sale typically represent investments in short-term money funds and quoted investments in equities or bonds of other companies. The second category is loans and receivables which includes bank deposits with a maturity of greater than three months, and cash balances that cannot be readily used in operations, principally collateral pledged for certain borrowings.

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

Available-for-sale financial investments are recognised at fair value plus directly related incremental transaction costs, and are subsequently carried at fair value in the statement of financial position. Changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Investment income is recognised using the effective interest method and taken through interest income in the income statement.

Loans receivable and other receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, are recognised in the income statement.

Subsequent to initial recognition, the fair values of financial assets measured at fair value that are quoted in active markets are based on bid prices. When independent prices are not available, fair values are determined by using valuation techniques that are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

	2016 £m	2015 £m
Non-current		
Available-for-sale investments	**482**	330
Current		
Available-for-sale investments	**1,951**	1,232
Loans and receivables	**1,047**	1,327
	2,998	2,559
	3,480	2,889
Financial and other investments include the following:		
Investments in short-term money funds[1]	**1,516**	618
Managed investments in equity and bonds[2]	**615**	785
Cash surrender value of life insurance policies	**160**	158
Other investments	**–**	2
Restricted balances:		
Collateral[3]	**999**	1,199
Other	**190**	127
	3,480	2,889

1. Includes £8m (2015: £34m) held by insurance captives and therefore restricted.
2. All £615m (2015: £644m) is restricted and relates to investments held by insurance captives of £434m (2015: £382m), US non-qualified plan investments of £181m (2015: £170m) and assets held within security accounts with charges in favour of the UK pension scheme Trustees of £nil (2015: £92m).
3. Refers to collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA (International Swaps and Derivatives Association) Master Agreement.

Available-for-sale investments are recorded at fair value. Due to their short maturities the carrying value of loans and receivables approximates their fair value. The maximum exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our credit risk, refer to note 30(a). None of the financial investments are past due or impaired.

14. Investments in joint ventures and associates

Investments in joint ventures and associates represent businesses we do not control, but instead exercise joint control or significant influence.

A joint venture is an arrangement established to engage in economic activity, which the Company jointly controls with other parties and has rights to the net assets of the arrangement. An associate is an entity which is neither a subsidiary nor a joint venture, but over which the Company has significant influence.

	2016 £m	2015 £m
Share of net assets at 1 April	318	351
Exchange adjustments	21	(11)
Additions	116	–
Disposals	(52)	–
Share of post-tax results for the year	59	46
Dividends received	(72)	(79)
Other movements	7	11
Share of net assets at 31 March	**397**	318

A list of joint ventures and associates including the name, proportion of ownership and principal activity is provided in note 32.

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed, and the Group has no significant contingent liabilities in relation to its interest in the joint ventures and associates. The Group has capital commitments of £305m in relation to joint ventures.

Outstanding balances with joint ventures and associates are shown in note 28.

The Group's only material joint venture or associate is in respect of its 50% equity stake in BritNed Development Limited.

Summarised financial information of this joint venture together with the carrying amount of the investment in the consolidated financial statements is as follows:

	2016 £m	2015 £m
Statement of financial position – BritNed Development Limited		
Non-current assets	376	355
Cash and cash equivalents	77	46
All other current assets	3	2
Non-current liabilities	(8)	(10)
Current liabilities	(30)	(14)
Equity	**418**	379
Carrying amount of the Group's investment (National Grid ownership 50%)	**209**	189

	2016 £m	2015 £m
Income statement – BritNed Development Limited		
Revenue	198	162
Depreciation and amortisation	(11)	(12)
Other costs	(56)	(66)
Operating profit	**131**	84
Finance income and expense	–	–
Income tax expense	(32)	(21)
Profit for the year	**99**	63
Group's share in profit (National Grid ownership 50%)	**50**	32

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

15. Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange rates, credit spreads, commodities, equity or other indices. In accordance with Board approved policies, derivatives are transacted to manage our exposure to fluctuations in interest rate and foreign exchange rate on borrowings and other contractual cash flows. Specifically, we use derivatives to manage these risks from our financing portfolio to optimise the overall cost of accessing the debt capital markets. These derivatives are analysed below. We also use derivatives to manage our operational market risks from commodities. The commodity derivative contracts are detailed in note 30(e).

Derivative financial instruments are initially recognised at fair value and subsequently remeasured at fair value at each reporting date. Changes in fair values are recorded in the period they arise, in either the income statement or other comprehensive income depending on the applicable accounting standards. Where the fair value of a derivative is positive it is carried as a derivative asset, and where negative as a derivative liability.

We calculate fair value of the financial derivatives by discounting all future cash flows using the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. Analysis of these derivatives and the various methods used to calculate their respective fair values is detailed below and in note 30.

For each class of derivative instrument type the total fair value amounts are as follows:

	2016			2015		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Interest rate swaps	**1,095**	**(908)**	**187**	1,153	(978)	175
Cross-currency interest rate swaps	**690**	**(589)**	**101**	544	(746)	(202)
Foreign exchange forward contracts	**159**	**(135)**	**24**	18	(294)	(276)
Inflation linked swaps	**1**	**(420)**	**(419)**	1	(381)	(380)
Equity options	**18**	**(17)**	**1**	–	–	–
	1,963	**(2,069)**	**(106)**	1,716	(2,399)	(683)

The maturity profile of derivative financial instruments is as follows:

	2016			2015		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Current						
Less than 1 year	**278**	**(337)**	**(59)**	177	(635)	(458)
	278	**(337)**	**(59)**	177	(635)	(458)
Non-current						
In 1 to 2 years	**31**	**(213)**	**(182)**	15	(97)	(82)
In 2 to 3 years	**159**	**(221)**	**(62)**	37	(252)	(215)
In 3 to 4 years	**139**	**(159)**	**(20)**	136	(238)	(102)
In 4 to 5 years	**32**	**(155)**	**(123)**	125	(235)	(110)
More than 5 years	**1,324**	**(984)**	**340**	1,226	(942)	284
	1,685	**(1,732)**	**(47)**	1,539	(1,764)	(225)
	1,963	**(2,069)**	**(106)**	1,716	(2,399)	(683)

For each class of derivative the notional contract[1] amounts are as follows:

	2016 £m	2015 £m
Interest rate swaps	**(10,552)**	(11,125)
Cross-currency interest rate swaps	**(8,316)**	(8,103)
Foreign exchange forward contracts	**(6,903)**	(6,579)
Inflation linked swaps	**(1,394)**	(1,361)
Equity options	**(800)**	–
	(27,965)	(27,168)

1. The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the reporting date.

Where possible, derivatives held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, cash flow hedges or net investment hedges. Our use of derivatives may entail a derivative transaction qualifying for one or more hedge type designations under IAS 39.

Hedge accounting allows derivatives to be designated as a hedge of another non-derivative financial instrument, to mitigate the impact of potential volatility in the income statement of changes in the fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. National Grid uses three hedge accounting methods, which are described as follows:

15. Derivative financial instruments continued

Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the item in relation to the risk being hedged are recognised in the income statement to the extent the fair value hedge is effective. Adjustments made to the carrying amount of the hedged item for fair value hedges will be amortised over the remaining life, in line with the hedged item.

	2016 £m	2015 £m
Cross-currency interest rate/interest rate swaps	**482**	379

Cash flow hedges

Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates or are in a foreign currency. Interest rate and cross-currency swaps are maintained, and designated as cash flow hedges, where they qualify, to manage this exposure. Fair value changes on designated cash flow hedges are initially recognised directly in the cash flow hedge reserve, as gains or losses recognised in equity, and any ineffective portion is recognised immediately in the income statement. Amounts are transferred from equity and recognised in the income statement as the income or expense is recognised on the hedged item.

Forward foreign currency contracts are used to hedge anticipated and committed future currency cash flows. Where these contracts qualify for hedge accounting they are designated as cash flow hedges. On recognition of the underlying transaction in the financial statements, the associated hedge gains and losses, deferred in equity, are transferred and included with the recognition of the underlying transaction.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously reported in equity is transferred to the income statement.

Where a non-financial asset or a non-financial liability results from a forecast transaction or firm commitment being hedged, the amounts deferred in equity are included in the initial measurement of that non-monetary asset or liability.

	2016 £m	2015 £m
Cross-currency interest rate/interest rate swaps	**(46)**	(453)
Foreign exchange forward contracts	**47**	(34)
Inflation linked swaps	**(151)**	(109)
	(150)	(596)

Net investment hedges

Borrowings, cross-currency swaps and forward currency contracts are used in the management of the foreign exchange exposure arising from the investment in non-sterling denominated subsidiaries. Where these contracts qualify for hedge accounting they are designated as net investment hedges.

	2016 £m	2015 £m
Cross-currency interest rate swaps	**(199)**	(72)
Foreign exchange forward contracts	**(100)**	(218)
	(299)	(290)

The cross-currency swaps and forward foreign currency contracts are hedge accounted using the spot to spot method. The foreign exchange gain or loss on retranslation of the borrowings and the spot to spot movements on the cross-currency swaps and forward currency contracts are transferred to equity to offset gains or losses on translation of the net investment in the non-sterling denominated subsidiaries, with any ineffective portion recognised immediately in the income statement.

15. Derivative financial instruments continued

Derivatives not in a formal hedge relationship

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting under IAS 39 some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised in remeasurements within the income statement.

	2016 £m	2015 £m
Cross-currency interest rate/interest rate swaps	**51**	119
Foreign exchange forward contracts	**77**	(24)
Inflation linked swaps	**(268)**	(271)
Equity options	**1**	–
	(139)	(176)

Discontinuation of hedge accounting

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement in the same periods in which the previously hedged item affects profit or loss. Amounts deferred in equity with respect to net investment hedges are subsequently recognised in the income statement in the event of the disposal of the overseas operations concerned. For fair value hedges, the cumulative adjustment recorded to the carrying value of the hedged item at the date hedge accounting is discontinued is amortised to the income statement using the effective interest method.

Embedded derivatives

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are defined as closely related to those instruments or contracts. Consequently these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument.

16. Inventories and current intangible assets

Inventories represent assets that we intend to use in order to generate revenue in the short term, either by selling the asset itself (for example fuel stocks) or by using it to fulfil a service to a customer or to maintain our network (consumables).

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

Emission allowances, principally relating to the emissions of carbon dioxide in the UK and sulphur and nitrous oxides in the US, are recorded as intangible assets within current assets and are initially recorded at cost and subsequently at the lower of cost and net realisable value. Where emission allowances are granted by relevant authorities, cost is deemed to be equal to the fair value at the date of allocation. Receipts of such grants are treated as deferred income, which is recognised in the income statement as the related charges for emissions are recognised or on impairment of the related intangible asset. A provision is recorded in respect of the obligation to deliver emission allowances and emission charges are recognised in the income statement in the period in which emissions are made.

	2016 £m	2015 £m
Fuel stocks	**120**	112
Raw materials and consumables	**203**	152
Work in progress	**13**	13
Current intangible assets – emission allowances	**101**	63
	437	340

There is a provision for obsolescence of £28m against inventories as at 31 March 2016 (2015: £28m).

17. Trade and other receivables

Trade and other receivables are amounts which are due from our customers for services (and commodities in the US) we have provided. Other receivables also include prepayments made by us, for example, property lease rentals paid in advance.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected.

	2016 £m	2015 £m
Trade receivables	**1,276**	1,568
Accrued income	**796**	852
Prepayments	**212**	229
Commodity contract assets	**22**	35
Current tax assets	**77**	60
Other receivables	**89**	92
	2,472	2,836

Trade receivables are non interest-bearing and generally have a 30 to 90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their book value. Commodity contract assets are recorded at fair value. All other receivables are recorded at amortised cost.

Provision for impairment of receivables

	2016 £m	2015 £m
At 1 April	**294**	249
Exchange adjustments	**11**	31
Charge for the year, net of recoveries	**158**	126
Uncollectible amounts written off against receivables	**(114)**	(112)
At 31 March	**349**	294

Trade receivables past due but not impaired

	2016 £m	2015 £m
Up to 3 months past due	**214**	299
3 to 6 months past due	**48**	60
Over 6 months past due	**142**	156
	404	515

For further information on our wholesale and retail credit risk, refer to note 30(a). For further information on our commodity risk, refer to note 30(e).

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

18. Cash and cash equivalents

Cash and cash equivalents include cash balances, together with short-term investments with an original maturity of less than three months that are readily convertible to cash.

Net cash and cash equivalents reflected in the cash flow statement are net of bank overdrafts, which are reported in borrowings. The carrying amounts of cash and cash equivalents and bank overdrafts approximate their fair values.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for periods varying between one day and three months, depending on the immediate cash requirements, and earn interest at the respective short-term deposit rates.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 30(d).

	2016 £m	2015 £m
Cash at bank	126	109
Short-term deposits	1	10
Cash and cash equivalents excluding bank overdrafts	127	119
Bank overdrafts	(3)	(3)
Net cash and cash equivalents	124	116

At 31 March 2016, £2m (2015: £1m) of cash and cash equivalents were restricted. This primarily relates to cash held in captive insurance companies.

19. Borrowings

We borrow money primarily in the form of bonds and bank loans. These are for a fixed term and may have fixed or floating interest rates or are linked to RPI. As indicated in note 15, we use derivatives to manage risks associated with interest rates and foreign exchange.

Our strategy in action
Our price controls and rate plans require us to fund our networks within a certain ratio of debt to equity and, as a result, we have issued a significant amount of debt. As we continue to invest in our networks, the value of debt is expected to increase over time. To maintain a strong balance sheet and to allow us to access capital markets at commercially acceptable interest rates, we balance the amount of debt we issue with the value of our assets, and take account of certain other metrics used by credit rating agencies.

Borrowings, which include interest-bearing and inflation linked debt and overdrafts, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

	2016 £m	2015 £m
Current		
Bank loans	1,179	561
Bonds	1,282	1,068
Commercial paper	1,092	1,349
Finance leases	53	44
Other loans	2	3
Bank overdrafts	3	3
	3,611	3,028
Non-current		
Bank loans	1,816	1,417
Bonds	22,556	21,156
Finance leases	190	159
Other loans	171	150
	24,733	22,882
Total borrowings	28,344	25,910

19. Borrowings continued

Total borrowings are repayable as follows:

	2016 £m	2015 £m
Less than 1 year	**3,611**	3,028
In 1 to 2 years	**1,835**	873
In 2 to 3 years	**1,816**	1,601
In 3 to 4 years	**1,775**	1,437
In 4 to 5 years	**2,276**	1,709
More than 5 years:		
by instalments	**742**	154
other than by instalments	**16,289**	17,108
	28,344	25,910

The fair value of borrowings at 31 March 2016 was £31,463m (2015: £30,103m). Where market values were available, fair value of borrowings (Level 1) was £13,283m (2015: £14,583m). Where market values were not available, fair value of borrowings (Level 2) was £18,180m (2015: £15,520m), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2016 was £27,836m (2015: £25,419m).

The assets of the Colonial Gas Company and the Niagara Mohawk Power Corporation and certain gas distribution assets of the Narragansett Electric Company are subject to liens and other charges and are provided as collateral over borrowings totalling £385m at 31 March 2016 (2015: £424m).

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £610m (2015: £540m) in respect of cash received under collateral agreements. For further details of our borrowing facilities, refer to note 31. For further details of our bonds in issue, please refer to the debt investor section of our website.

Assets held under finance leases are recognised at their fair value or, if lower, the present value of the minimum lease payments on inception. The corresponding liability is recognised as a finance lease obligation within borrowings. Rental payments are apportioned between finance costs and reduction in the finance lease obligation, so as to achieve a constant rate of interest.

Assets held under finance leases are depreciated over the shorter of their useful life and the lease term.

Finance lease obligations

	2016 £m	2015 £m
Gross finance lease liabilities are repayable as follows:		
Less than 1 year	**53**	44
1 to 5 years	**156**	125
More than 5 years	**75**	72
	284	241
Less: finance charges allocated to future periods	**(41)**	(38)
	243	203
The present value of finance lease liabilities is as follows:		
Less than 1 year	**53**	44
1 to 5 years	**137**	110
More than 5 years	**53**	49
	243	203

Unaudited commentary on borrowings

As at 31 March 2016, total borrowings of £28,344m (2015: £25,910m) including bonds, bank loans, commercial paper, collateral, finance leases and other debt had increased by £2,434m. We expect to repay £3,611m of our total borrowings in the next 12 months including commercial paper, collateral and interest, and to fund this repayment through the capital and money markets. The average long-term debt maturity of the portfolio is 12 years (2015: 13 years). Further information on our bonds can be found in the debt investor section of our website.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

20. Trade and other payables

Trade and other payables include amounts owed to suppliers, tax authorities and other parties which are due to be settled within 12 months. The total also includes deferred income, which represents monies received from customers but for which we have not yet delivered the associated service. These amounts are recognised as revenue when the service is provided.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

	2016 £m	2015 £m
Trade payables	**2,038**	2,050
Deferred income	**275**	236
Commodity contract liabilities	**96**	116
Social security and other taxes	**159**	196
Other payables	**717**	694
	3,285	3,292

Due to their short maturities, the fair value of trade payables approximates their book value. Commodity contract liabilities are recorded at fair value. All other trade and other payables are recorded at amortised cost.

21. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2017. It also includes payables that are not due until after that date.

Commodity contract liabilities are recorded at fair value. All other non-current liabilities are recorded at amortised cost.

	2016 £m	2015 £m
Deferred income	**1,802**	1,648
Commodity contract liabilities	**39**	55
Other payables	**230**	216
	2,071	1,919

There is no material difference between the fair value and the carrying value of other non-current liabilities.

22. Pensions and other post-retirement benefits

Substantially all our employees are members of either DB (defined benefit) or DC (defined contribution) pension plans. The principal UK plans are the National Grid UK Pension Scheme, the National Grid Electricity Group of the Electricity Supply Pension Scheme and the National Grid YouPlan. In the US, we have a number of plans and also provide healthcare and life insurance benefits to eligible retired US employees.

The fair value of associated plan assets and present value of DB obligations are updated annually in accordance with IAS 19 (revised). For further details and the actuarial assumptions used to value the obligations, see note 29.

We separately present our UK and US pension plans to show geographical split. Below we provide a more detailed analysis of the amounts recorded in the primary financial statements.

For DC pension plans, National Grid pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For DB pension plans, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. National Grid underwrites both financial and demographic risks associated with this type of plan.

The cost of providing benefits in a DB plan is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

22. Pensions and other post-retirement benefits continued

National Grid's obligation in respect of DB pension plans is calculated separately for each plan by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds.

National Grid takes advice from independent actuaries relating to the appropriateness of any key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net liability recognised in the statement of financial position.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

Risks
The DB pension obligations and other post-retirement benefit liabilities are exposed to the primary risks outlined below.

Liabilities are calculated using discount rates set with reference to yields on high-quality corporate bonds prevailing in the US and UK debt markets and will fluctuate as yields change. Plan funds are invested in a variety of asset classes, principally: equities, government securities, corporate bonds and property. Consequently, actual returns will differ from the underlying discount rate adopted and therefore have an impact on the net balance sheet liability.

Changes in inflation will affect both current and future pension payments and are partially mitigated through investment in inflation matching assets and hedging instruments.

Longevity is also a key driver of liabilities and changes in expected mortality will have a direct impact on liabilities. The liabilities are, in aggregate, relatively mature which serves to mitigate this risk to some extent.

Each plan's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made both to the maturity of the liabilities and the funding level of that plan. A number of further strategies are employed to manage underlying risks, including liability matching asset strategies, diversification of asset portfolios, interest rate hedging and management of foreign exchange exposure.

Amounts recognised in the statement of financial position

	2016 £m	2015 £m	2014 £m
Present value of funded obligations	**(28,648)**	(29,292)	(25,346)
Fair value of plan assets	**26,434**	26,408	23,258
	(2,214)	(2,884)	(2,088)
Present value of unfunded obligations	**(304)**	(300)	(248)
Other post-employment liabilities	**(67)**	(74)	(75)
Net defined benefit liability	**(2,585)**	(3,258)	(2,411)
Represented by:			
Liabilities	**(2,995)**	(3,379)	(2,585)
Assets	**410**	121	174
	(2,585)	(3,258)	(2,411)

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2016 £m	2015 £m	2014 £m	**2016 £m**	2015 £m	2014 £m	**2016 £m**	2015 £m	2014 £m
Present value of funded obligations[1]	**(19,341)**	(20,053)	(18,100)	**(5,916)**	(5,827)	(4,566)	**(3,391)**	(3,412)	(2,680)
Fair value of plan assets	**19,401**	19,453	17,409	**5,136**	5,052	4,229	**1,897**	1,903	1,620
	60	(600)	(691)	**(780)**	(775)	(337)	**(1,494)**	(1,509)	(1,060)
Present value of unfunded obligations	**(75)**	(72)	(62)	**(229)**	(228)	(186)	**–**	–	–
Other post-employment liabilities	**–**	–	–	**–**	–	–	**(67)**	(74)	(75)
Net defined benefit liability	**(15)**	(672)	(753)	**(1,009)**	(1,003)	(523)	**(1,561)**	(1,583)	(1,135)
Represented by:									
Liabilities	**(300)**	(672)	(753)	**(1,134)**	(1,124)	(697)	**(1,561)**	(1,583)	(1,135)
Assets	**285**	–	–	**125**	121	174	**–**	–	–
	(15)	(672)	(753)	**(1,009)**	(1,003)	(523)	**(1,561)**	(1,583)	(1,135)

1. Present value of funded obligations split approximately as follows:
- UK pensions at 31 March 2016: 12% active members (2015: 12%; 2014: 12%); 18% deferred members (2015: 18%; 2014: 19%); 70% pensioner members (2015: 70%; 2014: 69%)
- US pensions at 31 March 2016: 39% active members (2015: 38%; 2014: 38%); 9% deferred members (2015: 9%; 2014: 9%); 52% pensioner members (2015: 53%; 2014: 53%)
- US other post-retirement benefits at 31 March 2016: 41% active members (2015: 38%; 2014: 44%); 0% deferred members (2015: 0%; 2014: 0%); 59% pensioner members (2015: 62%; 2014: 56%)

These figures reflect legal and actuarial advice that we have taken regarding recognition of surplus under IFRIC 14.

22. Pensions and other post-retirement benefits continued

Amounts recognised in the income statement and statement of other comprehensive income

	2016 £m	2015 £m	2014 £m
Included within operating costs			
Administration costs	**16**	14	12
Included within payroll costs			
Defined contribution scheme costs	**56**	48	40
Defined benefit scheme costs:			
Current service cost	**221**	186	225
Past service costs – augmentations	**3**	7	15
Past service (credit)/cost – redundancies	**(1)**	1	(19)
Past service cost/(credit) – plan amendments	**–**	1	(11)
Special termination benefit cost – redundancies	**11**	20	39
LIPA MSA transition	**–**	–	(214)
	290	263	75
Included within finance income and costs			
Net interest cost	**112**	101	128
Included within exceptional items and remeasurements			
Administration costs	**2**	–	–
Total included in income statement	**420**	378	215
Remeasurements of net retirement benefit obligations	**539**	(771)	485
Exchange adjustments	**(81)**	(236)	186
Total included in the statement of other comprehensive income	**458**	(1,007)	671

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2016 £m	2015 £m	2014 £m	2016 £m	2015 £m	2014 £m	2016 £m	2015 £m	2014 £m
Included within operating costs									
Administration costs	**9**	6	6	**6**	7	5	**1**	1	1
Included within payroll costs									
Defined contribution scheme costs	**31**	26	19	**25**	22	21	**–**	–	–
Defined benefit scheme costs:									
Current service cost	**74**	70	96	**95**	77	85	**52**	39	44
Past service costs – augmentations	**3**	7	15	**–**	–	–	**–**	–	–
Past service (credit)/cost – redundancies	**(1)**	1	(19)	**–**	–	–	**–**	–	–
Past service (credit)/cost – plan amendments	**–**	–	(11)	**–**	1	–	**–**	–	–
Special termination benefit cost – redundancies	**11**	20	39	**–**	–	–	**–**	–	–
LIPA MSA transition	**–**	–	–	**–**	–	(16)	**–**	–	(198)
	118	124	139	**120**	100	90	**52**	39	(154)
Included within finance income and costs									
Net interest cost	**18**	27	47	**36**	25	27	**58**	49	54
Included within exceptional items and remeasurements									
Administration costs	**2**	–	–	**–**	–	–	**–**	–	–
Total included in income statement	**147**	157	192	**162**	132	122	**111**	89	(99)
Remeasurements of net retirement benefit obligations	**534**	(46)	354	**(67)**	(408)	81	**72**	(317)	50
Exchange adjustments	**–**	–	–	**(33)**	(88)	60	**(48)**	(148)	126
Total included in the statement of other comprehensive income	**534**	(46)	354	**(100)**	(496)	141	**24**	(465)	176

22. Pensions and other post-retirement benefits continued

Reconciliation of the net defined benefit liability

	2016 £m	2015 £m	2014 £m
Opening net defined benefit liability	**(3,258)**	(2,411)	(3,497)
Cost recognised in the income statement	**(364)**	(330)	(175)
Remeasurement effects recognised in the statement of other comprehensive income	**458**	(1,007)	671
Employer contributions	**587**	508	596
Other movements	**(8)**	(18)	(6)
Closing net defined benefit liability	**(2,585)**	(3,258)	(2,411)

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2016 £m	2015 £m	2014 £m	2016 £m	2015 £m	2014 £m	2016 £m	2015 £m	2014 £m
Opening net defined benefit liability	**(672)**	(753)	(1,169)	**(1,003)**	(523)	(740)	**(1,583)**	(1,135)	(1,588)
(Cost)/credit recognised in the income statement	**(116)**	(131)	(173)	**(137)**	(110)	(101)	**(111)**	(89)	99
Remeasurement effects recognised in the statement of other comprehensive income	**534**	(46)	354	**(100)**	(496)	141	**24**	(465)	176
Employer contributions	**239**	258	235	**231**	126	174	**117**	124	187
Other movements	**–**	–	–	**–**	–	3	**(8)**	(18)	(9)
Closing net defined benefit liability	**(15)**	(672)	(753)	**(1,009)**	(1,003)	(523)	**(1,561)**	(1,583)	(1,135)

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

22. Pensions and other post-retirement benefits continued

Changes in the present value of defined benefit obligations (including unfunded obligations)

	2016 £m	2015 £m	2014 £m
Opening defined benefit obligations	**(29,592)**	(25,594)	(26,696)
Current service cost	**(221)**	(186)	(225)
Interest cost	**(1,026)**	(1,127)	(1,124)
Actuarial gains – experience	**659**	163	41
Actuarial losses – demographic assumptions	**–**	(342)	(283)
Actuarial gains/(losses) – financial assumptions	**218**	(2,746)	542
Past service credit/(cost) – redundancies	**1**	(1)	154
Special termination benefit cost – redundancies	**(11)**	(20)	(39)
Past service cost – augmentations	**(3)**	(7)	(15)
Past service (cost)/credit – plan amendments	**–**	(1)	30
Medicare subsidy received	**(15)**	(19)	(17)
Liabilities extinguished on settlements	**–**	–	60
Employee contributions	**(2)**	(2)	(2)
Benefits paid	**1,348**	1,268	1,257
Exchange adjustments	**(308)**	(978)	723
Closing defined benefit obligations	**(28,952)**	(29,592)	(25,594)

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2016 £m	2015 £m	2014 £m	2016 £m	2015 £m	2014 £m	2016 £m	2015 £m	2014 £m
Opening defined benefit obligations	**(20,125)**	(18,162)	(18,561)	**(6,055)**	(4,752)	(5,115)	**(3,412)**	(2,680)	(3,020)
Current service cost	**(74)**	(70)	(96)	**(95)**	(77)	(85)	**(52)**	(39)	(44)
Interest cost	**(649)**	(762)	(780)	**(242)**	(235)	(221)	**(135)**	(130)	(123)
Actuarial gains/(losses) – experience	**552**	100	16	**15**	(22)	(22)	**92**	85	47
Actuarial losses – demographic assumptions	**–**	(95)	–	**–**	(125)	(129)	**–**	(122)	(154)
Actuarial (losses)/gains – financial assumptions	**–**	(1,980)	436	**120**	(486)	57	**98**	(280)	49
Past service credit/(cost) – redundancies	**1**	(1)	19	**–**	–	16	**–**	–	119
Special termination benefit cost – redundancies	**(11)**	(20)	(39)	**–**	–	–	**–**	–	–
Past service cost – augmentations	**(3)**	(7)	(15)	**–**	–	–	**–**	–	–
Past service credit/(cost) – plan amendments	**–**	–	11	**–**	(1)	–	**–**	–	19
Medicare subsidy received	**–**	–	–	**–**	–	–	**(15)**	(19)	(17)
Liabilities extinguished on settlements	**–**	–	–	**–**	–	–	**–**	–	60
Employee contributions	**(2)**	(2)	(2)	**–**	–	–	**–**	–	–
Benefits paid	**895**	874	849	**310**	269	291	**143**	125	117
Exchange adjustments	**–**	–	–	**(198)**	(626)	456	**(110)**	(352)	267
Closing defined benefit obligations	**(19,416)**	(20,125)	(18,162)	**(6,145)**	(6,055)	(4,752)	**(3,391)**	(3,412)	(2,680)

22. Pensions and other post-retirement benefits continued

Changes in the fair value of plan assets

	2016 £m	2015 £m	2014 £m
Opening fair value of plan assets	**26,408**	23,258	23,285
Interest income	**914**	1,026	996
Return on assets (less)/greater than assumed	**(338)**	2,154	185
Administration costs	**(18)**	(14)	(12)
Employer contributions	**587**	508	596
Employee contributions	**2**	2	2
Benefits paid	**(1,348)**	(1,268)	(1,257)
Exchange adjustments	**227**	742	(537)
Closing fair value of plan assets	**26,434**	26,408	23,258
Actual return on plan assets	**576**	3,180	1,181
Expected contributions to plans in the following year	**686**	533	409

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2016 £m	2015 £m	2014 £m	2016 £m	2015 £m	2014 £m	2016 £m	2015 £m	2014 £m
Opening fair value of plan assets	**19,453**	17,409	17,392	**5,052**	4,229	4,378	**1,903**	1,620	1,515
Interest income	**631**	735	733	**206**	210	194	**77**	81	69
Return on assets (less)/greater than assumed	**(18)**	1,929	(98)	**(202)**	225	175	**(118)**	–	108
Administration costs	**(11)**	(6)	(6)	**(6)**	(7)	(5)	**(1)**	(1)	(1)
Employer contributions	**239**	258	235	**231**	126	174	**117**	124	187
Employee contributions	**2**	2	2	**–**	–	–	**–**	–	–
Benefits paid	**(895)**	(874)	(849)	**(310)**	(269)	(291)	**(143)**	(125)	(117)
Exchange adjustments	**–**	–	–	**165**	538	(396)	**62**	204	(141)
Closing fair value of plan assets	**19,401**	19,453	17,409	**5,136**	5,052	4,229	**1,897**	1,903	1,620
Actual return on plan assets	**613**	2,664	635	**4**	435	369	**(41)**	81	177
Expected contributions to plans in the following year	**228**	225	182	**220**	204	118	**238**	104	109

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

23. Provisions

We make provisions when an obligation exists, resulting from a past event and it is probable that cash will be paid to settle it, but the exact amount of cash required can only be estimated.

The main estimates relate to environmental remediation and decommissioning costs for various sites we own or have owned and other provisions, including restructuring plans and lease contracts we have entered into that are now loss making. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, the likelihood could alter.

Our strategy in action
We are committed to the protection and enhancement of the environment. However, we have acquired, owned and operated a number of businesses which have, during the course of their operations, created an environmental impact. Therefore we have a provision that reflects the expected cost to remediate these sites. Current operations will seldom result in new sites with significant expected costs being added to the provision.

Provisions are recognised where a legal or constructive obligation exists at the reporting date, as a result of a past event, where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Provision is made for decommissioning and environmental costs, based on future estimated expenditures, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

The unwinding of the discount is included within the income statement as a financing charge.

	Environmental £m	Decommissioning £m	Restructuring £m	Emissions £m	Other £m	Total provisions £m
At 1 April 2014	1,072	144	79	14	336	1,645
Exchange adjustments	95	8	–	2	28	133
Additions	25	7	9	7	57	105
Unused amounts reversed	(5)	–	(2)	–	(5)	(12)
Unwinding of discount	57	3	1	–	12	73
Utilised	(80)	(25)	(48)	–	(56)	(209)
At 31 March 2015	1,164	137	39	23	372	1,735
Exchange adjustments	29	3	–	1	9	42
Additions	30	22	10	1	33	96
Unused amounts reversed	(15)	(8)	(1)	–	(3)	(27)
Unwinding of discount	58	4	1	–	10	73
Utilised	(97)	(17)	(19)	(7)	(60)	(200)
At 31 March 2016	**1,169**	**141**	**30**	**18**	**361**	**1,719**

	2016 £m	2015 £m
Current	**236**	235
Non-current	**1,483**	1,500
	1,719	1,735

23. Provisions continued

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to a number of sites owned and managed by subsidiary undertakings, together with certain US sites that National Grid no longer owns. The environmental provision is as follows:

	2016			2015		
	Discounted £m	Undiscounted £m	Real discount rate	Discounted £m	Undiscounted £m	Real discount rate
UK sites	280	348	2%	286	367	2%
US sites	889	1,031	2%	878	999	2%
	1,169	1,379		1,164	1,366	

The remediation expenditure in the UK relates to old gas manufacturing sites and also to electricity transmission sites. Cash flows are expected to be incurred between 2016 and 2060. A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

The remediation expenditure in the US is expected to be incurred between 2016 and 2071. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK sites. This expenditure is expected to be largely recoverable from ratepayers under the terms of various rate agreements in the US.

Decommissioning provision

The decommissioning provision represents £66m (2015: £51m) of expenditure relating to asset retirement obligations estimated to be incurred until 2095, and £37m (2015: £64m) of expenditure relating to the demolition of gas holders estimated to be incurred until 2020. It also includes the net present value of the estimated expenditure (discounted at a real rate of 2%) expected to be incurred until 2033 in respect of the decommissioning of certain US nuclear generating units that National Grid no longer owns.

Restructuring provision

The restructuring provision principally relates to business reorganisation costs in the UK and is expected to be incurred until 2023.

Emissions provision

The provision for emission costs is expected to be settled using emission allowances granted.

Other provisions

Included within other provisions at 31 March 2016 are amounts provided in respect of onerous lease commitments and rates payable on surplus properties of £100m (2015: £117m) with expenditure expected to be incurred until 2039.

Other provisions also include £190m (2015: £182m) of estimated liabilities in respect of past events insured by insurance subsidiary undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date. Other provisions also include £13m (2015: £13m) in respect of obligations associated with investments in joint ventures.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

24. Share capital

Ordinary share capital represents the total number of shares issued which are publicly traded. We also disclose the number of treasury shares the Company holds, which are shares that the Company has bought itself, predominantly to satisfy the scrip dividend programme and employee share option plan liabilities.

Share capital is accounted for as an equity instrument. An equity instrument is any contract that includes a residual interest in the consolidated assets of the Company after deducting all its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

	Allotted, called up and fully paid	
	million	£m
At 1 April 2014	3,854	439
Issued during the year in lieu of dividends[1]	38	4
At 31 March 2015	3,892	443
Issued during the year in lieu of dividends[1]	32	4
At 31 March 2016	**3,924**	**447**

1. The issue of shares under the scrip dividend programme is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

The share capital of the Company consists of ordinary shares of $11\frac{17}{43}$ pence nominal value each including ADSs. The ordinary shares and ADSs allow holders to receive dividends and vote at general meetings of the Company. The Company holds treasury shares but may not exercise any rights over these shares including the entitlement to vote or receive dividends. There are no restrictions on the transfer or sale of ordinary shares.

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

Treasury shares
At 31 March 2016, the Company held 179m (2015: 153m) of its own shares. The market value of these shares as at 31 March 2016 was £1,767m (2015: £1,323m).

The Company made the following transactions in respect of its own shares during the year ended 31 March 2016:

1. During the year, the Company, as part of management of the dilutive effect of share issuances under the scrip dividend programme, repurchased 31m (2015: 37m) ordinary shares for aggregate consideration of £267m (2015: £338m), including transaction costs. The shares repurchased have a nominal value of £4m (2015: £4m) and represented approximately 1% (2015: 1%) of the ordinary shares in issue as at 31 March 2016.

2. During the year, 2m (2015: 3m) treasury shares were gifted to National Grid Employee Share Trusts and 3m (2015: 5m) treasury shares were re-issued in relation to employee share schemes, in total representing approximately 0.1% (2015: 0.2%) of the ordinary shares in issue as at 31 March 2016. The nominal value of these shares was £1m (2015: £1m) and the total proceeds received were £16m (2015: £23m).

3. During the year the Company made payments totalling £6m (2015: £7m) to National Grid Employee Share Trusts, outside of its share repurchase programme, to enable the trustees to make purchases of National Grid plc shares in order to satisfy the requirements of employee share option and reward plans.

The maximum number of shares held during the year was 179m ordinary shares (2015: 153m) representing approximately 4.6% (2015: 3.9%) of the ordinary shares in issue as at 31 March 2016 and having a nominal value of £20m (2015: £17m).

25. Other equity reserves

Other equity reserves are different categories of equity as required by accounting standards and represent the impact of a number of our historical transactions.

Other equity reserves comprise the translation reserve (see accounting policy C in note 1), cash flow hedge reserve (see note 15), available-for-sale reserve (see note 13), the capital redemption reserve and the merger reserve. The merger reserve arose as a result of the application of merger accounting principles under the then prevailing UK GAAP, which under IFRS 1 was retained for mergers that occurred prior to the IFRS transition date. Under merger accounting principles, the difference between the carrying amount of the capital structure of the acquiring vehicle and that of the acquired business was treated as a merger difference and included within reserves.

As the amounts included in other equity reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

	Translation £m	Cash flow hedge £m	Available-for-sale £m	Capital redemption £m	Merger £m	Total £m
At 1 April 2013	463	(71)	73	19	(5,165)	(4,681)
Exchange adjustments	(158)	–	–	–	–	(158)
Net gains taken to equity	–	63	6	–	–	69
Transferred to/(from) profit or loss	–	27	(14)	–	–	13
Tax	–	(5)	3	–	–	(2)
At 31 March 2014	305	14	68	19	(5,165)	(4,759)
Exchange adjustments	174	–	–	–	–	174
Net (losses)/gains taken to equity	–	(154)	41	–	–	(113)
Transferred to/(from) profit or loss	–	13	(8)	–	–	5
Tax	–	18	(7)	–	–	11
At 31 March 2015	479	(109)	94	19	(5,165)	(4,682)
Exchange adjustments	69	–	–	–	–	69
Net gains taken to equity	–	50	43	–	–	93
Transferred to profit or loss	–	29	–	–	–	29
Tax	–	(15)	(17)	–	–	(32)
At 31 March 2016	**548**	**(45)**	**120**	**19**	**(5,165)**	**(4,523)**

The merger reserve represents the difference between the carrying value of subsidiary undertaking investments and their respective capital structures following the Lattice demerger from BG Group plc and the 1999 Lattice refinancing.

The cash flow hedge reserve will be continuously transferred to the income statement until the borrowings are repaid. The amount due to be released from reserves to the income statement next year is £21m (pre-tax) and the remainder released with the same maturity profile as borrowings due after more than one year.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

26. Net debt

Net debt represents the amount of borrowings and overdrafts less cash, financial investments and related derivatives.

Funding and liquidity risk management is carried out by the treasury function under policies and guidelines approved by the Finance Committee of the Board. The Finance Committee is responsible for the regular review and monitoring of treasury activity and for the approval of specific transactions, the authority for which fall outside the delegation of authority to management.

The primary objective of the treasury function is to manage our funding and liquidity requirements. A secondary objective is to manage the associated financial risks, in the form of interest rate risk and foreign exchange risk, to within pre-authorised parameters. Details of the main risks arising from our financing and commodity hedging activities can be found in the risk factors discussion starting on page 183 and in note 30 to the consolidated financial statements on pages 149 to 155.

Investment of surplus funds, usually in short-term fixed deposits or placements with money market funds that invest in highly liquid instruments of high credit quality, is subject to our counterparty risk management policy.

The movement in cash and cash equivalents is reconciled to movements in net debt.

(a) Reconciliation of net cash flow to movement in net debt

	2016 £m	2015 £m	2014 £m
Increase/(decrease) in cash and cash equivalents	**4**	(247)	(283)
Increase/(decrease) in financial investments	**391**	(1,157)	(1,720)
(Increase)/decrease in borrowings and related derivatives	**(1,100)**	682	1,021
Net interest paid on the components of net debt[1]	**810**	925	841
Change in debt resulting from cash flows	**105**	203	(141)
Changes in fair value of financial assets and liabilities and exchange movements	**(515)**	(1,777)	1,360
Net interest charge on the components of net debt[1]	**(913)**	(1,068)	(1,053)
Extinguishment of debt resulting from LIPA MSA transition (note 4)	**–**	–	98
Other non-cash movements	**(87)**	(83)	(25)
Movement in net debt (net of related derivative financial instruments) in the year	**(1,410)**	(2,725)	239
Net debt (net of related derivative financial instruments) at start of year	**(23,915)**	(21,190)	(21,429)
Net debt (net of related derivative financial instruments) at end of year	**(25,325)**	(23,915)	(21,190)

Composition of net debt
Net debt is made up as follows:

	2016 £m	2015 £m	2014 £m
Cash, cash equivalents and financial investments	**3,125**	2,678	3,953
Borrowings and bank overdrafts	**(28,344)**	(25,910)	(25,950)
Derivatives	**(106)**	(683)	807
	(25,325)	(23,915)	(21,190)

1. An exceptional charge of £nil (2015: £131m; 2014: £nil) is included in net interest charge on the components of net debt and an exceptional cash outflow of £nil (2015: £152m; 2014: £nil) is included in net interest paid on the components of net debt.

26. Net debt continued

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Total[1] £m
At 1 April 2013	671	(23)	648	5,431	(28,072)	564	(21,429)
Cash flow	(291)	8	(283)	(1,755)	2,009	(112)	(141)
Fair value gains and losses and exchange movements	(26)	–	(26)	(113)	1,223	276	1,360
Interest income/(charges)	–	–	–	36	(1,168)	79	(1,053)
Extinguishment of debt resulting from LIPA MSA transition (note 4)	–	–	–	–	98	–	98
Other non-cash movements	–	–	–	–	(25)	–	(25)
At 31 March 2014	354	(15)	339	3,599	(25,935)	807	(21,190)
Cash flow	(259)	12	(247)	(1,194)	1,721	(77)	203
Fair value gains and losses and exchange movements	24	–	24	118	(451)	(1,468)	(1,777)
Interest income/(charges)[2]	–	–	–	36	(1,160)	56	(1,068)
Other non-cash movements	–	–	–	–	(82)	(1)	(83)
At 31 March 2015	119	(3)	116	2,559	(25,907)	(683)	(23,915)
Cash flow	4	–	4	368	(631)	364	105
Fair value gains and losses and exchange movements	4	–	4	49	(739)	171	(515)
Interest income/(charges)[2]	–	–	–	22	(978)	43	(913)
Other non-cash movements	–	–	–	–	(86)	(1)	(87)
At 31 March 2016	**127**	**(3)**	**124**	**2,998**	**(28,341)**	**(106)**	**(25,325)**
Balances at 31 March 2016 comprise:							
Non-current assets	–	–	–	–	–	1,685	1,685
Current assets	127	–	127	2,998	–	278	3,403
Current liabilities	–	(3)	(3)	–	(3,608)	(337)	(3,948)
Non-current liabilities	–	–	–	–	(24,733)	(1,732)	(26,465)
	127	**(3)**	**124**	**2,998**	**(28,341)**	**(106)**	**(25,325)**

1. Includes accrued interest at 31 March 2016 of £243m (2015: £230m; 2014: £239m).
2. An exceptional expense of £nil (2015: £131m; 2014: £nil) is included in net interest charge on the components of net debt and an exceptional cash outflow of £nil (2015: £152m; 2014: £nil) is included in net interest paid on the components of net debt.

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This section includes information that is important to enable a full understanding of our financial position, particularly areas of potential risk that could affect us in the future.

We also include specific disclosures for British Transco Finance Inc., Niagara Mohawk Power Corporation and National Grid Gas plc in accordance with various rules including Rule 3-10 of Regulation S-X (a US SEC requirement), as they have issued public debt securities which have been guaranteed by National Grid plc and one of its subsidiary companies, National Grid Gas plc. Additional disclosures have also been included in respect of the two guarantor companies. These disclosures are in lieu of publishing separate financial statements for these companies. See note 34 for further information.

27. Commitments and contingencies

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets its obligations. These commitments primarily relate to operating lease rentals, energy purchase agreements and contracts for the repurchase of network assets which, in many cases, extend over a long period of time. We also disclose any contingencies, which include guarantees that companies have given, where we pledge assets against current obligations that will remain for a specific period.

	2016 £m	2015 £m
Future capital expenditure		
Contracted for but not provided	**2,616**	2,360
Operating lease commitments		
Less than 1 year	**92**	87
In 1 to 2 years	**86**	81
In 2 to 3 years	**72**	74
In 3 to 4 years	**54**	63
In 4 to 5 years	**52**	45
More than 5 years	**286**	277
	642	627
Energy purchase commitments[1]		
Less than 1 year	**1,096**	1,199
In 1 to 2 years	**598**	601
In 2 to 3 years	**454**	458
In 3 to 4 years	**362**	360
In 4 to 5 years	**315**	305
More than 5 years	**1,477**	1,415
	4,302	4,338
Guarantees and letters of credit		
Guarantee of sublease for US property (expires 2040)	**219**	236
Guarantees of certain obligations of Grain LNG Import Terminal (expire up to 2028)	**113**	151
Guarantees of certain obligations for construction of HVDC West Coast Link (expected expiry 2016)	**415**	555
Guarantees of certain obligations of Nemo Link Limited (various expiry dates)	**166**	–
Guarantees of certain obligations of National Grid North Sea Link Limited (various expiry dates)	**1,038**	–
Other guarantees and letters of credit (various expiry dates)	**440**	355
	2,391	1,297

1. Energy purchase commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves (i.e. normal purchase, sale or usage) and hence are accounted for as ordinary purchase contracts. Details of commodity contracts that do not meet the normal purchase, sale or usage criteria, and hence are accounted for as derivative contracts, are shown in note 30(e).

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £21m (2015: £26m).

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

28. Related party transactions

Related parties include joint ventures, associates, investments and key management personnel.

The following significant transactions with related parties were in the normal course of business. Amounts receivable from and payable to related parties are due on normal commercial terms:

	2016 £m	2015 £m	2014 £m
Sales: Goods and services supplied to a pension plan and joint ventures	**16**	52	15
Purchases: Goods and services received from joint ventures and associates[1]	**266**	120	128
Receivable from a pension plan and joint ventures	**7**	4	3
Payable to joint ventures and associates[2]	**103**	6	5
Dividends received from joint ventures and associates[3]	**72**	79	38

1. During the year the Company received goods and services from a number of joint ventures and associates, including Iroquois Gas Transmission System, L.P. of £8m (2015: £24m; 2014: £30m), Millennium Pipeline Company, LLC of £29m (2015: £26m; 2014: £31m) for the transportation of gas in the US; Algonquin Gas Transmission LLC of £43m (2015: £nil; 2014: £nil) for pipeline services in the US; and NGET/SPT Upgrades Limited of £167m (2015: £68m; 2014: £67m) for the construction of a transmission link in the UK.
2. Included in amounts payable to joint ventures and associates is £87m (2015: £nil; 2014: £nil) in respect of deposits received for National Grid property sites from St William Homes LLP.
3. Dividends were received from BritNed Development Limited of £48m (2015: £49m; 2014: £17m), Iroquois Gas Transmission System, L.P. of £7m (2015: £14m; 2014: £11m) and Millennium Pipeline Company, LLC of £17m (2015: £16m; 2014: £10m).

Details of investments in principal subsidiary undertakings, joint ventures and associates are disclosed in note 32 and information relating to pension fund arrangements is disclosed in notes 22 and 29. For details of Directors' and key management remuneration, refer to the audited section of the Remuneration Report and note 3(c).

29. Actuarial information on pensions and other post-retirement benefits

Further details of the DB pension plans terms and the actuarial assumptions used to value the obligations are set out in this note.

When deciding on these assumptions we take independent actuarial advice. Comparatively small changes in the assumptions applied may have a significant effect on the overall deficit or surplus of a DB pension plan.

UK pension plans

National Grid's defined benefit pension arrangements are funded with assets held in separate trustee administered funds. The arrangements are managed by trustee companies with boards consisting of company and member appointed directors. The directors are required to manage the arrangements in accordance with local regulations and the arrangements' governing documents, acting on behalf of their beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with us, the qualified actuary certifies the employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the plans' assets, are expected to be sufficient to fund the benefits payable. The last full actuarial valuations were carried out as at 31 March 2013. The 2016 valuation processes have commenced.

The results of the 2013 valuations are shown below:

	NG UKPS[1]	NGEG of ESPS[2]
Latest full actuarial valuation	31 March 2013	31 March 2013
Actuary	Willis Towers Watson	Aon Hewitt
Market value of plan assets at latest valuation	£15,569m	£1,900m
Actuarial value of benefits due to members	£17,332m	£2,708m
Market value as percentage of benefits	90%	70%
Funding deficit	£1,763m	£808m
Funding deficit (net of tax)	£1,446m	£663m

1. National Grid UK Pension Scheme
2. National Grid Electricity Group of the Electricity Supply Pension Scheme

From April 2014 an annual cap was placed on future increases to the salary used to calculate pensions at the lower of 3% or the annual increase in RPI. This capped salary applied to all pensionable service from 1 April 2013 onwards. During the year ended 31 March 2014 these changes resulted in a past service credit of £11m to the income statement (see note 22) and a change to the salary increase assumption which affects how our DB liabilities as at 31 March have been calculated. These changes are to ensure our schemes remain affordable and sustainable over the coming years.

Notes to the consolidated financial statements
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29. Actuarial information on pensions and other post-retirement benefits continued

National Grid UK Pension Scheme
The 2013 actuarial funding valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 36% of pensionable earnings (currently 33% by employers and 3% by employees; from 1 April 2016 this will be 31% by employers and 5% by employees). In addition, National Grid makes payments to the scheme to cover administration costs and the Pension Protection Fund levy.

Following the 2013 valuation, National Grid and the Trustees agreed a recovery plan which would see the funding deficit repaid by 31 March 2027. Under the schedule of contributions, payments of £60m were made in 2013/14, £99m in 2014/15 and £100m in 2015/16, and will thereafter rise in line with RPI until 2026/27. As part of the 2013 agreement, National Grid has established a security arrangement with a charge in favour of the Trustees. At 31 March 2016 the value of this was required to be £427m. This was provided via £427m in letters of credit. The assets held as security will be paid to the scheme in the event that National Grid Gas plc (NGG) is subject to an insolvency event, is given notice of less than 12 months that Ofgem intends to revoke its licence under the Gas Act 1986, or National Grid fails to make the required contributions in relation to the scheme. The assets held as security will be released back to National Grid if the scheme moves into surplus. In addition, National Grid will make a payment of £200m (increased in line with RPI) into the scheme if NGG's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

This scheme ceased to allow new hires to join from 1 April 2002. A DC section of the scheme was offered for employees joining after this date, which has since been replaced by The National Grid YouPlan (YouPlan) (see below).

National Grid Electricity Group of the Electricity Supply Pension Scheme
The 2013 actuarial funding valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 33.4% of pensionable earnings (currently 27.5% by employers and an average of 5.9% by employees; from 1 April 2016 this will be an average of 26.5% by employers and an average of 6.9% by employees).

Following the 2013 valuation, National Grid and the Trustees agreed a recovery plan that would see the funding deficit repaid by 31 March 2027. Under the schedule of contributions, a payment of £80m was made in 2013/14, £46m in 2014/15 and £47m in 2015/16, and will thereafter rise in line with RPI until 2026/27. As part of the 2013 agreement, National Grid has established security arrangements with a charge in favour of the Trustees. At 31 March 2016 the value of this was required to be £150m. This was provided via £150m in a letter of credit. The assets held as security will be paid to the scheme in the event that National Grid Electricity Transmission plc (NGET) is subject to an insolvency event, or ceases to hold a licence granted under the Electricity Act 1989. The assets held as security will be released back to National Grid if the scheme moves into surplus. National Grid has also agreed to make a payment in respect of the deficit up to a maximum of £500m should certain triggers be breached; namely if NGET ceases to hold the licence granted under the Electricity Act 1989 or NGET's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

The scheme closed to new members from 1 April 2006.

The National Grid YouPlan
The YouPlan is a DC scheme that was launched in 2013 and under the rules of the plan, National Grid double matches contributions to YouPlan up to a maximum of 6% of employee salary. YouPlan is the qualifying scheme used for automatic enrolment and new hires are enrolled into YouPlan.

US pension plans
National Grid sponsors numerous non-contributory DB pension plans. The DB plans provide retirement benefits to vested union employees, as well as vested non-union employees hired before 1 January 2011. Benefits under these plans generally reflect age, years of service and compensation and are paid in the form of an annuity or lump sum. An independent actuary performs valuations annually. The Company funds the DB plans by contributing no less than the minimum amount required, but no more than the maximum tax deductible amount allowed under US Internal Revenue Service regulations. The range of contributions based upon these regulations can vary significantly based upon the funded status of the plans. At present, there is some flexibility in the amount that is contributed on an annual basis. In general, the Company's policy for funding the US pension plans is to contribute the amounts collected in rates and capitalised in the rate base during the year, to the extent that the funding is no less than the minimum amount required. The assets of the plans are held in trusts and administered by fiduciary committees comprised of appointed employees of the Company.

National Grid also has several DC pension plans, primarily comprised of employee savings and Company matching contributions. Non-union employees hired after 1 January 2011, as well as new hires in 10 groups of represented union employees, receive a core contribution into the DC plan, irrespective of the employee's contribution into the plan.

US retiree healthcare and life insurance plans
National Grid provides healthcare and life insurance benefits to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in most cases retirees contribute to the cost of their healthcare coverage. In the US, there is no governmental requirement to pre-fund post-retirement health and welfare plans. However, in general, the Company's policy for funding the US retiree healthcare and life insurance plans is to contribute amounts collected in rates and capitalised in the rate base during the year.

29. Actuarial information on pensions and other post-retirement benefits continued

Asset allocations

Within the asset allocations below there is significant diversification across regions, asset managers, currencies and bond categories.

UK pensions

	2016			2015			2014		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities[1]	**3,272**	**962**	**4,234**	3,848	761	4,609	4,045	620	4,665
Corporate bonds[2]	**5,601**	**–**	**5,601**	6,494	–	6,494	5,706	–	5,706
Government securities	**6,059**	**–**	**6,059**	4,637	–	4,637	4,161	–	4,161
Property	**90**	**1,081**	**1,171**	86	1,082	1,168	33	1,057	1,090
Diversified alternatives[3]	**159**	**505**	**664**	–	716	716	–	793	793
Liability matching assets[4]	**1,020**	**–**	**1,020**	878	–	878	598	–	598
Other[5]	**649**	**3**	**652**	936	15	951	433	(37)	396
	16,850	**2,551**	**19,401**	16,879	2,574	19,453	14,976	2,433	17,409

1. Included within equities at 31 March 2016 were ordinary shares of National Grid plc with a value of £7m (2015: £14m; 2014: £15m).
2. Included within corporate bonds at 31 March 2016 was an investment in a number of bonds issued by subsidiary undertakings with a value of £70m (2015: £80m; 2014: £72m).
3. Includes return seeking non-conventional asset classes.
4. Includes liability-driven investment vehicles.
5. Includes cash and cash type instruments.

US pensions

	2016			2015			2014		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities[1]	**625**	**1,508**	**2,133**	617	1,455	2,072	508	1,225	1,733
Corporate bonds[1]	**954**	**483**	**1,437**	969	473	1,442	823	336	1,159
Government securities[1]	**711**	**–**	**711**	727	–	727	632	28	660
Property	**–**	**276**	**276**	–	249	249	–	189	189
Diversified alternatives[1,2]	**163**	**334**	**497**	164	334	498	139	295	434
Other	**–**	**82**	**82**	–	64	64	–	54	54
	2,453	**2,683**	**5,136**	2,477	2,575	5,052	2,102	2,127	4,229

1. Comparatives have been represented on a basis consistent with the current year presentation.
2. Includes return seeking non-conventional asset classes.

US other post-retirement benefits

	2016			2015			2014		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities[1]	**281**	**853**	**1,134**	289	872	1,161	245	823	1,068
Corporate bonds	**37**	**1**	**38**	34	–	34	2	10	12
Government securities	**390**	**–**	**390**	382	–	382	357	1	358
Diversified alternatives[1,2]	**122**	**104**	**226**	114	100	214	102	80	182
Other	**–**	**109**	**109**	–	112	112	–	–	–
	830	**1,067**	**1,897**	819	1,084	1,903	706	914	1,620

1. Comparatives have been represented on a basis consistent with the current year presentation.
2. Includes return seeking non-conventional asset classes.

Target asset allocations

Each plan's investment strategy is formulated specifically in order to manage risk, through investment in diversified asset classes, including the use of liability matching assets and where appropriate through the employment of interest rate and inflation hedging instruments. The target asset allocation of the plans as at 31 March 2016 is as follows:

	UK pensions %	US pensions %	US other post-retirement benefits %
Equities	21	40	65
Other	79	60	35
	100	100	100

29. Actuarial information on pensions and other post-retirement benefits continued

Actuarial assumptions

The Company has applied the following financial assumptions in assessing DB liabilities.

	UK pensions			US pensions			US other post-retirement benefits		
	2016 %	2015 %	2014 %	**2016 %**	2015 %	2014 %	**2016 %**	2015 %	2014 %
Discount rate[1]	**3.3**	3.3	4.3	**4.3**	4.1	4.8	**4.3**	4.1	4.8
Rate of increase in salaries[2]	**3.2**	3.2	3.6	**3.5**	3.5	3.5	**3.5**	3.5	3.5
Rate of increase in RPI[3]	**2.9**	2.9	3.3	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Initial healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**7.5**	8.0	8.0
Ultimate healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**4.5**	5.0	5.0

1. The discount rates for pension liabilities have been determined by reference to appropriate yields on high-quality corporate bonds prevailing in the UK and US debt markets at the reporting date.
2. A promotional scale has also been used where appropriate. The UK assumption stated is that relating to service prior to 1 April 2014. The UK assumption for the rate of increase in salaries for service after this date is 2.1% (2015: 2.1%).
3. This is the key assumption that determines assumed increases in pensions in payment and deferment in the UK only. The assumptions for the UK were 2.9% (2015: 2.9%; 2014: 3.3%) for increases in pensions in payment and 2.9% (2015: 2.9%; 2014: 3.3%) for increases in pensions in deferment.

For sensitivity analysis see note 33.

	2016		2015		2014	
	UK years	**US years**	UK years	US years	UK years	US years
Assumed life expectations for a retiree age 65						
Today:						
Males	**22.8**	**21.8**	22.7	21.7	22.9	20.6
Females	**25.2**	**24.0**	25.1	23.9	25.4	22.9
In 20 years:						
Males	**25.1**	**23.5**	24.9	23.4	25.2	22.8
Females	**27.6**	**25.6**	27.4	25.6	27.8	24.7

Maturity profile of DB obligations

The weighted average duration of the DB obligation for each category of scheme is 16 years for UK pension schemes; 13 years for US pension schemes and 17 years for US other post-retirement benefits.

30. Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate risk, commodity price risk, credit risk, capital risk and liquidity risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage risks of this type.

This note describes our approach to managing risk, including an analysis of assets and liabilities by currency type and an analysis of interest rate category for our net debt. We are required by accounting standards to also include a number of specific disclosures (such as a maturity analysis of contractual undiscounted cash flows) and have included these requirements below.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

We have exposure to the following risks, which are described in more detail below:

- credit risk;
- liquidity risk;
- interest rate risk;
- currency risk;
- commodity risk; and
- capital risk.

(a) Credit risk

We are exposed to the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in our commercial business activities. We are exposed to credit risk on our cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Treasury credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. As at 31 March 2016, the following limits were in place for investments held with banks and financial institutions:

	Maximum limit £m	Long-term limit £m
Triple 'A' G8 sovereign entities (AAA)	Unlimited	Unlimited
Triple 'A' vehicles (AAA)	322	273
Triple 'A' range institutions and non G8 sovereign entities (AAA)	1,099 to 1,658	553 to 867
Double 'A+' G8 sovereign entities (AA+)	1,658	867
Double 'A' range institutions (AA)	656 to 826	334 to 413
Single 'A' range institutions (A)	226 to 322	115 to 165

As at 31 March 2015 and 2016, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Management does not expect any significant losses from non performance by these counterparties.

Commodity credit risk

The credit policy for commodity transactions is owned and monitored by the Energy Procurement Risk Management Committee, under authority delegated by the Board and Executive Committee, and establishes controls and procedures to determine, monitor and minimise the credit risk of counterparties.

Wholesale and retail credit risk

Our principal commercial exposure in the UK is governed by the credit rules within the regulated codes: Uniform Network Code and Connection and Use of System Code. These set out the level of credit relative to the RAV for each credit rating. In the US, we are required to supply electricity and gas under state regulations. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash, cheques, electronic bank payments or by using major credit cards. We are committed to measuring, monitoring, minimising and recording counterparty credit risk in our wholesale business. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 17.

Notes to the consolidated financial statements
– supplementary information continued

30. Financial risk management continued

(a) Credit risk continued

Offsetting financial assets and liabilities

The following tables set out our financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present National Grid's net exposure.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis.

Amounts which do not meet the criteria for offsetting on the statement of financial position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Commodity contracts that have not been offset on the balance sheet may be settled net in certain circumstances under ISDA or NAESB (North American Energy Standards Board) agreements.

National Grid has similar arrangements in relation to bank account balances and bank overdrafts; and trade payables and trade receivables which are subject to general terms and conditions. However, these balances are immaterial.

				Related amounts available to be offset but not offset in statement of financial position		
At 31 March 2016	**Gross carrying amounts £m**	**Gross amounts offset[1] £m**	**Net amount presented in statement of financial position £m**	**Financial instruments £m**	**Cash collateral received/ pledged £m**	**Net amount £m**
Assets						
Derivative financial instruments	**1,963**	**–**	**1,963**	**(997)**	**(597)**	**369**
Commodity contracts	**33**	**(1)**	**32**	**(4)**	**–**	**28**
	1,996	**(1)**	**1,995**	**(1,001)**	**(597)**	**397**
Liabilities						
Derivative financial instruments	**(2,069)**	**–**	**(2,069)**	**997**	**932**	**(140)**
Commodity contracts	**(145)**	**10**	**(135)**	**4**	**20**	**(111)**
	(2,214)	**10**	**(2,204)**	**1,001**	**952**	**(251)**
	(218)	**9**	**(209)**	**–**	**355**	**146**

				Related amounts available to be offset but not offset in statement of financial position		
At 31 March 2015	Gross carrying amounts £m	Gross amounts offset[1] £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	1,716	–	1,716	(839)	(527)	350
Commodity contracts	64	–	64	(11)	–	53
	1,780	–	1,780	(850)	(527)	403
Liabilities						
Derivative financial instruments	(2,399)	–	(2,399)	839	1,125	(435)
Commodity contracts	(182)	11	(171)	11	–	(160)
	(2,581)	11	(2,570)	850	1,125	(595)
	(801)	11	(790)	–	598	(192)

1. The gross financial assets and liabilities offset in the statement of financial position primarily relate to commodity contracts. Offsets relate to margin payments for NYMEX gas futures which are traded on a recognised exchange.

30. Financial risk management continued

(b) Liquidity risk

Our policy is to determine our liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding requirements for at least a 24 month period and maintain adequate liquidity for a continuous 12 month period.

We believe our contractual obligations, including those shown in commitments and contingencies in note 27 can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of subsidiary indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt and may restrict our ability to draw upon our facilities or access the capital markets.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the reporting date:

At 31 March 2016	**Less than 1 year £m**	**1 to 2 years £m**	**2 to 3 years £m**	**More than 3 years £m**	**Total £m**
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	**(3,225)**	**(1,777)**	**(1,760)**	**(20,831)**	**(27,593)**
Interest payments on borrowings[1]	**(839)**	**(806)**	**(746)**	**(13,549)**	**(15,940)**
Finance lease liabilities	**(53)**	**(58)**	**(43)**	**(130)**	**(284)**
Other non-interest bearing liabilities	**(2,755)**	**(230)**	**–**	**–**	**(2,985)**
Derivative financial liabilities					
Derivative contracts – receipts	**314**	**487**	**846**	**811**	**2,458**
Derivative contracts – payments	**(389)**	**(964)**	**(855)**	**(914)**	**(3,122)**
Commodity contracts	**(104)**	**(32)**	**(9)**	**1**	**(144)**
	(7,051)	**(3,380)**	**(2,567)**	**(34,612)**	**(47,610)**

At 31 March 2015	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	More than 3 years £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(2,289)	(1,179)	(1,513)	(20,235)	(25,216)
Interest payments on borrowings[1]	(790)	(790)	(766)	(13,587)	(15,933)
Finance lease liabilities	(44)	(41)	(32)	(86)	(203)
Other non-interest bearing liabilities	(2,744)	(216)	–	–	(2,960)
Derivative financial liabilities					
Derivative contracts – receipts	602	244	411	1,194	2,451
Derivative contracts – payments	(935)	(318)	(952)	(1,631)	(3,836)
Commodity contracts	(116)	(43)	(21)	–	(180)
	(6,316)	(2,343)	(2,873)	(34,345)	(45,877)

1. The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle.

(c) Interest rate risk

National Grid's interest rate risk arises from our long-term borrowings. Borrowings issued at variable rates expose National Grid to cash flow interest rate risk, partially offset by cash held at variable rates. Borrowings issued at fixed rates expose National Grid to fair value interest rate risk.

Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints. We do this by using fixed and floating rate debt and derivative financial instruments including interest rate swaps, swaptions and forward rate agreements.

We hold some borrowings on issue that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

The table in note 19 sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

Notes to the consolidated financial statements
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30. Financial risk management continued

(c) Interest rate risk continued

During 2016 and 2015, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2016					2015				
	Fixed rate £m	**Floating rate £m**	**Inflation linked £m**	**Other[1] £m**	**Total £m**	Fixed rate £m	Floating rate £m	Inflation linked £m	Other[1] £m	Total £m
Cash and cash equivalents	**1**	**126**	**–**	**–**	**127**	1	118	–	–	119
Financial investments	**54**	**2,939**	**–**	**5**	**2,998**	281	2,273	–	5	2,559
Borrowings[2]	**(17,706)**	**(3,008)**	**(7,629)**	**(1)**	**(28,344)**	(16,229)	(2,746)	(6,933)	(2)	(25,910)
Pre-derivative position	**(17,651)**	**57**	**(7,629)**	**4**	**(25,219)**	(15,947)	(355)	(6,933)	3	(23,232)
Derivative effect[3]	**1,788**	**(2,481)**	**587**	**–**	**(106)**	1,593	(2,294)	18	–	(683)
Net debt position	**(15,863)**	**(2,424)**	**(7,042)**	**4**	**(25,325)**	(14,354)	(2,649)	(6,915)	3	(23,915)

1. Represents financial instruments which are not directly affected by interest rate risk, such as investments in equity or other similar financial instruments.
2. Includes bank overdrafts.
3. The impact of 2016/17 (2015: 2015/16) maturing short-dated interest rate derivatives is included.

(d) Currency risk

National Grid operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and investments in foreign operations.

Our policy for managing foreign exchange transaction risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where foreign currency cash flow forecasts are less certain, our policy is to hedge a proportion of such cash flows based on the probability of those cash flows occurring. Instruments used to manage foreign exchange transaction risk include foreign exchange forward contracts and foreign exchange swaps.

Our policy for managing foreign exchange translation risk relating to our net investment in foreign operations is to maintain a percentage of net debt and foreign exchange forwards so as to provide an economic offset. The primary managed foreign exchange exposure arises from the dollar denominated assets and liabilities held by our US operations, with a further small euro exposure in respect of a joint venture investment.

During 2016 and 2015, derivative financial instruments were used to manage foreign currency risk as follows:

	2016					2015				
	Sterling £m	**Euro £m**	**Dollar £m**	**Other £m**	**Total £m**	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Cash and cash equivalents	**3**	**1**	**123**	**–**	**127**	12	–	107	–	119
Financial investments	**1,201**	**105**	**1,622**	**70**	**2,998**	1,227	90	1,181	61	2,559
Borrowings[1]	**(13,131)**	**(5,061)**	**(8,806)**	**(1,346)**	**(28,344)**	(11,791)	(5,099)	(7,604)	(1,416)	(25,910)
Pre-derivative position	**(11,927)**	**(4,955)**	**(7,061)**	**(1,276)**	**(25,219)**	(10,552)	(5,009)	(6,316)	(1,355)	(23,232)
Derivative effect	**2,374**	**4,971**	**(8,989)**	**1,538**	**(106)**	1,608	5,203	(8,858)	1,364	(683)
Net debt position	**(9,553)**	**16**	**(16,050)**	**262**	**(25,325)**	(8,944)	194	(15,174)	9	(23,915)

1. Includes bank overdrafts.

The overall exposure to dollars largely relates to our net investment hedge activities as described in note 15.

The currency exposure on other financial instruments is as follows:

	2016					2015				
	Sterling £m	**Euro £m**	**Dollar £m**	**Other £m**	**Total £m**	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Trade and other receivables	**220**	**8**	**1,236**	**–**	**1,464**	200	–	1,495	–	1,695
Trade and other payables	**(1,380)**	**–**	**(1,471)**	**–**	**(2,851)**	(1,403)	–	(1,457)	–	(2,860)
Other non-current assets	**(17)**	**–**	**(252)**	**–**	**(269)**	(19)	–	(252)	–	(271)

The carrying amounts of other financial instruments are denominated in the above currencies, which in most instances are the functional currency of the respective subsidiaries. Our exposure to dollars is due to activities in our US subsidiaries. We do not have any other significant exposure to currency risk on these balances.

30. Financial risk management continued

(e) Commodity risk

We purchase electricity and gas to supply our customers in the US and to meet our own energy needs. Substantially all our costs of purchasing electricity and gas for supply to customers are recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular year that can lead to large fluctuations in the income statement. We follow approved policies to manage price and supply risks for our commodity activities.

Our energy procurement risk management policy and delegations of authority govern our US commodity trading activities for energy transactions. The purpose of this policy is to ensure we transact within pre-defined risk parameters and only in the physical and financial markets where we or our customers have a physical market requirement. In addition, state regulators require National Grid to manage commodity risk and cost volatility prudently through diversified pricing strategies. In some jurisdictions we are required to file a plan outlining our strategy to be approved by regulators. In certain cases we might receive guidance with regard to specific hedging limits.

Energy purchase contracts for the forward purchase of electricity or gas that are used to satisfy physical delivery requirements to customers or for energy that the Company uses itself meet the normal purchase, sale or usage exemption of IAS 39. They are, therefore, not recognised in the financial statements. Disclosure of commitments under such contracts is made in note 27.

We enter into forward contracts for the purchase of commodities, some of which do not meet the own use exemption for accounting purposes and hence are accounted for as derivatives. We also enter into derivative financial instruments linked to commodity prices, including index-linked futures, swaps and options contracts. These derivative financial instruments are used to manage market price volatility and are carried at fair value on the statement of financial position, with the mark-to-market changes reflected through earnings.

The fair value of our commodity contracts by type can be analysed as follows:

	2016			2015		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Commodity purchase contracts accounted for as derivative contracts						
Forward purchases of electricity	–	(26)	(26)	–	(42)	(42)
Forward purchases of gas	25	(27)	(2)	42	(42)	–
Derivative financial instruments linked to commodity prices						
Electricity capacity	2	–	2	–	–	–
Electricity swaps	2	(69)	(67)	21	(59)	(38)
Electricity options	–	(1)	(1)	–	(1)	(1)
Gas swaps	3	(12)	(9)	1	(27)	(26)
	32	(135)	(103)	64	(171)	(107)

The maturity profile of commodity contracts is as follows:

	2016			2015		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Current						
Less than one year	22	(96)	(74)	35	(116)	(81)
	22	(96)	(74)	35	(116)	(81)
Non-current						
In 1 to 2 years	8	(30)	(22)	25	(37)	(12)
In 2 to 3 years	1	(9)	(8)	2	(18)	(16)
In 3 to 4 years	–	–	–	1	–	1
In 4 to 5 years	–	–	–	1	–	1
More than 5 years	1	–	1	–	–	–
	10	(39)	(29)	29	(55)	(26)
	32	(135)	(103)	64	(171)	(107)

For each class of commodity contract, our exposure based on the notional quantities is as follows:

	2016	2015
Forward purchases of electricity[1]	481 GWh	984 GWh
Forward purchases/sales of gas[2]	44m Dth	55m Dth
Electricity swaps	11,786 GWh	10,779 GWh
Electricity options	22,375 GWh	25,157 GWh
Electricity capacity	1 kWm	–
Gas swaps	76m Dth	65m Dth
Gas options	16m Dth	4m Dth
NYMEX gas futures[3]	14m Dth	20m Dth

1. Forward electricity purchases have terms up to three years. The contractual obligations under these contracts are £40m (2015: £77m).
2. Forward gas purchases have terms up to five years. The contractual obligations under these contracts are £20m (2015: £26m).
3. NYMEX gas futures have been offset with related margin accounts (see note 30(a)).

Notes to the consolidated financial statements
– supplementary information continued

30. Financial risk management continued

(f) Capital risk management
The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 26). National Grid's objectives when managing capital are: to safeguard our ability to continue as a going concern; to remain within regulatory constraints of our regulated operating companies; and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated companies is an important aspect of our capital risk management strategy and balance sheet efficiency. As noted on page 25, we monitor our balance sheet efficiency using several metrics including our retained cash flow/net debt and interest cover. Interest cover for the year ended 31 March 2016 was 5.5 (2015: 5.1). Our long-term target range for interest cover is greater than 3.0, which we believe is consistent with single A range long-term senior unsecured debt credit ratings within our main UK operating companies, NGET and NGG, based on guidance from the rating agencies.

In addition, we monitor the RAV gearing within each of NGET and the regulated transmission and distribution businesses within NGG. This is calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our UK regulated businesses. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for these businesses, at around 60 to 65%.

The majority of our regulated operating companies in the US and the UK (and one intermediate UK holding company), are subject to certain restrictions on the payment of dividends by administrative order, contract and/or licence. The types of restrictions that a company may have that would prevent a dividend being declared or paid unless they are met include:

- dividends must be approved in advance by the relevant US state regulatory commission;
- the subsidiary must have at least two recognised rating agency credit ratings of at least investment grade;
- dividends must be limited to cumulative retained earnings, including pre-acquisition retained earnings;
- National Grid plc must maintain an investment grade credit rating and if that rating is the lowest investment grade bond rating it cannot have a negative watch/review for downgrade notice by a credit rating agency;
- the subsidiary must not carry on any activities other than those permitted by the licences;
- the subsidiary must not create any cross-default obligations or give or receive any intra-group cross-subsidies; and
- the percentage of equity compared with total capital of the subsidiary must remain above certain levels.

There is a further restriction relating only to the Narragansett Electric Company, which is required to maintain its consolidated net worth above certain levels.

These restrictions are subject to alteration in the US as and when a new rate case or rate plan is agreed with the relevant regulatory bodies for each operating company and in the UK through the normal licence review process.

As most of our business is regulated, at 31 March 2016 the majority of our net assets are subject to some of the restrictions noted above. These restrictions are not considered to be significantly onerous, nor do we currently expect they will prevent the planned payment of dividends in future in line with our dividend policy.

Some of our regulatory and bank loan agreements additionally impose lower limits for the long-term credit ratings that certain companies within the Group must hold. All the above requirements are monitored on a regular basis in order to ensure compliance. The Company has complied with all externally imposed capital requirements to which it is subject.

(g) Fair value analysis
The financial instruments included on the statement of financial position are measured at fair value. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

	2016				2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Available-for-sale investments	2,040	393	–	2,433	1,315	247	–	1,562
Derivative financial instruments	–	1,945	18	1,963	–	1,702	14	1,716
Commodity contracts	–	5	27	32	–	22	42	64
	2,040	2,343	45	4,428	1,315	1,971	56	3,342
Liabilities								
Derivative financial instruments	–	(1,855)	(214)	(2,069)	–	(2,219)	(180)	(2,399)
Commodity contracts	–	(81)	(54)	(135)	–	(87)	(84)	(171)
	–	(1,936)	(268)	(2,204)	–	(2,306)	(264)	(2,570)
	2,040	407	(223)	2,224	1,315	(335)	(208)	772

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

30. Financial risk management continued

(g) Fair value analysis continued
Our level 3 derivative financial instruments include cross-currency swaps, inflation linked swaps and equity options, all of which are traded on illiquid markets. In valuing these instruments a third-party valuation is obtained to support each reported fair value.

Our level 3 commodity contracts primarily consist of our forward purchases of electricity and gas where pricing inputs are unobservable, as well as other complex transactions. Complex transactions can introduce the need for internally developed models based on reasonable assumptions. Industry standard valuation techniques such as the Black-Scholes pricing model and Monte Carlo simulation are used for valuing such instruments. Level 3 is also applied in cases when optionality is present or where an extrapolated forward curve is considered unobservable. All published forward curves are verified to market data; if forward curves differ from market data by 5% or more they are considered unobservable.

The changes in value of our level 3 derivative financial instruments are as follows:

	Derivative financial instruments		Commodity contracts		Total	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
At 1 April	**(166)**	(100)	**(42)**	(58)	**(208)**	(158)
Net gains/(losses) for the year[1,2]	**(20)**	(63)	**(27)**	(53)	**(47)**	(116)
Purchases[3]	**1**	–	**13**	38	**14**	38
Settlements	**(11)**	(3)	**29**	28	**18**	25
Reclassification/transfers out of level 3	**–**	–	**–**	3	**–**	3
At 31 March	**(196)**	(166)	**(27)**	(42)	**(223)**	(208)

1. Loss of £17m (2015: £63m loss) is attributable to derivative financial instruments held at the end of the reporting period and has been recognised in finance costs in the income statement.
2. Loss of £28m (2015: £48m loss) is attributable to commodity contract financial instruments held at the end of the reporting period.
3. Purchases in the year relate to equity options.

The impacts on a post-tax basis of reasonably possible changes in significant level 3 assumptions are as follows:

	Derivative financial instruments		Commodity contracts	
	2016 Income statement £m	2015 Income statement £m	**2016 Income statement £m**	2015 Income statement £m
10% increase in commodity prices[1]	**–**	–	**4**	4
10% decrease in commodity prices[1]	**–**	–	**–**	(3)
Volume forecast uplift[2]	**–**	–	**(1)**	(2)
Volume forecast reduction[2]	**–**	–	**1**	2
+10% market area price change	**–**	–	**(2)**	(4)
–10% market area price change	**–**	–	**2**	4
+20 basis point change in Limited Price Inflation (LPI) market curve[3]	**(83)**	(77)	**–**	–
–20 basis points change in LPI market curve[3]	**80**	75	**–**	–

1. Level 3 commodity price sensitivity is included within the sensitivity analysis disclosed in note 33.
2. Volumes were flexed using maximum and minimum historical averages, or by >10% where historical averages were not available.
3. A reasonably possible change in assumption of other level 3 derivative financial instruments is unlikely to result in a material change in fair values.

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified.

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31. Borrowing facilities

To support our long-term liquidity requirements and provide backup to commercial paper and other borrowings, we agree loan facilities with financial institutions over and above the value of borrowings that may be required. These facilities have never been drawn, and our undrawn amounts are listed below.

At 31 March 2016, we had bilateral committed credit facilities of £2,808m (2015: £2,094m). In addition, we had committed credit facilities from syndicates of banks of £295m at 31 March 2016 (2015: £884m). All committed credit facilities were undrawn in 2016 and 2015. An analysis of the maturity of these undrawn committed facilities is shown below:

	2016 £m	2015 £m
Undrawn committed borrowing facilities expiring:		
Less than 1 year	**–**	572
In 1 to 2 years	**–**	–
In 2 to 3 years	**1,115**	874
In 3 to 4 years	**295**	1,220
In 4 to 5 years	**–**	312
More than 5 years	**1,693**	–
	3,103	2,978

Of the unused facilities at 31 March 2016, £2,808m (2015: £2,666m) was held as backup to commercial paper and similar borrowings, while £295m (2015: £312m) is available as backup to specific US borrowings.

In addition to the above, the Group has a bank loan agreement totalling £1,500m with the European Investment Bank (EIB), of which £900m is currently undrawn, and an Export Credit Agreement (ECA) totalling £162m, which is undrawn.

Further information on our bonds can be found on the debt investor section of our website.

32. Subsidiary undertakings, joint ventures and associates

While we present consolidated results in these financial statements as if we were one company, our legal structure is such that there are a number of different operating and holding companies that contribute to the overall result. This structure has evolved through acquisitions as well as regulatory requirements to have certain activities within separate legal entities.

Subsidiary undertakings
A list of the Group's subsidiaries as at 31 March 2016 is given below. The entire share capital of subsidiaries is held within the Group except where the Group's ownership percentages are shown. These percentages give the Group's ultimate interest and therefore allow for the situation where subsidiaries are owned by partly-owned intermediate subsidiaries. Where subsidiaries have different classes of shares, this is largely for historical reasons and the effective percentage holdings given represent both the Group's voting rights and equity holding. Shares in National Grid (US) Holdings Limited, National Grid Holdings One plc and NGG Finance plc are held directly by National Grid plc. All other holdings in subsidiaries are owned by other subsidiaries of the National Grid plc Group. All subsidiaries are consolidated in the Group's financial statements.

Principal Group companies are identified in **bold**. These companies are incorporated and principally operate in the countries under which they are shown.

Incorporated in England and Wales

Beegas Nominees Limited
Birch Sites Limited
Carbon Sentinel Limited
Gridcom Limited
Icelink Interconnector Limited
KeySpan (U.K.)**
Landranch Limited
Lattice Group Employee Benefit Trust Limited
Lattice Group plc
Lattice Group Trustees Limited
Natgrid Finance Holdings Limited*
Natgrid Finance Limited*
Natgrid Limited
NatGrid One Limited
NatgridTW1 Limited
National Grid (US) Holdings Limited
National Grid (US) Investments 2 Limited
National Grid (US) Investments 4 Limited
National Grid (US) Partner 1 Limited
National Grid Belgium Limited
National Grid Blue Power Limited
National Grid Carbon Limited
National Grid Commercial Holdings Limited
National Grid Eight*
National Grid Eighteen Limited*
National Grid Electricity Group Trustee Limited
National Grid Electricity Transmission plc
National Grid Energy Metering Limited
National Grid Five Limited*
National Grid Four Limited
National Grid Fourteen Limited
National Grid Gas Finance (No 1) plc
National Grid Gas Holdings Limited
National Grid Gas plc
National Grid Grain LNG Limited
National Grid Holdings Limited
National Grid Holdings One plc
National Grid IFA 2 Limited
National Grid Interconnector Holdings Limited
National Grid Interconnectors Limited
National Grid International Limited
National Grid Land and Properties Limited*
National Grid Metering Limited
National Grid Nine Limited*
National Grid North Sea Link Limited
National Grid Offshore Limited
National Grid Property (High Wycombe) Limited*
National Grid Property Holdings Limited
National Grid Property Limited*
National Grid Property (Northfleet) Limited**
National Grid Property (Taunton) Limited*
National Grid Seven Limited*
National Grid Seventeen Limited
National Grid Smart Limited
National Grid Ten
National Grid Thirty Eight Limited
National Grid Thirty Five Limited
National Grid Thirty Four Limited
National Grid Thirty Limited
National Grid Thirty Seven Limited
National Grid Thirty Six Limited
National Grid Three Limited*
National Grid Twelve Limited
National Grid Twenty Eight Limited
National Grid Twenty Four Limited*
National Grid Twenty Seven Limited
National Grid Twenty Three Limited
National Grid Twenty-Five Limited
National Grid UK Limited
National Grid UK Pension Services Limited
National Grid Viking Link Limited
National Grid William Limited
NG Luxembourg Holdings Limited*
NG Nominees Limited
NGC Employee Shares Trustee Limited
NGG Finance plc
NGG Telecoms Holdings Limited*
NGG Telecoms Limited*
Ngrid Intellectual Property Limited
NGT Telecom No. 1 Limited
NGT Two Limited
Port Greenwich Limited
Stargas Nominees Limited
Supergrid Electricity Limited
Supergrid Energy Transmission Limited
Supergrid Limited
Telecom International Holdings Limited*
Thamesport Interchange Limited
The National Grid Group Quest Trustee Company Limited
The National Grid YouPlan Trustee Limited
Transco Limited
Xoserve Limited (56.5%)

*Dissolved 14 April 2016 **In liquidation

Notes to the consolidated financial statements
– supplementary information continued

32. Subsidiary undertakings, joint ventures and associates continued

Incorporated in the US
Boston Gas Company
British Transco Capital Inc.
British Transco Finance, Inc.
Broken Bridge Corp.
Colonial Gas Company
EUA Energy Investment Corporation
GridAmerica Holdings Inc.
Grid NY LLC
KeySpan CI Midstream Limited
KeySpan Corporation
KeySpan Energy Corporation
KeySpan Energy Services Inc.
KeySpan Gas East Corporation
KeySpan International Corporation
KeySpan MHK, Inc.
KeySpan Midstream, Inc.
KeySpan Plumbing Solutions, Inc.
KSI Contracting, LLC
KSI Electrical, LLC
KSI Mechanical, LLC
Land Management & Development, Inc.
Landwest, Inc.
Massachusetts Electric Company
Metro Energy L.L.C.
Metrowest Realty LLC
Mystic Steamship Corporation
Nantucket Electric Company
National Grid Algonquin LLC
National Grid Development Holdings Corp.
National Grid Electric Services LLC
National Grid Energy Management LLC
National Grid Energy Services LLC
National Grid Energy Trading Services LLC
National Grid Engineering & Survey Inc.
National Grid Generation LLC
National Grid Generation Ventures LLC
National Grid Glenwood Energy Center LLC
National Grid IGTS Corp.
National Grid Insurance USA Ltd
National Grid Islander East Pipeline LLC
National Grid LNG GP LLC
National Grid LNG LLC
National Grid LNG LP LLC
National Grid Millennium LLC
National Grid NE Holdings 2 LLC
National Grid North America Inc.
National Grid North East Ventures Inc.
National Grid Port Jefferson Energy Center LLC
National Grid Services, Inc.
National Grid Technologies Inc.
National Grid Transmission Services Corporation
National Grid US LLC
National Grid US 6 LLC
National Grid USA
National Grid USA Service Company, Inc.
Nees Energy, Inc.
New England Electric Transmission Corporation
New England Energy Incorporated
New England Hydro Finance Company, Inc. (53.704%)
New England Hydro-Transmission Corporation (53.704%)
New England Hydro-Transmission Electric Company, Inc. (53.704%)
New England Power Company
Newport America Corporation
NGNE LLC
Niagara Mohawk Energy, Inc.
Niagara Mohawk Holdings, Inc.
Niagara Mohawk Power Corporation
NM Properties, Inc.
North East Transmission Co., Inc.
Opinac North America, Inc.
Philadelphia Coke Co., Inc.
Port of the Islands North LLC
The Brooklyn Union Gas Company
The Narragansett Electric Company
Transgas Inc.
Upper Hudson Development Inc.
Valley Appliance and Merchandising Company
Wayfinder Group, Inc.

Incorporated in Australia
National Grid Australia Pty Limited

Incorporated in Canada
Keyspan Energy Development Co.

Incorporated in the Cayman Islands
British Transco Finance (No 1) Limited**
British Transco Finance (No 2) Limited**
Keyspan C.I. II Ltd**
Keyspan C.I. Ltd**
NGT Five Limited**
NGT Four Limited**

Incorporated in Chile
Inversiones ABC Limitada (98.84%)
SCC Uno S.A.

Incorporated in the Isle of Man
Lattice Telecom Finance (No 1) Limited**
National Grid (IOM) UK Ltd**
National Grid Insurance Company (Isle of Man) Limited
NGT Holding Company (Isle of Man) Limited

Incorporated in Jersey
National Grid Jersey Investments Limited
NG Jersey Limited

Incorporated in the Netherlands
British Transco International Finance B.V.
National Grid Holdings B.V.

Incorporated in the Republic of Ireland
National Grid (Ireland) 1**
National Grid (Ireland) 2**
National Grid Insurance Company (Ireland) Designated Activity Company

*Dissolved 14 April 2016 **In liquidation

32. Subsidiary undertakings, joint ventures and associates continued

Joint ventures

A list of the Group's joint ventures as at 31 March 2016 is given below. All joint ventures are included in the Group's financial statements using the equity method of accounting. Principal joint ventures are identified in **bold**.

Incorporated in England and Wales

BritNed Development Limited (50%)
Joint Radio Company Limited (50%)
Nemo Link Limited (50%)
NGET/SPT Upgrades Limited (50%)
St William Homes LLP (50%)

Incorporated in the US

Clean Energy Generation LLC (50%)
Island Park Energy Center LLC (50%)
Islander East Pipeline Company, L.L.C. (50%)
LI Energy Storage System, LLC (50%)
LI Solar Generation LLC (50%)

Associates

A list of the Group's associates as at 31 March 2016 is given below. All associates are included in the Group's financial statements using the equity method of accounting.

Incorporated in the US

Algonquin Gas Transmission LLC (20%)
Clean Line Energy Partners LLC (32%)
Connecticut Yankee Atomic Power Company (19.5%)
Direct Global Power, Inc. (26%)
Energis plc (33.06%)
Energy Impact Fund LP (33%)
Maine Yankee Atomic Power Company (24%)
Millennium Pipeline Company LLC (26.25%)
New York Transco LLC (28.3%)
Nysearch RMLD LLC (22.63%)
Yankee Atomic Electric Company (34.5%)

Incorporated in Belgium

Coreso SA (20%)

Our interests and activities are held or operated through the subsidiaries, joint arrangements or associates as disclosed above. These interests and activities (and their branches) are established in – and subject to the laws and regulations of – these jurisdictions.

33. Sensitivities on areas of estimation and uncertainty

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are hypothetical, as they are based on assumptions and conditions prevailing at the year end, and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing.

The sensitivities in the tables below show the potential impact in the income statement (and consequential impact on net assets) for a range of different variables each of which have been considered in isolation (i.e. with all other variables remaining constant). There are a number of these sensitivities which are mutually exclusive and therefore if one were to happen, another would not, meaning a total showing how sensitive our results are to these external factors is not meaningful.

We are further required to show additional sensitivity analysis for changes in interest and exchange rates and these are shown separately in the subsequent table due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

The sensitivities included in the tables below all have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated. For example, a 10% increase in unbilled revenue at 31 March 2016 would result in an increase in the income statement of £58m and a 10% decrease in unbilled revenue would have the equal but opposite effect.

	2016		2015	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
One year average change in useful economic lives (pre-tax):				
Depreciation charge on property, plant and equipment	**79**	**79**	69	69
Amortisation charge on intangible assets	**20**	**20**	26	26
Estimated future cash flows in respect of provisions, change of 10% (pre-tax)	**172**	**172**	174	174
Assets and liabilities carried at fair value change of 10% (pre-tax):				
Derivative financial instruments[1]	**(11)**	**(11)**	68	68
Commodity contract liabilities	**(10)**	**(10)**	11	11
Pensions and other post-retirement benefits[2] (pre-tax):				
UK discount rate change of 0.5%[3]	**11**	**1,482**	9	1,575
US discount rate change of 0.5%[3]	**16**	**640**	12	670
UK RPI rate change of 0.5%[4]	**9**	**1,268**	9	1,349
UK long-term rate of increase in salaries change of 0.5%[5]	**2**	**87**	1	93
US long-term rate of increase in salaries change of 0.5%	**3**	**45**	2	42
UK change of one year to life expectancy at age 65	**2**	**703**	1	620
US change of one year to life expectancy at age 65	**3**	**295**	3	352
Assumed US healthcare cost trend rates change of 1%	**35**	**514**	28	465
Unbilled revenue at 31 March change of 10% (post-tax)	**58**	**58**	60	60
No hedge accounting for our derivative financial instruments (post-tax)	**(123)**	**36**	(611)	316
Commodity risk[6] (post-tax):				
10% increase in commodity prices	**22**	**22**	26	26
10% decrease in commodity prices	**(22)**	**(22)**	(24)	(24)

1. The effect of a 10% change in fair value assumes no hedge accounting.
2. The changes shown are a change in the annual pension or other post-retirement benefit service charge and change in the defined benefit obligations.
3. A change in the discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans.
4. The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.
5. This change has been applied to both the pre 1 April 2014 and post 1 April 2014 rate of increase in salary assumption.
6. Represents potential impact on fair values of commodity contracts only.

	2016		2015	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
Financial risk (post-tax):				
UK RPI change of 0.5%[1]	**31**	**–**	27	–
UK interest rates change of 0.5%	**76**	**85**	92	101
US interest rates change of 0.5%	**66**	**17**	77	11
US dollar exchange rate change of 10%[2]	**57**	**553**	62	607

1. Excludes sensitivities to LPI curve. Further details on sensitivities are provided in note 30(g).
2. The other equity reserves impact does not reflect the exchange translation in our US subsidiaries' net assets. It is estimated this would change by £788m (2015: £771m) in the opposite direction if the dollar exchange rate changed by 10%.

33. Sensitivities on areas of estimation and uncertainty continued

Pensions and other post-retirement benefits assumptions
Sensitivities have been prepared to show how the DB obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 2016. In preparing sensitivities the potential impact has been calculated by applying the change to each assumption in isolation and assuming all other assumptions remain unchanged. This is with the exception of RPI in the UK where the corresponding change to increases to pensions in payment, increases to pensions in deferment and increases in salary is recognised.

Financial instruments assumptions
Our financial instruments are sensitive to changes in market variables, being UK and US interest rates, the UK RPI and the dollar to sterling exchange rate. The changes in market variables impact the valuation of our borrowings, deposits, derivative financial instruments and commodity contracts. The analysis illustrates the sensitivity of our financial instruments to the changes in market variables.

The following main assumptions were made in calculating the sensitivity analysis:

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2016 and 2015 respectively;
- the statement of financial position sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity; and
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in interest rates are recorded in the income statement as they are designated using the spot rather than the forward translation method. The impact of movements in the dollar to sterling exchange rate are recorded directly in equity.

34. Additional disclosures in respect of guaranteed securities

We have three debt issuances (including preferred shares) that are listed on a US national securities exchange and are guaranteed by other companies in the Group. These guarantors commit to honour any liabilities should the company issuing the debt have any financial difficulties. In order to provide debt holders with information on the financial stability of the companies providing the guarantees, we are required to disclose individual financial information for these companies. We have chosen to include this information in the Group financial statements rather than submitting separate stand-alone financial statements.

The following condensed consolidating financial information, comprising statements of comprehensive income, statements of financial position and cash flow statements, is given in respect of National Grid Gas plc (subsidiary guarantor), which became joint full and unconditional guarantor on 11 May 2004 with National Grid plc (parent guarantor) of the 6.625% Guaranteed Notes due 2018 issued in June 1998 by British Transco Finance Inc., then known as British Gas Finance Inc. (issuer of notes). Condensed consolidating financial information is also provided in respect of Niagara Mohawk Power Corporation as a result of National Grid plc's guarantee, dated 29 October 2007, of Niagara Mohawk's 3.6% and 3.9% issued preferred shares. National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation are 100% owned and National Grid plc's guarantee of Niagara Mohawk Power Corporation's preferred shares is full and unconditional pursuant to Rule 3-10(i)(8)(i) and (ii) of Regulation S-X. The guarantees of National Grid Gas plc and National Grid plc are joint and several.

The following financial information for National Grid plc, National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation on a condensed consolidating basis is intended to provide investors with meaningful and comparable financial information and is provided pursuant to various rules including Rule 3-10 of Regulation S-X in lieu of the separate financial statements of each subsidiary issuer of public debt securities.

This financial information should be read in conjunction with the other disclosure in these financial statements.

Summary statements of comprehensive income are presented, on a consolidated basis, for the three years ended 31 March 2016. Summary statements of comprehensive income of National Grid plc and National Grid Gas plc are presented under IFRS measurement principles, as modified by the inclusion of the results of subsidiary undertakings on the basis of equity accounting principles.

The summary statements of financial position of National Grid plc and National Grid Gas plc include the investments in subsidiaries recorded on the basis of equity accounting principles for the purposes of presenting condensed consolidating financial information under IFRS. The summary statements of financial position present these investments within non-current financial and other investments.

The consolidation adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between National Grid plc, National Grid Gas plc, British Transco Finance Inc., Niagara Mohawk Power Corporation and other subsidiaries.

Notes to the consolidated financial statements
– supplementary information continued

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income for the year ended 31 March 2016 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	–	2,027	–	3,165	10,104	(181)	15,115
Operating costs:							
Depreciation and amortisation	–	(162)	–	(553)	(899)	–	(1,614)
Payroll costs	–	(260)	–	(269)	(977)	–	(1,506)
Purchases of electricity	–	(484)	–	–	(828)	–	(1,312)
Purchases of gas	–	(86)	–	(92)	(806)	–	(984)
Rates and property tax	–	(155)	–	(252)	(643)	–	(1,050)
Balancing Service Incentive Scheme	–	–	–	–	(907)	–	(907)
Payments to other UK network owners	–	–	–	–	(971)	–	(971)
Other operating costs	–	(433)	–	(605)	(1,829)	181	(2,686)
	–	(1,580)	–	(1,771)	(7,860)	181	(11,030)
Total operating profit	–	447	–	1,394	2,244	–	4,085
Net finance income/(costs)	701	(87)	–	(242)	(1,484)	–	(1,112)
Dividends receivable	–	–	–	–	620	(620)	–
Interest in equity accounted affiliates	1,843	–	–	33	59	(1,876)	59
Profit before tax	2,544	360	–	1,185	1,439	(2,496)	3,032
Tax	47	(141)	–	(80)	(264)	–	(438)
Profit for the year	2,591	219	–[1]	1,105	1,175	(2,496)	2,594
Amounts recognised in other comprehensive income[2]	573	(1)	–	(5)	509	(503)	573
Total comprehensive income for the year	**3,164**	**218**	**–**	**1,100**	**1,684**	**(2,999)**	**3,167**
Attributable to:							
Equity shareholders	3,164	218	–	1,100	1,681	(2,999)	3,164
Non-controlling interests	–	–	–	–	3	–	3
	3,164	**218**	**–**	**1,100**	**1,684**	**(2,999)**	**3,167**

1. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.
2. Includes other comprehensive income relating to interest in equity accounted affiliates.

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income for the year ended 31 March 2015 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	–	2,109	–	3,136	10,125	(169)	15,201
Operating costs:							
Depreciation and amortisation	–	(146)	–	(540)	(796)	–	(1,482)
Payroll costs	–	(256)	–	(253)	(950)	–	(1,459)
Purchases of electricity	–	(604)	–	–	(1,081)	–	(1,685)
Purchases of gas	–	(147)	–	(98)	(1,171)	–	(1,416)
Rates and property tax	–	(146)	–	(247)	(611)	–	(1,004)
Balancing Service Incentive Scheme	–	–	–	–	(874)	–	(874)
Payments to other UK network owners	–	–	–	–	(801)	–	(801)
Other operating costs	–	(501)	–	(655)	(1,713)	169	(2,700)
	–	(1,800)	–	(1,793)	(7,997)	169	(11,421)
Total operating profit	–	309	–	1,343	2,128	–	3,780
Net finance costs	(223)	(76)	–	(352)	(547)	–	(1,198)
Dividends receivable	–	–	–	–	700	(700)	–
Interest in equity accounted affiliates	2,192	–	–	8	46	(2,200)	46
Profit before tax	1,969	233	–	999	2,327	(2,900)	2,628
Tax	50	(98)	–	(230)	(339)	–	(617)
Profit for the year	2,019	135	–[1]	769	1,988	(2,900)	2,011
Amounts recognised in other comprehensive income[2]	(395)	1	–	22	(588)	566	(394)
Total comprehensive income for the year	**1,624**	**136**	**–**	**791**	**1,400**	**(2,334)**	**1,617**
Attributable to:							
Equity shareholders	1,624	136	–	791	1,407	(2,334)	1,624
Non-controlling interests	–	–	–	–	(7)	–	(7)
	1,624	**136**	**–**	**791**	**1,400**	**(2,334)**	**1,617**

1. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.
2. Includes other comprehensive income relating to interest in equity accounted affiliates.

Notes to the consolidated financial statements
– supplementary information continued

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income for the year ended 31 March 2014 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	4	2,185	–	3,141	9,653	(174)	14,809
Operating costs:							
Depreciation and amortisation	–	(127)	–	(529)	(760)	–	(1,416)
Payroll costs	–	(278)	–	(251)	(689)	–	(1,218)
Purchases of electricity	–	(647)	–	–	(817)	–	(1,464)
Purchases of gas	–	(194)	–	(112)	(1,449)	–	(1,755)
Rates and property tax	–	(137)	–	(241)	(585)	–	(963)
Balancing Service Incentive Scheme	–	–	–	–	(872)	–	(872)
Payments to other UK network owners	–	–	–	–	(630)	–	(630)
Other operating costs	15	(440)	–	(661)	(1,844)	174	(2,756)
	15	(1,823)	–	(1,794)	(7,646)	174	(11,074)
Total operating profit	19	362	–	1,347	2,007	–	3,735
Net finance costs	(128)	(85)	–	(285)	(517)	–	(1,015)
Dividends receivable	–	–	–	–	600	(600)	–
Interest in equity accounted affiliates	2,550	–	–	11	28	(2,561)	28
Profit before tax	2,441	277	–	1,073	2,118	(3,161)	2,748
Tax	35	(97)	–	3	(225)	–	(284)
Profit for the year	2,476	180	–[1]	1,076	1,893	(3,161)	2,464
Amounts recognised in other comprehensive income[2]	235	(8)	–	9	383	(384)	235
Total comprehensive income for the year	**2,711**	**172**	**–**	**1,085**	**2,276**	**(3,545)**	**2,699**
Attributable to:							
Equity shareholders	2,711	172	–	1,085	2,288	(3,545)	2,711
Non-controlling interests	–	–	–	–	(12)	–	(12)
	2,711	**172**	**–**	**1,085**	**2,276**	**(3,545)**	**2,699**

1. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.
2. Includes other comprehensive income relating to interest in equity accounted affiliates.

34. Additional disclosures in respect of guaranteed securities continued

Statements of financial position as at 31 March 2016 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	664	–	–	4,651	–	5,315
Other intangible assets	–	–	–	239	648	–	887
Property, plant and equipment	–	5,466	–	12,628	25,270	–	43,364
Other non-current assets	–	7	–	41	34	–	82
Amounts owed by subsidiary undertakings	318	–	209	5,609	2,630	(8,766)	–
Pension assets	–	125	–	–	285	–	410
Financial and other investments	17,428	26	–	86	10,131	(26,792)	879
Derivative financial assets	157	–	–	1,014	514	–	1,685
Total non-current assets	17,903	6,288	209	19,617	44,163	(35,558)	52,622
Current assets							
Inventories and current intangible assets	–	42	–	26	369	–	437
Trade and other receivables	1	413	–	432	1,626	–	2,472
Amounts owed by subsidiary undertakings	11,516	300	6	57	12,785	(24,664)	–
Financial and other investments	1,244	28	–	116	1,610	–	2,998
Derivative financial assets	279	–	–	66	131	(198)	278
Cash and cash equivalents	1	4	–	–	126	(4)	127
Total current assets	13,041	787	6	697	16,647	(24,866)	6,312
Total assets	**30,944**	**7,075**	**215**	**20,314**	**60,810**	**(60,424)**	**58,934**
Current liabilities							
Borrowings	(933)	(47)	(5)	(602)	(2,028)	4	(3,611)
Derivative financial liabilities	(239)	–	–	(39)	(257)	198	(337)
Trade and other payables	(43)	(248)	–	(661)	(2,333)	–	(3,285)
Amounts owed to subsidiary undertakings	(12,633)	–	–	(1,518)	(10,513)	24,664	–
Current tax liabilities	(3)	(61)	–	(34)	(154)	–	(252)
Provisions	–	–	–	(55)	(181)	–	(236)
Total current liabilities	(13,851)	(356)	(5)	(2,909)	(15,466)	24,866	(7,721)
Non-current liabilities							
Borrowings	(1,194)	(2,043)	(209)	(6,078)	(15,209)	–	(24,733)
Derivative financial liabilities	(358)	–	–	(527)	(847)	–	(1,732)
Other non-current liabilities	–	(297)	–	(1,031)	(743)	–	(2,071)
Amounts owed to subsidiary undertakings	(1,982)	–	–	(1,174)	(5,610)	8,766	–
Deferred tax liabilities	(4)	(939)	–	(1,548)	(2,143)	–	(4,634)
Pensions and other post-retirement benefit obligations	–	(761)	–	–	(2,234)	–	(2,995)
Provisions	–	(250)	–	(126)	(1,107)	–	(1,483)
Total non-current liabilities	(3,538)	(4,290)	(209)	(10,484)	(27,893)	8,766	(37,648)
Total liabilities	**(17,389)**	**(4,646)**	**(214)**	**(13,393)**	**(43,359)**	**33,632**	**(45,369)**
Net assets	**13,555**	**2,429**	**1**	**6,921**	**17,451**	**(26,792)**	**13,565**
Equity							
Share capital	447	130	–	45	182	(357)	447
Share premium account	1,326	2,119	–	204	8,033	(10,356)	1,326
Retained earnings	16,305	180	1	5,400	9,316	(14,897)	16,305
Other equity reserves	(4,523)	–	–	1,272	(90)	(1,182)	(4,523)
Shareholders' equity	**13,555**	**2,429**	**1**	**6,921**	**17,441**	**(26,792)**	**13,555**
Non-controlling interests	–	–	–	–	10	–	10
Total equity	**13,555**	**2,429**	**1**	**6,921**	**17,451**	**(26,792)**	**13,565**

Notes to the consolidated financial statements
– supplementary information continued

34. Additional disclosures in respect of guaranteed securities continued

Statements of financial position as at 31 March 2015 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	653	–	–	4,492	–	5,145
Other intangible assets	–	–	–	232	570	–	802
Property, plant and equipment	–	5,025	–	12,428	23,270	–	40,723
Other non-current assets	–	11	–	18	51	–	80
Amounts owed by subsidiary undertakings	341	–	202	5,609	3,017	(9,169)	–
Pension assets	–	121	–	–	–	–	121
Financial and other investments	14,988	26	–	56	9,905	(24,327)	648
Derivative financial assets	148	–	–	988	403	–	1,539
Total non-current assets	15,477	5,836	202	19,331	41,708	(33,496)	49,058
Current assets							
Inventories and current intangible assets	–	40	–	26	274	–	340
Trade and other receivables	2	502	–	417	1,915	–	2,836
Amounts owed by subsidiary undertakings	11,484	254	5	298	13,052	(25,093)	–
Financial and other investments	740	9	–	363	1,447	–	2,559
Derivative financial assets	281	–	–	70	88	(262)	177
Cash and cash equivalents	10	11	–	4	104	(10)	119
Total current assets	12,517	816	5	1,178	16,880	(25,365)	6,031
Total assets	**27,994**	**6,652**	**207**	**20,509**	**58,588**	**(58,861)**	**55,089**
Current liabilities							
Borrowings	(1,068)	(44)	(5)	(521)	(1,400)	10	(3,028)
Derivative financial liabilities	(289)	–	–	(133)	(475)	262	(635)
Trade and other payables	(39)	(267)	–	(877)	(2,109)	–	(3,292)
Amounts owed to subsidiary undertakings	(11,208)	–	–	(1,973)	(11,912)	25,093	–
Current tax liabilities	(3)	(61)	–	(34)	(86)	–	(184)
Provisions	–	–	–	(39)	(196)	–	(235)
Total current liabilities	(12,607)	(372)	(5)	(3,577)	(16,178)	25,365	(7,374)
Non-current liabilities							
Borrowings	(1,117)	(2,021)	(202)	(6,056)	(13,486)	–	(22,882)
Derivative financial liabilities	(411)	–	–	(481)	(872)	–	(1,764)
Other non-current liabilities	–	(287)	–	(1,038)	(594)	–	(1,919)
Amounts owed to subsidiary undertakings	(1,894)	–	–	(1,123)	(6,152)	9,169	–
Deferred tax liabilities	(3)	(782)	–	(1,655)	(1,857)	–	(4,297)
Pensions and other post-retirement benefit obligations	–	(801)	–	–	(2,578)	–	(3,379)
Provisions	–	(267)	–	(168)	(1,065)	–	(1,500)
Total non-current liabilities	(3,425)	(4,158)	(202)	(10,521)	(26,604)	9,169	(35,741)
Total liabilities	**(16,032)**	**(4,530)**	**(207)**	**(14,098)**	**(42,782)**	**34,534**	**(43,115)**
Net assets	**11,962**	**2,122**	**–**	**6,411**	**15,806**	**(24,327)**	**11,974**
Equity							
Share capital	443	126	–	45	182	(353)	443
Share premium account	1,331	2,039	–	204	8,033	(10,276)	1,331
Retained earnings	14,870	(43)	–	4,885	7,761	(12,603)	14,870
Other equity reserves	(4,682)	–	–	1,277	(182)	(1,095)	(4,682)
Shareholders' equity	**11,962**	**2,122**	**–**	**6,411**	**15,794**	**(24,327)**	**11,962**
Non-controlling interests	–	–	–	–	12	–	12
Total equity	**11,962**	**2,122**	**–**	**6,411**	**15,806**	**(24,327)**	**11,974**

34. Additional disclosures in respect of guaranteed securities continued

Cash flow statements

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Year ended 31 March 2016							
Net cash flow from operating activities	57	580	–	1,743	2,988	–	5,368
Net cash flow from/(used in) investing activities	502	(440)	13	(506)	(1,736)	(1,869)	(4,036)
Net cash flow (used in)/from financing activities	(555)	(148)	(13)	(1,248)	(1,233)	1,869	(1,328)
Net increase/(decrease) in cash and cash equivalents in the year	**4**	**(8)**	**–**	**(11)**	**19**	**–**	**4**
Year ended 31 March 2015							
Net cash flow from operating activities	38	531	–	1,575	2,863	–	5,007
Net cash flow from/(used in) investing activities	2,103	(393)	–	(603)	(1,051)	(2,057)	(2,001)
Net cash flow (used in)/from financing activities	(2,169)	(145)	–	(959)	(2,037)	2,057	(3,253)
Net (decrease)/increase in cash and cash equivalents in the year	(28)	(7)	–	13	(225)	–	(247)
Year ended 31 March 2014							
Net cash flow from operating activities	52	581	–	1,717	1,669	–	4,019
Net cash flow from/(used in) investing activities	1,358	(555)	–	(91)	(993)	(1,049)	(1,330)
Net cash flow (used in)/from financing activities	(1,724)	(18)	–	(1,632)	(647)	1,049	(2,972)
Net (decrease)/increase in cash and cash equivalents in the year	(314)	8	–	(6)	29	–	(283)

Cash dividends were received by National Grid plc from subsidiary undertakings amounting to £930m during the year ended 31 March 2016 (2015: £1,355m; 2014: £1,050m).

Maturity analysis of parent Company borrowings

	2016 £m	2015 £m
Total borrowings are repayable as follows:		
Less than 1 year	**933**	1,068
In 1 to 2 years	**–**	–
In 2 to 3 years	**482**	–
In 3 to 4 years	**395**	443
In 4 to 5 years	**–**	360
More than 5 years	**317**	314
	2,127	2,185

Company accounting policies

We are required to include the stand-alone balance sheet of our ultimate parent Company, National Grid plc, under the Companies Act 2006. This is because the publicly traded shares are actually those of National Grid plc (the Company) and the following disclosures provide additional information to shareholders.

A. Basis of preparation

National Grid plc is the parent company of the National Grid Group which is engaged in the transmission and distribution of electricity and gas in Great Britain and northeastern US. The Company is a public limited liability company incorporated and domiciled in England, with its registered office at 1–3 Strand, London, WC2N 5EH.

The financial statements of National Grid plc for the year ended 31 March 2016 were approved by the Board of Directors on 18 May 2016. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly these individual financial statements of the Company were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the EU, but makes amendments where necessary in order to comply with the provisions of the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken.

These individual financial statements for the year ended 31 March 2016 are the first prepared in accordance with FRS 101. Accordingly the date of transition is 1 April 2014. The 2015 comparative financial information has also been prepared on this basis.

There were no material measurement or recognition adjustments on the adoption of FRS 101.

These individual financial statements of the Company have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006. They have been prepared on an historical cost basis, except for the revaluation of financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates.

These individual financial statements have been prepared on a going concern basis, which presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. As the Company is part of a larger group it participates in the Group's centralised treasury arrangements and so shares banking arrangements with its subsidiaries. The Company is expected to continue to generate positive cash flows or be in a position to obtain finance via intercompany loans to continue to operate for the foreseeable future.

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.

The Company has not presented its own income statement or statement of comprehensive income as permitted by section 408 of the Companies Act 2006.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements of the Company in accordance with FRS 101:

- a cash flow statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the presentation of a third balance sheet (being the opening balance sheet of the Company at the date of application of FRS 101); and
- the effects of new but not yet effective IFRSs.

As the consolidated financial statements of National Grid plc, which are available from the registered office, include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 in respect of certain disclosures required by IFRS 13 'Fair value measurement' and the disclosures required by IFRS 7 'Financial instruments: disclosures'. The Company intends to apply the above exemptions in the financial statements for the year ending 31 March 2017.

There are no critical areas of judgement that are considered to have a significant effect on the amounts recognised in the financial statements. Key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the valuation of financial instruments and derivatives.

The balance sheet has been prepared in accordance with the Company's accounting policies approved by the Board and described below:

B. Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value-in-use.

C. Tax

Current tax for the current and prior periods is provided at the amount expected to be paid or recovered using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on temporary differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the temporary differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet 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 assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

D. 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 currencies are retranslated at closing exchange rates. Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

E. Financial instruments
The Company's accounting policies are the same as the Group's accounting policies under IFRS, namely IAS 32 'Financial Instruments: Presentation', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures'. The Company applies these policies only in respect of the financial instruments that it has, namely investments, derivative financial instruments, debtors, cash at bank and in hand, borrowings and creditors.

The policies are set out in notes 13, 15, 17, 18, 19 and 20 to the consolidated financial statements. The Company is taking the exemption for financial instruments disclosures, because IFRS 7 disclosures are given in notes 30 and 33 to the consolidated financial statements.

F. Hedge accounting
The Company applies the same accounting policy as the Group in respect of fair value hedges and cash flow hedges. This policy is set out in note 15 to the consolidated financial statements.

G. Parent Company guarantees
The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due by certain subsidiary undertakings primarily to third parties. In the event of default or non performance by the subsidiary, the Company recognises such guarantees as insurance contracts, at fair value with a corresponding increase in the carrying value of the investment.

H. Share awards to employees of subsidiary undertakings
The issuance by the Company to employees of its subsidiaries of a grant over the Company's options represents additional capital contributions by the Company to its subsidiaries. An additional investment in subsidiaries results in a corresponding increase in shareholders' equity. The additional capital contribution is based on the fair value of the option at the date of grant, allocated over the underlying grant's vesting period. Where payments are subsequently received from subsidiaries, these are accounted for as a return of a capital contribution and credited against the Company's investments in subsidiaries. The Company has no employees.

I. Dividends
Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

J. Directors' remuneration
Full details of Directors' remuneration are disclosed on pages 68 to 81.

Company balance sheet
at 31 March

	Notes	2016 £m	2015 £m
Fixed assets			
Investments	1	**8,845**	8,823
Current assets			
Debtors (amounts falling due within one year)	2	**11,796**	11,767
Debtors (amounts falling due after more than one year)	2	**475**	489
Investments	5	**1,244**	750
Cash at bank and in hand		**1**	–
Total current assets		**13,516**	13,006
Creditors (amounts falling due within one year)	3	**(13,851)**	(12,607)
Net current (liabilities)/assets		**(335)**	399
Total assets less current liabilities		**8,510**	9,222
Creditors (amounts falling due after more than one year)	3	**(3,538)**	(3,425)
Net assets		**4,972**	5,797
Equity			
Share capital	7	**447**	443
Share premium account		**1,326**	1,331
Cash flow hedge reserve		**17**	17
Available-for-sale reserve		**–**	–
Other equity reserves		**302**	280
Profit and loss account	8	**2,880**	3,726
Total shareholders' equity		**4,972**	5,797

The notes on pages 172 and 173 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 18 May 2016 and were signed on its behalf by:

Sir Peter Gershon Chairman
Andrew Bonfield Finance Director

National Grid plc
Registered number: 4031152

Company statement of changes in equity
for the years ended 31 March

	Share capital £m	Share premium account £m	Cash flow hedge reserve £m	Available-for-sale reserve £m	Other equity reserves £m	Profit and loss account £m	Total equity £m
At 1 April 2014	439	1,336	20	1	260	4,138	6,194
Profit for the year	–	–	–	–	–	1,181	1,181
Other comprehensive income/(loss)							
Transferred from equity in respect of cash flow hedges (net of tax)	–	–	(3)	–	–	–	(3)
Net losses taken to income statement	–	–	–	(1)	–	–	(1)
Other equity movements							
Scrip dividend related share issue[1]	4	(5)	–	–	–	–	(1)
Purchase of treasury shares	–	–	–	–	–	(338)	(338)
Issue of treasury shares	–	–	–	–	–	23	23
Purchase of own shares	–	–	–	–	–	(7)	(7)
Share awards to employees of subsidiary undertakings	–	–	–	–	20	–	20
Dividends paid to equity shareholders	–	–	–	–	–	(1,271)	(1,271)
At 31 March 2015	443	1,331	17	–	280	3,726	5,797
Profit for the year	–	–	–	–	–	748	748
Other equity movements							
Scrip dividend related share issue[1]	4	(5)	–	–	–	–	(1)
Purchase of treasury shares	–	–	–	–	–	(267)	(267)
Issue of treasury shares	–	–	–	–	–	16	16
Purchase of own shares	–	–	–	–	–	(6)	(6)
Share awards to employees of subsidiary undertakings	–	–	–	–	22	–	22
Dividends paid to equity shareholders	–	–	–	–	–	(1,337)	(1,337)
At 31 March 2016	**447**	**1,326**	**17**	**–**	**302**	**2,880**	**4,972**

1. Included within share premium account are costs associated with scrip dividends.

Notes to the Company financial statements

1. Fixed asset investments

	Shares in subsidiary undertakings £m
At 1 April 2014	8,803
Additions	20
At 31 March 2015	8,823
Additions	22
At 31 March 2016	**8,845**

During the year there was a capital contribution of £22m (2015: £20m) which represents the fair value of equity instruments granted to subsidiaries' employees arising from equity-settled employee share schemes.

The names of the subsidiary undertakings, joint ventures and associates are included in note 32 to the consolidated financial statements. The Directors believe that the carrying value of the investments is supported by the fair value of their underlying net assets.

2. Debtors

	2016 £m	2015 £m
Amounts falling due within one year		
Derivative financial instruments (note 4)	**279**	281
Amounts owed by subsidiary undertakings	**11,516**	11,484
Prepayments and accrued income	**1**	2
	11,796	11,767
Amounts falling due after more than one year		
Derivative financial instruments (note 4)	**157**	148
Amounts owed by subsidiary undertakings	**318**	341
	475	489

The carrying values stated above are considered to represent the fair values of the assets.

3. Creditors

	2016 £m	2015 £m
Amounts falling due within one year		
Borrowings (note 6)	**933**	1,068
Derivative financial instruments (note 4)	**239**	289
Amounts owed to subsidiary undertakings	**12,633**	11,208
Corporation tax payable	**3**	3
Other creditors	**43**	39
	13,851	12,607
Amounts falling due after more than one year		
Borrowings (note 6)	**1,194**	1,117
Derivative financial instruments (note 4)	**358**	411
Amounts owed to subsidiary undertakings[1]	**1,982**	1,894
Deferred tax	**4**	3
	3,538	3,425

1. All amounts owed to subsidiary undertakings in 2015 and 2016 are repayable after five years.

The carrying values stated above are considered to represent the fair values of the liabilities. A reconciliation of the movement in deferred tax in the year is shown below:

	Deferred tax £m
At 1 April 2014	3
Charged to the profit and loss account	1
Credited to equity	(1)
At 31 March 2015	3
Charged to the profit and loss account	1
At 31 March 2016	**4**

4. Derivative financial instruments

The fair values of derivative financial instruments are:

	2016			2015		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	**279**	**(239)**	**40**	281	(289)	(8)
Amounts falling due after more than one year	**157**	**(358)**	**(201)**	148	(411)	(263)
	436	**(597)**	**(161)**	429	(700)	(271)

For each class of derivative the notional contract[1] amounts are as follows:

	2016 £m	2015 £m
Interest rate swaps	**(2,442)**	(2,499)
Cross-currency interest rate swaps	**(3,537)**	(3,529)
Foreign exchange forward contracts	**(14,361)**	(13,708)
	(20,340)	(19,736)

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

5. Investments

The following table sets out the Company's current asset investments:

	2016 £m	2015 £m
Investments in short-term money funds	**1,007**	217
Short-term deposits	**–**	252
Restricted balances – collateral	**237**	281
	1,244	750

6. Borrowings

The following table analyses the Company's total borrowings:

	2016 £m	2015 £m
Amounts falling due within one year		
Bank overdrafts	**–**	13
Bank loans	**28**	28
Bonds	**21**	70
Commercial paper	**884**	957
	933	1,068
Amounts falling due after more than one year		
Bonds	**1,194**	1,117
	2,127	2,185

The maturity of total borrowings is disclosed in note 34 to the consolidated financial statements. There are no differences in the maturities as calculated under IFRS or FRS 101 'Reduced Disclosure Framework'.

The notional amount of borrowings outstanding as at 31 March 2016 was £2,101m (2015: £2,157m). Further information on significant borrowings can be found on the debt investors section of our website.

7. Share capital

The share capital amounting to £447m (2015: £443m) consists of 3,924,038,086 (2015: 3,891,691,900) ordinary shares. For further information on share capital, refer to note 24 to the consolidated financial statements.

8. Shareholders' equity and reserves

At 31 March 2016 the profit and loss account reserve stood at £2,880m (2015: £3,726m) of which £86m (2015: £86m) related to gains on intra-group transactions which was not distributable to shareholders.

For further details of dividends paid and payable to shareholders, refer to note 8 to the consolidated financial statements.

9. Parent Company guarantees

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due by certain subsidiary undertakings primarily to third parties. At 31 March 2016, the sterling equivalent amounted to £2,674m (2015: £2,593m). The guarantees are for varying terms from less than one year to open-ended.

10. Audit fees

The audit fee in respect of the parent Company was £28,380 (2015: £27,553). Fees payable to PricewaterhouseCoopers LLP for non-audit services to the Company are not required to be disclosed as they are included within note 3 to the consolidated financial statements.

Additional Information contents

The business in detail

Key milestones

Some of the key dates and actions in the corporate history of National Grid are listed below. The full history goes back much further.

1986 British Gas (BG) privatisation

1990 Electricity transmission network in England and Wales transferred to National Grid on electricity privatisation

1995 National Grid listed on the London Stock Exchange

1997 Centrica demerged from BG

Energis demerged from National Grid

2000 Lattice Group demerged from BG and listed separately

New England Electric System and Eastern Utilities Associates acquired

2002 Niagara Mohawk Power Corporation merged with National Grid in US

National Grid and Lattice Group merged to form National Grid Transco

2004 UK wireless infrastructure network acquired from Crown Castle International Corp

2005 Four UK regional gas distribution networks sold and National Grid adopted as our name

2006 Rhode Island gas distribution network acquired

2007 UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia sold

KeySpan Corporation acquired

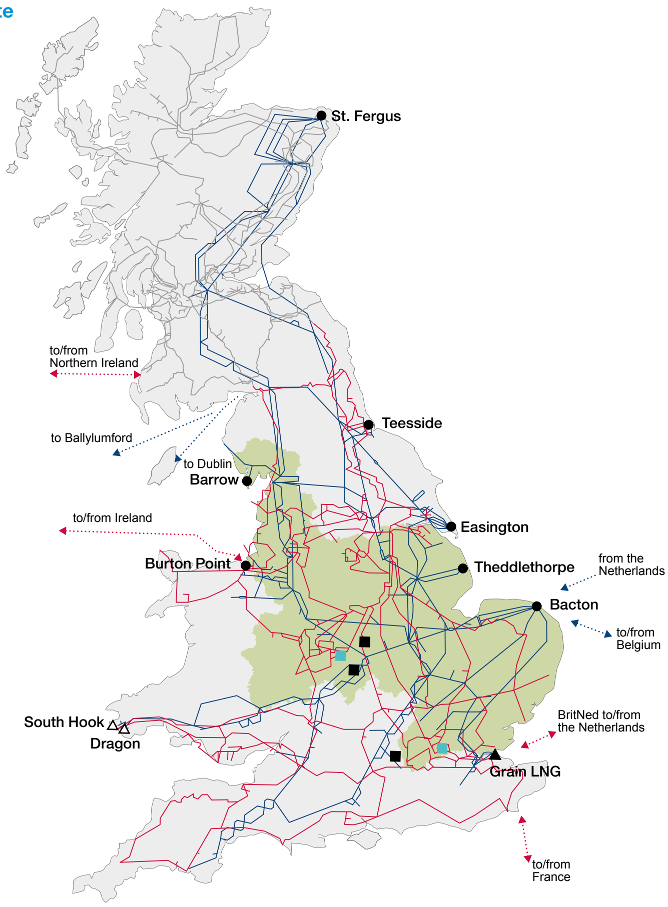
2008 Ravenswood generation station sold

2010 Rights issue raised £3.2 billion

2012 New Hampshire electricity and gas distribution businesses sold

Where we operate

Our UK network



UK Transmission[1]

- Scottish electricity transmission system
- English and Welsh electricity transmission system

Approximately 7,200 kilometres (4,470 miles) of overhead line, 1,500 kilometres (932 miles) of underground cable and 338 substations.

- Gas transmission system

Approximately 7,660 kilometres (4,760 miles) of high pressure pipe and 24 compressor stations connecting to eight distribution networks and also other third-party independent systems.

- Terminal
- LNG terminal owned by National Grid
- LNG terminal
- Electricity interconnector
- Gas interconnector

UK Gas Distribution[1]

- Gas distribution operating area

Approximately 131,000 kilometres (81,400 miles) of gas distribution pipeline owned and operated by National Grid.[2]

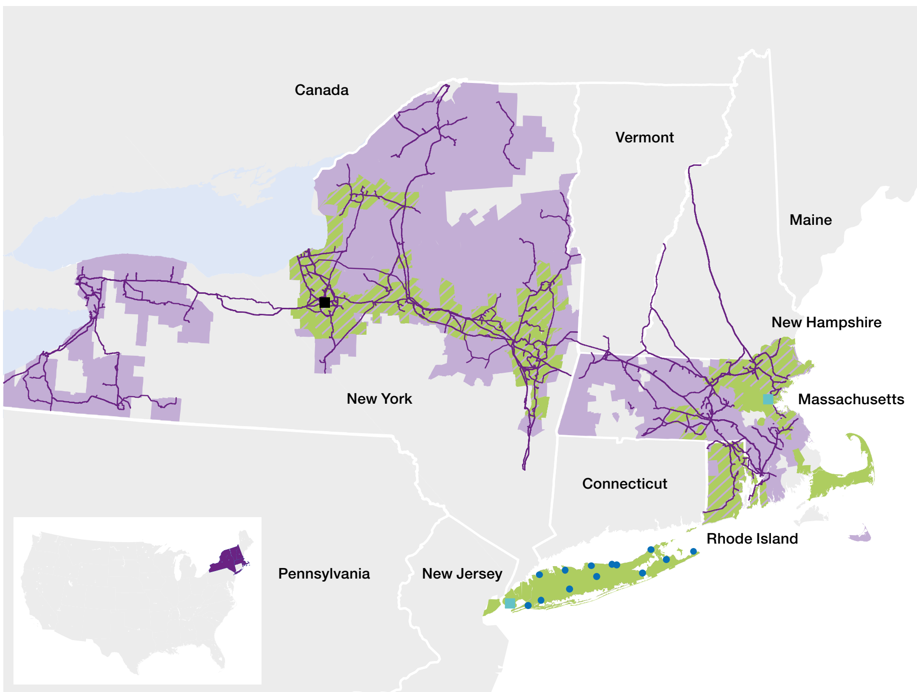
The Company has commenced a process for the potential sale of a majority stake in its UK Gas Distribution business, as announced on 10 November 2015 in our half-year results.

Principal offices

- Owned office space: Hinckley, Warwick and Wokingham
- Leased office space: Solihull and London

Leased office space totalling 15,122 square metres (162,771 square feet) with remaining terms of 3 months to 10 years.

Our US network



US Regulated[1]

- Electricity transmission network
- Gas distribution operating area
- Electricity distribution area
- Gas and electricity distribution area overlap

An electricity transmission network of approximately 14,145 kilometres (8,789 miles) of overhead line, 174 kilometres (108 miles) of underground cable and 491 transmission substations.

An electricity distribution network of approximately 116,645 circuit kilometres (72,480 miles) and 668 distribution substations in New England and upstate New York.

A network of approximately 56,491 kilometres (35,102 miles) of gas pipeline serving an area of approximately 25,597 square kilometres (9,883 square miles). Our network also consists of approximately 790 kilometres (491 miles) of gas transmission pipe, as defined by the US Department of Transportation.

- Generation

Principal offices

- Owned office space: Syracuse, New York
- Leased office space: Brooklyn, New York and Waltham, Massachusetts

Leased office space totalling approximately 52,676 square metres (567,000 square feet) with remaining terms of 9 to 13 years.

At present, environmental issues are not preventing our UK and US businesses from utilising any material operating assets in the course of their operations.

[1] Access to electricity and gas transmission and distribution assets on property owned by others is controlled through various agreements.

[2] As submitted by the Company in its 2014/15 Gas Distribution Regulatory Reporting Pack.

UK Regulation

Our licences are established under the Gas Act 1986 and Electricity Act 1989, as amended (the Acts). They require us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas and electricity in Great Britain (GB). They also give us statutory powers. These include the right to bury our pipes or cables under public highways and the ability to use compulsory powers to purchase land so we can conduct our business.

Our networks are regulated by Ofgem, which has established price control mechanisms that set the amount of revenue our regulated businesses can earn. Price control regulation is designed to make sure our interests, as a monopoly, are balanced with those of our customers. Ofgem allows us to charge reasonable, but not excessive, prices. This gives us a future level of revenue that is sufficient to meet our statutory duties and licence obligations, and makes a reasonable return on our investment.

The price control includes a number of mechanisms designed to help achieve its objectives. These include financial incentives that encourage us to:

- efficiently deliver by investment and maintenance the network outputs that customers and stakeholders require, including reliable supplies, new connections and infrastructure capacity;
- innovate in order to continuously improve the services we give our customers, stakeholders and communities; and
- efficiently balance the transmission networks to support the wholesale markets.

Our UK Electricity Transmission (UK ET), UK Gas Transmission (UK GT) and UK Gas Distribution (UK GD) businesses operate under eight separate price controls in the UK. These comprise two for our UK ET operations, one covering our role as transmission owner (TO) and the other for our role as system operator (SO); two for our UK GT operations, again one as TO and one as SO; and one for each of our four regional gas distribution networks. While each of the eight price controls may have differing terms, they are based on a consistent regulatory framework.

In addition to the eight price controls, there is also a tariff cap price control applied to certain elements of domestic metering and daily meter reading activities carried out by National Grid Metering.

Interconnectors derive their revenues from sales of capacity to users who wish to move power between market areas with different prices. These sales revenues are called congestion revenues because market price differences result from the congestion on the finite interconnector capacity, which limits full price convergence. European legislation governs how congestion revenues may be used and how interconnection capacity is allocated. It requires all interconnection capacity to be allocated to the market through auctions.

There are a range of different regulatory models available for interconnector projects. These involve various levels of regulatory intervention ranging from fully merchant (the project is fully reliant on sales of interconnector capacity) to cap and floor (where sales revenues above the cap are returned to transmission system users and revenues below the floor are topped up by transmission system users, thus reducing the overall project risk).

The cap and floor regime is now the regulated route for interconnector investment in GB, which sits alongside the exemption route (whereby project developers apply for exemptions from aspects of European legislation).

RIIO price controls

On 1 April 2013, Ofgem introduced a new regulatory framework called RIIO (revenue = incentives + innovation + outputs), with the first price control agreed under the new framework lasting for eight years. The building blocks of the RIIO price control are broadly similar to the historical price controls used in the UK. However, there are some significant differences in the mechanics of the calculations.

How is revenue calculated?

Under RIIO the outputs we deliver are clearly articulated and are integrally linked to the calculation of our allowed revenue. These outputs have been determined through an extensive consultation process, which has given stakeholders a greater opportunity to influence the decisions.

There are six output categories:

Safety: ensuring the provision of a safe energy network.

Reliability (and availability): promoting networks capable of delivering long-term reliability, as well as minimising the number and duration of interruptions experienced over the price control period, and ensuring adaptation to climate change.

Environmental impact: encouraging companies to play their role in achieving broader environmental objectives – specifically, facilitating the reduction of carbon emissions – as well as minimising their own carbon footprint.

Customer and stakeholder satisfaction: maintaining high levels of customer satisfaction and stakeholder engagement, and improving service levels.

Customer connections: encouraging networks to connect customers quickly and efficiently.

Social obligations (UK GD only): extending the gas network to communities that are fuel poor where it is efficient to do so, and introducing measures to address carbon monoxide poisoning incidents.

Within each of these output categories are a number of primary and secondary deliverables, reflecting what our stakeholders want us to deliver over the coming price control period. The nature and number of these deliverables varies according to the output category, with some being linked directly to our allowed revenue, some linked to legislation, and others having only a reputational impact.

Ofgem, using information we have submitted, along with independent assessments, determines the efficient level of expected costs necessary to deliver them. Under RIIO this is known as totex, which is a component of total allowable expenditure, and is the sum of what was defined in previous price controls as operating expenditure (opex), capital expenditure (capex) and, in UK GD controls, mains replacement expenditure (repex).

A number of assumptions are necessary in setting these outputs, such as certain prices or the volumes of work that will be needed. Consequently, there are a number of uncertainty mechanisms within the RIIO framework that can result in adjustments to totex if actual prices or volumes differ from the assumptions. These mechanisms protect us and our customers from windfall gains and losses.

Where we under- or over-spend the allowed totex for reasons that are not covered by uncertainty mechanisms, there is a sharing factor. This means the under- or over-spend is shared between us and customers through an adjustment to allowed revenues in future years. This sharing factor provides an incentive for us to provide the outputs efficiently, as we are able to keep a portion of savings we make, with the remainder benefiting our customers.

This sharing factor is one of the ways that RIIO has given innovation more prominence. Innovation includes traditional areas such as new technologies, as well as the broader challenge of finding new ways of working to deliver outputs more efficiently. This broader challenge has an impact on everyone in our business.

Allowed revenue to fund totex costs are split between fast and slow money – a concept under RIIO, based on a specified percentage that is fixed for the duration of the price control (except for UK GD's repex which changes on a linear scale across the price control). Fast money represents the amount of totex we are able to recover in the next available year. Slow money is added to our RAV – effectively the regulatory IOU. For more details on the sharing factors under RIIO, please see the table below.

In addition to fast money, in each year we are allowed to recover a portion of the RAV (regulatory depreciation) and a return on the outstanding RAV balance.

The asset life for regulatory depreciation in electricity transmission spans 45 years across the RIIO period. This is also the case for the asset life depreciation for UK GD. We are also allowed to collect additional revenues related to non-controllable costs and incentives.

The incentive mechanisms can increase or decrease our allowed revenue and result from our performance against various measures related to our outputs. RIIO has incentive mechanisms that encourage us to align our objectives with those of our customers and other stakeholders. For example, performance against our customer satisfaction targets can have a positive or negative effect of up to 1% of allowed annual revenues. Most of our incentives affect our revenues two years after the year of performance.

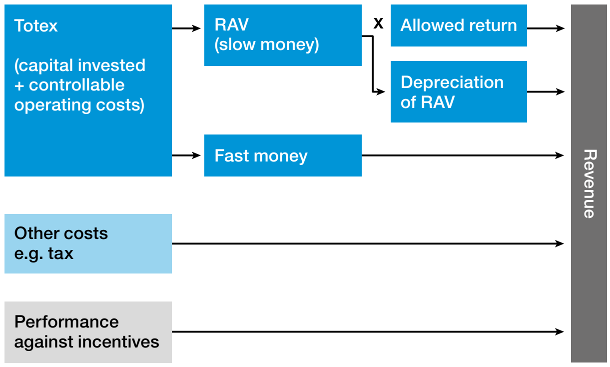
The RIIO controls for both our transmission and gas distribution businesses were introduced on 1 April 2013 and the first price control period lasts for eight years. During the eight year period our regulator included a provision for a potential mid-period review, with scope driven by:

- changes to outputs that can be justified by clear changes in government policy; and
- the introduction of new outputs that are needed to meet the needs of consumers and other network users.

In November 2015, Ofgem launched a consultation on a potential RIIO-T1 and GD1 mid-period review.

Under the RIIO controls, we are required to deliver agreed outputs for consumers and are funded to cover the costs of delivering these. The eight year price control includes a number of uncertainty mechanisms to take account of the fact that some outputs and funding cannot be set with certainty at the start of the period. One of these uncertainty mechanisms is the review of outputs. In May 2016, Ofgem decided to launch a mid-period review focusing on the transmission outputs.

RIIO regulatory building blocks



Allowed returns

The cost of capital allowed under RIIO is as follows:

	Transmission		Gas Distribution
	Gas	Electricity	
Cost of equity (post-tax real)	6.8%	7.0%	6.7%
Cost of debt (pre-tax real)	iBoxx 10-year simple trailing average index (2.55% for 2015/16)		
Notional gearing	62.5%	60.0%	65.0%
Vanilla WACC[1]	4.14%	4.33%	4.01%

1. Vanilla WACC = cost of debt x gearing + cost of equity x (1-gearing).

The sharing factor means that any over- and under-spend is shared between the businesses and consumers. The shared figures displayed in the table below are the sharing factors that apply to UK ET, UK GT and UK GD.

For more information on RIIO, including incentive mechanisms, please see the relevant investor fact sheets on the Investor Relations section of our website.

Sharing factors under RIIO are as follows:

	Gas Transmission		**Electricity Transmission**		**Gas Distribution**			
	Transmission Operator	**System Operator**	**Transmission Operator**	**System Operator**	**North West**	**East of England**	**West Midlands**	**London**
					Repex: Stepped decline from 50% in 2013/14 to 0% in 2020/21 in seven equal instalments of 7.14% per annum			
Fast[1]	Baseline[3] 35.6% Uncertainty 10%	62.60%	15.00%	72.10%	73.90%	73.37%	75.05%	76.53%
					Repex: Stepped increase from 50% in 2013/14 to 100% in 2020/21 in seven equal instalments of 7.14% per annum			
Slow[2]	Baseline[3] 64.4% Uncertainty 90%	37.40%	85.00%	27.90%	26.10%	26.63%	24.95%	23.47%
Sharing	44.36%		46.89%		63.04%			

1. Fast money allows network companies to recover a percentage of total expenditure within a one year period.
2. Slow money is where costs are added to RAV and, therefore, revenues are recovered slowly (e.g. over 20 years) from both current and future consumers.
3. The baseline is the expenditure that is funded through ex-ante allowances, whereas the uncertainty adjusts the allowed expenditure automatically where the level outputs delivered differ from the baseline level, or if triggered by an event.

US Regulation

Regulators

In the US, public utilities' retail transactions are regulated by state utility commissions. The commissions serve as economic regulators, approving cost recovery and authorised rates of return. The state commissions establish the retail rates to recover the cost of transmission and distribution services, and focus on services and costs within their jurisdictions. They also serve the public interest by making sure utilities provide safe and reliable service at just and reasonable prices. The commissions establish service standards and approve public utility mergers and acquisitions.

Utilities are regulated at the federal level (FERC) for wholesale transactions, such as interstate transmission and wholesale electricity sales, including rates for these services. FERC also regulates public utility holding companies and centralised service companies, including those of our US businesses.

Regulatory process

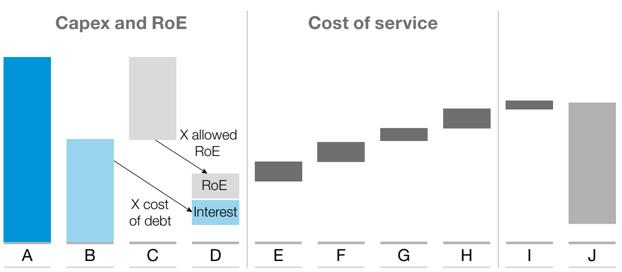
The US regulatory regime is premised on allowing the utility the opportunity to recover its cost of service and earn a reasonable return on its investments as determined by the commission. Utilities submit formal rate filings ('rate cases') to the relevant state regulator when additional revenues are necessary to provide safe, reliable service to customers. Utilities can be compelled to file a rate case due to complaints filed with the commission or at the commission's own discretion.

The rate case is typically litigated with parties representing customer and other interests. In the states in which we operate, it can take nine to thirteen months for the commission to render a final decision. The utility is required to prove that the requested rate change is prudent and reasonable, and the requested rate plan can span multiple years. Unlike the state processes, the federal regulator has no specified timeline for adjudicating a rate case, but typically makes a final decision retroactive when the case is completed.

Gas and electricity rates are established from a revenue requirement, or cost of service, equal to the utility's total cost of providing distribution or delivery service to its customers, as approved by the commission in the rate case. This revenue requirement includes operating expenses, depreciation, taxes and a fair and reasonable return on shareholder capital invested in certain components of the utility's regulated asset base, typically referred to as its rate base.

The final revenue requirement and rates for service are approved in the rate case decision. The revenue requirement is derived from a comprehensive study of the utility's total costs during a recent 12 month period of operations, referred to as a test year. Each commission has its own rules and standards for adjustments to the test year and may include forecasted capital investments and operating costs.

US regulatory revenue requirement



A Rate base
B Debt
C Equity
D Return
E Controllable costs
F Non-controllable costs
G Depreciation
H Taxes
I Lagged recoveries
J Allowed revenue

Our rate plans

Each operating company has a set of rates for service. We have three electric distribution operations (upstate New York, Massachusetts and Rhode Island) and six gas distribution networks (upstate New York, New York City, Long Island, Massachusetts (two) and Rhode Island).

Our operating companies have revenue decoupling mechanisms that de-link the companies' revenues from the quantity of energy delivered and billed to customers. These mechanisms remove the natural disincentive utility companies have for promoting and encouraging customer participation in energy efficiency programmes that lower energy end use and thus distribution volumes.

Our rate plans are designed to a specific allowed RoE, by reference to an allowed operating expense level and rate base. Some rate plans include earnings sharing mechanisms that allow us to retain a proportion of the earnings above our allowed RoE, achieved through improving efficiency, with the balance benefiting customers.

In addition, our performance under certain rate plans is subject to service performance targets. We may be subject to monetary penalties in cases where we do not meet those targets.

One measure used to monitor the performance of our regulated businesses is a comparison of achieved RoE to allowed RoE. However, this measure cannot be used in isolation, as there are a number of factors that may prevent us from achieving the allowed RoE. These factors include financial market conditions, regulatory lag and decisions by the regulator preventing cost recovery in rates from customers.

We work to increase achieved RoE through: productivity improvements; positive performance against incentives or earned savings mechanisms such as energy efficiency programmes, where available; and filing a new rate case when achieved returns are lower than the Company could reasonably expect to attain through a new rate case.

Features of our rate plans

We bill our customers for their use of electricity and gas services. Customer bills typically comprise a commodity charge, covering the cost of the electricity or gas delivered, and charges covering our delivery service. With the exception of residential gas customers in Rhode Island, our customers are allowed to select an unregulated competitive supplier for the supply component of electricity and gas utility services.

A substantial proportion of our costs, in particular electricity and gas commodity purchases, are pass-through costs, meaning they are fully recoverable from our customers. These pass-through costs are recovered through separate charges to customers that are designed to recover those costs with no profit. Rates are adjusted from time to time to make sure that any over- or under-recovery of these costs is returned to, or recovered from, our customers.

Our FERC-regulated transmission companies use formula rates (instead of rate cases) to set rates annually to recover their cost of service. Through the use of annual true-ups, formula rates recover our actual costs incurred and the allowed RoE based on the actual transmission rate base each year. The Company must make annual formula rate filings documenting the revenue requirement, which customers can review and challenge.

Revenue for our wholesale transmission businesses in New England and New York is collected from wholesale transmission customers, who are typically other utilities and include our own New England electricity distribution businesses. With the exception of upstate New York, which continues to combine retail transmission and distribution rates to end-use customers, these wholesale transmission costs are incurred by distribution utilities on behalf of their customers and are fully recovered as a pass-through from end-use customers as approved by each state commission.

Our Long Island generation plants sell capacity to LIPA under 15-year and 25-year power supply agreements, and within wholesale tariffs approved by FERC. Through the use of cost based formula rates, these long-term contracts provide a similar economic effect to cost of service rate regulation.

US regulatory filings

The objectives of our rate case filings are to make sure we have the right cost of service, with the ability to earn a fair and reasonable rate of return while providing safe, reliable and economical service to our customers. In order to achieve these objectives and to reduce regulatory lag, we have been requesting structural changes, such as revenue decoupling mechanisms, capital trackers, commodity-related bad debt true-ups and pension and other post-employment benefit true-ups, separately from base rates. These terms are explained below the table on page 182.

Below, we summarise significant developments in rate filings and the regulatory environment during the year. We completed the final stabilisation upgrade to our new financial systems in July 2014. With 12 months of historical 'test year' data available from the stabilised financial systems, we commenced a new round of full rate case filings, starting with the filing for Massachusetts Electric in November 2015, and followed by the filings for KEDNY and KEDLI in January 2016. We expect to make a number of such filings over the next two to three years to update the capital investment allowances and rate bases across many of our businesses. These filings are expected to capture the benefit of recent increased investments in asset replacement and network reliability, and reflect long-term growth in costs, including property tax and healthcare costs. Along with a clear focus on productivity, the filings are key to improving achieved returns in the Company's US distribution activities.

Moreover, as part of current regulatory initiatives, we filed a proposal for investments in grid modernisation in Massachusetts and anticipate a similar proposal for innovative technology deployments and service offerings as part of the Reforming the Energy Vision (REV) effort in New York in 2016.

Massachusetts

Massachusetts electric rate case

On 6 November 2015, we filed a one-year rate plan for our Massachusetts electric business to take effect from 1 October 2016, which was updated on 29 April 2016. The updated rate case filing requests an annualised net increase in distribution revenue of approximately $137 million. The filing includes a request to increase annual capital investment subject to the capital investment recovery mechanism from $170 million to $285 million, and to include property tax recovery on incremental capital placed in service. The filing also requests an increase in annual base rate funding of the storm fund mechanism from $4.3 million to $14 million, and a 14-month extension of the incremental funding to address the storm fund's deficit, created by weather events occurring through February 2015. The filing is based on an RoE of 10.5% and a capital structure of 52% equity and 48% debt.

Capital investment programmes

On the gas side, on 30 October 2015, we filed the second plan in a 20-year programme to replace ageing gas infrastructure by receiving concurrent cost recovery for eligible capital investments. On 29 April 2016, MADPU approved our proposal to place an additional $28.9 million into rates effective from 1 May 2016, related to $219 million of anticipated investments in 2016 under this accelerated pipe replacement plan. The Company filed the reconciliation of the 2015 investments on 29 April 2016. Additionally, the Company continues to recover costs associated with its pre-existing leak prone pipe replacement programme outside of base rates until the next rate case, including the submittal of a proposal to begin recovery of an additional $4.1 million of incremental revenue requirement effective from 1 November 2016.

Storm fund recovery

The Massachusetts electricity business collects $4.3 million annually in base rates to credit towards a storm fund devoted to fund major storm response and restoration efforts. The severity and frequency of storms in Massachusetts between February 2010 and February 2016 resulted in approximately $252 million of incremental storm-related costs as at 31 March 2016.

MADPU allowed us to begin collecting $40 million annually for three years beginning on 4 May 2013, and an additional $7.6 million from 1 July 2014, towards the replenishment of the storm fund. This annual recovery was further extended through 4 August 2016. Ultimate recovery of the storm costs is subject to a prudency review by MADPU of the underlying costs. The Company expects an order on the prudency of $213 million of storm-related costs from the February 2010 through March 2013 storm events by August 2016. As explained above, in the Massachusetts electric rate case, we proposed to collect the deficit created by storm events through February 2015, subject to a prudency review, and increase the annual base rate funding of the storm fund. Recoverable costs associated with storm events after February 2015 are deferred for future recovery and subject to future prudency review.

Grid modernisation

In response to a 2014 regulatory requirement, the Company filed a Massachusetts electricity grid modernisation plan on 19 August 2015 that proposed multiple investment options that would further MADPU's goals of reducing the effect of outages, optimising demand, integrating distributed resources, and improving workforce and asset management. The Company presented a range of investment options for MADPU to consider, with investment levels over five years ranging from $225 million to $831 million. MADPU established criteria that, if met, would allow the capital costs from the plan to be recovered through a separate capital recovery mechanism. MADPU initiated its review of the Company's plan in April 2016.

New York

Upstate New York 2015 petition to use deferred credits to fund capital expenditures

With the three-year rate plan for Niagara Mohawk's electricity and gas businesses expiring on 31 March 2016, in December 2015, we filed a petition with NYPSC to use up to $124 million and $27 million of deferred credits associated with its electricity and gas operations, respectively, to fund incremental capital expenditures for those businesses in 2017 and 2018 above the capital allowances in the expiring rate plan. The Company expects an order in May or June 2016.

Reforming the Energy Vision (REV)

In April 2014, NYPSC instituted the REV proceeding, which envisions a new role for utilities as distributed system platform (DSP) providers who create markets for distributed energy resources (DER) and more fully integrate DER in distribution system operations and planning. The REV proceeding's objectives include: enhanced customer energy choices and control; improved electricity system efficiency, reliability, and resiliency; and cleaner, more diverse electricity generation.

NYPSC is expected to issue an order in 2016 to address rate-making issues under REV, including opportunities for outcome-based shareholder incentive mechanisms, market-based earnings, changes to rate design, DER compensation and the rate-making process. The Company's first five-year distributed system implementation plan is expected to be filed in June 2016 and will identify incremental investments in utility infrastructure necessary for implementation of the DSP role and greater DER integration.

KEDLI gas investment plan
In June 2014, KEDLI petitioned NYPSC for approval of a deferral mechanism related to a proposed gas infrastructure investment programme. In December 2014, NYPSC approved two gas investment plans for 2015 and 2016, one for leak-prone pipe capital expenditures (capped at $211.7 million in total) and one for gas service expansion expenditures (capped at $202.7 million in total).

NYPSC approved a surcharge to begin recovery of the deferred leak-prone pipeline investment costs, allowing for the recovery up to a total of $23.4 million through a surcharge effective from 1 April 2015 until the end of 2016. KEDLI received approval to establish a new deferral accounting mechanism for the balance of the approved costs not covered by the surcharge.

KEDNY gas investment plan and site investigation and remediation (SIR) surcharge
In October 2015, NYPSC approved KEDNY's petition to extend its capital investment recovery mechanism and reconciliation period for two more years through 2016 and to use a deferred credit balance from underspending in 2013 and 2014 to offset the revenue requirement associated with over $870 million of total capital investment in 2015 and 2016 (compared with a total capital allowance of roughly $614 million for 2013 and 2014). Also in October 2015, NYPSC approved KEDNY's petition to increase its current SIR surcharge by $37.5 million annually, effective from 1 November 2015, to offset its SIR deferral balances.

KEDNY and KEDLI rate cases
On 29 January 2016, KEDNY and KEDLI filed base rate cases with NYPSC to increase their delivery revenues by $245 million and $142 million, respectively, with new rates expected to come into effect in early 2017. The cases include capital investment of approximately $610 million for KEDNY and $340 million for KEDLI for 2017. The rate case filings maintain tracker and true-up mechanisms for property taxes, commodity-related bad debt, and pension/OPEBs and seek to establish reconciling mechanisms for city/state construction-related costs and SIR recovery surcharge/tracker mechanisms.

KEDNY and KEDLI filed one year cases, but submitted two additional years of data to facilitate a multi-year settlement. The filings are based on a RoE of 9.94% (plus 50 basis points for a stay-out premium for a multi-year rate plan) and a 48% equity ratio.

Operations staffing audit
In January 2014, NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities in New York, including Niagara Mohawk, KEDNY and KEDLI. The focus of the audit is on electricity and gas operations and network strategy functions, and includes a review of staffing levels, resource planning, work management, overtime levels, contractor use and succession planning. The final report is expected to be issued in July 2016.

Rhode Island

Rhode Island electricity and gas infrastructure, safety and reliability (ISR) plans
State law provides our Rhode Island gas and electricity operating divisions with rate mechanisms that allow for the recovery of capital investment, including a return, and certain expenses outside base rate proceedings through the submission of annual ISR plans.

RIPUC approved the fiscal year 2017 ISR plans on 25 February 2016. The electricity ISR plan encompasses an $83.4 million spending programme for capital investment and $10 million for operating and maintenance expenses for vegetation management and inspection and maintenance. The gas ISR plan encompasses $86.05 million for capital investment and incremental operation and maintenance expense for the hiring and training of additional personnel to support increases in leak-prone pipe replacement.

Changing distribution system and modernisation of rates
On 3 March 2016, RIPUC opened a docket to investigate the modernisation of rates in light of the changing electric distribution system, including the costs and benefits of distributed energy resources.

FERC

Complaints on New England transmission allowed RoE
In September 2011, December 2012 and July 2014, complaints were filed with FERC against certain transmission owners, including our New England electricity transmission business, to lower the base RoE from the FERC approved rate of 11.14%. In a series of orders addressing the first complaint, with the last order in March 2015, FERC set the prospective base RoE at 10.57%, effective October 2014. FERC also found that the total, or maximum, RoE for our New England transmission business, including various RoE incentive adders authorised by FERC, cannot exceed 11.74%. In April and May 2015 a number of parties, including the Company, appealed FERC's orders on the first complaint to US federal court. A US federal court decision on these appeals is expected no earlier than late 2016.

On 22 March 2016, a FERC administrative law judge issued a decision with non-binding preliminary findings in the second and third complaint cases, setting the prospective base RoE at 10.9%, with a maximum RoE of 12.19%. A FERC order acting on these preliminary findings is not expected until the end of 2016 or early 2017.

On 29 April 2016, a fourth complaint was filed against the New England electricity transmission businesses seeking to reduce their base RoE and maximum RoE to 8.61% and 11.24% respectively. Resolution by FERC of this latest complaint may take two years or longer.

New York Transco
In late 2014, the four New York investor-owned utilities, including Niagara Mohawk Power Corporation, formed New York Transco, LLC, a new high voltage electricity transmission development company in New York State, and filed on behalf of New York Transco an application with FERC to establish the financial terms for a portfolio of five new transmission projects with a combined estimated total cost of over $1.7 billion.

A number of entities intervened in the docket and challenged various aspects of the application. In April 2015, FERC approved certain elements of our filing (including some rate incentives), rejected others, and set the remainder for hearing and settlement. In November 2015, New York Transco reached a negotiated settlement on formula rate issues for the first three transmission projects under construction with an estimated cost of approximately $230 million.

The settlement included an RoE of 10% inclusive of 0.50% incentives. FERC approved the settlement without modification on 17 March 2016. National Grid's ownership interest in New York Transco is 28%.

National Grid LNG LLC
On 1 April 2016, the Company filed an application seeking FERC approval of a planned $180 million liquefaction facility at the Providence, Rhode Island, LNG plant, with a FERC decision expected by November 2016. The expected in-service date is December 2018. Rates for the new liquefaction service will be cost-based formula rates charged to customers who opt to take liquefaction service.

New England gas and electricity interdependency
New England's gas and electricity systems have become increasingly interdependent as the region's reliance on gas-fired electricity generation has grown without commensurate pipeline infrastructure expansion, driving significant increases in the region's wholesale and retail electricity costs and electricity reliability concerns. To address this challenge, New England's governors are pursuing strategic infrastructure investments focused on expanding the region's energy portfolio.

Working with state representatives and our peer utilities, our Massachusetts and Rhode Island electricity distribution companies issued a multi-state solicitation for proposals for clean energy and associated transmission infrastructure to increase the ability to deliver low-carbon energy. Proposals were submitted on 28 January 2016, including a proposal comprised of the Vermont Green Line being developed by Anbaric and National Grid paired with renewable energy generation.

A multi-year effort in coordination with representatives from several states, other regional utilities, interstate gas pipelines, state regulators and FERC led to a filing in January 2016 in Massachusetts by our electricity distribution companies for approval of precedent agreements to enter into gas interstate pipeline and storage capacity contracts with the Access Northeast pipeline project sponsored by Spectra Energy. The Company also plans to make a filing in Rhode Island in mid 2016 seeking approval of a similar contract on behalf of Narragansett Electric Company.

With these contracts, our electricity distribution companies will secure incremental pipeline capacity to release to electricity generators that will both improve electricity reliability and lower electricity costs for customers. National Grid is a co-developer, with a 20% stake, of the Access Northeast project.

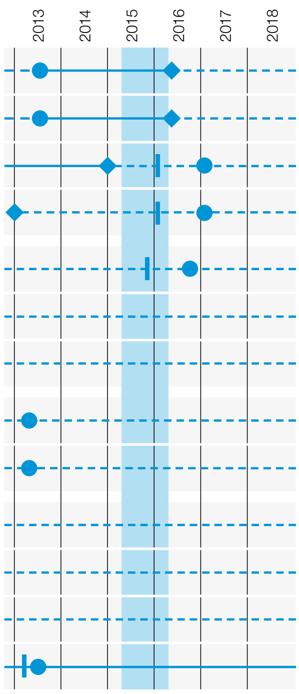
Formula rate transparency 206 proceeding
On 28 December 2015, FERC initiated a proceeding against National Grid and other New England transmission owners under Section 206 of the Federal Power Act. FERC found that the tariff governing electricity transmission service in New England lacks adequate transparency and challenge procedures with regard to the formula rates through which the Company recovers its costs and that the formula rates appear to lack sufficient detail regarding certain costs recovered. The parties are currently involved in settlement negotiations to develop formula rate protocols and to address FERC's concerns about specific elements of the formula rate.

FERC financial audit of National Grid USA and affiliates
On 24 November 2015, FERC commenced a financial audit of National Grid USA, including its service companies and other affiliates, which covers the period from 1 January 2013 to the present. The audit will evaluate compliance with the FERC's accounting, record keeping and reporting requirements as well as interactions among the service companies and affiliated operating companies. Based on past audits, we expect the audit to last about 18 months.

FERC Order 1000
Issued in 2011, Order 1000 was FERC's major policy order intended to foster regional and inter-regional transmission planning, address transmission needs driven by public policy requirements and increase competition in the electricity transmission industry. Policies to comply with Order 1000 have been in effect in New York and New England since January 2014 and May 2015 respectively. The competitive transmission planning processes instituted under Order 1000 have opened National Grid's service territory to competition from non-incumbent transmission developers and also created opportunities for National Grid to compete for transmission projects outside of the Company's current geographic footprint.

In the first applications of the Order 1000 planning and competitive solicitation processes in New York or New England, NYPSC has identified two transmission needs in New York driven by public policy goals. The first, in western New York, is intended to relieve congestion and to maximise hydropower and Ontario imports. In December 2015, National Grid submitted two competitive transmission proposals for projects to address the need in western New York. In addition, NYPSC identified a transmission need to allow greater flow of power from upstate to downstate New York. Competitive proposals to meet this transmission need were solicited in February 2016. National Grid submitted a competitive transmission proposal in April 2016, with project selection expected in 2016.

Summary of US price controls and rate plans



	Rate plan	Rate base (31 Mar 2016)	Equity to debt ratio	Allowed return on equity	Achieved return on equity (31 Dec 2015)	Revenue decoupling†	Capital tracker‡	Commodity-related bad debt true-up§	Pension/OPEB true-up◊
New York Public Service Commission	Niagara Mohawk[1] (upstate, electricity)	**$4,621m**	**48 : 52**	**9.3%**	**8.1%**	✓	**F**	**P**	✓
	Niagara Mohawk (upstate, gas)	**$1,160m**	**48 : 52**	**9.3%**	**8.4%**	✓	**F**	**P**	✓
	KEDNY (downstate)[2]	**$2,525m**	**48 : 52**	**9.4%**	**7.1%**	**P**	**P**	**P**	✓
	KEDLI (downstate)[3]	**$2,176m**	**45 : 55**	**9.8%**	**7.3%**	**P**	**P**	**P**	✓
Massachusetts Department of Public Utilities	Massachusetts Electric/ Nantucket Electric	**$2,156m**	**50 : 50**	**10.35%**	**3.4%**	✓	**P**	✓	✓
	Boston Gas	**$1,595m**	**50 : 50**	**9.75%**	**8.7%**	✓	**P**	✓	✓
	Colonial Gas	**$351m**	**50 : 50**	**9.75%**	**7.9%**	✓	**P**	✓	✓
Rhode Island Public Utilities Commission	Narragansett Electric	**$657m**	**49 : 51**	**9.5%**	**10.5%**	✓	✓	**P**	✓
	Narragansett Gas	**$577m**	**49 : 51**	**9.5%**	**9.8%**	✓	✓	**P**	✓
Federal Energy Regulatory Commission	Narragansett	**$608m**	**50 : 50**	**10.57%**	**11.2%**	**n/a**	✓	**n/a**	✓
	Canadian Interconnector	**$11m**	**72 : 28**	**13.0%**	**13.0%**	**n/a**	✓	**n/a**	✓
	New England Power	**$1,405m**	**64 : 36**	**10.57%**	**11.0%**	**n/a**	✓	**n/a**	✓
	Long Island Generation	**$420m**	**46 : 54**	**9.9%**	**12.5%**	**n/a**	✓	**n/a**	✓

1. Both transmission and distribution, excluding stranded costs.
2. KeySpan Energy Delivery New York (The Brooklyn Union Gas Company).
3. KeySpan Energy Delivery Long Island (KeySpan Gas East Corporation).

Rate filing made
New rates effective
Rate plan ends
Rates continue indefinitely
Multi-year rate plan

✓ Feature in place
P Feature partially in place
F Feature requested in pending filing

†Revenue decoupling
A mechanism that removes the link between a utility's revenue and sales volume so that the utility is indifferent to changes in usage. Revenues are reconciled to a revenue target, with differences billed or credited to customers. Allows the utility to support energy efficiency.

‡Capital tracker
A mechanism that allows for the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.

§Commodity-related bad debt true-up
A mechanism that allows a utility to reconcile commodity-related bad debt to either actual commodity-related bad debt or to a specified commodity-related bad debt write-off percentage. For electricity utilities, this mechanism also includes working capital.

◊Pension/OPEB true-up
A mechanism that reconciles the actual non-capitalised costs of pension and OPEB and the actual amount recovered in base rates. The difference may be amortised and recovered over a period or deferred for a future rate case.

Internal control and risk factors

Disclosure controls

Working with management, including the Chief Executive and Finance Director, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as at 31 March 2016. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. However, the effectiveness of any system of disclosure controls and procedures has limitations, including the possibility of human error and the circumvention or overriding of the controls and procedures.

Even effective disclosure controls and procedures provide only reasonable assurance of achieving their objectives. Based on the evaluation, the Chief Executive and Finance Director concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file and submit under the Exchange Act is recorded, processed, summarised and reported as and when required and that such information is accumulated and communicated to our management, including the Chief Executive and Finance Director, as appropriate, to allow timely decisions regarding disclosure.

Internal control over financial reporting

Our management, including the Chief Executive and Finance Director, has carried out an evaluation of our internal control over financial reporting pursuant to the Disclosure Rules and Transparency Rules and Section 404 of the Sarbanes-Oxley Act 2002. As required by Section 404, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as defined in Rules 13a–15(f) and 15d–15(f) under the Exchange Act).

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluation of the effectiveness of the Company's internal control over financial reporting was based on the revised Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as at 31 March 2016.

PricewaterhouseCoopers LLP, which has audited our consolidated financial statements for the year ended 31 March 2016, has also audited the effectiveness of our internal control over financial reporting. Their attestation report can be found on page 93.

During the year, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, it.

Risk factors

Management of our risks is an important part of our internal control environment, as we describe on pages 26 to 29. In addition to the principal risks listed we face a number of inherent risks that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities.

Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on the inside back cover. An overview of the key inherent risks we face is provided below.

Risk factors

Potentially harmful activities

Aspects of the work we do could potentially harm employees, contractors, members of the public or the environment.

Potentially hazardous activities that arise in connection with our business include the generation, transmission and distribution of electricity and the storage, transmission and distribution of gas.

Electricity and gas utilities also typically use and generate hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields.

A significant safety or environmental incident, or the failure of our safety processes or of our occupational health plans, as well as the breach of our regulatory or contractual obligations or our climate change targets, could materially adversely affect our results of operations and our reputation.

We commit significant resources and expenditure to process safety and to monitoring personal safety, occupational health and environmental performance, and to meeting our obligations under negotiated settlements.

We are subject to laws and regulations in the UK and US governing health and safety matters to protect the public and our employees and contractors, who could potentially be harmed by these activities as well as laws and regulations relating to pollution, the protection of the environment, and the use and disposal of hazardous substances and waste materials.

These expose us to costs and liabilities relating to our operations and properties, including those inherited from predecessor bodies, whether currently or formerly owned by us, and sites used for the disposal of our waste.

The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and our share of the liability. We are increasingly subject to regulation in relation to climate change and are affected by requirements to reduce our own carbon emissions as well as to enable reduction in energy use by our customers.

If more onerous requirements are imposed or our ability to recover these costs under regulatory frameworks changes, this could have a material adverse impact on our business, reputation, results of operations and financial position.

Internal control and risk factors continued

Infrastructure and IT systems

We may suffer a major network failure or interruption, or may not be able to carry out critical operations due to the failure of infrastructure, data or technology or a lack of supply.
Operational performance could be materially adversely affected by a failure to maintain the health of our assets or networks, inadequate forecasting of demand, inadequate record keeping or control of data or failure of information systems and supporting technology.

This in turn could cause us to fail to meet agreed standards of service, incentive and reliability targets, or be in breach of a licence, approval, regulatory requirement or contractual obligation. Even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation.

Where demand for electricity or gas exceeds supply and our balancing mechanisms are not able to mitigate this fully, a lack of supply to consumers may damage our reputation.

In addition to these risks, we may be affected by other potential events that are largely outside our control, such as the impact of weather (including as a result of climate change and major storms), unlawful or unintentional acts of third parties, insufficient or unreliable supply or force majeure.

Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure together with our actual or perceived response could materially adversely affect operational and potentially business performance and our reputation.

Malicious attack, sabotage or other intentional acts, including breaches of our cyber security, may also damage our assets (which include critical national infrastructure) or otherwise significantly affect corporate activities and, as a consequence, have a material adverse impact on our reputation, business, results of operations and financial condition.

Unauthorised access to, or deliberate breaches of, our IT systems may also lead to manipulation of our proprietary business data or customer information.

Unauthorised access to private customer information may make us liable for a violation of data privacy regulations. Even where we establish business continuity controls and security against threats against our systems, these may not be sufficient.

Law and regulation

Changes in law or regulation or decisions by governmental bodies or regulators could materially adversely affect us.
Most of our businesses are utilities or networks subject to regulation by governments and other authorities. Changes in law or regulation or regulatory policy and precedent, including decisions of governmental bodies or regulators, in the countries or states in which we operate could materially adversely affect us.

If we fail to engage in the energy policy debate, we may not be able to influence future energy policy and deliver our strategy.

Decisions or rulings concerning, for example:

(i) whether licences, approvals or agreements to operate or supply are granted, amended or renewed, whether consents for construction projects are granted in a timely manner or whether there has been any breach of the terms of a licence, approval or regulatory requirement; and

(ii) timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, a decoupling of energy usage and revenue, and other decisions relating to the impact of general economic conditions on us, our markets and customers, implications of climate change and of advancing energy technologies, whether aspects of our activities are contestable, the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities,

could have a material adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future.

Following the introduction of EMR, there has been an increased focus (from some of our stakeholders) on the potential conflicting duties of our transmission and system operator roles, which may damage our reputation.

The remediation plans in place or being implemented to address control weaknesses in our US business may not operate as expected, as a result of which we may be unable to provide timely regulatory reporting, which may include the provision of financial statements. This could result in the imposition of regulatory fines, penalties and other sanctions, which could impact our operations, our reputation and our relationship with our regulators and other stakeholders.

For further information see pages 176 to 182, which explain our regulatory environment in detail.

Business performance

Current and future business performance may not meet our expectations or those of our regulators and shareholders.
Earnings maintenance and growth from our regulated gas and electricity businesses will be affected by our ability to meet or exceed efficiency targets and service quality standards set by, or agreed with, our regulators.

If we do not meet these targets and standards, or if we do not implement the transformation projects we are carrying out as envisaged, including to our US enterprise resource planning systems and controls over financial reporting, or are not able to deliver our RIIO operating model and the US rate plans strategy successfully, we may not achieve the expected benefits, our business may be materially adversely affected and our performance, results of operations and reputation may be materially harmed and we may be in breach of regulatory or contractual obligations.

Growth and business development activity

Failure to respond to external market developments and execute our growth strategy may negatively affect our performance. Conversely, new businesses or activities that we undertake alone or with partners may not deliver target outcomes and may expose us to additional operational and financial risk.
Failure to grow our core business sufficiently and have viable options for new future business over the longer term or failure to respond to the threats and opportunities presented by emerging technology (including for the purposes of adapting our networks to meet the challenges of increasing distributed energy resources) could negatively affect the Group's credibility and reputation and jeopardise the achievement of intended financial returns.

Our business development activities and the delivery of our growth ambition, include acquisitions, disposals, joint ventures, partnering and organic investment opportunities such as development activities relating to changes to the energy mix and the integration of distributed energy resources and other advanced technologies. These are subject to a wide range of both external uncertainties (including the availability of potential investment targets and attractive financing and the impact of competition for onshore transmission in both the UK and US) and internal uncertainties (including actual performance of our existing operating companies and our business planning model assumptions and ability to integrate acquired businesses effectively). As a result, we may suffer unanticipated costs and liabilities and other unanticipated effects.

We may also be liable for the past acts, omissions or liabilities of companies or businesses we have acquired, which may be unforeseen or greater than anticipated. In the case of joint ventures, we may have limited control over operations and our joint venture partners may have interests that diverge from our own.

The occurrence of any of these events could have a material adverse impact on our results of operations or financial condition, and could also impact our ability to enter into other transactions.

Cost escalation

Changes in foreign currency rates, interest rates or commodity prices could materially impact earnings or our financial condition.
We have significant operations in the US and so are subject to the exchange rate risks normally associated with non UK operations, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency.

In addition, our results of operations and net debt position may be affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are affected by changes in interest rates, commodity price indices and exchange rates, in particular the dollar to sterling exchange rate.

Furthermore, our cash flow may be materially affected as a result of settling hedging arrangements entered into to manage our exchange rate, interest rate and commodity price exposure, or by cash collateral movements relating to derivative market values, which also depend on the sterling exchange rate into euro and other currencies.

Our results of operations could be affected by inflation or deflation.
In our regulated UK networks, our allowed revenues are set in real terms and then adjusted for actual RPI inflation. There is a risk that inflationary impacts on our costs are higher than RPI inflation and are not fully compensated by this inflation adjustment to revenues. There is also a risk that year-on-year RPI inflation is negative with no corresponding decrease in costs or insufficient decrease to offset the impact on revenues.

Our income under our rate plans in the US is not typically linked to inflation. In periods of inflation in the US, our operating costs may increase by more than our revenues. In both the UK and US such increased costs may materially adversely affect the results of our operations.

We may be required to make significant contributions to fund pension and other post-retirement benefits.
We participate in a number of pension schemes that together cover substantially all our employees. In both the UK and US, the principal schemes are DB schemes where the scheme assets are held independently of our own financial resources.

In the US, we also have other post-retirement benefit schemes. Estimates of the amount and timing of future funding for the UK and US schemes are based on actuarial assumptions and other factors, including: the actual and projected market performance of the scheme assets; future long-term bond yields; average life expectancies; and relevant legal requirements.

Actual performance of scheme assets may be affected by volatility in debt and equity markets.

Changes in these assumptions or other factors may require us to make additional contributions to these pension schemes which, to the extent they are not recoverable under our price controls or state rate plans, could materially adversely affect the results of our operations and financial condition.

Internal control and risk factors continued

Financing and liquidity

An inability to access capital markets at commercially acceptable interest rates could affect how we maintain and grow our businesses.

Our businesses are financed through cash generated from our ongoing operations, bank lending facilities and the capital markets, particularly the long-term debt capital markets.

Some of the debt we issue is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and borrowing costs. In addition, restrictions imposed by regulators may also limit how we service the financial requirements of our current businesses or the financing of newly acquired or developing businesses.

Financial markets can be subject to periods of volatility and shortages of liquidity. If we were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, our cost of financing may increase, the discretionary and uncommitted elements of our proposed capital investment programme may need to be reconsidered and the manner in which we implement our strategy may need to be reassessed.

Such events could have a material adverse impact on our business, results of operations and prospects.

Some of our regulatory agreements impose lower limits for the long-term senior unsecured debt credit ratings that certain companies within the Group must hold or the amount of equity within their capital structures.

One of the principal limits requires National Grid plc to hold an investment grade long-term senior unsecured debt credit rating. In addition, some of our regulatory arrangements impose restrictions on the way we can operate.

These include regulatory requirements for us to maintain adequate financial resources within certain parts of our operating businesses and may restrict the ability of National Grid plc and some of our subsidiaries to engage in certain transactions, including paying dividends, lending cash and levying charges.

The inability to meet such requirements or the occurrence of any such restrictions may have a material adverse impact on our business and financial condition.

The remediation plans in place or being implemented to address control weaknesses in our US business may not operate as expected, as a result of which we may be unable to provide accurate financial information to our debt investors in a timely manner.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants, such as restrictions on the level of subsidiary indebtedness.

Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt and may restrict our ability to draw upon our facilities or access the capital markets.

Customers and counterparties

Customers and counterparties may not perform their obligations.

Our operations are exposed to the risk that customers, suppliers, banks and other financial institutions and others with whom we do business will not satisfy their obligations, which could materially adversely affect our financial position.

This risk is significant where our subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates, such as from our previous LIPA managed services agreement (MSA) and current PSEG-LI transition services agreement, as well as industrial customers and other purchasers, and may also arise where customers are unable to pay us as a result of increasing commodity prices or adverse economic conditions.

To the extent that counterparties are contracted with for physical commodities (gas and electricity) and they experience events that impact their own ability to deliver, we may suffer supply interruption as described in Infrastructure and IT systems on page 184.

There is also a risk to us where we invest excess cash or enter into derivatives and other financial contracts with banks or other financial institutions. Banks who provide us with credit facilities may also fail to perform under those contracts.

Employees and others

We may fail to attract, develop and retain employees with the competencies, including leadership and business capabilities, values and behaviours required to deliver our strategy and vision and ensure they are engaged to act in our best interests.

Our ability to implement our strategy depends on the capabilities and performance of our employees and leadership at all levels of the business. Our ability to implement our strategy and vision may be negatively affected by the loss of key personnel or an inability to attract, integrate, engage and retain appropriately qualified personnel, or if significant disputes arise with our employees.

As a result, there may be a material adverse effect on our business, financial condition, results of operations and prospects.

There is a risk that an employee or someone acting on our behalf may breach our internal controls or internal governance framework or may contravene applicable laws and regulations. This could have an impact on the results of our operations, our reputation and our relationship with our regulators and other stakeholders.

Shareholder information

Articles of Association

The following description is a summary of the material terms of our Articles and applicable English law. It is a summary only and is qualified in its entirety by reference to the Articles.

Summary

The Articles set out the Company's internal regulations. Copies are available on our website and upon request. Amendments to the Articles have to be approved by at least 75% of those voting at a general meeting of the Company. Subject to company law and the Articles, the Directors may exercise all the powers of the Company. They may delegate authorities to committees and day-to-day management and decision-making to individual Executive Directors. The committee structure is set out on page 49.

General

The Company is incorporated under the name National Grid plc and is registered in England and Wales with registered number 04031152. Under the Companies Act 2006, the Company's objects are unrestricted.

Directors

Under the Articles, a Director must disclose any personal interest in a matter and may not vote in respect of that matter, subject to certain limited exceptions. As permitted under the Companies Act 2006, the Articles allow non conflicted Directors of the Company to authorise a conflict or potential conflict for a particular matter. In doing so, the non conflicted Directors must act in a way they consider, in good faith, will be most likely to promote the success of the Company for the benefit of the shareholders as a whole.

The Directors (other than a Director acting in an executive capacity) are paid fees for their services. In total, these fees must not exceed £2,000,000 a year or any higher sum decided by an ordinary resolution at a general meeting of shareholders. In addition, special pay may be awarded to a Director who acts in an executive capacity, serves on a committee, performs services which the Directors consider to extend beyond the ordinary duties of a Director, devotes special attention to the business of National Grid, or goes or lives abroad on the Company's behalf. Directors may also receive reimbursement for expenses properly incurred, and may be awarded pensions and other benefits. The compensation awarded to the Executive Directors is determined by the Remuneration Committee. Further details of Directors' remuneration are set out in the Directors' Remuneration Report (see page 68 to 81).

The Directors may exercise all the powers of National Grid to borrow money. However, the aggregate principal amount of all the Group's borrowings outstanding at any time must not exceed £35 billion or any other amount approved by shareholders by an ordinary resolution at a general meeting.

Directors can be appointed or removed by the Board or shareholders in a general meeting. Directors must stand for election at the first AGM following their appointment to the Board. Each Director must retire at least every three years, although they will be eligible for re-election. In accordance with best practice introduced by the UK Corporate Governance Code, all Directors wishing to continue in office currently offer themselves for re-election annually. No person is disqualified from being a Director or is required to vacate that office by reason of attaining a maximum age.

A Director is not required to hold shares in National Grid in order to qualify as a Director.

Rights, preferences and restrictions

(i) Dividend rights

National Grid may not pay any dividend otherwise than out of profits available for distribution under the Companies Act 2006 and other applicable provisions of English law. In addition, as a public company, National Grid may only make a distribution if, at the time of the distribution, the amount of its net assets is not less than the aggregate of its called up share capital and undistributable reserves (as defined in the Companies Act 2006) and to the extent that the distribution does not reduce the amount of those assets to less than that aggregate. Ordinary shareholders and ADS holders receive dividends.

Subject to these points, shareholders may, by ordinary resolution, declare dividends in accordance with the respective rights of the shareholders, but not exceeding the amount recommended by the Board. The Board may pay interim dividends if it considers that National Grid's financial position justifies the payment. Any dividend or interest unclaimed for 12 years from the date when it was declared or became due for payment will be forfeited and revert to National Grid.

(ii) Voting rights

Subject to any rights or restrictions attached to any shares and to any other provisions of the Articles, at any general meeting on a show of hands, every shareholder who is present in person will have one vote and on a poll, every shareholder will have one vote for every share they hold. On a show of hands or poll, shareholders may cast votes either personally or by proxy. A proxy need not be a shareholder. Under the Articles, all substantive resolutions at a general meeting must be decided on a poll. Ordinary shareholders and ADS holders can vote at general meetings.

(iii) Liquidation rights

In a winding up, a liquidator may (in each case with the sanction of a special resolution passed by the shareholders and any other sanction required under English law): (a) divide among the shareholders the whole or any part of National Grid's assets (whether the assets are of the same kind or not); the liquidator may, for this purpose, value any assets and determine how the division should be carried out as between shareholders or different classes of shareholders, or (b) transfer any part of the assets to trustees on trust for the benefit of the shareholders as the liquidator determines. In neither case will a shareholder be compelled to accept assets upon which there is a liability.

(iv) Restrictions

There are no restrictions on the transfer or sale of ordinary shares. Some of the Company's employee share plans, details of which are contained in the Directors' Remuneration Report, include restrictions on the transfer of shares while the shares are subject to the plan. Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owner, the voting rights may be exercised by the registered owner at the direction of the participant. Treasury shares do not attract a vote or dividends.

Variation of rights

Subject to applicable provisions of English law, the rights attached to any class of shares of National Grid may be varied or cancelled. This must be with the written consent of the holders of three quarters in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

General meetings
AGMs must be convened each year within six months of the Company's accounting reference date upon 21 clear days' advance written notice. Under the Articles, any other general meeting may be convened provided at least 14 clear days' written notice is given, subject to annual approval of shareholders. In certain limited circumstances, the Company can convene a general meeting by shorter notice. The notice must specify, among other things, the nature of the business to be transacted, the place, the date and the time of the meeting.

Rights of non residents
There are no restrictions under the Articles that would limit the rights of persons not resident in the UK to vote in relation to ordinary shares.

Disclosure of interests
Under the Companies Act 2006, National Grid may, by written notice, require a person whom it has reasonable cause to believe to be or to have been, in the last three years, interested in its shares to provide additional information relating to that interest. Under the Articles, failure to provide such information may result in a shareholder losing their rights to attend, vote or exercise any other right in relation to shareholders' meetings.

Under the UK Disclosure Rules and Transparency Rules, there is also an obligation on a person who acquires or ceases to have a notifiable interest in shares in National Grid to notify the Company of that fact. The disclosure threshold is 3% and disclosure is required each time the person's direct and indirect holdings reach, exceed or fall below each 1% threshold thereafter.

The UK City Code on Takeovers and Mergers imposes strict disclosure requirements with regard to dealings in the securities of an offeror or offeree company, and also on their respective associates, during the course of an offer period. Other regulators in the UK, US and elsewhere may have, or assert, notification or approval rights over acquisitions or transfers of shares.

Depositary payments to the Company
The Depositary reimburses the Company for certain expenses it incurs in relation to the ADS programme. The Depositary also pays the standard out-of-pocket maintenance costs for the ADSs, which consist of the expenses for the mailing of annual and interim financial reports, printing and distributing dividend cheques, electronic filing of US federal tax information, mailing required tax forms, stationery, postage, facsimile and telephone calls. It also reimburses the Company for certain investor relationship programmes or special investor relations promotional activities. There are limits on the amount of expenses for which the Depositary will reimburse the Company, but the amount of reimbursement is not necessarily tied to the amount of fees the Depositary collects from investors. For the period 1 April 2015 to 18 May 2016, the Company received a total of $1,948,523.97 in reimbursements from the Depositary consisting of $1,277,966.88 and $670,557.09 received in October 2015 and February 2016 respectively. Fees that are charged on cash dividends will be apportioned between the Depositary and the Company, see below.

Any questions from ADS holders should be directed to The Bank of New York Mellon at the contact details on page 207.

Description of securities other than equity securities: depositary fees and charges
The Bank of New York Mellon, as the Depositary, collects fees, by deducting those fees from the amounts distributed or by selling a portion of distributable property, for:

- delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them; and
- making distributions to investors (including, it is expected, cash dividends).

The Depositary may generally refuse to provide fee attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:	For
$5.00 per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property; cancellation of ADSs for the purpose of withdrawal, including if the Deposit Agreement terminates; and distribution of securities distributed to holders of deposited securities that are distributed by the Depositary to ADS holders.
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the Depositary or its agent when they deposit or withdraw shares.
Expenses of the Depositary	Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement); and converting foreign currency to dollars.
Taxes and other governmental charges the Depositary or the Custodian has to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary.

The Company's Deposit Agreement under which the ADSs are issued allows a fee of up to $0.05 per ADS to be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2015/16 final dividend will be charged a fee of $0.02 per ADS by the Depositary prior to distribution of the cash dividend.

Documents on display
National Grid is subject to the filing requirements of the Exchange Act, as amended. In accordance with these requirements, we file reports and other information with the SEC. These materials, including this document, may be inspected during normal business hours at our registered office 1–3 Strand, London WC2N 5EH or at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. For further information about the Public Reference Room, please call the SEC at 1-800-SEC-0330. Some of our filings are also available on the SEC's website at www.sec.gov.

Events after the reporting period
There have been no material events affecting the Company since the year end.

Exchange controls
There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange control restrictions, or that affect the remittance of dividends, interest or other payments to non UK resident holders of ordinary shares except as otherwise set out in Taxation on page 190 and except in respect of the governments of and/or certain citizens, residents or bodies of certain countries (described in applicable Bank of England Notices or European Union Council Regulations in force as at the date of this document).

Exchange rates

The following table shows the history of the exchange rates of one pound sterling to dollars for the periods indicated.

	Dollar equivalent of £1 sterling	
	High	Low
April 2016	1.4650	1.4086
March 2016	1.4514	1.3925
February 2016	1.4592	1.3862
January 2016	1.4689	1.4135
December 2015	1.5211	1.4795

	Average[1]
2015/16	1.51
2014/15	1.61
2013/14	1.60
2012/13	1.57
2011/12	1.60

1. The average for each period is calculated by using the average of the exchange rates on the last day of each month during the period. See weighted average exchange rate on page 95.

Material interests in shares

As at 31 March 2016, National Grid had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	Number of ordinary shares	% of voting rights[1]
Black Rock, Inc.	220,432,122	5.88
Competrol International Investments Limited	149,414,285	3.98
The Capital Group Companies, Inc.	145,094,617	3.88

1. This number is calculated in relation to the issued share capital at the time the holding was disclosed.

As at 18 May 2016, no further notifications have been received.

The rights attached to ordinary shares are detailed on page 187. All ordinary shares and all major shareholders have the same voting rights. The Company is not, to the best of its knowledge, directly or indirectly controlled.

Share capital

The share capital of the Company consists of ordinary shares of $11\frac{17}{43}$ pence nominal value each and ADRs, which represent five ordinary shares each.

Authority to purchase shares

Shareholder approval was given at the 2015 AGM to purchase up to 10% of the Company's share capital (being 374,138,605 ordinary shares). The Directors intend to seek shareholder approval to renew this authority at this year's AGM.

In some circumstances, the Company may find it advantageous to have the authority to purchase its own shares in the market, where the Directors believe this would be in the interests of shareholders generally. The Directors believe that it is an important part of the financial management of the Company to have the flexibility to repurchase issued shares in order to manage its capital base, including actively managing share issuances from the operation of the scrip dividend scheme. It is expected that repurchases to manage share issuances under the scrip dividend scheme will not exceed 2.5% of the issued share capital (excluding treasury shares) per annum.

When purchasing shares, the Company has, and will continue to, take into account market conditions prevailing at the time, other investment and financing opportunities and the overall financial position of the Company.

During the year the Company purchased ordinary shares in the capital of the Company as part of the management of the dilutive effect of share issuances under the scrip dividend scheme.

	Number of shares	Total nominal value	Percentage of called up share capital[1]
Shares held in Treasury purchased in prior years	152,945,477	£17,428,670.63	3.90 %
Shares purchased and held in Treasury during the year[2,3]	31,690,010	£3,611,187.19	0.81 %
Shares transferred from Treasury during the year (to employees under employee share plans)[2]	5,090,406	£580,069.52	0.13 %
Maximum number of shares held in Treasury during the year[2]	179,065,924	£20,405,186.69	4.56 %

1. Called up share capital of 3,924,038,086 ordinary shares as at the date of this Report.
2. From 29 June 2015 to 31 March 2016.
3. Shares purchased for a total cost of £267,109,568.

During the period from 1 April 2016 to 7 April 2016 the Company purchased 657,000 ordinary shares in the capital of the Company.

As at the date of this Report, the Company held 177,211,465 ordinary shares as treasury shares, representing 4.52% of the Company's called up share capital.

Shareholder information continued

Authority to allot shares
Shareholder approval was given at the 2015 AGM to allot shares of up to one third of the Company's share capital. The Directors are seeking this same level of authority this year. The Directors consider that the Company will have sufficient flexibility with this level of authority to respond to market developments. This authority is in line with investor guidelines.

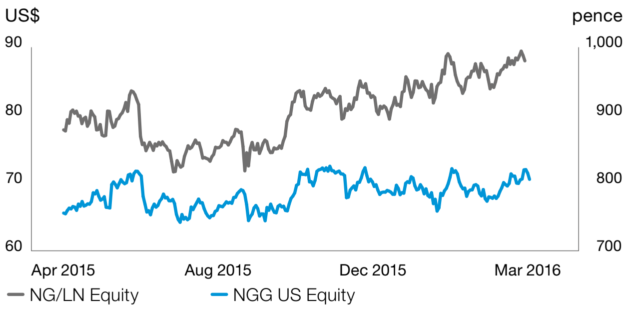
The Directors currently have no intention of issuing new shares, or of granting rights to subscribe for or convert any security into shares, except in relation to, or in connection with, the operation and management of the Company's scrip dividend scheme and the exercise of options under the Company's share plans. No issue of shares will be made which would effectively alter control of the Company without the sanction of shareholders in general meeting.

The Company expects to actively manage the dilutive effect of share issuance arising from the operation of the scrip dividend scheme. In some circumstances, additional shares may be allotted to the market for this purpose under the authority provided by this resolution. Under these unlikely circumstances, it is expected that the associated allotment of new shares (or rights to subscribe for or convert any security into shares) will not exceed 1% of the issued share capital (excluding treasury shares) per year.

Dividend waivers
The trustees of the National Grid Employees Share Trust, which are independent of the Company, waived the right to dividends paid during the year, and have agreed to waive the right to future dividends, in relation to the ordinary shares and American Depositary Receipts (ADR) held by the trust.

Under the Company's ADR programme, the right to dividends in relation to the ordinary shares underlying the ADRs was waived during the year by the ADR Depositary, under an arrangement whereby the Company pays the monies to satisfy any dividends separately to the Depositary for distribution to ADR holders entitled to the dividend. This arrangement is expected to continue for future dividends.

Share price
National Grid ordinary shares are listed on the London Stock Exchange under the symbol NG and the ADSs are listed on the New York Stock Exchange under the symbol NGG.



Source: Datastream

Price history
The following table shows the highest and lowest intraday market prices for our ordinary shares and ADSs for the periods indicated:

	Ordinary share (pence)		ADS ($)	
	High	Low	High	Low
2015/16	998.20	806.40	72.53	63.75
2014/15	965.00	806.22	77.21	62.25
2013/14	849.50	711.00	70.07	55.16
2012/13	770.00	627.00	58.33	49.55
2011/12	660.50	545.50	52.18	45.80
2015/16 Q4	998.20	906.10	72.47	64.76
Q3	968.57	890.60	72.53	67.31
Q2	918.90	806.40	69.71	63.75
Q1	940.90	817.20	72.14	64.37
2014/15 Q4	954.00	842.60	72.41	62.25
Q3	965.00	853.78	75.08	67.01
Q2	916.00	835.76	77.21	70.37
Q1	897.92	806.22	75.09	67.62
April 2016	1,011.50	950.20	73.10	68.83
March 2016	998.20	932.00	72.47	66.56
February 2016	992.50	925.55	72.36	67.20
January 2016	985.80	906.10	70.86	64.76
December 2015	968.57	892.93	71.05	67.62

Shareholder analysis
The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2016.

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1–50	164,955	17.79	4,739,232	0.12
51–100	248,832	26.84	17,628,238	0.45
101–500	400,098	43.15	84,389,639	2.15
501–1,000	56,663	6.11	39,596,174	1.01
1,001–10,000	53,455	5.76	132,042,157	3.37
10,001–50,000	2,120	0.23	38,087,028	0.97
50,001–100,000	205	0.02	14,532,280	0.37
100,001–500,000	464	0.05	113,514,429	2.89
500,001–1,000,000	140	0.02	101,923,402	2.60
1,000,001+	314	0.03	3,377,585,507	86.07
Total	**927,246**	**100.00**	**3,924,038,086**	**100.00**

Taxation
The discussion in this section provides information about certain US federal income tax and UK tax consequences for US Holders (defined below) of owning ADSs and ordinary shares. A US Holder is beneficial owner of ADSs or ordinary shares that:

- is for US federal income tax purposes (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, any State thereof, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for US federal income tax purposes;
- is not resident or ordinarily resident in the UK for UK tax purposes; and
- does not hold ADSs or ordinary shares in connection with the conduct of a business or the performance of services in the UK or otherwise in connection with a branch, agency or permanent establishment in the UK.

This discussion is not a comprehensive description of all the US federal income tax and UK tax considerations that may be relevant to any particular investor (including consequences under the US alternative minimum tax or net investment income tax) and does not address state, local, or other tax laws. National Grid has assumed that shareholders, including US Holders, are familiar with the tax rules applicable to investments in securities generally and with any special rules to which they may be subject. This discussion deals only with US Holders who hold ADSs or ordinary shares as capital assets. It does not address the tax treatment of investors who are subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or currencies;
- investors who elect mark-to-market treatment;
- entities treated as partnerships or other pass-through entities and their partners;
- individual retirement accounts and other tax-deferred accounts;
- tax-exempt organisations;
- investors who own (directly or indirectly) 10% or more of our voting stock;
- investors who hold ADSs or ordinary shares as a position in a straddle, hedging transaction or conversion transaction;
- persons that have ceased to be US citizens or lawful permanent residents of the US; and
- investors whose functional currency is not the US dollar.

The statements regarding US and UK tax laws and administrative practices set forth below are based on laws, treaties, judicial decisions and regulatory interpretations in effect on the date of this document. These laws and practices are subject to change without notice, potentially with retroactive effect. In addition, the statements set forth below are based on the representations of the Depositary and assume that each party to the Deposit Agreement will perform its obligations thereunder in accordance with its terms.

US Holders of ADSs generally will be treated as the owners of the ordinary shares represented by those ADSs for US federal income tax purposes. For the purposes of the Tax Convention, the Estate Tax Convention and UK tax considerations, this discussion assumes that a US Holder of ADSs will be treated as the owner of the ordinary shares represented by those ADSs. HMRC has stated that it will continue to apply its long-standing practice of treating a holder of ADSs as holding the beneficial interest in the ordinary shares represented by the ADSs; however, we note that this is an area of some uncertainty and may be subject to change.

US Holders should consult their own advisors regarding the tax consequences of buying, owning and disposing of ADSs or ordinary shares in light of their particular circumstances, including the effect of any state, local, or other tax laws.

Taxation of dividends
The UK does not currently impose a withholding tax on dividends paid to US Holders.

Cash distributions paid out of our current or accumulated earnings and profits (as determined for US federal income tax purposes) generally will be taxable to a US Holder as dividend income. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of a US Holder's basis in its ADSs or ordinary shares, as applicable, and thereafter as a capital gain. However, we do not maintain calculations of our earnings and profits in accordance with US federal income tax principles. US Holders should therefore assume that any distribution by us with respect to ADSs or ordinary shares will be reported as dividend income.

Dividends received by non-corporate US Holders with respect to ADSs or ordinary shares will generally be taxable at the reduced rate applicable to long-term capital gains provided (i) either (a) we are eligible for the benefits of the Tax Convention or (b) ADSs or ordinary shares are treated as 'readily tradable' on an established securities market in the United States and (ii) we are not, for our taxable year during which the dividend is paid or the prior year, a passive foreign investment company for US federal income tax purposes (a PFIC), and certain other requirements are met. We (1) expect that our shares will be treated as 'readily tradable' on an established securities market in the United States as a result of the trading of ADSs on the New York Stock Exchange and (2) believe we are eligible for the benefits of the Tax Convention.

Based on our audited financial statements and the nature of our business activities, we believe that we were not treated as a PFIC for US federal income tax purposes with respect to our taxable year ending 31 March 2016. In addition, based on our current expectations regarding the value and nature of our assets, the sources and nature of our income, and the nature of our business activities, we do not anticipate becoming a PFIC in the foreseeable future.

Dividends received by corporate US Holders with respect to ADSs or ordinary shares will not be eligible for the dividends received deduction generally allowed to corporations.

Taxation of capital gains
US Holders will not be subject to UK taxation on any capital gain realised on the sale or other disposition of ADSs or ordinary shares.

Provided that we are not a PFIC for any taxable year during which a US Holder holds their ADSs or ordinary shares, upon a sale or other disposition of ADSs or ordinary shares, a US Holder generally will recognise capital gain or loss equal to the difference between the US dollar value of the amount realised on the sale or other disposition and the US Holder's adjusted tax basis in the ADSs or ordinary shares. Such capital gain or loss generally will be long-term capital gain or loss if the ADSs or ordinary shares were held for more than one year. For non-corporate US Holders, long-term capital gain is generally taxed at a lower rate than ordinary income. A US Holder's ability to deduct capital losses is subject to significant limitations.

UK stamp duty and stamp duty reserve tax (SDRT)

Transfers of ordinary shares – SDRT at the rate of 0.5% of the amount or value of the consideration will generally be payable on any agreement to transfer ordinary shares that is not completed using a duly stamped instrument of transfer (such as a stock transfer form).

Where an instrument of transfer is executed and duly stamped before the expiry of the six year period beginning with the date on which the agreement is made, the SDRT liability will be cancelled. If a claim is made within the specified period, any SDRT which has been paid will be refunded. SDRT is due whether or not the agreement or transfer is made or carried out in the UK and whether or not any party to that agreement or transfer is a UK resident.

Purchases of ordinary shares completed using a stock transfer form will generally result in a UK stamp duty liability at the rate of 0.5% (rounded up to the nearest £5) of the amount or value of the consideration. Paperless transfers under the CREST paperless settlement system will generally be liable to SDRT at the rate of 0.5%, and not stamp duty. SDRT is generally the liability of the purchaser and UK stamp duty is usually paid by the purchaser or transferee.

Transfers of ADSs – No UK stamp duty will be payable on the acquisition or transfer of existing ADSs or beneficial ownership of ADSs, provided that any instrument of transfer or written agreement to transfer is executed outside the UK and remains at all times outside the UK.

An agreement for the transfer of ADSs in the form of ADRs will not result in a SDRT liability. A charge to stamp duty or SDRT may arise on the transfer of ordinary shares to the Depositary or The Bank of New York Mellon as agent of the Depositary (the Custodian).

The rate of stamp duty or SDRT will generally be 1.5% of the value of the consideration or, in some circumstances, the value of the ordinary shares concerned. However, there is no 1.5% SDRT charge on the issue of ordinary shares (or, where it is integral to the raising of new capital, the transfer of ordinary shares) to the Depositary or the Custodian.

The Depositary will generally be liable for the stamp duty or SDRT. Under the terms of the Deposit Agreement, the Depositary will charge any tax payable by the Depositary or the Custodian (or their nominees) on the deposit of ordinary shares to the party to whom the ADSs are delivered against such deposits. If the stamp duty is not a multiple of £5, the duty will be rounded up to the nearest multiple of £5.

US information reporting and backup withholding tax

Dividend payments made to US Holders and proceeds paid from the sale, exchange, redemption or disposal of ADSs or ordinary shares to US Holders may be subject to information reporting to the US Internal Revenue Service (IRS). Such payments may be subject to backup withholding taxes if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements.

US Holders should consult their tax advisors about these rules and any other reporting obligations that may apply to the ownership or disposition of ADSs or ordinary shares, including reporting requirements related to the holding of certain foreign financial assets.

UK inheritance tax

An individual who is domiciled in the US for the purposes of the Estate Tax Convention and who is not a UK national for the purposes of the Estate Tax Convention will generally not be subject to UK inheritance tax in respect of (i) the ADSs or ordinary shares on the individual's death or (ii) a gift of the ADSs or ordinary shares during the individual's lifetime. This is not the case where the ADSs or ordinary shares are part of the business property of the individual's permanent establishment in the UK or relate to a fixed base in the UK of an individual who performs independent personal services.

Special rules apply to ADSs or ordinary shares held in trust. In the exceptional case where the ADSs or shares are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Convention generally provides for the tax paid in the UK to be credited against tax paid in the US.

Capital gains tax (CGT) for UK resident shareholders

You can find CGT information relating to National Grid shares for UK resident shareholders on our website under: Investors, Shareholder centre, More information and help. Share prices on specific dates are also available on our website.

Other disclosures

All-employee share plans
The Company has a number of all-employee share plans as described below, which operated during the year. These allow UK- or US-based employees to participate in either HMRC (UK) or IRS (US) approved plans and to become shareholders in National Grid.

Sharesave
Employees resident in the UK are eligible to participate in the Sharesave plan. Under this plan, participants may contribute between £5 and £500 in total each month, for a fixed period of three years, five years or both. Contributions are taken from net salary.

SIP
Employees resident in the UK are eligible to participate in the SIP. Contributions up to £150 are deducted from participants' gross salary and used to purchase ordinary shares in National Grid each month. The shares are placed in trust.

US Incentive Thrift Plans
Employees of National Grid's US companies are eligible to participate in the Thrift Plans, which are tax-advantaged savings plans (commonly referred to as 401(k) plans). They are DC pension plans that give participants the opportunity to invest up to applicable federal salary limits. The federal limits for calendar year 2015 are: for pre-tax contributions, a maximum of 50% of salary limited to $18,000 for those under the age of 50 and $24,000 for those age 50 and above; for post-tax contributions, up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) may not exceed 50% of compensation, and are further subject to the combined federal annual contribution limit of $53,000. For calendar year 2016, participants may invest up to the applicable federal salary limits: for pre-tax contributions, a maximum of 50% of salary limited to $18,000 for those under the age of 50 and $24,000 for those age 50 and above; for post-tax contributions, up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) may not exceed 50% of compensation, and are further subject to the combined federal annual contribution limit of $53,000.

ESPP
Employees of National Grid's US companies are eligible to participate in the ESPP (commonly referred to as a 423(b) plan). Eligible employees have the opportunity to purchase ADSs on a monthly basis at a 15% discounted price. Under the plan, employees may contribute up to 20% of base pay each year, up to a maximum annual contribution of $18,888 to purchase ADSs in National Grid.

Change of control provisions
No compensation would be paid for loss of office of Directors on a change of control of the Company. As at 31 March 2016, the Company had undrawn borrowing facilities of £1.7 billion available to it with a number of banks, and a further £1.4 billion of drawn bank loans which, on a change of control of the Company following a takeover bid, may alter or terminate. All the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. In the event of a change of control of the Company, a number of governmental and regulatory consents or approvals are likely to be required, arising from laws or regulations of the UK, US or the EU. Such consents or approvals may also be required for acquisitions of equity securities that do not amount to a change of control.

No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

Code of Ethics
In accordance with US legal requirements, the Board has adopted a Code of Ethics for senior financial professionals. This code is available on our website (where any amendments or waivers will also be posted) under: About us, Corporate governance, Code of Ethics. There were no amendments to, or waivers of, our Code of Ethics during the year.

Conflicts of interest
In accordance with the Companies Act 2006, the Board has a policy and procedure in place for the disclosure and authorisation (if appropriate) of actual and potential conflicts of interest. The Board continues to monitor and note possible conflicts of interest that each Director may have. The Directors are regularly reminded of their continuing obligations in relation to conflicts, and are required annually to review and confirm their external interests. During the year ended 31 March 2016, no actual conflicts of interest were identified, which required approval by the Board. However, the Board was advised of two situations in relation to which potential conflicts of interest could arise, and authorised those potential conflicts in accordance with its powers as set out in the Articles.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards
The Company is listed on the NYSE and is therefore required to disclose differences in its corporate governance practices adopted as a UK listed company, compared with those of a US company.

The corporate governance practices of the Company are primarily based on the requirements of the Code but substantially conform to those required of US companies listed on the NYSE. The following is a summary of the significant ways in which the Company's corporate governance practices differ from those followed by US companies under Section 303A Corporate Governance Standards of the NYSE.

- The NYSE rules and the Code apply different tests for the independence of Board members.
- The NYSE rules require a separate nominating/corporate governance committee composed entirely of independent Directors. There is no requirement for a separate corporate governance committee in the UK. Under the Company's corporate governance policies, all Directors on the Board discuss and decide upon governance issues, and the Nominations Committee makes recommendations to the Board with regard to certain of the responsibilities of a corporate governance committee.
- The NYSE rules require listed companies to adopt and disclose corporate governance guidelines. While the Company reports compliance with the Code in each Annual Report and Accounts, the UK requirements do not require the Company to adopt and disclose separate corporate governance guidelines.
- The NYSE rules require a separate audit committee composed of at least three independent members. While the Company's Audit Committee exceeds the NYSE's minimum independent Non-executive Director membership requirements, it should be noted that the quorum for a meeting of the Audit Committee, of two independent Non-executive Directors, is less than the minimum membership requirements under the NYSE rules.
- The NYSE rules require a compensation committee composed entirely of independent Directors, and prescribe criteria to evaluate the independence of the committee's members and its ability to engage external compensation advisors. While the Code prescribes different independence criteria, the Non-executive Directors on the Remuneration Committee have each been deemed independent by the Board under the NYSE rules. Although the evaluation criteria for appointment of external advisors differ under the Code, the Remuneration Committee is solely responsible for appointment, retention and termination of such advisors.

Other disclosures continued

Directors' indemnity
The Company has arranged, in accordance with the Companies Act 2006 and the Articles, qualifying third-party indemnities against financial exposure that Directors may incur in the course of their professional duties. Equivalent qualifying third-party indemnities were, and remain, in force for the benefit of those Directors who stood down from the Board in prior financial years for matters arising when they were Directors of the Company. Alongside these indemnities, the Company places Directors' and Officers' liability insurance cover for each Director.

Employees
We negotiate with recognised unions. It is our policy to maintain well developed communications and consultation programmes and there have been no material disruptions to our operations from labour disputes during the past five years. National Grid believes that it can conduct its relationships with trade unions and employees in a satisfactory manner.

Human Rights
Respect for human rights is incorporated into our employment practices and our values, which include respecting others and valuing diversity. 'Always Doing the Right Thing' is our guide to ethical business conduct – the way in which we conduct ourselves allows us to build trust with the people we work with. We earn this trust by doing things in the right way, building our reputation as an ethical company that our stakeholders want to do business with, and that our employees want to work for. Although we do not have specific policies relating to human rights, slavery and human trafficking, our procurement policies integrate sustainability into the way we do business throughout our supply chain, so that we create value, preserve natural resources and respect the interests of the communities we serve and from which we procure goods and services. Through our Global Supplier Code of Conduct (GSCoC), we expect our suppliers to keep to all laws relating to their business, as well as adhere to the principles of the United Nations Global Compact, the Ethical Trading Initiative Base Code and the UK Modern Slavery Act 2015. In 2015 the GSCoC was further updated to include the requirements of the Living Wage Foundation. To read more on the Company's commitment to the Living Wage please see page 45.

Listing Rule 9.8.4 R cross reference table
Information required to be disclosed by LR 9.8.4 R (starting on page indicated):

Interest capitalised	Page 112
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Not applicable
Waiver of emoluments by a director	Not applicable
Waiver of future emoluments by a director	Not applicable
Non pre-emptive issues of equity for cash	Not applicable
Item (7) in relation to major subsidiary undertakings	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waivers of dividends	Page 190
Shareholder waivers of future dividends	Page 190
Agreements with controlling shareholders	Not applicable

Material contracts
Each of our Executive Directors has a service agreement and each Non-executive Director has a letter of appointment. No contract (other than contracts entered into in the ordinary course of business) has been entered into by National Grid within the two years immediately preceding the date of this Report which is, or may be, material; or which contains any provision under which any member of National Grid has any obligation or entitlement which is material to National Grid at the date of this Report.

Political donations and expenditure
At this year's AGM the Directors will seek authority from shareholders, on a precautionary basis, for the Company and its subsidiaries to make donations to registered political parties and other political organisations and/or incur political expenditure in the European Union (EU), in each case in amounts not exceeding £125,000 in aggregate. The definitions of these terms in the Companies Act 2006 are very wide and as a result this can cover bodies such as those concerned with policy review, law reform and the representation of the business community. It could include special interest groups, such as those involved with the environment, which the Company and its subsidiaries might wish to support, even though these activities are not designed to support or influence support for a particular party. The Company has no intention of changing its current practice of not making political donations or incurring political expenditure within the ordinary meaning of those words. This authority is therefore being sought to ensure that none of the Company's activities inadvertently infringe these rules.

National Grid made no donations in the EU during the year, including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000. National Grid USA and its affiliated New York and federal political action committees (each, a PAC) made political donations in the US totalling $67,550 (£45,952) during the year. National Grid USA's affiliated New York PAC was funded partly by contributions from National Grid USA and certain of its subsidiaries and partly by voluntary employee contributions. National Grid USA's affiliated federal PAC was funded wholly by voluntary employee contributions.

Property, plant and equipment
This information can be found under the heading note 11 property, plant and equipment on pages 122 and 123, note 19 Borrowings on pages 130 and 131, Strategic Report pages 10 to 13, where we operate on page 175 and principal operations on pages 31 to 43.

Research and development
Expenditure on research and development during the year was £29 million (2014/15: £23 million; 2013/14: £12 million). Innovation funding throughout 2015/16 has sustained investment across all three of our UK Regulated business areas: UK ET, UK GT and UK GD. Through collaboration across the industry, we have continued our drive to deliver benefits for our stakeholders, challenging the way we work and seeking new technologies to deliver these benefits. Due to the way in which we work with a large number of partners on new ideas, our disclosed research and development expenditure is lower than the overall contribution we make to the industry. We only disclose directly incurred expenditure, and not those amounts our partners incur working on projects with us.

The UK ET innovation investment continues to aim to advance our strategic ambitions to reduce the cost of providing a secure, reliable and sustainable electricity transmission system. We have installed a 400kV transformer with synthetic ester, an insulating fluid that presents a significantly lower fire risk than the mineral oil normally used; and we've started work towards live trials of a new insulating gas that could be an effective alternative to SF_6.

Research has also progressed on understanding of and ability to predict and manage the impact of increased levels of distributed and renewable generation on the system. UK ET has also secured £12 million of Network Innovation Competition funding support for our £14 million investment in an innovation facility in northeast Wales.

The UK GT innovation portfolio has continued to grow, with a key focus on safety and risk reduction through projects exploring new techniques to conduct internal pipe inspection and improve asset integrity, alongside those to provide enhanced gas forecasting and the development of new smart asset maintenance techniques. In addition, UK GT won £4.8 million funding for Project 'CLoCC' (customer low-cost connections), which seeks to minimise the time and cost of connections to the national gas transmission system.

Innovation in UK GD continues to grow with a diversified portfolio focusing on six value areas which reflect both the RIIO outputs and the UK GD ambition. We continue to develop and refine robotic and pipe-lining technologies to reduce the impact of our pipe replacement activities on our customers and the environment. Our focus has shifted towards implementing the output of these innovations into the business and demonstrating the value of our innovation projects to our customers.

Research, Development & Demonstration (RD&D) work in the US has focused on the advancement of products, processes, systems and work methods that may be new to National Grid. This is accomplished by working with internal departments to identify where strategic RD&D investment is needed and is likely to prove beneficial to National Grid. To achieve these goals, we work in collaboration with technical organisations, academia and vendors in the energy sector that align with our goals and objectives. This collaboration has also helped inform our strategic direction in response to jurisdictional requests for modernisation (Grid Modernization in Massachusetts and 'Reforming the Energy Vision' in New York).

In the year, we invested and participated in several significant pilot projects with the intent of obtaining operational knowledge and experience of technology driven system impacts. For example, we are pre-approved to construct up to 20 MW of photovoltaic (PV) facilities in Massachusetts as part of our 'Solar Phase II' programme. These PV sites are designed with advanced grid interactive control features, beyond what typical PV facilities are required to provide.

Operating and analysing the performance of these grid interactive controls will help prepare and future proof our system to enable a high penetration of the Distributed Energy Resources on the distribution system. We are also supporting several Department of Energy projects under the SunShot programme, aimed to further integration and proliferation of solar PV. As part of its ongoing Worcester Smart Energy Solutions pilot in Massachusetts, the Company is continuing to examine its learnings from the customer and grid technology as deployed. Lastly, the Company is also deploying Volt VAR Optimization and Conservation Voltage Reduction technology on several distribution circuits in Rhode Island, examining the impact of intelligent centralised distribution asset control.

US expenditure for gas research, development and deployment of new technologies during 2015/16 was $2.6 million. This is largely funded through a special Regulatory Order and customer surcharge mechanism in New York State. Primary investments were in the areas of robotic inspection tools and enhancements for condition assessments of the most difficult to inspect pipelines. In addition, new tools and techniques are being developed to increase safety of the workforce, improve welding practices and advance the inspection of polyethylene pipe construction, joint quality and the tracking and traceability of materials used in the construction of our transmission and distribution assets.

To further advance the safe operation of our systems and to improve overall customer safety, methane detection equipment is being deployed and tested both as mobile solutions to identify leakage in the field and in residential buildings. After completing extensive bench testing, we are implementing a pilot study in the use of existing and new technology for methane sensors within residential properties.

Unresolved SEC staff comments

There are no unresolved SEC staff comments required to be reported.

Other unaudited financial information
Reconciliations of adjusted profit measures

Use of adjusted profit measures
In considering the financial performance of our businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax, profit for the year attributable to equity shareholders and EPS into two components.

The first of these components is referred to as an adjusted profit measure, also known as a business performance measure. This is the principal measure used by management to assess the performance of the underlying business.

Adjusted results exclude exceptional items and remeasurements. These items are reported collectively as the second component of the financial measures. Note 4 on page 111 explains in detail the items which are excluded from our adjusted profit measures.

Adjusted profit measures have limitations in their usefulness compared with the comparable total profit measures as they exclude important elements of our financial performance. However, we believe that by presenting our financial performance in two components it is easier to read and interpret financial performance between periods, as adjusted profit measures are more comparable having removed the distorting effect of the excluded items. Those items are more clearly understood if separately identified and analysed.

The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented.

Management uses adjusted profit measures as the basis for monitoring financial performance and in communicating financial performance to investors in external presentations and announcements of financial results.

Internal financial reports, budgets and forecasts are primarily prepared on the basis of adjusted profit measures, although planned exceptional items, such as significant restructurings, are also reflected in budgets and forecasts. We separately monitor and disclose the excluded items as a component of our overall financial performance.

Reconciliation of adjusted operating profit to total operating profit
Adjusted operating profit is presented on the face of the income statement under the heading operating profit before exceptional items and remeasurements.

	Year ended 31 March		
	2016 £m	2015 £m	2014 £m
Adjusted operating profit	**4,096**	3,863	3,664
Exceptional items	**(22)**	–	55
Remeasurements – commodity contracts	**11**	(83)	16
Total operating profit	**4,085**	3,780	3,735

Reconciliation of adjusted operating profit to adjusted earnings and earnings
Adjusted earnings is presented in note 7 to the consolidated financial statements on page 118.

	Year ended 31 March		
	2016 £m	2015 £m	2014 £m
Adjusted operating profit	**4,096**	3,863	3,664
Adjusted net finance costs	**(1,013)**	(1,033)	(1,108)
Share of post-tax results of joint ventures and associates	**59**	46	28
Adjusted profit before tax	**3,142**	2,876	2,584
Adjusted tax	**(753)**	(695)	(581)
Adjusted profit after tax	**2,389**	2,181	2,003
Attributable to non-controlling interests	**(3)**	8	12
Adjusted earnings	**2,386**	2,189	2,015
Exceptional items after tax	**278**	(97)	388
Remeasurements after tax	**(73)**	(73)	73
Earnings	**2,591**	2,019	2,476

Reconciliation of adjusted EPS to EPS
Adjusted EPS is presented in note 7 to the consolidated financial statements.

	Year ended 31 March		
	2016 pence	2015[1] pence	2014[1] pence
Adjusted EPS	**63.5**	57.6	53.1
Exceptional items after tax	**7.4**	(2.6)	10.2
Remeasurements after tax	**(1.9)**	(1.8)	1.9
EPS	**69.0**	53.2	65.2

1. Comparative information has been restated to reflect the additional shares issued as scrip dividends.

Reconciliation of adjusted operating profit excluding timing differences to total operating profit
Adjusted operating profit excluding timing differences is discussed on page 25. There were no major storms in 2014, 2015, or 2016.

	Year ended 31 March		
	2016 £m	2015 £m	2014 £m
Adjusted operating profit excluding timing differences	**4,071**	3,927	3,706
Timing differences	**25**	(64)	(42)
Adjusted operating profit	**4,096**	3,863	3,664
Exceptional items and remeasurements	**(11)**	(83)	71
Total operating profit	**4,085**	3,780	3,735

Commentary on consolidated financial statements
for the year ended 31 March 2015

In compliance with SEC rules, we present a summarised analysis of movements in the income statement, an analysis of movements in adjusted operating profit by operating segment and a summarised analysis of movements in the statement of financial position for the year ended 31 March 2015. This should be read in conjunction with the 31 March 2016 unaudited commentary included on pages 95, 99, 107 and 108.

Analysis of the income statement for the years ended 31 March 2015 and 31 March 2014

Revenue

Revenue for the year ended 31 March 2015 increased by £392 million to £15,201 million. This increase was driven by higher revenues in our UK ET business, reflecting increases in allowed Transmission Owner revenues, and higher core allowances and pass-through costs in UK GT. Revenues in our UK GD business were slightly lower as a result of changes in allowed revenues for replacement expenditure (repex). Our US Regulated business revenues were also lower, as a result of the end of the LIPA MSA last year, partially offset by revenue increases from existing rate plans, including capex trackers, together with additional income from gas customer growth and the impact of the strengthening US dollar.

Revenue for the year ended 31 March 2014 increased by £450 million to £14,809 million. This increase was driven by higher revenues in our UK ET and UK GD businesses, principally as a result of the new RIIO regulatory arrangements. Revenue in our US Regulated business was also higher, reflecting higher pass-through costs such as gas and electricity commodity costs, partially offset by the end of Niagara Mohawk deferral revenue recoveries at March 2013 and the impact of the weaker dollar.

Operating costs

Operating costs for the year ended 31 March 2015 of £11,421 million were £347 million higher than the prior year. This increase in costs included a £154 million year on year impact of changes in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £193 million higher, principally due to: increases in controllable costs, including the impact of inflation and additional costs incurred in the US to improve data quality and bring regulatory filings up to date; higher US bad debt costs following last year's exceptionally cold winter; and higher depreciation and amortisation as a result of continued investment programmes. These cost increases were partly offset by a reduction in spend on US financial systems implementation and stabilisation upgrades, with the project completing in the first half of this year.

Operating profit for the year ended 31 March 2015 included an £83 million loss (2013/14: £16 million gain) on remeasurement of commodity contracts. The year ended 31 March 2014 also included a net £55 million gain on exceptional items, including a net gain on the LIPA MSA transition in the US of £254 million; restructuring costs of £136 million, primarily in the UK as we reorganised certain parts of our business to deliver under the new RIIO price controls; and a £79 million provision for the demolition of UK gas holders that are no longer required.

Operating costs for the year ended 31 March 2014 of £11,074 million were £464 million higher than the prior year. This increase in costs was predominantly due to increases in pass-through costs in our UK and US regulated business, together with higher depreciation and amortisation as a result of continued investment and increases in our controllable costs.

Net finance costs

For the year ended 31 March 2015, net finance costs before exceptional items and remeasurements were £75 million lower than 2013/14 at £1,033 million, mainly as a result of lower average gross debt through the year, lower RPI in the UK and refinancing debt at lower rates.

For the year ended 31 March 2014, net finance costs before exceptional items and remeasurements were £16 million lower than 2012/13 at £1,108 million, mainly due to the impact of the weaker dollar.

Finance costs for the year ended 31 March 2015 included exceptional debt redemption costs of £131 million and a loss of £34 million on financial remeasurements (2013/14: gain of £93 million), relating to net losses on derivative financial instruments.

Tax

The tax charge on profit before exceptional items and remeasurements for the year ended 31 March 2015 was £114 million higher than 2013/14. This was mainly due to higher profits before tax and the non recurrence of one-off items that benefited the prior year.

The 2013/14 tax charge on profit before exceptional items and remeasurements was £38 million lower than 2012/13 at £581 million. This was mainly due to a 1% decrease in the UK statutory corporation tax rate in the year and a change in the UK/US profit mix where higher UK profits were taxed at the lower UK tax rate. Our tax charge was also affected by changes in tax provisions in respect of prior years.

Exceptional tax for 2014/15 of £78 million primarily represents tax credits on the exceptional items and remeasurements described above.

Exceptional tax for 2013/14 included an exceptional deferred tax credit of £398 million arising from a reduction in the UK corporation tax rate from 23% to 21% applicable from 1 April 2014 and a further reduction to 20% from 1 April 2015.

Adjusted earnings and EPS

As a result of the variances described above, adjusted earnings for the year ended 31 March 2015 were £2,189 million. For the year ended 31 March 2014, adjusted earnings were £2,015 million.

The above earnings performance translated into adjusted EPS growth in 2014/15 of 4.5p (8%) and 2.7p (5%) in 2013/14.

In accordance with IAS 33, all EPS and adjusted EPS amounts for comparative periods have been restated for shares issued via scrip dividends and the bonus element of the 2010 rights issue.

Other unaudited financial information continued

Analysis of the adjusted operating profit by segment for the year ended 31 March 2015

UK Electricity Transmission
For the year ended 31 March 2015, revenue in the UK ET segment was £367 million higher at £3,754 million, and adjusted operating profit increased by £150 million to £1,237 million.

Net regulated income after pass-through costs was £230 million higher, principally reflecting increases in allowed Transmission Owner revenues this year and a £43 million benefit relating to legal settlements. This was partially offset by under-recoveries of allowed revenue in the year of £89 million compared with under-recoveries of £60 million in the prior year. Regulated controllable costs were £14 million higher due to inflation, organisational change costs and additional tower maintenance costs. Depreciation and amortisation was £33 million higher reflecting the continued capital investment programme (investment in the year was £1,074 million). Other costs were £4 million higher than prior year.

UK Gas Transmission
Revenue in the UK GT segment increased by £81 million in 2014/15 to £1,022 million and adjusted operating profit increased by £20 million to £437 million.

Net regulated income after pass-through costs was £42 million higher due to earned gas permit and constraints management incentives. In addition, under-recoveries of allowed revenue in the year of £18 million were £3 million favourable to last year's under-recoveries of £21 million. Partially offsetting the revenue gains, regulated controllable costs were £8 million higher, mainly as a result of additional system operator costs relating to EU work and some organisation change costs. Other operating costs were also £17 million higher, including a £13 million provision for decommissioning the Avonmouth LNG plant. Capital investment remained around the same level as last year at £184 million.

UK Gas Distribution
UK GD revenue decreased by £31 million in 2014/15 to £1,867 million, and adjusted operating profit decreased by £78 million to £826 million.

Net regulated income after pass-through costs was £11 million lower, reflecting changes in allowed revenues for replacement expenditure (repex). Timing differences reduced net revenues by a further £16 million, with £13 million over-recoveries in 2014/15, compared with a £29 million over-recovery in the prior year. Regulated controllable costs were £22 million higher primarily due to inflation and some organisation change costs. Depreciation and amortisation was £15 million higher reflecting the continued capital investment programme (investment in the year was £498 million). Other costs were £14 million higher, reflecting a provision for additional asset protection costs.

US Regulated
Revenue in our US Regulated business was £54 million lower in 2014/15 at £7,986 million, while adjusted operating profit increased by £39 million to £1,164 million.

The stronger dollar increased operating profit in the year by £30 million. Excluding the impact of foreign exchange, net regulated income increased by £81 million, reflecting increased revenue from existing rate plans, including capex trackers, together with additional income from gas customer growth, partially offset by the impact of the end of LIPA management services activities (MSA) in December 2013. In addition, over-recoveries of allowed revenues in the year of £30 million were £20 million favourable to last year's over-recoveries of £10 million. Regulated controllable costs increased by £17 million excluding the impact of foreign exchange, as a result of increased gas leak and compliance work and additional costs incurred to improve data quality and bring regulatory filings up to date, partly offset by the cessation of costs associated with the LIPA MSA activities. Bad debt costs were £62 million higher excluding the impact of foreign exchange, following last year's exceptionally cold winter.

There were no major storms affecting our operations in the years ended 31 March 2014 and 2015.

Our capital investment programme continued in the US, with a further £1,501 million invested in 2014/15, including gas leak reduction programmes and electricity capacity and reinforcement work.

Other activities
Revenue in Other activities increased by £26 million to £762 million in the year ended 31 March 2015. Adjusted operating profit was £68 million higher at £199 million.

Operating profit in the French interconnector was £18 million higher as a result of strong auction revenues this year. In the US, corporate and other activities losses were £63 million lower, mainly as a result of our finance system upgrade completing in the first half of this year. Capital investment in our Other activities was £33 million higher at £213 million.

Analysis of the statement of financial position for the year ended 31 March 2015

Goodwill and other intangible assets
Goodwill and intangibles increased by £684 million to £5,947 million as at 31 March 2015. This increase primarily relates to foreign exchange movements of £602 million and software additions of £207 million, partially offset by software amortisation of £121 million.

Property, plant and equipment
Property, plant and equipment increased by £3,544 million to £40,723 million as at 31 March 2015. This was principally due to capital expenditure of £3,263 million on the renewal and extension of our regulated networks and foreign exchange movements of £1,703 million, offset by depreciation of £1,361 million in the year.

Investments and other non-current assets
Investments in joint ventures and associates, financial and other investments and other non-current assets increased by £6 million to £728 million. This was primarily due to a decrease in investments in joint ventures of £33 million, which includes dividends received of £79 million, partially offset by our share of post-tax results for the year of £46 million, more than offset by an increase in available-for-sale investments of £46 million.

Inventories and current intangible assets, and trade and other receivables
Inventories and current intangible assets, and trade and other receivables increased by £53 million to £3,176 million as at 31 March 2015. This was due to an increase in inventories and current intangible assets of £72 million, offset by a net decrease in trade and other receivables of £19 million. The £19 million decrease consists of an increase in foreign exchange of £211 million due to the stronger US dollar against sterling and a decrease in the underlying balances of £229 million, reflecting collection of large prior year balances, including LIPA MSA and Superstorm Sandy re-insurance receivables.

Trade and other payables
Trade and other payables increased by £261 million to £3,292 million, primarily due to foreign exchange movements of £161 million and an increase in VAT liability following a change in regulations on wholesale gas and electricity trading.

Current tax balances
Current tax balances decreased by £33 million to £124 million as at 31 March 2015. This was due to the tax payments made in 2014/15 being only partially offset by a smaller current year tax charge.

Deferred tax balances
Deferred tax balances increased by £215 million to £4,297 million as at 31 March 2015. This was primarily due to the impact of the £299 million deferred tax credit on actuarial losses (a £172 million tax charge in 2013/14) being offset by the impact of the reduction in the UK statutory tax rate, foreign exchange movements of £203 million and the reduction in prior year charges.

Provisions and other non-current liabilities
Provisions (both current and non-current) and other non-current liabilities increased by £168 million to £3,654 million as at 31 March 2015. Total provisions increased by £90 million in the year. The underlying movements include additions of £105 million relating to an increase to the provision for the estimated environmental restoration and remediation costs for a number of sites and other provision increases of £57 million, together with foreign exchange movements of £133 million, offset by utilisation of £209 million in relation to all classes of provisions.

Net debt
Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and derivative financial assets and liabilities.

Net pension and other post-retirement obligations
A summary of the total UK and US assets and liabilities and the overall net IAS 19 (revised) accounting deficit is shown below:

Net plan liability	UK £m	US £m	Total £m
As at 1 April 2014	(753)	(1,658)	(2,411)
Exchange movements	–	(236)	(236)
Current service cost	(70)	(116)	(186)
Net interest cost	(27)	(74)	(101)
Curtailments and other	(34)	(27)	(61)
Actuarial gains/(losses)			
– on plan assets	1,929	225	2,154
– on plan liabilities	(1,975)	(950)	(2,925)
Employer contributions	258	250	508
As at 31 March 2015	**(672)**	**(2,586)**	**(3,258)**
Represented by:			
Plan assets	19,453	6,955	26,408
Plan liabilities	(20,125)	(9,541)	(29,666)
	(672)	**(2,586)**	**(3,258)**

The principal movements in net obligations during the year included net actuarial losses of £771 million and employer contributions of £508 million. Net actuarial losses included actuarial losses on plan liabilities of £2,746 million arising as a consequence of increases in the UK real discount rate and the nominal discount rate in the US. This was partially offset by actuarial gains of £2,154 million arising on plan assets.

Off balance sheet items
There were no significant off balance sheet items other than the contractual obligations shown in note 30(b) to the consolidated financial statements, and the commitments and contingencies discussed in note 27.

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

Summary consolidated financial information

Financial summary (unaudited)

The financial summary set out below has been derived from the audited consolidated financial statements of National Grid for the five financial years ended 31 March 2016. It should be read in conjunction with the consolidated financial statements and related notes, together with the Strategic Report. The information presented below for the years ended 31 March 2012, 2013, 2014, 2015 and 2016 has been prepared under IFRS issued by the IASB and as adopted by the EU[1].

	2016	2015	2014	2013[1]	2012[1]
Summary income statement £m					
Revenue	**15,115**	15,201	14,809	14,359	13,832
Operating profit					
Before exceptional items, remeasurements and stranded cost recoveries	**4,096**	3,863	3,664	3,639	3,491
Exceptional items, remeasurements and stranded cost recoveries	**(11)**	(83)	71	110	44
	4,085	3,780	3,735	3,749	3,535
Profit before tax					
Before exceptional items, remeasurements and stranded cost recoveries	**3,142**	2,876	2,584	2,533	2,408
Exceptional items, remeasurements and stranded cost recoveries	**(110)**	(248)	164	178	(26)
	3,032	2,628	2,748	2,711	2,382
Profit for the year	**2,594**	2,011	2,464	2,154	1,919
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements and stranded cost recoveries	**2,386**	2,189	2,015	1,913	1,709
Exceptional items, remeasurements and stranded cost recoveries	**205**	(170)	461	240	208
	2,591	2,019	2,476	2,153	1,917
Earnings per share					
Basic – continuing operations (pence)[2]	**69.0**	53.2	65.2	56.7	50.6
Diluted – continuing operations (pence)[2]	**68.7**	52.9	64.9	56.5	50.4
Basic (pence)[2]	**69.0**	53.2	65.2	56.7	50.6
Diluted (pence)[2]	**68.7**	52.9	64.9	56.5	50.4
Number of shares – basic (millions)[3]	**3,755**	3,798	3,798	3,794	3,788
Number of shares – diluted (millions)[3]	**3,771**	3,815	3,817	3,813	3,807
Dividends per ordinary share					
Paid during the year (pence)	**43.16**	42.25	40.85	39.84	37.40
Approved or proposed during the year (pence)	**43.34**	42.87	42.03	40.85	39.28
Paid during the year ($)	**0.664**	0.697	0.636	0.633	0.599
Approved or proposed during the year ($)	**0.635**	0.672	0.696	0.632	0.623

1. For the years ended 31 March 2015 and 31 March 2016, there have been no significant changes in accounting standards, interpretations or policies that have a material financial impact on the selected financial data. For the year ended 31 March 2014, the adoption of IAS 19 (revised) 'Employee benefits' resulted in a significant change in pensions and employee benefits accounting. The numbers included in the selected financial data above for the years 31 March 2012 and 2013 were restated to show the impact of IAS 19 (revised).
2. Items previously reported for 2012 – 2015 have been restated to reflect the impact of the bonus element of the rights issue and the additional shares issued as scrip dividends.
3. Number of shares previously reported for 2012 – 2015 have been restated to reflect the impact of the additional shares issued as scrip dividends.

	2016	2015	2014	2013[1]	2012[1]
Summary statement of net assets					
Non-current assets	**52,622**	49,058	44,895	45,129	41,684
Current assets	**6,312**	6,031	7,489	9,576	5,387
Assets of businesses held for sale	**–**	–	–	–	264
Total assets	**58,934**	55,089	52,384	54,705	47,335
Current liabilities	**(7,721)**	(7,374)	(7,331)	(7,445)	(6,004)
Non-current liabilities	**(37,648)**	(35,741)	(33,134)	(37,026)	(32,001)
Liabilities of businesses held for sale	**–**	–	–	–	(87)
Total liabilities	**(45,369)**	(43,115)	(40,465)	(44,471)	(38,092)
Net assets	**13,565**	11,974	11,919	10,234	9,243
Shareholders' equity	**13,555**	11,962	11,911	10,229	9,236

	2016	2015	2014	2013[1]	2012[1]
Summary cash flow statement					
Cash generated from continuing operations	**5,660**	5,350	4,419	4,037	4,487
Tax paid	**(292)**	(343)	(400)	(287)	(259)
Net cash inflow from operating activities	**5,368**	5,007	4,019	3,750	4,228
Net cash flows used in investing activities	**(4,036)**	(2,001)	(1,330)	(6,130)	(2,371)
Net cash flows (used in)/from financing activities	**(1,328)**	(3,253)	(2,972)	2,715	(1,900)
Net increase/(decrease) in cash and cash equivalents	**4**	(247)	(283)	335	(43)

1. For the years ended 31 March 2015 and 31 March 2016, there have been no significant changes in accounting standards, interpretations or policies that have a material financial impact on the selected financial data. For the year ended 31 March 2014, the adoption of IAS 19 (revised) 'Employee benefits' resulted in a significant change in pensions and employee benefits accounting. The numbers included in the selected financial data above for the years 31 March 2012 and 2013 were restated to show the impact of IAS 19 (revised).

Further information regarding financial KPIs and other performance measures

As part of our financial review on pages 22–25, various financial KPIs and performance measures are identified. Further details as to how these are calculated are provided below.

Group return on equity

The Group RoE calculation provides a measure of the performance of the whole Group compared with the amounts invested by the Group in assets attributable to equity shareholders.

Calculation: Regulatory financial performance including a long-run assumption of 3.0% RPI inflation, less adjusted interest and adjusted taxation divided by equity investment in assets.

- Adjusted interest removes interest on pensions, capitalised interest and release of provisions.
- Adjusted taxation adjusts the Group taxation charge for differences between IFRS profit before tax and regulated financial performance less adjusted interest.
- Equity investment in assets is calculated as the total opening UK regulatory asset value, the total opening US rate base plus goodwill plus opening net book value of Other activities and our share of joint ventures and associates; minus opening net debt as reported under IFRS.

UK regulated return on equity

UK operational return is a measure of how a business is performing operationally against the assumptions used by the regulator. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the cost of debt assumed by the regulator and that RPI inflation is equal to a long-run assumption of 3.0%.

Calculation: Base allowed RoE plus or minus the following items:

- Additional allowed revenues/profits earned in the year from incentive schemes, less associated corporation tax charge;
- Totex outperformance multiplied by the company sharing factor set by the regulator; and
- Revenues (net of associated depreciation and base allowed asset return) allowed in the year associated with incentive performance earned under previous price controls but not yet fully recovered, less associated corporation tax charge (excluding logging up or pensions recovery).

Divided by average equity RAV in line with regulatory assumed capital structure.

US regulated return on equity

US regulated RoE is a measure of how a business is performing operationally against the assumptions used by the regulator. This US operational return measure is calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure. This is a post-tax US GAAP metric as calculated annually (calendar year to 31 December).

Calculation: Regulated net income divided by equity rate base.

- Regulated net income calculated as US GAAP operating profit less interest on the adjudicated debt portion of the rate base (calculated at the actual rate on long term debt, adjusted where the proportion of long term debt in the capital structure is materially different from the assumed regulatory proportion) less tax at the adjudicated rate.
- Regulated net income is adjusted for earned savings as appropriate and for certain material specified items.
- Equity rate base is the average rate base for the calendar year as reported to the Group's regulators or, where a reported rate base is not available, an estimate based on rate base calculations used in previous rate filings multiplied by the adjudicated equity portion in the regulatory capital structure.

Definitions and glossary of terms

Our aim is to use plain English in this Annual Report and Accounts. However, where necessary, we do use a number of technical terms and/or abbreviations and we summarise the principal ones below, together with an explanation of their meanings. The descriptions below are not formal legal definitions.

A

American Depositary Shares (ADSs)
Securities of National Grid listed on the New York Stock Exchange, each of which represents five ordinary shares. They are evidenced by American Depositary Receipts or ADRs.

Annual General Meeting (AGM)
Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.

B

Board
The Board of Directors of the Company (for more information see pages 47 and 48).

bps
Basis point (bps) is a unit that is equal to 1/100th of 1% and is typically used to denote the movement in a percentage based metric such as interest rates or RoE. A 0.1% change in a percentage represents 10 basis points.

BritNed
BritNed Development Limited.

C

called up share capital
Shares (common stock) that have been issued and have been fully paid for.

carrying value
The amount at which an asset or a liability is recorded in the Group's statement of financial position and the Company's balance sheet.

the Company, the Group, National Grid, we, our or us
We use the terms 'the Company', 'the Group', 'National Grid', 'we', 'our' or 'us' to refer to either National Grid plc itself or to National Grid plc and/or all or certain of its subsidiaries, depending on context.

Connect21
The Company's US strategy to build and operate a better energy distribution network for the 21st century digital economy, helping to move to a decarbonised future.

consolidated financial statements
Financial statements that include the results and financial position of the Company and its subsidiaries together as if they were a single entity.

contingent liabilities
Possible obligations or potential liabilities arising from past events for which no provision has been recorded, but for which disclosure in the financial statements is made.

D

Dth
Decatherm, being an amount of energy equal to 1 million British thermal units (BTUs), equivalent to approximately 293 kWh.

DB
Defined benefit, relating to our UK or US (as the context requires) final salary pension schemes.

DC
Defined contribution, relating to our UK or US (as the context requires) pension schemes to which National Grid, as an employer, pays contributions based on a percentage of employees' salaries.

DECC
The Department of Energy & Climate Change, the UK Government ministry responsible for energy and climate change.

deferred tax
For most assets and liabilities, deferred tax is the amount of tax that will be payable or receivable in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the statement of financial position or balance sheet and the value for tax purposes of the same asset or liability.

delivery body
Under the Energy Act 2013, and secondary legislation which came into force in August 2014, National Grid's electricity system operator function became the EMR Delivery Body. In this role National Grid provides independent evidence and analysis to the UK Government to inform its decisions on the key rules and parameters to achieve the Government's policy objectives under EMR. National Grid also administers the capacity mechanism, including running the annual capacity auctions, manages the allocation of contracts for difference to low carbon generators and reports to the Government annually on performance against the Government's delivery plan.

demand side response (DSR)
Arrangements between the Company and certain customers, through which those customers agree to increase or reduce demand in response to a signal where the Company requires it.

derivative
A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates or commodity prices. In most cases, contracts for the sale or purchase of commodities that are used to supply customers or for our own needs are excluded from this definition.

Deposit Agreement
Deposit Agreement means the agreement entered into between National Grid Transco plc (now National Grid plc), the Depositary and the registered holders of ADRs, pursuant to which ADSs have been issued, dated as of 21 November 1995 and amended and restated as of 1 August 2005, and any related agreement.

Depositary
Depositary means The Bank of New York Mellon acting as depositary.

Directors/Executive Directors/Non-executive Directors
The Directors/Executive Directors and Non-executive Directors of the Company whose names are set out on pages 47 and 48 of this document.

dollars or $
Except as otherwise noted all references to dollars or $ in this Annual Report and Accounts relate to the US currency.

Definitions and glossary of terms continued

E

earnings per share (EPS)
Profit for the year attributable to equity shareholders of the parent allocated to each ordinary share.

Electricity Market Reform (EMR)
An energy policy initiative, introduced by the Energy Act 2013, designed to provide greater financial certainty to investors in both low carbon and conventional generation in order to meet environmental targets and maintain security of supply, and to do so at the lowest cost to consumers.

employee engagement
A key performance indicator, based on the percentage of favourable responses to certain indicator questions repeated in each employee survey, which provides a measure of how employees think, feel and act in relation to National Grid. Research shows that a highly engaged workforce leads to increased productivity and employee retention, therefore we use employee engagement as a measure of organisational health in relation to business performance.

Estate Tax Convention
The Estate Tax Convention is the convention between the US and the UK for the avoidance of double taxation with respect to estate and gift taxes.

EU
The European Union, being the economic and political union of 28 member states located in Europe.

Exchange Act
The US Securities Exchange Act 1934, as amended.

F

FERC
The US Federal Energy Regulatory Commission.

finance lease
A lease where the asset is treated as if it was owned for the period of the lease and the obligation to pay future rentals is treated as if they were borrowings. Also known as a capital lease.

financial year
For National Grid this is an accounting year ending on 31 March. Also known as a fiscal year.

FRS
A UK Financial Reporting Standard as issued by the UK Financial Reporting Council (FRC). These apply to the Company's individual financial statements on pages 168 to 173, which are prepared in accordance with FRS 101.

G

Grain LNG
National Grid Grain LNG Limited.

Great Britain
England, Wales and Scotland.

Group return on equity (Group RoE)
The Group return on equity calculation provides a measure of the performance of the whole Group compared with the amounts invested by the Group in assets attributable to equity shareholders. The Group return on equity measure is calculated using the Group capital employed in accordance with the definition used in the RoCE measures, adjusted for Group net debt and goodwill.

GW
Gigawatt, being an amount of power equal to 1 billion watts (10^9 watts).

GWh
Gigawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of one hour.

H

HMRC
HM Revenue & Customs. The UK tax authority.

HVDC
High voltage, direct current electric power transmission which uses direct current for the bulk transmission of electrical power, in contrast with the more common alternating current systems.

I

IAS or IFRS
An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe international generally accepted accounting principles as a whole.

individual financial statements
Financial statements of a company on its own, not including its subsidiaries or joint ventures.

J

joint venture
A company or other entity which is controlled jointly with other parties.

K

kV
Kilovolt, being an amount of electric force equal to 1,000 volts.

kW
Kilowatt, being an amount of power equal to 1,000 watts.

kWm
Kilowatt-month, being an amount of energy equivalent to delivering 1kW of power for a period of one month.

L

LIPA
The Long Island Power Authority.

LNG
Liquefied natural gas, being natural gas that has been condensed into a liquid form, typically at temperatures at or below -161°C (-258°F).

lost time injury (LTI)
An incident arising out of National Grid's operations which leads to an injury where the employee or contractor normally has time off the following day or shift following the incident. It relates to one specific (acute) identifiable incident which arises as a result of National Grid's premises, plant or activities, which was reported to the supervisor at the time and was subject to appropriate investigation.

lost time injury frequency rate (IFR)
The number of lost time injuries per 100,000 hours worked in a 12 month period.

M

MADPU
The Massachusetts Department of Public Utilities.

MSA
The managed services agreement, under which the Company maintained and operated the electricity transmission and distribution system on Long Island owned by LIPA, which was transitioned to a third party with effect from 31 December 2013.

MW
Megawatt, being an amount of power equal to 1 million watts.

N

National Grid Metering (NGM)
National Grid Metering Limited, National Grid's UK regulated metering business.

New England
The term refers to a region within the northeastern US that includes the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. National Grid's New England operations are primarily in the states of Massachusetts and Rhode Island.

northeastern US
The northeastern region of the US, comprising the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

NYPSC
The New York Public Service Commission.

O

Ofgem
The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

OPEB
Other post-employment benefits.

ordinary shares
Voting shares entitling the holder to part ownership of a company. Also known as common stock. National Grid's ordinary shares have a nominal value of $11\frac{17}{43}$ pence.

P

price control
The mechanism by which Ofgem sets restrictions on the amounts of revenue we are allowed to collect from customers in our UK businesses. The allowed revenues are intended to cover efficiently incurred operational expenditure, capital expenditure and financing costs, including a return on equity invested.

PSA
The 15-year power supply agreement with LIPA which came into effect on 28 May 2013, under which the Company supplies electricity to communities and businesses across Long Island.

R

rate base
The base investment on which the utility is authorised to earn a cash return. It includes the original cost of facilities, minus depreciation, an allowance for working capital and other accounts.

rate plan
The term given to the mechanism by which a US utility regulator sets terms and conditions for utility service including, in particular, tariffs and rate schedules. The term can mean a multi-year plan that is approved for a specified period, or an order approving tariffs and rate schedules that remain in effect until changed as a result of future regulatory proceedings. Such proceedings can be commenced through a filing by the utility or on the regulator's own initiative.

regulated controllable operating costs
Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

regulatory asset value (RAV)
The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for the effects of inflation.

return on capital employed (RoCE)
The return on capital employed metric is designed to give an alternative comparison between the UK and US businesses showing the overall return on capital provided by both debt and equity. The calculation reflects regulatory treatments of costs.

return on equity (RoE)
A performance metric measuring returns from the investment of shareholders' funds. It is a financial ratio of a measure of earnings divided by an equity base.

revenue decoupling
Revenue decoupling is the term given to the elimination of the dependency of a utility's revenue on the volume of gas or electricity transported. The purpose of decoupling is to eliminate the disincentive a utility otherwise has to encourage energy efficiency programmes.

RIIO
The revised regulatory framework issued by Ofgem which was implemented in the eight-year price controls which started on 1 April 2013.

RIPUC
The Rhode Island Public Utilities Commission.

RPI
The UK retail price index as published by the Office for National Statistics.

S

Scope 1 greenhouse gas emissions
Scope 1 emissions are direct greenhouse gas emissions that occur from sources that are owned or controlled by the Company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.

Scope 2 greenhouse gas emissions
Scope 2 emissions are greenhouse gas emissions from the generation of purchased electricity consumed by the Company. Purchased electricity is defined as electricity that is purchased or otherwise brought into the organisational boundary of the Company. Scope 2 emissions physically occur at the facility where electricity is generated.

Scope 3 greenhouse gas emissions
Scope 3 emissions are indirect greenhouse gas emissions as a consequence of the operations of the Company, but are not owned or controlled by the Company, such as emissions from third-party logistics providers, waste management suppliers, travel suppliers, employee commuting, and combustion of sold gas by customers.

SEC
The US Securities and Exchange Commission, the financial regulator for companies with registered securities in the US, including National Grid and certain of its subsidiaries.

SEH Committee
The Safety, Environment and Health Committee of the Board whose role is explained on page 60.

SF_6
Sulphur hexafluoride, an inorganic, colourless, odourless and non-flammable greenhouse gas. SF_6 is used in the electrical industry as a gaseous dielectric medium for high voltage circuit breakers, switchgear and other electrical equipment. The Kyoto protocol estimated that the global warming potential over 100 years of SF_6 is 23,900 times more potent than that of CO_2.

share premium
The difference between the amount shares are issued for and the nominal value of those shares.

standard cubic metre
A quantity of gas which at 15°C and atmospheric pressure (1.013 bar) occupies the volume of $1m^3$.

stranded cost recoveries
The recovery of historical generation-related costs in the US, related to generation assets that are no longer owned by us.

STEM
Science, technology, engineering and mathematics; the Company is currently looking to recruit people with skills in these subjects.

subsidiary
A company or other entity that is controlled by National Grid.

swaption
A swaption gives the buyer, in exchange for an option premium, the right, but not the obligation, to enter into an interest rate swap at some specified date in the future. The terms of the swap are specified on the trade date of the swaption.

T

taxes borne
Those taxes that represent a cost to the Company and which are reflected in our results.

taxes collected
Those taxes that are generated by our operations but which do not affect our results; we generate the commercial activity giving rise to these taxes and then collect and administer them on behalf of HMRC.

Tax Convention
Tax Convention means the income tax convention between the US and the UK.

tonne
A unit of mass equal to 1,000 kilogrammes, equivalent to approximately 2,205 pounds.

tonnes carbon dioxide equivalent (CO_2e)
A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

treasury shares
Shares that have been repurchased but not cancelled. These shares can then be allotted to meet obligations under the Company's employee share schemes.

TWh
Terawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of 1,000 hours.

U

UK
The United Kingdom, comprising England, Wales, Scotland and Northern Ireland.

UK Corporate Governance Code (the Code)
Updated guidance, issued by the Financial Reporting Council in September 2014, on how companies should be governed, applicable to UK listed companies, including National Grid.

UK GAAP
Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.

UK regulated return on equity (UK RoE)
UK regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.

US
The United States of America, its territories and possessions, any state of the United States and the District of Columbia.

US GAAP
Generally accepted accounting principles in the US. These differ from IFRS and from UK GAAP.

US regulated return on equity (US RoE)
US regulated return on equity is a measure of how a business is performing operationally against the assumptions used by the relevant regulator. This US operational return measure is calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure. This is a post-tax US GAAP metric as calculated annually (on a calendar year to 31 December).

US state regulators (state utility commissions)
In the US, public utilities' retail transactions are regulated by state utility commissions, including the New York Public Service Commission (NYPSC), the Massachusetts Department of Public Utilities (MADPU) and the Rhode Island Public Utilities Commission (RIPUC).

V

value added
Value added is a measure to capture the value created through investment attributable to equity holders, being the change in total regulated and non-regulated assets including goodwill (both at constant currency) plus the cash dividend paid in the year plus share repurchase costs less the growth in net debt (at constant currency). This is then presented on an absolute and a per share basis.

value growth
Value growth is the growth in the value of our regulated and non-regulated assets including goodwill plus dividend plus share repurchase costs less net debt, as a percentage.

Want more information or help?

Capita Asset Services
For queries about ordinary shares:

0371 402 3344
Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open 8.30am to 5.30pm, Monday to Friday excluding public holidays. If calling from outside the UK: +44 (0)371 402 3344

Visit the National Grid share portal
www.nationalgridshareholders.com
Email: nationalgrid@capita.co.uk

National Grid Share Register
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham, Kent BR3 4TU

The Bank of New York Mellon
For queries about American Depositary Shares:

1-800-466-7215
If calling from outside the US: +1-201-680-6825

www.mybnymdr.com
Email: shrrelations@cpushareownerservices.com

The Bank of New York Mellon
Depository Receipts
PO Box 30170
College Station, Texas 77842-3170

Further information about National Grid including share price and interactive tools can be found on our website:
www.nationalgrid.com

Beware of share fraud
Fraudsters use persuasive and high-pressure tactics to lure investors into scams. Shareholders are advised to be wary of any unsolicited advice or offers, whether over the telephone, through the post or by email. If you receive any such unsolicited communication please check the company or person contacting you is properly authorised by the Financial Conduct Authority (FCA) before getting involved. You can check at www.fca.org.uk/consumers/protect-yourself and can report calls from unauthorised firms to the FCA by calling 0800 111 6768.

Financial calendar
The following dates have been announced or are indicative:

2 June 2016	Ordinary shares go ex-dividend for 2015/16 final dividend
3 June 2016	Record date for 2015/16 final dividend
9 June 2016	Scrip reference price announced
20 June 2016	Scrip election date
25 July 2016	2016 AGM
10 August 2016	2015/16 final dividend paid to qualifying shareholders
10 November 2016	2016/17 half year results
24 November 2016	Ordinary shares go ex-dividend
25 November 2016	Record date for 2016/17 interim dividend
11 January 2017	2016/17 interim dividend paid to qualifying shareholders
May 2017	2016/17 preliminary results

Dividends
The Directors are recommending a final dividend of 28.34 pence per ordinary share ($2.0445 per ADS) to be paid on 10 August 2016 to shareholders on the register as at 3 June 2016. Further details in respect of dividend payments can be found on page 24. If you live outside the UK, you may be able to request that your dividend payments be converted into your local currency.

Under the Deposit Agreement, a fee of up to $0.05 per ADS can be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2015/16 final dividend will be charged a fee of $0.02 per ADS by the Depositary prior to the distribution of the cash dividend.

Have your dividends paid directly into your bank or building society account:
- Your dividend reaches your account on the payment day
- It is more secure – cheques do sometimes get lost in the post
- No more trips to the bank

Elect to receive your dividends as additional shares:
- Join our scrip dividend scheme
- No stamp duty or commission to pay

Electronic communications
To receive an email notifying you as soon as new shareholder information is available to view online, including your electronic tax voucher, sign up for electronic communications. Simply go to the National Grid share portal www.nationalgridshareholders.com and once you have registered, click on the 'manage your account' link and follow the on screen instructions to change your communication preference.

Manage your shareholding online via the National Grid share portal:
- Have your dividends paid direct to your bank account instead of receiving cheques
- Choose to receive your dividends in shares, via our scrip dividend scheme
- Register your AGM vote
- Get copies of your dividend confirmations and view your dividend payment history
- Update your address details

Registered office
National Grid plc was incorporated on 11 July 2000. The Company is registered in England and Wales No. 4031152, with its registered office at 1–3 Strand, London WC2N 5EH.

Share dealing
Capita Share Dealing Services offer our European Economic Area resident shareholders a range of quick and easy share dealing services by post, online or telephone from 10p per share (plus stamp duty as applicable). Dealing at live prices is available online or by telephone, different fees apply.

Visit www.capitadeal.com/nationalgrid or call Capita Share Dealing free on 0800 022 3374 for details and terms and conditions. This is not a recommendation to take any action. High street banks may also offer share dealing services. If you have any doubt as to what action you should take, please contact an authorised financial advisor.

ShareGift: If you only have a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity.

ShareGift is a registered charity (no. 1052686) which specialises in accepting such shares as donations. For more information visit www.sharegift.org.uk or contact Capita Asset Services.

Individual Savings Accounts (ISAs): Corporate ISAs for National Grid shares are available from Stocktrade. For more information, call Stocktrade on 0131 240 0443, email isa@stocktrade.co.uk or write to Stocktrade, 7th floor, Atria One, 144 Morrison Street, Edinburgh EH3 8BR.

Cautionary statement

This document comprises the Annual Report and Accounts for the year ending 31 March 2016 for National Grid and its subsidiaries.

It contains the Directors' Report and Financial Statements, together with the independent auditors' report thereon, as required by the Companies Act 2006. The Directors' Report, comprising pages 08 to 81 and 174 to 202, has been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to National Grid.

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as 'anticipates', 'expects', 'should', 'intends', 'plans', 'believes', 'outlook', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as changes in laws or regulations, announcements from and decisions by governmental bodies or regulators (including the timeliness of consents for construction projects); the timing of construction and delivery by third parties of new generation projects requiring connection; breaches of, or changes in, environmental, climate change and health and safety laws or regulations, including breaches or other incidents arising from the potentially harmful nature of our activities; network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure, due to adverse weather conditions including the impact of major storms as well as the results of climate change, due to counterparties being unable to deliver physical commodities, or due to the failure of or unauthorised access to or deliberate breaches of our IT systems and supporting technology; performance against regulatory targets and standards and against our peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, including those related to investment programmes and internal transformation and remediation plans; and customers and counterparties (including financial institutions) failing to perform their obligations to the Company. Other factors that could cause actual results to differ materially from those described in this document include fluctuations in exchange rates, interest rates and commodity price indices; restrictions and conditions (including filing requirements) in our borrowing and debt arrangements, funding costs and access to financing; regulatory requirements for us to maintain financial resources in certain parts of our business and restrictions on some subsidiaries' transactions such as paying dividends, lending or levying charges; inflation or deflation; the delayed timing of recoveries and payments in our regulated businesses and whether aspects of our activities are contestable; the funding requirements and performance of our pension schemes and other post-retirement benefit schemes; the failure to attract, train or retain employees with the necessary competencies, including leadership skills, and any significant disputes arising with our employees or the breach of laws or regulations by our employees; the failure to respond to market developments, including competition for onshore transmission, the threats and opportunities presented by emerging technology, development activities relating to changes to the energy mix and the integration of distributed energy resources and the need to grow our business to deliver our strategy, as well as incorrect or unforeseen assumptions or conclusions (including unanticipated costs and liabilities) relating to business development activity, including assumptions in connection with joint ventures.

For further details regarding these and other assumptions, risks and uncertainties that may affect National Grid, please read the Strategic Report and the Risk factors on pages 183 to 186 of this document. In addition, new factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause actual future results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document.

The contents of any website references in this document do not form part of this document.

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www.nationalgrid.com

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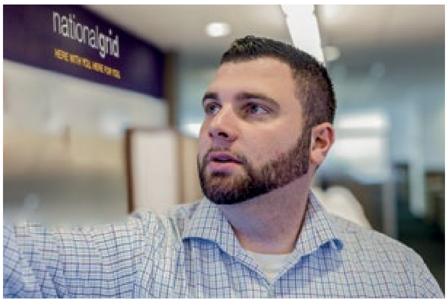
Annual Report and Accounts 2016/17

Bring Energy to Life



nationalgrid

Annual Report
and Accounts 2016/17

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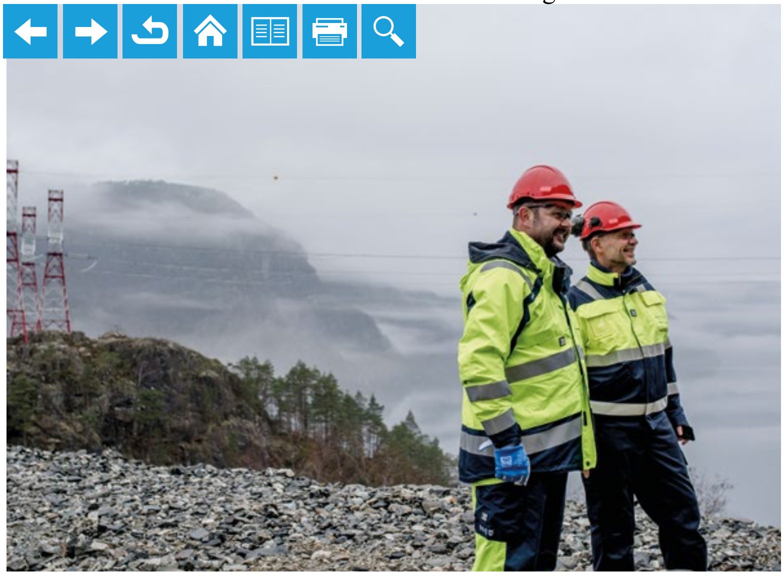

Highlights 2016/17

Financial highlights

Adjusted operating profit (From continuing operations)	Adjusted earnings per share (From continuing operations)	Adjusted operating profit (Total)[1]	Adjusted earnings per share (Total)[1]
£3,773m	56.9p	£4,667m	73.0p
+17%	+19%	+14%	+16%
2015/16: £3,214m	2015/16: 48.0p*	2015/16: £4,096m	2015/16: 63.2p*
Statutory operating profit (From continuing operations)	**Statutory earnings per share** (From continuing operations)	**Statutory operating profit** (Total)[1]	**Statutory earnings per share** (Total)[1]
£3,208m	48.1p	£4,102m	207.1p
-1%	-5%	+0.4%	+201%
2015/16: £3,225m	2015/16: 50.4p*	2015/16: £4,085m	2015/16: 68.7p*

* Comparative earnings per share (EPS) data has been restated for the impact of scrip dividend issues.
1 Comprises continuing and discontinued operations.

Operational highlights

Capital investment (Total)[1]	Group safety performance
£4,450m	0.10 IFR
+13%	+0.00 (See page 10)
2015/16: £3,946m	2015/16: 0.10 IFR
Greenhouse gas emissions (million tonnes carbon dioxide equivalent)	**Employee engagement score** (From continuing operations)
7.2	77%
-1.4%	+4 percentage points
2015/16: 7.3	2015/16: 73%

Left:
Buffalo Niagara Medical Campus
Page 27

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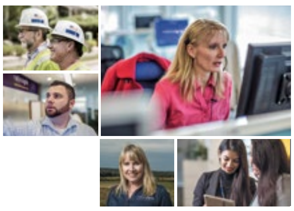
National Grid Annual Report and Accounts 2016/17

Information about our reporting
Our financial results are reported in sterling. We convert our US business results at the weighted average exchange rate during the year, which for 2016/17 was $1.28 to £1 (2015/16 $1.47 to £1).

We use adjusted profit measures which exclude the impact of exceptional items and remeasurements. These are used by management to assess the underlying performance of the business. Reconciliations to statutory financial information are shown on page 193.

Online report
The PDF of our Annual Report and Accounts 2016/17 includes a full search facility. You can find the document by visiting the investor relations section at www.nationalgrid.com and using a word search.

Further information
Throughout this report you can find links to further detail within this document or online. Please look out for the following icon:



Our people on the front cover (clockwise)

Thomas Drumm, Supervisor, Rhode Island, and **Don Wolanski**, First Class Lineman, Rhode Island. **Sue Foster**, Customer Service Advisor – Domestic Customer Operations, Solihull. **Nasima Khanom**, Team Coordinator – Business Development, Blyth, and **Amanda Nock**, Governance and Compliance Officer, Solihull. **Mary Grace Welch**, Lead Economic Development Representative, New York. **Steven Abatiello**, Web Operations Manager, New York.

Strategic Report

The Strategic Report includes an overview of our strategy and business model, the principal risks we face and information about our performance. In addition to the financial review included within this section, we provide additional analysis and commentary, including the performance of our operating segments, within the unaudited commentary sections of the Financial Statements. This additional analysis forms part of our Strategic Report.

Corporate Governance

The Corporate Governance Report, introduced by our Chairman, contains details about the activities of the Board and its committees during the year. We include reports from the Audit, Nominations, Remuneration, Finance, and Safety, Environment and Health Committees. We also include details of our shareholder engagement activities.

Financial Statements

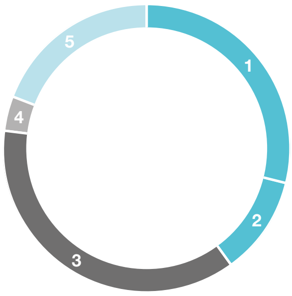
Our Financial Statements include: the independent auditors' reports; consolidated financial statements prepared in accordance with IFRS as adopted by the EU; related commentary and notes to the consolidated financial statements; and the Company's financial statements prepared in accordance with FRS 101.

Additional Information

This section includes additional disclosures and information, definitions and a glossary of terms, summary consolidated financial information, and other useful information for shareholders, including contact details for more information or help.

We use a number of technical terms and abbreviations within this document. For brevity, we do not define terms or provide explanations every time they are used; please refer to the glossary on pages 202–206 for this information as well as an important notice in relation to forward-looking statements with our cautionary statement.

Total adjusted operating profit (%)



1. UK Electricity Transmission	29
2. UK Gas Transmission	11
3. US Regulated	37
4. Other activities	4
5. Discontinued operations	19

At a glance

We are one of the world's largest investor-owned utilities focused on transmission and distribution activities in electricity and gas in the UK and the US. We play a vital role in connecting millions of people to the energy they use, safely, reliably and efficiently. We are organised into operating segments, which we describe below.

You can find more information about what we do on our website www.nationalgrid.com

For information about our approach to paying our taxes, please see Note 6 in the Financial Statements, on page 104.

UK Electricity Transmission

We own and operate the electricity transmission network in England and Wales, with day-to-day responsibility for balancing supply and demand. We operate but do not own the Scottish networks. Our networks comprise approximately 7,200 kilometres (4,474 miles) of overhead line, 1,500 kilometres (932 miles) of underground cable and 342 substations.

UK Gas Transmission

We own and operate the gas National Transmission System (NTS) in Great Britain, with day-to-day responsibility for balancing supply and demand. Our network comprises approximately 7,660 kilometres (4,760 miles) of high-pressure pipe and 618 above-ground installations.

Group total adjusted operating profit*
£4,667m
2015/16: £4,096m

Group total statutory operating profit*
£4,102m
2015/16: £4,085m

Group total capital investment†
£4,450m
2015/16: £3,946m

* From continuing and discontinued operations
† Includes investments in joint ventures and associates

UK Electricity Transmission – Adjusted operating profit
£1,372m
2015/16: £1,173m

Statutory operating profit
£1,361m
2015/16: £1,173m

Capital investment
£1,027m
2015/16: £1,084m

UK Gas Transmission – Adjusted operating profit
£511m
2015/16: £486m

Statutory operating profit
£507m
2015/16: £486m

Capital investment
£214m
2015/16: £186m

Our role as system operator

As Great Britain's System Operator (SO) we make sure Great Britain's gas and electricity is transported safely and efficiently from where it is produced to where it is consumed. We seek to ensure that supply and demand are balanced in real-time and we facilitate the connection of assets to the transmission system. In the US, similar services are provided by independent system operators.

US Regulated

Electricity: We both own and operate transmission facilities across upstate New York, Massachusetts, New Hampshire, Rhode Island and Vermont. We own and operate electricity distribution networks in upstate New York, Massachusetts and Rhode Island, serving approximately 3.4 million customers. The assets we operate include 14,219 kilometres (8,835 miles) of overhead line, 377 transmission substations and 763 distribution substations.

Gas: We own and operate gas distribution networks across the northeastern US, located in upstate New York, New York City, Long Island, Massachusetts and Rhode Island. Our networks deliver gas to approximately 3.6 million customers.

Adjusted operating profit

£1,713m

2015/16: £1,185m

Statutory operating profit

£1,278m

2015/16: £1,196m

Capital investment

£2,247m

2015/16: £1,856m

US regulated RoE %

Other Activities

Our other activities mainly relate to non-regulated businesses and other commercial operations not included within the business segments including: interconnectors; UK-based gas metering activities; UK property management; a UK liquefied natural gas (LNG) importation terminal; US LNG operations; US unregulated transmission pipelines; and corporate activities.

In 2016/17, we announced plans to create National Grid Ventures. With effect from April 2017, we have brought together key assets outside our core regulated businesses into this new unit. See page 28 for further details.

Adjusted operating profit

£177m

2015/16: £370m

Statutory operating profit

£62m

2015/16: £370m

Capital investment

£374m

2015/16: £254m

UK regulated RoE %

Discontinued operations

Until 31 March 2017, we owned and operated four gas distribution networks comprising approximately 131,000 kilometres (81,400 miles) of pipeline, transporting gas from the NTS to around 10.9 million consumers on behalf of 41 gas shippers. As announced on 31 March 2017, a 61% interest in this business was sold to a consortium of investors. The Consortium comprises Macquarie Infrastructure and Real Assets, Allianz Capital Partners, Hermes Investment Management, CIC Capital Corporation, Qatar Investment Authority, Dalmore Capital and Amber Infrastructure Limited/International Public Partnerships. National Grid has retained a 39% interest in the business. The figures below reflect performance of the business on a 100% basis for the entire year and include the results of Xoserve Limited (previously reported within other activities).

Adjusted operating profit

£894m

2015/16: £882m

Statutory operating profit

£894m

2015/16: £860m

Capital investment

£588m

2015/16: £566m

Gain on sale

£5,321m

Cash receipts of £5.5bn

Chairman's statement

National Grid is responding positively to wide-reaching developments in our operating environment and taking steps to build a stronger foundation for the future.

"We have a role to play in helping communities have fair and equal access to opportunities to be successful."

In focus

Full-year dividend of

44.27 p/share

Final dividend of 29.10 p/share expected to be paid on 16 August 2017*

Special dividend for payment on 2 June 2017

84.375p

Responsible business

www.nationalgrid.com/responsibility

Our KPIs

pages 10–13

*Subject to shareholder approval of the proposed share consolidation, the final dividend will be paid on post consolidation shareholdings.

Over the past year, we have seen significant developments both in our external environment and within the Company.

In the summer of 2016, the UK voted to leave the European Union (EU), leading to a change in government leadership. More recently, a General Election was announced for 8 June 2017. We have also seen a new administration in the US following the Presidential election. We await developments in its policy positions.

Amid these developments, public trust in big business and political institutions remains low. The cost of energy and the impact of investment in new technology on bills remains a matter of concern for politicians, regulators and consumers. The energy industry needs to work hard to demonstrate affordability and build trust with consumers and communities who feel disconnected from the opportunities that technological and market changes can bring.

In early 2017, the UK Government presented proposals for a UK industrial strategy, including recommendations for developing energy infrastructure, skills and investment in technology and innovation.

The commitment of governments across the world to support the agreement on climate change made at the Paris Conference of the Parties sent a strong signal that we have to tackle the threat of rising temperatures. You can read more about these changes and our responses on page 9.

In light of these changing external circumstances, together with the ongoing evolution of the energy industry and growth in distributed generation, Chief Executive John Pettigrew, together with the Executive team, has led a review of our business. This has resulted in a clear articulation of our purpose and the evolution of our vision, values and the strategic priorities that guide our business. You can read more about these on page 8.

I am pleased that John has delivered a very strong performance in his first year as Chief Executive. Together with his team, he has made significant progress on our commitments and towards evolving the direction for National Grid.

Nicola Shaw joined the Board on 1 July 2016 as Executive Director, UK, and I am pleased that she has also made a very good start.

Gas Distribution

This year we concluded the sale of a majority interest in our UK Gas Distribution business to a consortium of investors. This has created value for our shareholders through a significant gain on the disposal.

We announced a one-off return of £4 billion of net proceeds to shareholders through a combination of a special dividend and share buy-backs. I am also pleased that we voluntarily set aside £150 million of the sale proceeds that will be used to benefit consumers.

On 19 April 2017, following Board approval, we announced the special dividend of 84.375 pence per share ($5.4224 per American Depositary Shares) which will be paid to ordinary shareholders on 2 June 2017. To ensure, as far as possible, that the share price is not affected by the special dividend, shareholder approval is sought for a share consolidation on an 11 for 12 basis, which means that for every 12 shares you had, you will have 11 if approved. This and other related resolutions will also be considered at a General Meeting on 19 May 2017. Notice of this meeting was sent to all shareholders.

Results

As a consequence of the sale of a 61% interest in the UK Gas Distribution business, this year's accounts are more complex than in previous years. In particular, we report our earnings for the Group excluding UK Gas Distribution (the 'continuing Group') separately from the results of that business, which we report within 'discontinued operations'. You can find out more about the main aspects of this on pages 112–115.

Standing back from the detail of these accounts, I would like to highlight two aspects. Firstly, the strength of the balance sheet and our key credit metric of retained cash flow divided by adjusted net debt. Secondly, the cash flows in the business, which have enabled us to grow the full-year dividend in line with our policy, and continue to grow the capital investment in the business to help meet our growth aims.

Dividend policy

Our dividend policy aims to grow the ordinary dividend per share at least in line with the rate of UK RPI growth each year for the forseeable future. Accordingly, the Board has recommended an increase in the final dividend to 29.10 pence per ordinary share ($1.8924 per American Depositary Share)*. If approved, this will bring the full-year dividend to 44.27 pence per share ($2.8351 per American Depositary Share), an increase of 2.1% over the 43.34 pence per ordinary share in respect of the financial year ended 31 March 2016.

Responsible business

It is a fundamental fact of our business that the work we do carries risks for our employees, customers and the general public. Operating a safe working environment is the primary responsibility of the Board and our Executive leadership team. It is a responsibility we take very seriously, and when we fall short of expected levels of safety, we make sure lessons are learnt and shared, as well as making sure we take any necessary remedial actions as soon as is practicable.

We also have a responsibility to contribute towards the economic, social and environmental well-being of the communities where we operate. In early 2016, the UN presented their 17 Sustainable Development Goals. At National Grid we are focusing on five of these goals where we can help to make a difference. These include affordable and clean energy, as well as climate action.

For example, we have made significant progress in our search for low-carbon alternatives to SF_6, an electrical insulator that has a global warming impact 23,900 times that of CO_2. We are trialling an alternative (Green Gas for Grid, or g^3) that delivers the same technical benefits at less than 2% of the global warming impact of SF_6. I am pleased to say g^3 has now been certified for use on part of our network and the equipment insulated with this gas is now energised.

National Grid recognises the wider role we can play in helping communities have fair and equal access to opportunities to be successful. We work with community groups, charities and educational institutions to help address some of the challenges felt by the most disadvantaged in our society who can struggle to access decent and sustainable education and employment.

For example, working with Teach First in the UK, our employees coach new teachers as they start their careers in some of the most challenging schools in the country. We share Teach First's aim to end educational inequality, which is one of the main barriers to social mobility.

In the US, we are supporting United Way of Rhode Island's Housing for All Fund. The fund helps people who are making tough choices around which basic needs they can afford. Through this support, we are playing our part in building a stronger community by helping people access more affordable housing. It helps to retain and attract people to the area, supporting the wider economic recovery of the region.

How we manage our operational sites can have a major impact on the environmental well-being of communities. For example, I was pleased to see a project in the UK where our newest graduate recruits worked with site managers and the Yorkshire Wildlife Trust to enhance the environment at our site in Kirkstall, Leeds. The land around our site has been subject to anti-social behaviour and fly-tipping. Our project will see graduate volunteers addressing these issues, building a sensory garden and improving the woodland and ponds so that the local community can access and use the site safely.

Corporate governance

After nearly six years' tenure as a Non-executive Director, Ruth Kelly has decided that due to personal circumstances and time commitments she will not be seeking re-election by shareholders at the next Annual General Meeting. Ruth has made a significant contribution throughout her time with the Company and we are sorry to see her go.

I was pleased to welcome Pierre Dufour to our Board in February 2017. Pierre's wealth of experience will bring great value to our Board and to the Remuneration and Nominations Committees. Additionally, his strong track record in safety and industrial risk management, and the supervision of complex multinational engineering projects, makes him ideally placed to strengthen the expertise on our Safety, Environment and Health Committee.

The topic of corporate governance has been the subject of considerable political and media attention in the UK during 2016/17. The Financial Reporting Council (FRC) is now undertaking a fundamental review of the UK Corporate Governance Code and we shall be an active participant in its consultation process.

Your Board continues to be very mindful of the need to create value for our shareholders within a framework of high standards of corporate governance, recognition of our responsibilities to the wider group of the Company's stakeholders and setting the right tone from the top.

Looking ahead

We will work closely with our customers and stakeholders to understand the impact of the UK exit from the EU as Brexit negotiations develop.

We believe it is in the interests of consumers to make sure the UK has continued barrier-free access to neighbouring energy markets and to the benefits realised through harmonised trading arrangements with the EU.

Our US business will continue to work with all levels of government to find efficient energy solutions for the communities we work in, and to solve issues facing the energy sector. We remain committed to ensuring a sustainable and clean energy future for all our customers.

The increasing threat from cyber attacks mean we must remain vigilant to the very real risks posed to our critical national infrastructure. We continue to focus on the strategies needed to protect our business, our customers and the communities that rely on our services.

I would like to extend my deepest appreciation to all our employees and the management team for their hard work, dedication and commitment to your Company's success.

Sir Peter Gershon
Chairman

Chief Executive's review

The past year was an important period for National Grid. We completed the sale of a majority interest in our UK Gas Distribution business, made progress with our new rates in the US, and developed our thinking on National Grid's purpose, vision and strategic direction.

"Our purpose, which sets out why National Grid exists, is simple – we bring energy to life."

A period of change

The energy sector is undergoing transformation. It faces greater change and uncertainty than ever before, which brings fresh challenge and new opportunities. As a result, we have spent considerable time over the past year re-evaluating how we will respond to these new challenges. The result is an articulation of our purpose, and evolution of our vision and strategy, which guide everything we do.

Find out more

For more information on the challenges we face see page 9

You can read more about our purpose and how we have evolved our vision and strategy on page 8

I am proud of what we have achieved during 2016/17. We have continued being innovative and efficient to deliver savings for customers, while taking steps across the Group to evolve by investing in newer technologies. These developments come at a time when there have been considerable changes in our operating environment, as described on page 9.

This is why our leadership team has conducted a strategic review of our business to articulate our purpose and evolve our vision and strategy. I am excited by the evolution of our strategy, which we are setting out in this report.

Our performance in 2016/17

In terms of safety, our overall lost time injury frequency rate for the Group was 0.08, which is considered to be world class. This figure, which includes our contractors and excludes the UK Gas Distribution business, is slightly different to our KPI for the Group's employee injury frequency rate. You can read about this on page 10.

However, we were all reminded of the importance of safety this year, following a tragic incident in which one of our UK employees lost his life. We take safety very seriously at National Grid – it remains a fundamental priority – and we will do everything we can to learn from incidents, so we can continually improve our performance.

Both our UK and US businesses remain committed to achieving the highest possible standards for safe working.

We invested £4.5 billion of capital this year in our businesses, a record level for the Group, driving growth of 5% in our total asset base.

In both the UK and US, we continued to achieve close to 100% reliability across our networks.

At National Grid, we are very aware of the need to put our customers at the heart of how we run our business. In all of our business areas, both in the UK and in the US, we have exceeded our customer satisfaction targets, which I believe is testament to the continuous efforts we have made on improving the services we provide.

Finally, through the strong operational performance and growth in our assets, we support our growing dividend. We measure our performance through our Group Return on Equity (RoE), which remained strong at 11.7% this year and Value Added, which increased to £1.9 billion this year, equivalent to 51.6 pence/share.

Developments in our business

In 2016/17, we have made progress in our business in a number of important areas.

The sale of a majority interest in our UK Gas Distribution business marks an important milestone for National Grid. We worked closely with the purchasing Consortium to ensure a smooth transition for our customers and employees so that services continue to be delivered safely and efficiently. The sale puts our portfolio in a strong position to support higher growth and to continue delivering an attractive dividend while maintaining a healthy balance sheet.

We have retained a 39% interest in the new Gas Distribution business, and have entered into an option agreement with the Consortium for the potential future sale and purchase of an additional 14% interest. This would be on broadly similar terms to the sale of the 61% equity interest.

During 2016/17, we made progress with our rate cases in the US, securing agreements in Massachusetts, New York City and Long Island. The New York agreements include provision to phase the impact on consumer bills over time to help manage the increase in costs.

Our ability to make new investments in our US networks means we can continue our work to ensure a clean, sustainable energy supply for our customers. In December, we began the transmission of electricity to Rhode Island from the Block Island wind farm, the first offshore wind generation in the US. You can read more about our US investments on pages 26–27.

In the UK, Ofgem concluded its mid-period review of the RIIO price control for Gas and Electricity Transmission, giving us certainty over our core revenues for the remaining RIIO period.

Also this year, we issued a joint statement with BEIS and Ofgem about the enhanced role and greater separation of the Electricity System Operator (ESO) function. While the proposals are subject to consultation, we support the principle of greater separation of the ESO role within National Grid. We believe it is the most effective way to balance the interests of consumers with the need to maintain security of supply in a fair and competitive energy market. We look forward to working with the regulator and our stakeholders to deliver the best possible outcome for UK consumers.

The outcome of the UK referendum on EU membership has challenged all businesses to consider the impact Brexit will have on their operations. We continue to work positively with both UK and EU legislators to maintain access to cross-border services so we are able to ensure the UK's security of supply and the interests of energy consumers.

We welcome the opportunity the UK Government's Green Paper 'Building our Industrial Strategy' provides to contribute to the industrial development of the UK. We believe secure, low-carbon and affordable energy underpins the success of all the UK's industries. We welcome the commitment to investing in the skills and education needed to encourage future innovation in energy systems.

We have brought together our Other Activities, which mainly comprise businesses that are adjacent to our core regulated operations, to create a new division with its own leadership. It will be called National Grid Ventures and its objectives are to focus on the development of new growth opportunities and strengthening our commercial and partnership capabilities for the future. A recent example of this is our partnership with US solar supplier Sunrun, which we announced in January. I would like to welcome Badar Khan to my leadership team as Group Director, Corporate Development and National Grid Ventures.

You can read more about the developments in our UK, US and other businesses on pages 24–29.

Our purpose, vision and strategy

Throughout this year's Annual Report and Accounts, we describe our performance for 2016/17 against our current strategy. However, as Sir Peter has described, there is much change taking place in our operating environment.

The shift to a low-carbon economy is gathering pace in both the UK and US. Globally, investment in coal-powered generation is falling and renewables have now overtaken coal as the world's largest source of installed power capacity. This year, for the first time, we saw periods where no coal-fired power stations generated electricity in the UK. In the US, investment in solar, battery storage and energy efficiency continues apace.

With such change happening all around us, we cannot stand still. That's why we have developed our thinking on National Grid's purpose, vision and strategic direction.

Our purpose, which sets out why we exist, and what we bring to our customers and wider society, is simple: we bring energy to life. This means getting the heat, light and power that customers rely on to their homes and businesses; and supporting the communities that we are a part of.

Our vision is to exceed the expectations of our customers, shareholders and communities today and make possible the energy systems of tomorrow. How we perform individually, and as an organisation, is guided by this single ambition.

So, what does this all mean for our strategy? Our strategic focus is predicated on our customers. As a responsible, purpose-led organisation, we must put into sharper focus the customers to whom we deliver – their needs and priorities must come first. And by making decisions that consider our customers' interests, we will be able to deliver sustainable performance over the long term. Therefore, we are focused on three specific areas.

Firstly, we are finding new ways of optimising our operational performance, so we can maximise value from our businesses. And as we improve performance, it increases our efficiency and ultimately benefits the customer by improving affordability.

Secondly, we are seeking opportunities to drive asset growth by investing in our core regulated assets where we see strong potential. This investment is needed to deliver asset health, network expansion and modernisation. We expect the current levels of spend to continue over the medium term.

And thirdly, we are making further changes to make sure National Grid is better equipped for the future. As I described earlier, we have created National Grid Ventures, which will focus on developing new growth opportunities and strengthening our commercial and partnership capabilities for the future.

You can read more about our purpose, vision and strategy on page 8.

Our people

Our performance is dependent on the commitment and achievements of our people. As Chief Executive, it's been a privilege to meet many of our employees across the organisation and see how they deliver for their customers, their communities and each other.

That's why I am pleased to report that our annual employee engagement score has risen to 77% from 73%.

If we are to achieve the strategic objectives I have described, it's important that we continue to make sure our employees have the right skills and capabilities to lead us through this period of change.

Over the past year, we've delivered an average of 6.5 days of technical, safety, leadership or professional effectiveness training per employee in the UK and US. You can read more about this on pages 30 – 31.

Looking ahead

Our focus will remain on driving the performance of the business to deliver strong Group returns and increasing Value Added.

To achieve this, our UK and US regulated businesses will continue looking for ways to optimise performance. In 2017/18, we will look to achieve good outcomes for our US rate filings. In the UK, we'll begin the process of preparing for RIIO-T2. The performance of our regulated businesses will be underpinned by continued investment, so we can make sure we deliver a safe, reliable and affordable service for our customers. Our newly formed National Grid Ventures will look for opportunities adjacent to our core business to support its growth.

John Pettigrew
Chief Executive.

Our purpose, vision, strategy and values

We describe on page 9 how the operating environment for our industry is changing. To make sure National Grid is well positioned to respond to these changes, we have evolved our purpose, vision, strategy and values.

Our vision

"We will exceed the expectations of our customers, shareholders and communities today and make possible the energy systems of tomorrow."

Our purpose

Having a clear sense of what we stand for as a company and what it is that binds us all together is vitally important. This is what we call our purpose. In simple terms it's what drives our desire to serve our customers and it's that thing that makes us proud about the work we do.

Our purpose is to bring energy to life.
In its simplest form 'bring energy to life' means getting the heat, light and power that customers rely on to their homes and businesses. But 'life' also means supporting the communities that we are a part of and live amongst to support the economic growth and sustainability of wider society.

Our vision

Our vision describes how we create value – not just today, but in the future too.

Our vision is: "We will exceed the expectations of our customers, shareholders and communities today and make possible the energy systems of tomorrow."

The needs of our customers, shareholders and communities are at the heart of everything we do. So, our vision statement clearly describes the ambitious challenge we have set ourselves – to make sure we deliver value for them every day.

Our vision also looks to the future, reminding us of the critical role we will play for future generations. We are already seeing changes in our energy system as more renewable and decentralised generation is introduced. To be relevant in this future, we have to play an active role in helping shape the energy landscape, and benefiting from what it provides.

Our strategy

We have three strategic priorities for our business that will help us achieve our vision.

1) Find new ways of optimising our operational performance
Our customers want and need us to be more efficient, so we must find ways to improve how we run our business. We have looked at enhancing our productivity and customer experience through more efficient and customer-focused processes. Given the scale of our core business in the UK and US, even small improvements will have a huge impact on our overall performance. Finding new ways of optimising our operational performance will be an important factor in our ability to compete and grow. It creates the financial capacity and the capability for us to future-proof our business.

2) Look for opportunities to grow our core business
Delivering strong operational performance provides us with a foundation to pursue other opportunities. We will continue to pursue business development opportunities that are close to our core business. In the US, we will build on our successful efforts over the past two years to pursue opportunities in electricity and gas transmission. In the UK, interconnectors and competitive onshore transmission projects will be our focus over the next decade.

3) Make sure National Grid is better equipped for the future
We need to future-proof our business against the effects of a changing energy landscape. The operation of our networks is already affected by changes to the generation mix, while the needs and expectations of our customers are evolving.

Our preparations for the future have already begun in the UK and US with the establishment of National Grid Ventures, which brings together our non-network businesses to focus on targeted investment in the energy sector outside of our core business. We are also looking to develop new capabilities that are essential for long-term success.

For example, our partnership with Sunrun, the largest dedicated residential solar company in the US, allows us to increase our capability in the distributed energy space, and enhance our ability to meet the changing energy needs of our customers and communities.

Our values

We know that how we deliver is as important as what we deliver. If our purpose is the 'why', our values are the 'how'. They help shape our spirit, attitude and what guides us. We have to adapt and develop our values to align with the expectations of our customers and communities, without losing sight of the things that make us strong today.

Our values build on and protect our strong foundations while looking to the future. They are aligned to our purpose and help our people understand how we expect to achieve our purpose and vision for our customers and each other.

Every day we **do the right thing** and **find a better way**.

'Do the right thing' pulls together our foundational values – keeping each other and the public safe; complying with all the relevant rules, regulations and policies; respecting our colleagues, customers and communities; and saying what we think and challenging constructively. 'Find a better way' challenges us to focus on performance and continuous improvement for our customers, our shareholders and communities.

Our operating environment

Our operating environment is shaped by the regulatory choices governments make to respond to the changing needs of energy consumers. In meeting these demands, regulators seek to balance often conflicting objectives. In the last year we have seen a shift in focus to affordability and moving to a low carbon economy.

	Affordability	Security of supply	Sustainability
Commentary	The cost of the energy is an issue for consumers, industry, energy providers, regulators and governments. Consumers expect a reliable energy system that delivers gas and electricity when and where it is needed. They pay for the cost of this infrastructure and improvements to it through the network costs part of their energy bills. The costs are subject to regulatory approval.	The energy system is in a phase of transition from high to low carbon. Coal plants are closing down and being replaced with nuclear, renewables and gas, as well as emerging battery storage. During the transition, electricity margins need to be monitored and actively managed as we move to a generation mix with greater volumes of intermittent generation.	Our world is changing as a result of human activity and its impact on the environment. The Paris Agreement sends a clear signal that the shift to a low-carbon economy is inevitable, and it is now accepted that sustainable business is good business – delivering value for people, the environment and business. This includes reducing greenhouse gas emissions, managing non-renewable resources, and preserving and protecting habitats and ecosystems.
Developments	In the UK, the Government set out proposals for an industrial strategy that confirms the high priority placed on affordability of energy. Ofgem proposed a number of adjustments to allowances for UK Gas and Electricity Transmission following its mid-period review of the RIIO-T1 price control. In the US, the cost of energy remains a concern for consumers and regulators who expect affordable, reliable and cleaner energy while keeping costs low. As new technologies, such as solar, are adopted, there are fears that low-income customers may not have access to cheaper, cleaner sources of energy.	Energy security remains a priority for the UK Government, and a number of balancing tools are available to manage capacity. BEIS introduced amendments to the UK capacity market to improve long-term planning of capacity and reduce costs to consumers. The UK Government has also committed to proceed with the Hinkley Point C nuclear power station. In the US, the reliability of energy infrastructure remains a concern for consumers, regulators and policy makers. Regulators are seeking investment to improve the security and resilience of energy networks.	In December 2015, the Paris Agreement entered into force, and as at 17 May 2017 has been ratified by 146 national governments. The Agreement requires signatories to commit to reducing global greenhouse gas emissions with the aim of limiting increases in global average temperature. Investment in solar generation has continued in both the UK and US. The first offshore wind project in the US went operational off the coast of Rhode Island. This year, for the first time, we saw periods where no coal-fired power stations generated electricity in the UK. The UK BEIS green paper on industrial strategy included a focus on developing education and skills for energy innovation. In the US, state regulators continue to support energy innovation projects through programmes such as New York State's 'Reforming the Energy Vision'.
Our response	Our US and UK regulated businesses continue to strive for greater efficiency to help offset the impact of costs for energy and capital investment programmes. We continue to find innovative ways to reduce both the time and cost to repair or replace assets, minimising the costs to consumers. In the US, the rate case outcomes for New York included plans to phase increases over three years to mitigate the impact on consumer bills. We also provide low-income assistance to more than 118,000 households in upstate New York annually, with programmes and experts dedicated to delivering solutions for those struggling to pay their energy bills. In the UK, we have been able to generate £460 million of savings for consumers in the first four years of the RIIO arrangements and additionally we voluntarily set aside £150 million of the proceeds from the sale of a majority interest in our UK Gas Distribution business that will be used to benefit consumers. We are expecting around £200 million of cost savings for consumers resulting from awarding Enhanced Frequency Response contracts for more than 200 MW of battery storage in July 2016.	We continue to support BEIS and Ofgem on capacity market policy development and applicant readiness. We also continue to work with our delivery partners to achieve operational milestones. National Grid was asked to play an important role in Electricity Market Reform and act as the Delivery Body administering new market arrangements – the Capacity Mechanism and Contracts for Difference – which provide incentives for the investment required in our energy infrastructure. In the US, recent rate case decisions in New York State and Massachusetts have approved increased capital investment programmes to improve electricity and gas infrastructure. We have also extended our grid modernisation pilot in Worcester.	Reducing greenhouse gas emissions forms part of the Company's KPIs (see page 12). In the UK, we are working with customers and stakeholders to gather insights on the future role of gas in managing the transition to a low-carbon future. We continue to work with BEIS and Ofgem on the development of future energy systems as we respond to the shift to low-carbon energy in the UK. In the US, we support the Clean Power Plan. We continue to invest in new gas and electricity infrastructure that will further decarbonise generation, removing the use of coal and oil while increasing the use of renewables. We own 21 MW of solar generation and plan to add 14 MW more. In January 2017, we formed a partnership with Sunrun, the largest dedicated provider of residential solar systems in the US. The partnership includes a residential solar co-marketing pilot already in progress in our service area on Staten Island, targeting roughly 100,000 homeowners.

Progress against our current strategy

We first set out our current strategy in our 2012/13 Annual Report and have continued to report on our progress against it since then. As we describe on page 9, there is an extraordinary amount of change facing our industry, so we have articulated our purpose, and evolved our vision and strategy (see page 8).

Our strategic objectives

We aim to be a recognised leader in the development and operation of safe, reliable and sustainable energy infrastructure, to meet the needs of our customers and communities and to generate value for our investors. We measure our progress in creating value for our investors.

All data in this section includes UK Gas Distribution unless otherwise stated.

Our strategic objectives

Deliver operational excellence
Achieve world-class levels of safety, reliability, security and customer service.

Engage our people
Create an inclusive, high-performance culture by developing all our employees.

Stimulate innovation
Promote new ideas to work more efficiently and effectively.

Engage externally
Work with external stakeholders to shape UK, EU and US energy policy.

Embed sustainability
Integrate sustainability into our decision-making to create value, help preserve natural resources and respect the interests of our communities.

Drive growth
Grow our core businesses and develop future new business opportunities.

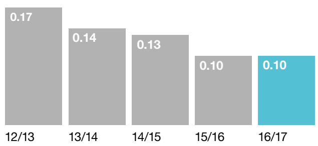
Deliver operational excellence

Achieve world-class levels of safety, reliability, security and customer service.

Our customers, communities and other stakeholders demand safe, secure and reliable supply of their energy. This is reflected in our regulatory contracts where we are measured and rewarded on the basis of meeting our commitments to customers and other stakeholders.

How we assess progress:
Employee lost time injury frequency rate
This is the number of employee lost time injuries per 100,000 hours worked in a 12-month period (including fatalities). Our ambition is to achieve a world-class safety performance of below 0.1.

Employee lost time injury frequency rate
per 100,000 hours worked



Our overall lost time injury frequency rate for the Company has remained at 0.10 which is an historic low level for the Company.

Customer satisfaction
The table below summarises how we measure customer satisfaction and also shows our targets for each business area.

	Methodology	Measure
UK	RIIO-related metrics agreed with Ofgem	Score from surveys
US	Customer Trust Advice metric	Score from survey

	16/17	15/16	Target
UK Electricity Transmission	7.4	7.5	6.9[1]
UK Gas Transmission	8.0	7.6	6.9[1]
UK Gas Distribution	_[2]	8.4	8.3[1]
US – Residential[3]	60.7%	56.5%	57.4%

1. Figures represent our baseline targets set by Ofgem for reward or penalty under RIIO. The maximum score we can receive is 10.
2. Our customer satisfaction results are reported on an annual basis with the results being published later this year.
3. Our customer satisfaction methodology has changed from using the JD Power survey measure to the Customer Trust Advice survey metric. The new survey specifically focuses on the services we provide for our customers and better represents their views of us.

Our customer satisfaction KPI comprises four components: Ofgem's UK electricity and gas transmission and distribution customer satisfaction scores, and the US residential Customer Trust Advice survey metric. The US metric has been in place for two years and measures customers' sentiment and overall satisfaction with National Grid by asking their level of trust in our advice to make good energy decisions.

In all of our key business areas, both in the US and in the UK, we have exceeded our customer satisfaction targets. You can find out more about our work on behalf of customers on pages 24–27.

Network reliability
Network reliability is measured separately for each of our business areas. The table below provides a simple visual representation of our performance across all of our networks. Our targets are set out in the table for our UK networks, and are set individually for each of our US jurisdictions.

Network reliability

		Target or base %	16/17	Performance against target
UK Electricity Transmission	T	99.9999	99.999964	exceeded
UK Gas Transmission	T	100	99.97500	not achieved
UK Gas Distribution	T	99.999	99.998	not achieved
US Electricity Transmission	B	99.9	99.97	no target
US Electricity Distribution	B	99.9	99.994	no target

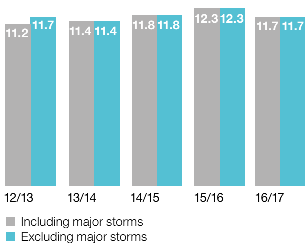
Key:
T – Target
B – No target set or set individually by each jurisdiction. Accordingly, we set a base and report performance above the base.

We aim to deliver reliability by planning our capital investments to meet challenging demand and supply patterns, designing and building robust networks, having risk-based maintenance and replacement programmes, and detailed and tested incident response plans. We have not met our targets for UK Gas Transmission and Distribution. UK Gas Transmission missed its target as there was cessation to the flow at two supply points on the NTS on a small number of occasions. UK Gas Distribution had two incidents in the East of England network. One of these affected around 6,000 customers and was caused by third-party damage to our assets. The other affected around 2,500 customers.

You can find more information about our UK principal operations on pages 24–25, and our US principal operations on pages 26–27.

Group return on equity (RoE)
We measure our performance in generating value for our shareholders by dividing our annual return by our equity base. This calculation provides a measure of the performance of the whole Group compared with the amounts invested by the Group in assets attributable to equity shareholders.

Group RoE %



Group RoE has decreased during the year to 11.7%, from 12.3% in 2015/16. During the year, the UK regulated businesses (including UK Gas Distribution) delivered a solid operational return of 13.1% in aggregate (2015/16: 13.3%), including an assumption of 3% long run average RPI inflation. The US operational return of 8.2% (fiscal year) was up on last year's 8.0% (calculated on a calendar year basis), reflecting increased revenues from new rate plans in MECO, KEDNY and KEDLI.

A target for Group RoE is included in the incentive mechanisms for executive remuneration within both the Annual Performance Plan (APP) and the Long Term Performance Plan (LTPP). You can find more information about our Directors' remuneration on pages 54-71.

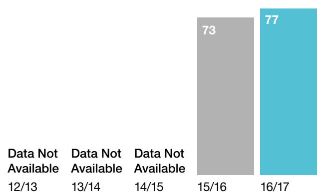
Engage our people

Create an inclusive, high-performance culture by developing all our employees.

It is through the hard work of our employees that we will achieve our vision, respond to the needs of our stakeholders and create a competitive advantage. Encouraging engaged and talented teams that are in step with our strategic objectives is vital to our success.

How we assess progress:
Employee engagement index
This is a measure of how engaged our employees feel, based on the percentage of favourable responses to certain indicator questions repeated annually in our employee engagement survey. Our target is to increase engagement compared with the previous year.

Employee engagement index %



We measure employee engagement through our employee engagement survey. The results of our 2016/17 survey, which was completed by 90% of our employees, have helped us identify specific areas where we are performing well and those areas we need to improve. Our engagement index has risen 4 points to 77% favourable.

The above engagement data for 2015/16 and 2016/17 excludes our UK Gas Distribution employees because they did not take part in the 2016/17 survey due to the sales process.

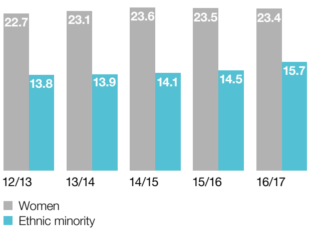
The employee engagement figures including UK Gas Distribution for 2012 to 2015 were as follows: 63% for 2012/13, 71% for 2013/14, and 75% for 2014/15.

Progress against our current strategy continued

Workforce diversity

We measure the percentage of women and ethnic minorities in our workforce. While we have no specific target we aim to develop and operate a business that has an inclusive and diverse culture.

Workforce diversity %



We continue to closely track the demographics of our employee population in terms of gender and ethnicity. You can find out more about how we promote an inclusive and diverse workforce on page 30. The above data includes UK Gas Distribution employees. If they were excluded, the figures for 2016/17 would be 24.1% and 17.3% for women and ethnic minorities respectively.

Stimulate innovation

Promote new ideas to work more efficiently and effectively.

Our commitment to innovation allows us to run our networks more efficiently and effectively and achieve our regulatory incentives. Across our business, we explore new ways of thinking and working to benefit every aspect of what we do.

You can read more about how we have innovated during 2016/17 in our principal operations sections on pages 24–29.

Engage externally

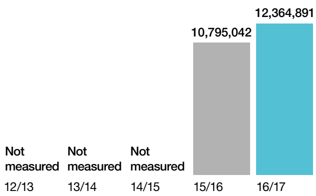
Work with external stakeholders to shape UK, EU and US energy policy.

Policy decisions by regulators, governments and others directly affect our business. We engage widely in the energy policy debate, so our position and perspective can influence future policy direction. We also engage with our regulators to help them provide the right mechanisms so we can deliver infrastructure that meets the changing needs of our customers and stakeholders.

Community engagement and investment in education

Working with our communities is important in creating shared value for us as a business and the people we serve. We use the London Benchmarking Group measurement framework to provide an overall community investment figure which includes education (but excludes investment in university research projects). While we have no specific target, our overall aim is to make sure we are creating shared value for the communities that we serve and work in.

Community engagement and investment in education £

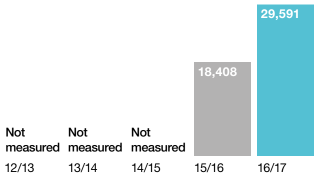


In the UK, our community engagement and investment in education is £5,850,965 for 2016/17. In the US it is £6,513,926. This is a financial measurement of a number of activities, including the time our employees give through volunteering, the money our employees raise through fundraising and also the support we give to our charity partners. Overall our Company-wide investment is £12,364,891.

Skills and capabilities

We support developing the skills and capabilities of young people through skills-sharing employee volunteering, especially in the science, technology, engineering and mathematics (STEM) subjects, because it supports our future talent recruitment and our desire to see young people gain meaningful employment. While we have no specific target, our aim is to encourage young people to get involved in STEM subjects.

Skills and capabilities
Interactions



We measure quality (>1 hour) interactions with young people on STEM subjects. In the UK, in 2016/17, we have had 6,596 interactions with young people on STEM subjects, and 22,995 interactions in the US. Overall we have seen an increase of 11,183 interactions with young people on STEM.

Embed sustainability

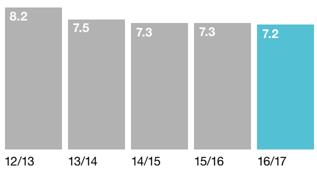
Integrate sustainability into our decision-making to create value, help preserve natural resources and respect the interests of our communities.

Our long-term sustainability strategy sets our ambition to deliver these aims and to embed a culture of sustainability within our organisation.

Climate change

A measure of our reduction of Scope 1 and Scope 2 greenhouse gas emissions of the six primary Kyoto greenhouse gases (excluding electricity transmission and distribution line losses). Our target is to reduce our greenhouse gas emissions by 45% by 2020 and 80% by 2050, compared with our 1990 emissions of 19.6 million tonnes.

Greenhouse gas emissions
Million tonnes carbon dioxide equivalent



Our Scope 1 greenhouse gas emissions for 2016/17 equate to 6.9 million tonnes of carbon dioxide equivalent (2015/16: 7 million tonnes) and our Scope 2 emissions (excluding electricity line losses) equate to 0.3 million tonnes (2015/16: 0.3 million tonnes); combined this is a 63% reduction against our 1990 baseline. These are equivalent to an intensity of around 424 tonnes per £million of revenue (2015/16: 496). Our Scope 2 emissions from electricity line losses equate to 3.1 million tonnes (2015/16: 3.4 million tonnes).

Our Scope 3 emissions for 2016/17 were 34 million tonnes (2015/16: 35.6 million tonnes). We measure and report in accordance with the World Resources Institute and World Business Council on Sustainable Development Greenhouse Gas Protocol. 100% of our Scope 1 and 2 emissions and 92% of our Scope 3 emissions are independently assured against ISO 14064-3 Greenhouse Gas assurance protocol. This statement, along with more information about our wider sustainability activities and performance can be found in the 'responsible business' section of our website www.nationalgrid.com.

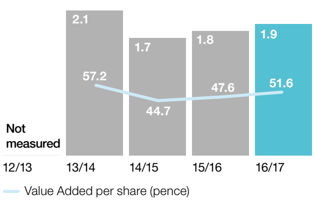
Drive growth

Grow our core businesses and develop future new business options.

We continue to maximise value from our existing portfolio, while exploring and evaluating opportunities for growth. Making sure our portfolio of businesses maintains the appropriate mix of growth and cash generation is necessary to meet the expectations of our shareholders.

Value Added
Reflects value to shareholders of dividend and growth in National Grid's assets, net of the growth in overall debt.

Value Added £bn



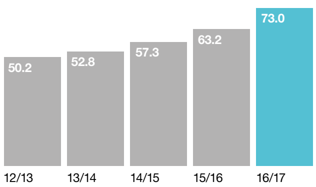
While we have no specific target, our overall aim is to grow Value Added sustainably over the long term while maintaining performance of our other financial KPIs.

Value Added in the year of £1.9 billion or 51.6 pence per share was higher than 2015/16 (£1.8 billion or 47.6 pence per share) primarily as a result of higher inflation on UK regulated assets (March 2017 RPI of 3.1%, prior year 1.6%) and improved US performance. Of the £1.9 billion Value Added in 2016/17, £1,463 million was paid to shareholders as cash dividends and £189 million as share repurchases (offsetting the scrip issuance during the year), with £289 million retained in the business.

A target for Value Growth, a derivative of Value Added, is included in the incentive mechanisms for executive remuneration within the LTPP. You can find more information about our Directors' Remuneration Report on pages 54-71.

Adjusted EPS
Adjusted earnings represents profit for the year attributable to equity shareholders. This excludes exceptional items and remeasurements (see page 195). Adjusted EPS provides a measure of shareholder return that is comparable over time.

Total Adjusted EPS pence



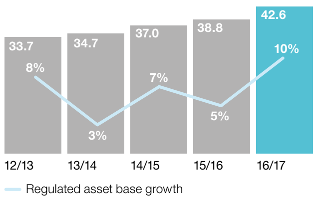
Comparatives have been restated to reflect the impact of additional shares issued as scrip dividends.

For the year ended 31 March 2017, total adjusted EPS increased by 9.8 pence to 73.0 pence reflecting increased regulated revenues in the UK and US, including a significant benefit from timing, the benefit of foreign exchange rates, reduced depreciation in the UK Gas Distribution business and a lower effective tax rate, partly offset by increased financing costs.

A target for adjusted EPS is included in the incentive mechanisms for executive remuneration within the APP. You can find more information about our Directors' Remuneration Report on pages 54-71.

Regulated asset base growth
Maintaining efficient growth in our regulated assets ensures we are well positioned to provide consistently high levels of service to our customers and increases our revenue allowances in future years. While we have no specific target, our overall aim is to achieve between 5% and 7% of regulated asset base growth each year.

Total regulated asset base and regulated asset base growth £bn



In total, including all of the regulated asset value (RAV) of UK Gas Distribution, our UK RAV and US rate base increased by £3.8 billion (10%) in the year to £42.6 billion. The increase reflects the continued high levels of investment in our networks in both the UK and US, together with the impact of the stronger US dollar. Following the sale of a 61% interest in the UK Gas Distribution business on 31 March 2017 the Group's total RAV and rate base decreased to £37.1 billion (including a 39% share of the RAV of the disposed UK Gas Distribution business).

Our business model

How we generate long-term value

Our business

Our transmission and distribution businesses in the UK and US operate as regulated monopolies. During 2016/17, they generated 96% (2015/16: 91%) of Group adjusted operating profit. Regulators safeguard customers' interests by setting the level of charges we are allowed to pass on and the standards of performance we must achieve.

In the UK, we have one regulator, Ofgem, which regulates our electricity and gas businesses. As System Operator we make sure that supply and demand are balanced in real time and we facilitate the connection of assets to the transmission system. In the US, our retail activities are regulated by state utility commissions (in New York, Massachusetts and Rhode Island) and by the Federal Energy Regulatory Commission (FERC) for wholesale activities, including interstate transmission and wholesale electricity generation.

The foundations of our business model

Our people and our culture

Our business is built by our people. We work hard to make sure that we keep them as safe as possible. At the end of 2016/17, after the sale of a majority interest in our UK Gas Distribution business and the transfer of its employees to the Consortium, we had more than 6,000 people working in the UK and nearly 16,000 in the US.

Being a responsible business

Doing the right thing is a responsibility we take seriously. Being a responsible and sustainable business is fundamental to the way we work and how we manage our impact on the communities in which we operate.

Our relationships with stakeholders and regulators

We engage widely in debate that helps guide future energy policy direction. We work with our regulators to help them develop the frameworks within which we can meet the changing energy needs of the communities we serve.

Our customer focus

Our customers' wants and needs are evolving with a greater desire to manage their energy use and expectations of how we interact with them. To remain relevant to our customers, we must understand and respond to their changing requirements and deliver outstanding experiences, products and services.

Innovation

Thinking differently and challenging the norms allow our people to develop innovative and more efficient ways of delivering our services and maintaining our networks.

Our financial capital and fixed asset base

The way in which our investment is funded is an important part of our business. As a UK business with a secondary ADS listing in New York, long-term sustainable assets and strong credit ratings, we are able to secure efficient funding from a variety of sources.

How we generate value

We are a long-term asset-backed business. The diagram below illustrates how our regulated businesses create value, over time in the UK and US.

Revenue → **Cash flows** → **Investment** → **Revenue**

Revenue: The vast majority of our revenues are set in accordance with our regulatory agreements, (see pages 174–179) and are calculated based on a number of factors: investment in network assets; performance against incentives; allowed returns on equity and cost of debt; and customer satisfaction.

Cash flows: Our ability to convert revenue to profit and cash is important. By managing our operations efficiently, safely and for the long term, we are able to generate strong sustainable cash flows to finance returns through dividends but also to provide funds for growth.

Investment: We invest efficiently in our networks to deliver strong and sustainable growth in our regulated asset base over the long term.

We continually assess, monitor and challenge investment decisions in order to allow us to continue to deliver safe, reliable, and cost-effective networks.

Our stakeholders	Our measures of success
Our business creates value for our stakeholders in both financial and non-financial terms.	Our KPIs benchmark our performance in each of these key areas as shown below.
We create value for our stakeholders and communities by: • operating as safely, reliably and sustainably as possible; • focusing on affordability to reduce the impact on customer bills; • delivering essential services, while managing loss of supply and customer service issues in a timely way; and • aiming to improve customer satisfaction at all times.	• Operating excellence/safety • Network reliability • Greenhouse gas emissions • Customer satisfaction
We create value for our people by: • paying them a market competitive wage, and an overall pay package that rewards competency and performance; and • providing an inclusive culture and encouraging development and employee enablement.	• Employee engagement • Workforce diversity
We create value for our shareholders by: • making sure our regulatory frameworks maintain an acceptable balance between risk and return; • operating within our regulatory frameworks as efficiently and compliantly as possible; • performing well against our regulatory incentives, so we can make the most of our allowed returns; • careful cash flow management and securing low-cost funding; and • disciplined investment in our networks and protecting our reputation.	• Adjusted EPS • Returns on equity • Value added

Internal control and risk management

The Board is committed to protecting and enhancing our reputation and assets, while safeguarding the interests of our shareholders. It has overall responsibility for the Group's system of risk management and internal control.

Managing our risks

National Grid is exposed to a variety of uncertainties that could have a material adverse effect on the Group's financial condition, our operational results, our reputation, and the value and liquidity of our shares.

The Board oversees the Company's risk management and internal control systems. As part of this role, the Board sets and monitors the amount of risk the Company is prepared to seek or accept in pursuing our strategic objectives (our risk appetite). The Board assesses the Company's principal risks and monitors the risk management process through risk review and challenge sessions twice a year. Over the course of the year, the Board has also considered specific principal risks including cyber security, emerging technology, the future role of the System Operator, asset safety, Brexit and strategic workforce planning.

Risk management process

Overall risk strategy, policy and process are set at the Group level with implementation owned by the business. Our enterprise risk management process provides a framework through which we can consistently identify, assess and prioritise, manage, monitor and report risks, as shown in the diagram below. The process is designed to support the delivery of our vision and strategy, as described on page 8.

Risk management activities occur through all levels of our organisation. Through a 'top down, bottom up' approach, all business functions identify the main risks to our business model and to achieving their business objectives. They assess each risk by considering the financial and reputational impacts, and how likely the risk is to materialise. They identify and implement the actions being taken to manage and monitor those risks and indicate the adequacy of our existing risk controls. The identified risks and actions are collated in risk registers and reported at functional and regional levels of the Group.

An important feature of our risk management process is our three lines of defence model. Each business function owns and is responsible for managing its own particular risks (the first line of defence). A central risk management team (the second line of defence) acts as an advisory function on implementing the risk process and also provides independent challenge of the principal risk assessments and actions taken to mitigate and manage those risks. This team partners with the business functions through nominated risk liaison staff members and collaborates with assurance teams and specialists, such as the safety and compliance management teams to evaluate gaps in controls, identify performance trends and provide recommendations for improvements. Our internal audit function then audits selected controls to provide independent assessments of the effectiveness of our risk management and internal control systems (the third line of defence).

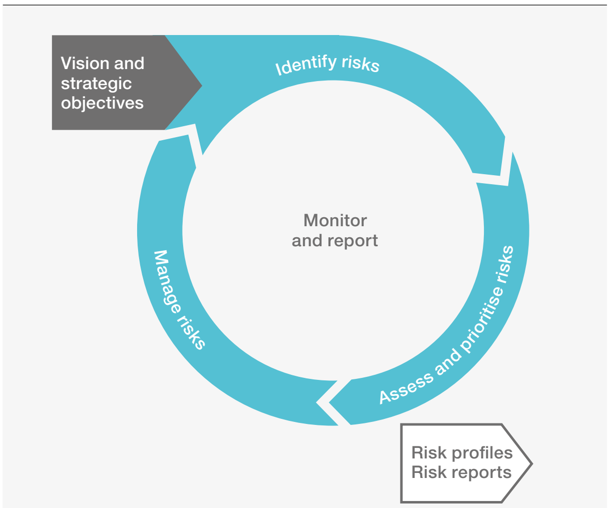
Regional senior management regularly reviews and debates the outputs of the bottom-up risk management process. This helps ensure the business is aligned to the Company's strategic objectives and that the prioritisation of the principal risks is discussed regularly. The most significant risks for the UK and US businesses are highlighted in regional risk profiles and reported to the Chief Executive.

We develop our main strategic uncertainties or 'principal risks' for the Company through discussing the Group risk profile with the Group Executive Committee and the Board. These risks are reported and debated with the Group Executive Committee and Board every six months. Workshops are held with UK and US business leadership teams so we can make sure the principal risks remain closely aligned to our strategic aims and that no significant risks (or combination of risks) are overlooked.

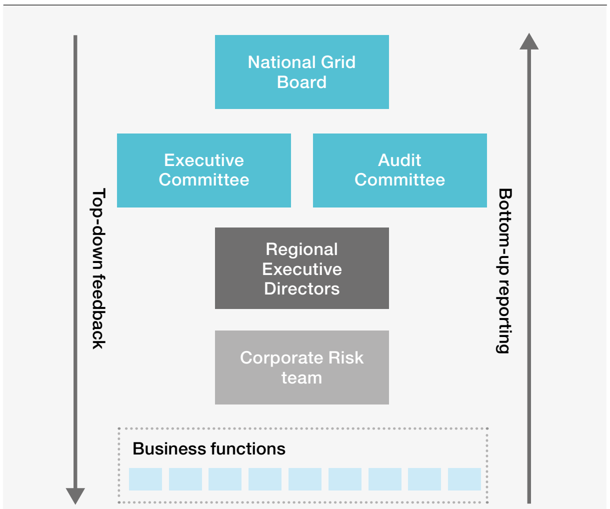
The Board and leadership teams also discuss the results of testing our principal risks. The aim of this testing is to establish the impact of the principal risks on the Group's ability to continue operating and meet its liabilities over the assessment period. We test the impact of these risks on a reasonable worst case basis, alone and in clusters, over a five-year assessment period. This work informs the viability statement (see page 19).

The outcomes from each level of the risk review process are fed back to the relevant teams and incorporated as appropriate into the next cycle of our ongoing risk process.

Risk management process



Feedback and reporting



Internal control and risk management continued

Our principal risks

Accepting that it is not possible to identify, anticipate or eliminate every risk that may arise and that risk is an inherent part of doing business, our risk management process aims to provide reasonable assurance that we understand, monitor and manage the main uncertainties that we face in delivering our objectives. This includes consideration of inherent risks, which exist because of the nature of day-to-day operations in our industry, and financial risks, which exist because of our financing activities. Our principal risks and a summary of management and mitigation actions are provided in the table below. We have provided the overview of the key inherent risks we face on pages 180–183, as well as our key financial risks, which are incorporated within the notes to our consolidated financial statements on pages 92–165. Our corporate risk profile contains the principal risks that the Board considers to be the main uncertainties currently facing the Group as we endeavour to achieve our strategic objectives. Following the referendum vote for the UK to leave the EU and the consequential uncertainties in the political and economic environment, the Financial Reporting Council (FRC) has highlighted matters for boards to consider. In relation to principal risks, the FRC states that boards must consider the nature and extent of risks and uncertainties arising from the result of the referendum and the impact on the future performance and position of the business. Consequently, our risk owners have considered Brexit in their assessments of the principal risks. These assessments continue as we gain more clarity on the likely impact of Brexit on our business. Our principal risks are shown in the table below.

Risk area	Risk description	Example of mitigations
Growth	**Failure to identify and execute the right opportunities to deliver our growth strategy.** Failure to grow our core business and have viable options for new business over the longer term would adversely affect the Group's credibility and jeopardise the achievement of intended financial returns. Our ability to achieve our ambition for growth is subject to a wide range of external uncertainties, including the availability of potential investment targets and attractive financing and the impact of competition for onshore transmission in both the UK and US; and internal uncertainties, such as the performance of our operating businesses and our business planning model assumptions.	• Processes and resources are in place to review, undertake due diligence and progress new investment opportunities, dispose of existing businesses and identify and execute on opportunities that provide organic growth. These processes, along with twice-yearly Board strategy offsite discussions, are reviewed regularly to ensure they remain supportive of our short- and long-term strategy. We regularly monitor and analyse market conditions, competitors and their potential strategies, the advancement and proliferation of new energy technologies, and the performance of our Group portfolio. • While good progress has been made this past year, we must remain focused on increasing development opportunities in our core business and emerging opportunities. Mitigating actions focus on building our business development pipeline and our capability to pursue non-organic growth options.
Energy policy	**Failure to secure satisfactory regulatory outcomes and to influence future energy policy.** Policy decisions by regulators, governments and others directly affect our business. We must engage widely in the energy policy debate, making sure our position and perspective help to shape future policy direction.	• In both the UK and US we strive to maintain a good understanding of the regulatory agenda and emerging issues, so that robust, public interest aligned responses can be selected and developed in good time. Our reputation as a competent operator of important national infrastructure is critical to our ability to do this. • As part of our new business strategy, we have renewed our stakeholder engagement strategy to improve focus on business objectives. The new strategy incorporates senior executive ownership of each priority, and the development of key positions and engagement plans by cross-functional teams.
Emerging technology	**Failure to effectively respond to the threats and opportunities presented by emerging technologies, particularly adapting our networks to meet the challenge of increasing distributed energy sources.** Technology developments in areas such as solar energy, energy storage, electric vehicles and distributed generation have developed at a faster pace than many anticipated. We face the challenge of adapting our networks to meet new demands as well as ensuring we act on the opportunities that will benefit our customers and stakeholders.	• We created a technology team within our Strategy function to develop relationships with emerging and technology-centric organisations, to monitor disruptive technology and business model trends and to act as a bridge for emerging technology into the core regulated businesses and business development teams. In addition, the partnership with Energy Impact Partners was established to gain exposure to emerging start-up companies. The new National Grid Ventures function will further the focus on new strategies, business development and technology and innovation.
Safety	**Catastrophic asset failure resulting in a significant safety event.** Safety is a fundamental priority. Some of the assets owned and operated by National Grid are inherently hazardous and process safety incidents, while extremely unlikely, can occur. Our objective is to be an industry leader in managing the process safety risks from our assets to protect our employees, contractors and the communities in which we operate. We operate in compliance with regional legislation and regulation. In addition, we identify and adopt good practices for safety management.	• We continue to commit significant resources and financial investment to maintain the integrity of our assets and we strive to continuously improve our key process safety controls. Our Group-wide process safety management system is in place to ensure a robust and consistent framework of risk management exists across our higher hazard asset portfolio. • We have a mature insurance strategy that uses a mix of self-insurance, captives and direct (re)insurance placements. This provides some financial protection in respect of property damage, business interruption and liability risks. Periodically, independent surveys of key assets are undertaken, which provide risk engineering knowledge and best practices to the Group with the aim of further reducing our exposure to hazard risks.

Risk area	Risk description	Example of mitigations
Data management	**Failure to operate with a sufficiently mature business data management capability.** The need for accurate, timely, and meaningful data lies throughout the organisation and is critical to our core processes and our ability to grow the business. We must rely upon the performance of our systems and data to demonstrate the value of our business to our shareholders, meet our obligations under our regulatory agreements and comply with agreements with bond holders and other providers of finance.	• We have developed data management principles and minimum standards with supporting guidelines. These documents provide clarity around what is expected, with a strong focus on what we need in place to keep us safe, secure and legally compliant. • These standards have been launched in the business and will be developed in the coming year. In support of this, we are also developing a capability framework, to make sure our people have the appropriate skills and expertise in data management. The businesses will continue to develop their own implementation plans against these new standards and capabilities. The aim of these plans will be to ensure we can demonstrate we are compliant with the minimum standards and have the core capabilities in place for all of our business critical data. • To support these efforts, we are establishing regional centres of excellence for data management. Their role will be to provide expertise to the businesses and to help provide assurance around the effectiveness of the data management standards.
Cyber breach	**We experience a major cyber security breach of business and critical national infrastructure (CNI) systems.** Due to the nature of our business we recognise that our CNI systems may be a potential target for cyber threats. We must protect our business assets and infrastructure and be prepared for any malicious attack.	• We use industry best practices as part of our cyber security policies, processes and technologies. Our cyber security programme is a global programme of work which started in 2010 and continues to be modified and updated to this day. This programme is intended to reduce the risk that a cyber threat could adversely affect the Company's business resilience. • We continually invest in cyber strategies that are commensurate with the changing nature of the security landscape. This includes collaborative working with BEIS and the Centre for Protection of National Infrastructure on key cyber risks and development of an enhanced CNI security strategy and our involvement in the US with developing the National Institute of Standards and Technology Cyberspace Security Framework. We also collaborate with a number of regulatory agencies focused on protection of CNI.
Leadership capacity	**Failure to build skills and leadership capacity (including effective succession planning) required to deliver our vision and strategy.** It is through the high-quality work of our employees that we will achieve our vision, respond to the changing needs of our stakeholders and create a competitive advantage. Obtaining and fostering an engaged and talented team that has the knowledge, training, skills and experience to deliver on our strategic objectives is vital to our success. We must attract, integrate and retain the talent we need at all levels of the business.	• Strategic workforce planning allows us to effectively inform our strategic resourcing plans. Our entry level talent development schemes (graduate training and apprenticeships) are a potential source of competitive advantage in the market place. We are involved in a number of initiatives to help secure the future engineering talent required. Improvements to our talent processes mean we continue to improve in identifying talent and in accelerating development of future leaders (e.g. our Accelerated Development Programme). • The rigour of our succession planning and development planning process has been improved, particularly at senior levels and is now being applied deeper into the organisation. • In all strategies and programmes we continue to promote inclusion and diversity. • To help understand our workforce, we formally solicit employee opinions via a Group-wide employee survey that is conducted annually.

Internal control and risk management continued

Our internal control process

We have a number of processes to support our internal control environment. These processes are managed by dedicated specialist teams, including risk management, ethics and compliance management, corporate audit and internal controls, and safety, environment and health. Oversight of these activities is provided through regular review and reporting to the Board and appropriate Board committees as outlined in the Corporate Governance section on pages 32–52.

Monitoring internal control is conducted through established boards and committees at different levels of the organisation. Deficiencies are reported and corrected at the appropriate entity-level. The most significant risk and internal controls issues are monitored at the Senior Executive and Board level. The Audit Committee is responsible for keeping under review and reporting to the Board on effectiveness of reporting, internal control policies, compliance with Sarbanes-Oxley (SOX), Bribery Act legislation, appropriateness of financial disclosures and procedures for risk and compliance management, business conduct and internal audit.

Reviewing the effectiveness of our internal control and risk management

Each year the Board reviews the effectiveness of our internal control systems and risk management processes covering all material systems, including financial, operational and compliance controls, to make sure they remain robust.

The latest review covered the financial year to 31 March 2017 and the period to the approval of this Annual Report and Accounts. In this review, the Board considered the effectiveness of areas such as the control environment, risk management and internal control activities, including those described below.

Fostering a culture of integrity is an important element of our risk management and internal controls system. National Grid's values – 'do the right thing' and 'find a better way' – provide a framework for reporting business conduct issues, educating employees and promoting a culture of integrity at all levels of the business. We have policies and procedures in place to communicate behaviour expected from employees and third parties, and to prevent and investigate fraud and bribery and other business conduct issues. We monitor and address business conduct issues through several means, including a biannual review by the Audit Committee.

Overall compliance strategy, policy and frameworks are set at the Group level with implementation owned by the business. The business is responsible for identifying compliance issues, continuous monitoring, and developing actions to improve compliance performance. We monitor and address compliance issues through several means including reviews at US and UK leadership meetings and a biannual review by the Audit Committee.

The Certificate of Assurance (CoA) from the Chief Executive to the Board provides overall assurance around the effectiveness of our risk management and internal controls systems. The CoA process operates via a cascade system and takes place biannually in support of the half- and full-year results. The Audit Committee considers the CoA and provides a recommendation to the Board in support of its review.

The periodic SOX reports on management's opinion on the effectiveness of internal controls over financial reporting are received by the Board in advance of the half- and full-year results. They concern the Group-wide programme to comply with the requirements of s404 of the Sarbanes-Oxley Act and are received directly from the Group Controls team; and through the Executive and Audit Committees.

The Board evaluated the effectiveness of management's processes for monitoring and reviewing internal control and risk management. It noted that no significant failings or weaknesses had been identified by the review and confirmed that it was satisfied the systems and processes were functioning effectively.

Our internal control and risk management processes comply with the requirements of the UK Corporate Governance Code. They are also the basis of our compliance with obligations set by SOX and other internal assurance activities.

Internal control over financial reporting

We have specific internal mechanisms that govern the financial reporting process and the preparation of the Annual Report and Accounts. Our financial controls guidance sets out the fundamentals of internal control over financial reporting, which are applied across the Company.

Our financial processes include a range of system, transactional and management oversight controls. In addition, our businesses prepare detailed monthly management reports that include analysis of their results, along with comparisons to relevant budgets, forecasts and prior year results. These are presented to, and reviewed by, senior management within our Finance function.

These reviews are supplemented by quarterly performance reviews, attended by the Chief Executive and Finance Director. The reviews consider historical results and expected future performance and involve senior management from both operational and financial areas of the business.

As part of our assessment of financial controls in previous years, we identified a number of weaknesses in our US financial control framework. We are making progress in remediating these weaknesses. For more information, including our opinion on internal control over financial reporting, see page 180.

Viability statement

The Board's consideration of the longer-term viability of the Company is an extension of our business planning process, which includes financial forecasting, a robust risk management assessment, regular budget reviews and scenario planning. Our business strategy aims to make sure that our operations and finances are sustainable.

Although it has considered adopting a longer period, the Board believes that five years is the most appropriate timeframe over which we should assess the long-term viability of the Company. The following factors have been taken into account in making this decision:

1. We have reasonable clarity over a five-year period, allowing an appropriate assessment of our principal risks to be made;
2. In order to test the five-year period the Board considered whether there are specific, foreseeable risk events relating to the principal risks that are likely to materialise within a five to ten year period, and which might be substantial enough to affect the Company's viability and therefore should be taken into account when setting the assessment period. No risks of this sort were identified; and
3. It matches our business planning cycle.

We have set out the details of the principal risks facing our Company on pages 16–17, and described the process we use on page 18. Over the course of the year the Board has also considered the principal risks shown in the table below in detail.

In addition to the principal risks, the Board has considered the impact of Brexit and the sale of a majority share in our UK Gas Distribution business. We are not of the view that Brexit will have an impact that could affect the viability of the Company. In relation to the sale of a majority interest in the UK Gas Distribution business, the Board has also concluded that this will not have an adverse impact on the viability of the Company.

The Board has discussed the potential financial and reputational impact of the principal risks against our ability to deliver the Company's business plan. This describes and tests the significant solvency and liquidity risks involved in delivering our strategic objectives within our business model.

The Board assessed our reputational and financial risk capacity, and reviewed the stress testing of the principal risks against that risk capacity, based on assessing reasonable worst-case scenarios over the assessment period. The reputational and financial impacts (to the nearest £500 million) were considered. The risks relating to growth, skills and leadership capacity were not tested, as the Board did not feel they would threaten the viability of the Company within the five-year assessment period.

We chose a number of scenarios for individual testing for impact on the Company's viability, including the following:

Scenario 1 – A cyber-attack on our critical national infrastructure leading to a serious loss of service.

Scenario 2 – A catastrophic gas pipeline failure on one of our assets leading to an explosion and loss of service.

Scenario 3 – A serious fire in our Liquefied Natural Gas terminal at the Isle of Grain.

Scenario 4 – A serious system breach leading to loss of customer data.

Scenario 5 – Emerging technology leading to significant numbers of people going 'off grid'.

In addition to testing individual principal risks, the Board also considered the impact of a cluster of the principal risks materialising over the assessment period. Scenarios developed to represent reasonable worst-case examples of principal risk clusters were assessed for cumulative impact upon our reputation and stakeholder trust. We chose a combination of risks that would represent the greatest potential financial impact and a combination that would represent a potentially significant long-term impact.

Scenario 6 – A cyber security attack and catastrophic US asset failure occurring together within the assessment period.

Scenario 7 – A significant safety event followed by a cyber-attack resulting in a loss of supply and loss of data.

No principal risk or cluster of principal risks was found to have an impact on the viability of the Company. Preventative and mitigating controls in place to minimise the likelihood of occurrence and/or financial and reputation impact are embedded within our assurance system.

In assessing the impact of the principal risks on the Company, the Board has considered the fact that we operate in stable markets and the robust financial position of the Group, including the ability to sell assets, raise capital and suspend or reduce the payment of dividends. It has also considered Ofgem's legal duty to have regard to the need to fund licenced National Grid Gas plc and National Grid Electricity Transmission plc activities.

Each Director was satisfied that they had sufficient information to judge the viability of the Company. Based on the assessment described above and on page 16, the Directors have a reasonable expectation that the Company will be able to continue operating and meet its liabilities over the period to May 2022.

Risk	Matters considered by the Board
Failure to secure satisfactory **regulatory** outcomes/ failure to influence **future energy** policy.	Updates and reviews of: • the future role of the ESO; • the impact of Brexit; • US Regulatory Strategy and initiatives to improve customer service; and • UK Regulatory Strategy.
Catastrophic **asset failure** resulting in a significant **safety** event.	Safety is a fundamental priority and as such is looked at in detail by the Safety, Environment and Health Committee who have delegated authority from the Board. The Board receives an oral report from the Committee Chairman after every meeting. Additionally, the Board reviews the current safety performance of the Company at each meeting.
We experience a major **cyber security breach** of business and CNI systems/data.	The Board has received regular updates on cyber security. From April 2017 the Board will receive cyber security updates three times a year. The Board has also undertaken cyber security training.
Failure to identify and execute the right opportunities to deliver our **growth strategy**.	The Board has held three strategy sessions this year.
We fail to effectively respond to the threats and opportunities presented by **emerging technology**, particularly the challenge of adapting our networks to meet the challenges of increasing **distributed energy resources**.	The impact of emerging technology is a key part of our strategy sessions.
Failure to build **skills and leadership capacity** (including effective succession planning) required to deliver our vision and strategy.	The Board has had two sessions on strategic workforce planning and building our human resources capability.

Financial review

National Grid delivered good performance in 2016/17. We increased investment in our network assets to provide safe and reliable services for millions of customers and successfully completed the sale of a majority interest in our UK Gas Distribution business.

This section

We provide additional commentary on our KPIs and other performance metrics used to monitor our business performance. Analysis of our financial performance and position as at 31 March 2017, including detailed commentary on the performance of our operating segments (including UK Gas Distribution), is located in the financial statements. However, this analysis still forms part of our Strategic Report financial review.

See pages 198–199 for commentary on our financial performance and position for the year ended 31 March 2016 compared with 31 March 2015. We have also included analysis of our UK regulated financial performance by segment on page 98.

In focus

Use of adjusted profit and definitions of alternative performance measures: page 193.

Commentary on the consolidated income statement: page 85.

Commentary on results of our principal operations by segment: pages 97–98.

In focus

Reconciliations of adjusted profit measures: page 193.

Commentary on statement of financial position: page 89.

Additional commentary on financial KPIs

This year, as a result of the UK Gas Distribution sale, our financial statements are more complex than in prior years. In particular, we report our earnings for the Group excluding UK Gas Distribution ('continuing operations') separately from the results of that business, which we report within discontinued operations.

The commentary below is focused principally on the results for the continuing Group.

	2017			2016		
	Continuing Operations	**Discontinued Operations**	**Total**	Continuing Operations	Discontinued Operations	Total
Statutory operating profit	3,208	894	4,102	3,225	860	4,085
Exceptional items and remeasurements	565	–	565	(11)	22	11
Adjusted operating profit	**3,773**	**894**	**4,667**	**3,214**	**882**	**4,096**
Adjusted net finance costs	(1,029)	(146)	(1,175)	(856)	(157)	(1,013)
Share of post-tax results of joint ventures and associates	63	–	63	59	–	59
Adjusted tax	(666)	(142)	(808)	(604)	(149)	(753)
Attributable to non-controlling interests	–	1	1	(1)	(2)	(3)
Adjusted earnings	**2,141**	**607**	**2,748**	**1,812**	**574**	**2,386**
Adjusted EPS	**56.9**	**16.1**	**73.0**	**48.0**	**15.2**	**63.2**
Statutory earnings	1,810	5,985	7,795	1,901	690	2,591
Statutory EPS	48.1	159.0	207.1	50.4	18.3	68.7

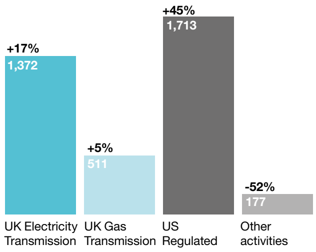
Measurement of financial performance

We describe and explain our results principally on an adjusted basis and explain the rationale for this on page 193. We present results on an adjusted basis before exceptional items and remeasurements. See pages 193–195 for further details and reconciliations from the adjusted profit measures to IFRS, under which we report our financial results and position. Further commentary on movements in the income statement is provided on page 85.

On a statutory basis, operating profit and earnings include a £633 million charge in respect of environmental and gas holder demolition costs and a £68 million gain on commodity contracts in the US. Our total statutory earnings and EPS figures include the profit arising from the sale of the UK Gas Distribution business.

Adjusted operating profit from continuing operations

Adjusted operating profit for the year ended 31 March 2017 was £3,773 million, up £559 million (17%) compared with last year. Operating profit increased in all of our regulated business segments.



For the year ended 31 March 2017, adjusted operating profit in the UK Electricity Transmission segment increased by £199 million to £1,372 million. Revenue was £462 million higher, mainly reflecting higher system balancing revenues, increased regulated revenue allowances and the impact of higher volumes. Pass-through costs were £263 million higher, mainly due to increased system balancing costs. Regulated controllable costs were £25 million lower including reduced environmental costs partly offset by increased employee costs. Depreciation and amortisation costs were £31 million higher, reflecting the continued capital investment programme, and other costs were £6 million lower than prior year including lower asset disposal costs.

UK Gas Transmission adjusted operating profit increased by £25 million to £511 million. Revenue was £33 million higher, including increased regulated revenue allowances in the year and higher volumes than expected, partly offset by lower LNG storage revenues following a site closure. After deducting pass-through costs, net revenue was £31 million higher than prior year. Regulated controllable costs were £2 million higher than last year, with lower LNG storage costs offset by costs resulting from an increase in the number of employees to support higher levels of asset health investment. Depreciation and amortisation costs were £8 million higher, reflecting ongoing investment. Other operating costs were £4 million lower than last year.

Within our US Regulated business, adjusted operating profit increased by £528 million to £1,713 million. The stronger dollar increased revenue and operating profit in the year by £1,160 million and £184 million respectively compared to last year's results. Excluding the impact of exchange rate movements, revenue increased by £278 million. Increased revenue allowances under new rate cases, the benefit of capex trackers and over-recovery of allowed revenues due to cold weather were partly offset by lower commodity cost recoveries. Overall pass-through costs reduced by £231 million (excluding the impact of foreign exchange). Regulated controllable costs increased by £152 million at constant currency, partly as a result of increased information systems costs, write-offs of prior years' capital costs and higher costs of health care and other benefits. These were partly offset by a £32 million decrease in bad debt costs. Depreciation and amortisation costs were £24 million higher this year at constant currency as a result of ongoing investment in our networks. Other operating costs were £21 million higher at constant currency, reflecting increased operating taxes and cost of removal of existing assets.

Adjusted operating profit in Other activities was £193 million lower at £177 million. In the US, adjusted operating profit was £80 million lower (including £3 million of foreign exchange benefit) partly reflecting higher US project development costs. In addition, 2015/16 included a £49 million gain on disposal of the Iroquois pipeline. In the UK, adjusted operating profit was £113 million lower including lower auction revenues from the French Interconnector and increased business change costs.

Adjusted earnings from continuing operations

For the year ended 31 March 2017, adjusted net finance costs were £173 million higher than they were in 2015/16 at £1,029 million, with the impact of higher UK RPI inflation on index-linked borrowings and increased average net debt levels combined with the impact of the stronger US dollar. This was partly offset by lower tax and pension-related interest.

Our adjusted tax charge was £62 million higher than it was in 2015/16. This was mainly due to higher profits before tax partly offset by some tax settlements in respect of prior years. The effective tax rate for 2016/17 was 23.7% (2015/16: 25.0%).

The earnings performance described above has translated into adjusted earnings of £2,141 million, up £329 million on last year. This equates to adjusted earnings per share (EPS) of 56.9 pence, up 8.9 pence (19%) on 2015/16.

Discontinued operations

Discontinued operations are comprised primarily of the UK Gas Distribution and Xoserve businesses. Adjusted operating profit for discontinued operations increased by £12 million to £894 million. Operating profit from Xoserve decreased by £8 million, reflecting system implementation costs. In UK Gas Distribution, revenue was £36 million lower. This primarily reflects the non-recurrence of last year's revenue over-recovery compared to allowance. Pass through costs were £2 million lower and regulated controllable costs were £13 million higher including costs resulting from an increase in the number of employees. Depreciation and amortisation costs were £84 million lower reflecting the cessation of depreciation from 8 December 2016, following the agreement for the sale of a majority stake in the business. Other costs were £17 million higher than prior year, which included the release of provisions for gas holder demolition costs.

Scrip restatement

In accordance with IAS 33, all EPS and adjusted EPS amounts for comparative periods have been restated as a result of shares issued through the scrip dividend scheme.

Group return on equity (RoE)

We measure our performance in generating value for our shareholders by dividing our annual return by our equity base.

Group RoE has been calculated for the year including a full year of contribution from the disposed UK Gas Distribution business.

Group RoE has decreased during the year to 11.7%, from 12.3% in 2015/16. During the year, the UK regulated businesses (including Gas Distribution) delivered a solid operational return of 13.1% in aggregate (2015/16: 13.3%), including an assumption of 3% long-run average RPI inflation. US operational return of 8.2% (fiscal year) was up on last year's 8.0% (calculated on a calendar year basis), reflecting increased revenues from new rate plans in MECO, KEDNY and KEDLI.

As discussed earlier profits from Other activities in the Group were lower than last year, adjusted interest costs for the continuing and discontinued businesses combined were higher and the effective tax rate was lower.

Regulated asset base growth

In total, including all of the regulated asset value (RAV) of UK Gas Distribution, our UK RAV and US rate base increased by £3.8 billion (10%) in the year to £42.6 billion. The increase reflects the continued high levels of investment in our networks in both the UK and US, together with the impact of the stronger US dollar. Following the sale of a 61% interest in the UK Gas Distribution business on 31 March 2017 the Group's total RAV and rate base decreased to £37.1 billion (including a 39% share of the RAV of the disposed UK Gas Distribution business).

The UK RAV (including 100% of the RAV of Gas Distribution) increased by £1.1 billion, reflecting significant capital expenditure, together with inflation. RPI inflation at 3.1% (March to March), was in line with our 3% long-term expectation.

UK RAV growth also included capitalised efficiencies or 'performance RAV' of £110 million this year.

US rate base has increased by £2.7 billion this year. Of this, £1.9 billion was due to foreign exchange movements increasing the rate base reported in sterling. Excluding foreign exchange, rate base increased by £0.8 billion, reflecting a significant year of US investment.

Value Added

Our dividend is an important part of returns to shareholders along with growth in the value of the asset base attributable to equity investors. These are reflected in the Value Added metric that underpins our approach to sustainable decision-making and long-term incentive arrangements.

Value Added for the year has been calculated on a combined basis and so excludes the impact of the UK Gas Distribution sale, which completed on 31 March 2017.

Overall Value Added in the year was £1.9 billion or 51.6 pence per share as set out below:

	Year ended 31 March		
£bn at constant currency	**2017**	**2016**	**Change**
UK regulated assets[1]	26.6	25.9	+0.7
US regulated assets[1]	17.1	16.3	+0.8
Other invested capital	2.2	2.0	+0.2
Total assets	45.9	44.2	+1.7
Dividend paid			+1.5
Share buyback			+0.2
Movement in goodwill			–
Net debt[2]	(29.1)	(27.6)	-1.5
Value Added			**+1.9**

1. Includes assets held outside RAV and rate base including deferrals of cost recoveries e.g. environmental and pension costs.
2. Net debt at 31 March 2017 adjusted to remove the impact of the UK Gas Distribution sale.

	Year ended 31 March	
	2017	**2016**
Value Added per share	51.6p	47.6p

Value Added in the year was higher than 2015/16 (£1.8 billion or 47.6 pence per share) as a result of higher inflation on UK regulated assets (March 2017 RPI of 3.1%, prior year 1.6%) and improved US performance. Of the £1.9 billion Value Added in 2016/17, £1,463 million was paid to shareholders as cash dividends and £189 million as share repurchases (offsetting the scrip issuance during the year), with £289 million retained in the business.

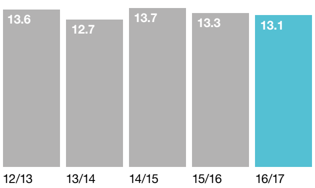
The Board is confident that growth in assets, earnings and cash flows, supported by improving cash efficiency and an exposure to attractive regulatory markets, should help the Group to maintain strong, stable credit ratings and a consistent prudent level of gearing, while delivering attractive returns for shareholders.

Other performance measures

Regulated return on equity
US and UK regulated returns are calculated using the capital structure assumed within their respective regulatory arrangements and, in the case of the UK, assuming 3% RPI inflation. As these assumptions differ between the UK and the US, RoE measures are not directly comparable between the two geographies. In our performance measures, we compare achieved RoEs to the level assumed when setting base rate and revenue allowances in each jurisdiction.

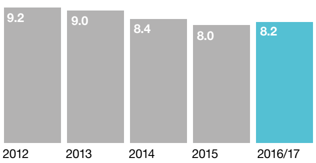
UK regulated return on equity
UK RoE has decreased 20bps to 13.1%. This reduction in RoE reflects a reduction in incentive performance year-on-year, particularly as a result of the decline in legacy revenue incentive recoveries in the Gas Transmission business. Totex out-performance was at a similar level to last year, representing 160bps of our out-performance over allowed returns.

UK return on equity %



US regulated return on equity
US RoE for fiscal year 2016/17 increased 20bps to 8.2%, compared to calendar year 2015, reflecting the benefit of new rate cases and capital trackers on the sizeable investment programme. The 8.2% achieved return compares to an allowed return of 9.5%.

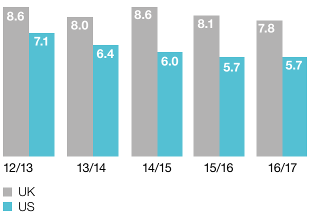
US return on equity %



RoEs for 2012 to 2015 are for calendar years, RoE for 2016/17 is for the fiscal year to 31 March 2017.

Return on capital employed
RoCE provides a performance comparison between our regulated UK and US businesses and is one of the measures that we use to monitor our portfolio of businesses. The following table shows our RoCE for our businesses over the last five years:

Return on capital employed %



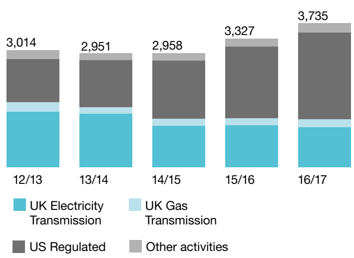
The UK RoCE has decreased from 8.1% to 7.8% in 2016/17. This reflects the reduction in legacy incentive revenues in our Gas Transmission business in the year.

US RoCE has remained at the same level as last year at 5.7%. Regulated financial performance has increased compared with last year, offset by growth in the rate base, driven by capital investment.

Capital expenditure
For the year ended 31 March 2017, capital expenditure of £3,735 million for the continuing business was £408 million higher than last year. The Group also invested £127 million in a number of joint ventures including a new electricity interconnector between the UK and Belgium and £42 million into a partnership with Sunrun Inc. in the US. In addition, the Group invested a further £10 million in the St William Homes joint venture with Berkeley Group.

Our US Regulated business continues to increase levels of investment in network reinforcement and resilience. Capital expenditure in 2016/17 was £391 million higher than last year, and reflected higher spend on gas mains replacement, gas customer growth and system reinforcement together with the impact of a stronger US dollar.

Capital expenditure for continuing operations £m



Discontinued operations
UK Gas Distribution and Xoserve capital expenditure was £22 million higher than last year at £588 million, reflecting higher system reinforcement workload.

Dividend growth
We remain committed to our dividend policy which aims to grow the dividend per share at least in line with the rate of RPI inflation each year for the foreseeable future.

During the year we generated £1.2 billion of business net cash flow after our capital expenditure programmes. This has enabled the growth of the dividend per share in line with average RPI, being 2.1% (2015/16: 1.1%; 2014/15: 2.0%), taking into account the recommended final dividend of 29.10 pence per ordinary share.

During the year, the Company has repurchased shares in the market with the overall goal being to reduce the dilutive effect of the scrip as much as possible to the extent that is consistent with maintaining the Group's strong financial position as reflected in its credit rating.

Net debt and credit metrics
We expect capital investment programmes and network enhancement will continue to be funded by market borrowings. We continue to borrow at attractive rates when needed and the level of net debt remains appropriate for the size of our business.

During 2016/17, net debt has decreased by £6 billion. This is driven by cash flows related to the disposal of 61% of our UK Gas Distribution business of £10.2 billion and business net cash inflows (after cash capital investment) of £1.3 billion (excluding UK Gas Distribution disposal costs), partly offset by outflows from interest, dividends, tax and other financing flows of £2.7 billion, with non-cash movements such as foreign exchange and accretion of interest increasing net debt by a further £2.8 billion.

A key measure we use to monitor financial discipline is retained cash flow divided by adjusted net debt (RCF/net debt). This is a measure of the operating cash flows we generate, before capital investment but after dividends paid to shareholders, compared with the level of debt we hold. The principal adjustments made to net debt are in respect of pension deficits and hybrid debt instruments. The impact of the UK Gas Distribution transaction has a positive effect on the metric in the year of sale. RCF/net debt was 15.8% for the year (2015/16: 11.5%; 2014/15: 11.2%). We have actively managed scrip uptake through buying back shares when supported by sufficient headroom in the RCF/net debt metric. Deducting the costs of buying back these shares reduces RCF/net debt to 14.9% for the year.

Our long-term target for RCF/net debt is to exceed 9.0%, which is consistent with the A3 rating threshold used by Moody's, the rating agency.

We additionally monitor interest cover, which is a measure of the cash flows we generate compared with the net interest cost of servicing our borrowings. Interest cover for the year was 5.0 times (2015/16: 5.5 times; 2014/15: 5.1 times). Our target long-term rate for interest cover is in excess of 3.0 times.

In focus

Commentary on the consolidated cash flow statement page 91

Commentary on borrowings page 127–128

In focus

UK regulation pages 174–175

US regulation pages 176–179

Regulatory financial performance

Timing and regulated revenue adjustments

As described on pages 174 to 179, our allowed revenues are set in accordance with our regulatory price controls or rate plans. We calculate the tariffs we charge our customers based on the estimated volume of energy we expect will be delivered during the coming period. The actual volumes delivered will differ from the estimate. Therefore, our total actual revenue will be different from our total allowed revenue. These differences are commonly referred to as timing differences.

If we collect more than the allowed revenue, the balance must be returned to customers in subsequent periods, and if we collect less than the allowed level of revenue we may recover the balance from customers in subsequent periods. In the US, a substantial portion of our costs are pass-through costs (including commodity and energy efficiency costs) and are fully recoverable from our customers. Timing differences between costs of this type being incurred and their recovery through revenue are also included in timing.

The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are final.

Our continuing operating profit for the year includes a total estimated in-year over-collection of £398 million (2015/16: £1 million under-collection). Our closing balance at 31 March 2017 was £414 million over-recovered. In the UK, there was cumulative over-recovery of £82 million at 31 March 2017 (2016: under-recovery of £133 million for continuing operations). In the US, cumulative timing over-recoveries at 31 March 2017 were £332 million (2016: £135 million over-recovery). A sizeable part of that balance will be returned to customers next year.

In addition to the timing adjustments described above, as part of the RIIO price controls in the UK, outperformance against allowances as a result of the totex incentive mechanism, together with changes in output-related allowances included in the original price control, will almost always be adjusted in future revenue recoveries, typically starting in two years' time. We are also recovering revenues in relation to certain costs incurred (for example pension contributions made) in prior years.

As required under accounting standards our current IFRS revenues and earnings include these amounts that relate to certain costs incurred in prior years or that will need to be repaid or recovered in future periods. Such adjustments will form an important part of the continuing difference between reported IFRS results and underlying economic performance based on our regulatory obligations.

For our UK regulated businesses as a whole (excluding the UK Gas Distribution business), timing and regulated revenue adjustments totalled £408 million in the year (2015/16: £227 million). In the US, accumulated regulatory entitlements cover a range of different areas, with the most significant being environmental remediation and pension assets, as well as deferred storm costs.

All regulatory entitlements are recoverable (or repayable) over different periods, which are agreed with the regulators to match the expected payment profile for the liabilities. As at 31 March 2017, these extend until 2071.

Principal operations – UK

Nicola Shaw, Executive Director, UK, describes significant developments that include the sale of a majority interest in the Gas Distribution business and the conclusion of Ofgem's mid-period review of the RIIO price control for Transmission.

Nicola Shaw CBE
Executive Director, UK

In focus

Evolving energy landscape

11.9GW

is the capacity of installed solar PV in the UK in March 2017 (compared to 0GW in March 2007).

Cost savings for consumers

£200m

is the approximate expected cost saving resulting from awarding Enhanced Frequency Response contracts for more than 200MW of battery storage in July 2016.

Transmission

284TWh

of electricity flowed across the transmission network in 2016/17, enough to boil 2.3 trillion kettles.

90.5bcm

of gas was transported across the transmission network in 2016/17, enough to fill the Albert Hall 914,000 times.

Distribution

10.9m

is the approximate number of consumers served by the gas distribution networks.

This year, sadly, safety has been brought into the sharpest focus for all of us.
A National Grid employee died following an incident at our East Claydon substation. We have undertaken a detailed internal investigation to establish exactly how and why this happened and to learn all possible lessons from it. We are continuing to co-operate with the Health and Safety Executive (HSE) as it carries out its independent investigation. We are also implementing a wide-ranging plan aimed at delivering safety improvements. Safety will continue to be a fundamental priority.

Looking now at organisational developments, this year, in line with our plans, we separated Gas Distribution into a stand-alone business and sold a majority interest. While preparing the business for sale and a new ownership structure, we maintained our focus on operational delivery, which resulted in continued solid performance for Gas Distribution. You can read more about the performance of this business on pages 20–22.

In addition, the Board approved the second interconnector between the UK and France (IFA2), and we launched our new smart metering business. You can read more about these developments on pages 28–29.

As John has described in his review on pages 6–7, we issued a joint statement with BEIS and Ofgem regarding the enhanced role and greater separation of the ESO function. This is a sensible step forward, recognising the need for stability in the organisation during a period of rapid industry change, and the importance of bolstering the perceived independence of the ESO within the National Grid Group.

We welcomed the conclusion of the mid-period review of the RIIO price control for Transmission which has given us certainty over our core revenues for the remaining RIIO period. Ofgem made some adjustments to allowances in both Electricity and Gas Transmission for outputs no longer needed in the RIIO period, and approved additional funding for new activities undertaken by the ESO.

We have also taken the decision to volunteer a deferral of £480 million of RIIO-T1 allowances. This deferral will enable better alignment of the allowances with the likely timing of spend and also help to lower bills in the near term.

Ofgem continues its work to enable onshore competition in electricity transmission. The majority of projects will not be contested, and National Grid Ventures is preparing to compete for any that are. We are also providing input and support into the ongoing development of the regulatory framework for competition.

Earlier in 2017, BEIS confirmed, through the 'Building our Industrial Strategy' green paper, its intention to focus on developing technical education and skills. So, I was particularly delighted when we received an Outstanding grade from Ofsted, for the third time

consecutively, on the standard of apprentice training offered by our Academy. Addressing the skills shortage, and providing high-quality training, remains important to us. You will find further details on this and additional awards on pages 30–31.

Operational performance

Our key performance indicators are reported in detail on pages 10–13. Our network reliability figures decreased slightly for Gas Transmission and Gas Distribution and are marginally below target this year. Electricity Transmission exceeded target. We continue to work on initiatives that aim to strengthen reliability, such as our asset health improvement work. For example, we have made good progress on the Feeder 9 gas pipeline replacement project. This involves boring a five kilometre tunnel beneath the River Humber to replace a section of gas pipeline. We are also developing new technologies to deliver work faster and increase network reliability. This includes using a malleable material that can be quickly installed to replace porcelain and polymer insulators where underground cables and overhead technology meet.

We have worked hard to find ways of operating more efficiently, so we can make our business more agile and competitive. For example, our Electricity Transmission business is now carrying out protection system replacements in less than half the time and for significantly lower cost. Within Gas Transmission, we initiated a project to upgrade some air compressor units, reducing carbon dioxide emissions by 1,228 tonnes, and yielding long-term financial savings of £2.42 million.

We installed new gas control systems and made significant progress in installing new electricity control systems – these will help us meet the challenges of the changing energy world and, therefore, help us balance gas and electricity even more efficiently, keeping costs to consumers down.

We have used our regulatory innovation funding to develop ways to serve our customers more effectively, provide greater value, and shape the energy systems of the future. Through Project

Switchgear replacement in Walpole

"Replacing our switchgear in Walpole in the UK was a complex operation. It involved replacing 23 circuits – some owned by National Grid, others by UK Power Networks and Western Power Distribution. It was originally installed in the 1960s, and updating it was important, helping make sure it continues to provide a reliable service.

The replacements needed to be done in a specific order and involved an enormous amount of planning. When I took on responsibility for the project, we gradually developed a strong collaborative partnership approach with National Grid – concentrating on outcomes that were best for both companies.

A weekly technical issues conference call was an important part of developing a team spirit. Although I created a technical issues log it was National Grid who picked this up and reviewed it each week on the conference call – a good example of National Grid's responsiveness during this project."

"The positive team ethic, which we developed together over a period of time, led to an extremely productive 2016."

Geraint Hancock
Project Manager at UK Power Networks

CLoCC (Customer Low Cost Connections), for example, we're challenging every aspect of the current Gas Transmission customer connections process. It aims to reduce the time to connect from three years to less than one, and reduce the cost from up to £2 million to significantly less than £1 million. It will also make it easier for non-traditional customers to connect to the NTS.

In November 2016, Ofgem confirmed funding for new Network Innovation Competition projects. We were successful in our bid with UK Power Networks on the 'Power Potential' project, which is a new £9.5 million market trial relating to voltage control. Also, National Grid will work with SP Energy Networks on a £19.9 million project that will help address some of the current and future challenges associated with the stability of Britain's electricity transmission system as we transition to low-carbon energy. Details of our innovation projects are published at www.nationalgrid.com/innovation.

This year we made good progress on several major customer connection projects. We have improved the way we consult with all our stakeholders on major projects by simplifying how we present information – using clear language, more visual displays and virtual reality modelling – and by holding more events in a variety of easily accessible venues. We received positive feedback on our stakeholder engagement via our major project survey.

Although we exceeded our customer satisfaction targets, the figure for Electricity Transmission decreased slightly compared to last year. We are working hard across our UK business to place customers at the heart of our operations. We're holding workshops for customers so we can gain a more in-depth understanding of their requirements. We have also started to examine each point of contact they have with our Company, so we can identify where we can improve our processes and our customers' experience with us. We will be testing proposed improvements with customers before we implement them.

Shaping the future of energy

This year we launched a nationwide conversation on the future of gas to gather insights on the future role of gas and the gas transmission network. Gas will continue to be an important part of the mix in ensuring a secure energy supply at best value for consumers while Britain transitions to a low-carbon future. By engaging with stakeholders to understand what customers and end consumers value, this project will help us to identify optimal levels of future investment in the system and innovative ways to adapt our commercial arrangements.

We have collaborated with organisations that provide demand side flexibility to develop new electricity balancing services. Enhanced Frequency Response provides a sub-second response to fluctuations in system frequency and contracts have been awarded for over 200 MW of battery storage. Our Demand Turn Up service was used for the first time during the summer, calling on organisations to make productive use of excess electricity in the system during this traditionally low-usage period.

We developed these balancing services in anticipation of fundamental changes in system operation. This year, for the first time, we saw periods where no coal-fired power stations generated electricity and periods where the Scottish network was operated successfully with no fossil fuel generation. This was against a backdrop of an increase in installed wind and solar generation of more than 10%.

We continue to provide input to Government and Ofgem on the development of future energy systems. This includes the call for evidence on 'A Smart Flexible Energy System', which examines how we can make the most of innovation and new technologies in designing the future electricity system.

At a European level, we have worked closely with organisations such as ENTSO-E and ENTSOG (the European Network of Transmission System Operators – for electricity and gas respectively) to implement a number of framework changes in a way that works for Britain's energy market and our customers.

Looking ahead

Our main focus in the UK is on the first of our three strategic priorities described on page 8, which is to drive a step change in core business performance. We have detailed plans in place to improve safety, our delivery for customers and our efficiency. We are continuing work in a number of priority areas, including the separation of the ESO.

I am proud to be the executive sponsor for this year's UK employee chosen charity, which is Alzheimer's Society. I look forward to providing an update on this in next year's Report.

Principal operations – US

Dean Seavers, Executive Director, US, provides an overview of performance and developments during 2016/17, including progress on our rate cases across the region.

Dean Seavers
Executive Director, US

In focus

Electricity

3.5m

approximate number of customers across upstate New York, Massachusetts and Rhode Island.

Gas

3.6m

approximate number of customers across upstate New York, New York City, Long Island, Massachusetts and Rhode Island served by our gas distribution networks.

When I think about the past year, it's the times spent visiting with customers that stand out. I feel fortunate because wherever I am in our service territory, I see solid evidence that we are making energy more affordable, safe, and reliable for all customers. We're doing it through infrastructure investments, energy efficiency, and economic development.

While energy can't be free, our customers shouldn't have to pay for waste. The work we're doing in each of our jurisdictions shows how we're eliminating waste, becoming a clean energy company, and future-proofing our business for generations to come.

Becoming a great operating company

We aspire to be a great operating company and one way is by making rate cases a priority. Our rate plans set the foundation for how we run our business and serve our customers and communities, focusing on safe, reliable, and affordable electricity and gas service. Our rate plans inform infrastructure investment, innovation and bill impact.

After several years under the same rate structures in all three states we serve, we filed new rate cases last year. Like any business or municipality, our costs have risen, so we filed a rate proposal in Massachusetts to increase electricity distribution rates, and two proposals in downstate New York, to increase gas delivery rates in New York City and Long Island.

In September, we received an order from the Massachusetts Department of Public Utilities (MADPU) that allows us to update our electricity distribution prices for the first time since 2010. The order lets us invest $249 million to update and strengthen the electricity system and recover the increasing costs of running our business, which include operation and maintenance expenses, property taxes and storm response.

In December, the NYPSC approved our rate proposals for KEDNY and KEDLI. The decision outlines a three-year rate plan for our 1.2 million gas customers in downstate New York, effective from 1 January 2017. By the end of 2019, we intend to invest $3 billion into our gas systems and replace 585 miles of ageing pipes in New York City and Long Island.

Our key objective for this year is to achieve a good outcome in our rate filing for Niagara Mohawk, which was filed in April 2017. This represents 30% of our US rate base.

The filing is the first full rate review for this utility since 2013 and will allow us to modernise the electric and gas networks to further enhance reliability and resiliency. It will also help us improve customer service, including programmes to assist vulnerable customers, promote economic growth and develop the energy infrastructure and technologies that support the demands of a modern energy system.

I believe that our focus on providing affordable, safe, reliable energy for all customers will make us a great operating company.

Safety

This year, the US business has seen a 5% reduction in the number of injuries requiring medical attention beyond first aid. Safety, Health and Environment (SHE) plans addressing current risks and injury trends were expanded to all managers. To increase transparency, under-performing teams were required to develop and communicate performance improvement plans to the executive leadership. Additional focus has been on reducing road traffic collisions through targeted training and communications.

We will continue to use SHE plans to focus on hazard elimination and road traffic collision reduction in 2017/18. We will also be implementing a mental well-being programme.

A clean energy company

Another factor in becoming a great operating company is becoming a clean energy company. This is nowhere more apparent than in Rhode Island where, in a first-in-the-nation milestone, we began delivering electricity generated by an offshore wind farm.

In December, after just 11 months of construction on 'sea2shore: The Renewable Link project', we began delivering electricity generated by the offshore Block Island Wind Farm to the electricity grid in Rhode Island and to customers.

The Block Island Wind Farm is expected to supply approximately 30 MW of electricity, more than enough to meet Block Island's entire current peak demand of 3-4 MW. The excess will be redirected to mainland Rhode Island via the submarine cable running between Block Island and the town of Narragansett.

Another example is our new approach to testing large-scale solar. We are deliberately targeting installations that will provide additional energy to communities when they need it the most, vastly improving the value of solar projects to customers.

Buffalo Niagara Medical Campus

The Buffalo Niagara Medical Campus (BNMC) is an economic engine for the City of Buffalo and the region. A collection of hospitals, life science research and educational facilities, medical offices, and even a hotel, it encompasses 120 acres just north of the downtown business district.

Together, we have formed a unique energy partnership, as BNMC's pace of growth is matched by its demand for energy. We developed a comprehensive strategy to transform the campus into a global leader in energy innovation, and are looking to extend the innovation approach to surrounding neighbourhoods. It involves adopting new technologies and sustainable energy solutions – creating a blueprint for other large campus developments.

Matt Enstice, President and CEO of BNMC, believes the campus is firmly on the map and that its remarkable energy journey would not have been possible without National Grid.

"It's a partnership model for the future, National Grid seeded initiatives that have changed the game."

Matt Enstice, President & CEO, Buffalo Niagara Medical Campus, Inc. Canisius College

We presently have 21 MW of National Grid-owned solar built or under contract in Massachusetts, with plans to add 14 MW more. This includes the ability to build 7 MW of renewable energy storage, marking the first time an investor-owned utility in the region will build, own, and test renewable energy paired with storage.

We're also starting to add battery storage technology to our large-scale solar installations, experimenting with the same technology you'd find in a Tesla all-electric vehicle, but more than 10 times the size.

New York State's Reforming the Energy Vision (REV) has enabled us to pursue innovative demonstration projects that address affordability and renewable energy.

Traditional solar installations generate electricity only for one resident or business who can afford it. Through our Fruit Belt Neighborhood Solar project in Buffalo, we are bringing rooftop solar to an entire city section. We will aggregate the power from 100 neighbourhood solar installations and share the benefits with residents who otherwise might not be in a position to install on their own.

Investing for the future

As I've described above, having the right rate plans in place allows us to invest. Below are some examples of how investments are helping us to future-proof our business for generations to come.

We are assisting with green transportation in Massachusetts. In January, we filed a proposal with MADPU to develop more than 1,200 electric vehicle charging ports at 140 sites over a three-year period. Our proposal came on the heels of new legislation that makes it more attractive to choose emission-free automobiles by improving access to public charging.

We received good news in July that New Hampshire regulators had approved construction of the Merrimack Valley Reliability Project (MVRP) – a 24.4 mile, 345 kV overhead transmission line that will run in existing utility rights-of-way between Londonderry, New Hampshire, and Tewksbury, Massachusetts. The MVRP addresses the concerns of New England's independent system operator, ISO-New England, relating to ageing infrastructure and anticipated increases in electricity demand.

In January, we assumed primary responsibility for developing the Vermont Green Line (VGL) project. VGL is a proposed 400 MW, HVDC electricity transmission project, designed to unlock and deliver reliable and affordable renewable energy to New England.

In August, we withdrew our petition for capacity on the Access Northeast (ANE) gas pipeline, after the Supreme Judicial Court ruled that Massachusetts electric companies could not charge their customers for the cost of building natural gas pipelines in New England.

ANE is designed to help secure New England's clean energy future, ensure the reliability of the electricity system, and save customers more than $1 billion annually on their electricity bills. We continue to explore our options for a potential path forward with ANE and pursue a balanced portfolio of solutions to provide the clean, reliable, and secure energy our customers deserve.

Looking ahead

It's been a busy year, living first-hand how we bring energy to life for our customers, stakeholders, and communities. And it's what we'll aim to do again next year. Our US priority initiatives support National Grid's three strategic priorities – below are some examples.

We will find new ways of optimising our operational performance. We've started by enabling our supervisors to spend more time in the field, strengthening the connection to our customers, coaching and mentoring employees, and creating a learning and growth environment. Through a new gas enablement initiative, we are upgrading systems, improving processes and developing ways of working to serve our customers better. And, we are strengthening the energy supply chain that will take us to a decarbonised future.

Next, we will look for opportunities to grow our core business. We'll do this through capital delivery and stakeholder engagement.

And, we will future-proof our business for technology and value shifts. This means continuing the work we are doing with Grid Modernization in Massachusetts, with REV in New York and with the New Energy initiative in Rhode Island.

Principal operations – Other activities

This part of our operations includes non-regulated businesses and other commercial operations not included within the business segments.

National Grid Ventures

We have announced the creation of National Grid Ventures to drive growth outside of our regulated core in competitive markets across the US and the UK. The business will comprise all commercial operations in metering, LNG and electricity interconnectors, and focus on investment and future activities in emerging growth areas, a recent example of which is our partnership with Sunrun.

In focus

Sunrun

In January, we formed a partnership with Sunrun, the largest dedicated provider of residential solar systems in the US. This partnership comprises a $100 million equity investment in Sunrun's portfolio of approximately 180 MW of residential solar systems across 18 states, including those in which we operate. National Grid Ventures will manage our interest in Sunrun.

Interconnectors

National Grid is the biggest operator and developer of electricity interconnectors to the UK, with two subsea links in operation and two currently under construction.

BritNed is a joint venture between National Grid and TenneT, the Dutch transmission system operator. It owns and operates a 1 GW HVDC link between England and the Netherlands. A substantial proportion of the flow over BritNed is in the import direction from the Netherlands to Great Britain.

Celebrating its 30th year of operation in 2016, the England–France interconnector (IFA) is a 2 GW HVDC link between the French and British transmission systems with ownership shared between National Grid and Réseau de Transport d'Electricité (RTE). As with BritNed, a substantial proportion of the flow continues to be in the import direction from France to Great Britain.

Following Board approval for the Belgium (Nemo Link) and Norway (North Sea Link) interconnectors in 2015, significant progress has been made on both projects.

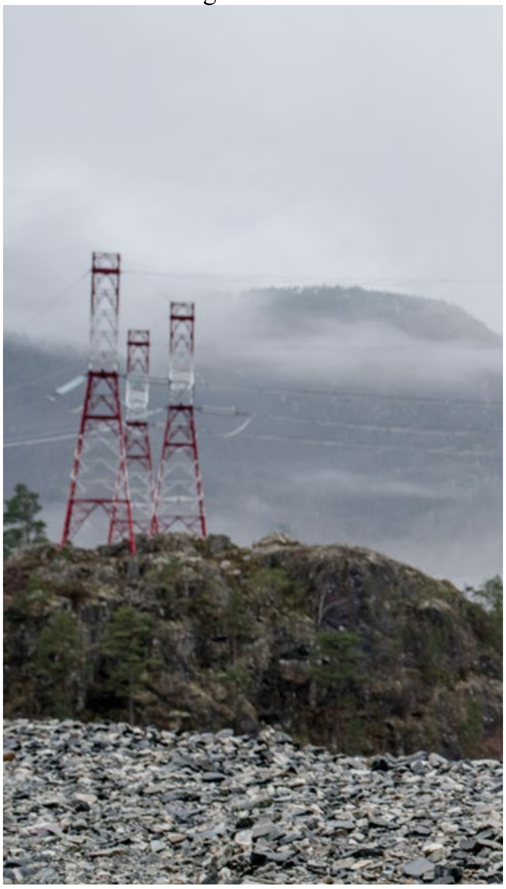
Nemo Link, developed between National Grid and Elia, the Belgian transmission system operator, will connect Richborough in the UK and Herdersbrug in Belgium. The subsea cable will be 130 kilometres in length and have a capacity of 1 GW. Seabed surveys and construction work have already taken place on the project, which is planned to be operational in 2019.

North Sea Link (NSL) will connect Blyth in the UK and Kvilldal in Norway. Developed between National Grid and the Norwegian transmission system operator Statnett, NSL will be the longest subsea cable in the world at 720 kilometres. The 1.4 GW link is expected to be operational by 2021. Construction started in Norway in 2016, while work in the UK will begin this year.

The Board also approved the 240 kilometre IFA2 interconnector in November 2016. Developed with RTE, the 1 GW subsea cable will connect Hampshire in the UK and Normandy in France. The link is expected to be operational in 2020, with construction starting in 2018.

Grain LNG

Grain LNG is one of three LNG importation facilities in the UK. It operates under long-term contracts with customers and provides importation services of ship berthing, temporary storage, ship reloading and re-gasification into the NTS.



"It's a project that ticks the boxes – helping to meet renewable energy targets and keeping the lights on for customers."

Nigel Williams
Project Director, North Sea Link

North Sea Link

Stretching 720 kilometres under the North Sea, the €2 billion North Sea Link (NSL) will be the first electricity interconnector between the UK and Norway.

This joint project, between National Grid and Statnett, the Norwegian transmission operator, is the biggest of its kind in the world and will mean laying new cable over four years in challenging North Sea sub-sea conditions. We've developed a close working partnership with Statnett – a one-team approach – so we can make sure the project progresses safely, economically and to stringent deadlines.

NSL will allow both countries to trade energy, and contribute to more production of renewable energy on both sides. This will give both countries a wider spread of electricity supply to turn to when they need it.

Our road tanker loading facility was commissioned in November 2015. The new loading hub offers a more environmentally-friendly alternative fuel and allows road tanker operators to load and transport LNG in bulk. Grain carried out its 1,000th road tanker reload in 2016.

Metering

National Grid Metering (NGM) provides installation and maintenance services to energy suppliers in the regulated market in Great Britain. It maintains an asset base of around 12.3 million domestic, industrial and commercial meters.

Customer satisfaction scores for NGM remain positive for domestic, industrial and commercial businesses. We continue to work with our customers on areas for improvement by exploring additional products and services so we can respond to the rapidly changing non-domestic sector.

National Grid Smart became operational in November 2016, supporting energy suppliers in fulfilling their UK smart meter roll-out obligations. National Grid Smart offers a variety of services from meter asset financing and customer relationship management through to installation and maintenance services, and has secured customer contracts over the last six months. By the end of 2020, around 53 million smart meters will be fitted in more than 30 million premises (households and businesses) across England, Scotland and Wales.

UK Property

National Grid Property is responsible for the management, clean-up and disposal of surplus sites in the UK, most of which are former gas works. During 2016/17, we sold 19 sites and exchanged conditional contracts on a further 14 future land sales. We entered a new phase of our joint venture, St William Homes LLP, starting construction of 955 new homes on our first site at Battersea. Our estate management, gas holder dismantling and contaminated land clean-up programmes continue to reduce operational risk across our portfolio.

US non-regulated businesses

Some of our US businesses are not subject to state or federal rate-making authority. These include interests in LNG road transportation, some gas transmission pipelines (our minority equity interests in these are not regulated) and certain commercial services relating to solar installations, fuel cells and other new technologies that are an important part of our future.

Our people

If we are to achieve our strategic objectives, we need to make sure our employees have the right skills and capabilities.

Being good neighbours

"When someone does a great job, the company they work for needs to know and that's why I'm writing to you."

Ron Lamb, Rhode Island

"When we lost electricity in my neighbourhood in Rhode Island, I called to report the outage and then went to bed. I woke up at 3:30am and noticed we still didn't have electricity, so I went downstairs to check the National Grid website, which showed a crew was assigned and the estimated time electricity would be back on was 8:00am. I looked out of the front window, to find a large crew of workers, trucks and equipment.

The thing that amazed me was this crew was going about doing their jobs making very little noise, I would never have known they were there. At 6:30am one of the guys came to tell us they'd repaired the cable and he brought me my newspaper, so I emailed to say thanks for being a good neighbour."

Building skills and expertise to drive performance

Our sector is undergoing a period of massive transformation and uncertainty, so we are taking steps to help make sure our workforce capacity and capability remains flexible enough to deliver our strategic objectives. For example, we are using a new strategic workforce planning programme. This helps us determine where we could have future shortfalls in our workforce requirements across a range of possible scenarios over the next 10 years. It also helps us plan investment for recruitment and training, so we can make sure we always have the right skills in the right place at the right time.

During 2016/17, we have taken steps to improve our people's capability, primarily across four main areas: leadership, contract management, stakeholder management and performance excellence. We are also setting the standards that we need to achieve in other capability areas, including data management, customer focus and commerciality.

Our Accelerated Development Programme is designed to enhance our leadership succession planning by developing the skills of employees seen as having potential to grow into our senior roles. During 2016/17, 117 participants started the 18-month programme.

Safeguarding the future

We remain committed to helping address the significant skills challenge facing the engineering profession in the UK and US.

In the UK, the 2015 Employer Skills Survey highlighted that 36% of hard-to-fill vacancies in the UK energy and utilities sector were due to a lack of proficient skills – well above the 23% national average and notably higher than any other sector.

To help address this, we are involved in a number of initiatives. For example, our Chief Executive and specialists from our Academy are members of both the Council and Delivery Board of the Energy Utility Skills partnership and have supported the creation of the Energy and Utilities' Workforce Renewal Skills Strategy 2020. This has involved collaborating with the wider sector to address priorities such as recruitment, investment in skills and targeting skills gaps.

Our Academy offers residential work experience programmes for 100 young people annually, balanced 50/50 between boys and girls. We participate in the annual Big Bang Fair, which is designed to promote interest in STEM subjects and careers.

During 2016/17, 316 people have participated in our apprentice, engineering, student and graduate development programmes. In November 2016, our apprentice programme was ranked 'Outstanding' by Ofsted for the third time consecutively.

In the US, we completed the seventh year of our National Grid Engineering Pipeline programme, designed to inspire high school students to pursue an engineering education and career. To date, 304 promising students have participated.

We promoted STEM education and careers to more than 300 middle and high school students during our Engineering our Future initiative. We also partner with seven local community colleges to deliver programmes designed to produce future electricity line workers.

We have further partnerships with the Center for Energy Workforce Development on its 'energy industry fundamentals'; and with Jefferson Community College, Con Edison and Fort Drum to establish the Troops to Energy Natural Gas Bootcamp. This six-week training programme helps soldiers exiting the military transition to civilian work – and will help meet the need for natural gas workers in the northeast.

US work experience opportunities include summer internships – with some interns starting their journey into the energy industry through our Engineering Pipeline programme. Some students go on to join our Company through our graduate development programme or regular full-time opportunities. This past year, we have doubled our graduate development programme in the US and incorporated best practices from the UK, including adopting the UK's online assessment and interview day processes.

Promoting an inclusive and diverse workforce

Our inclusion and diversity activities include attraction and recruitment, development, leadership, role modelling and cultural change.

We aim to attract a diverse range of applicants, including under-represented groups. In the UK, our Women in National Grid Yearbook, which showcases a number of our UK female role models, is available to potential applicants so they can envisage a career with us. In the US, our priorities have included more veterans and women into 'non-traditional' roles, such as engineering and field technicians.

We recognise the value that a diverse workforce and an inclusive culture bring to our business. Our policy is that people with disabilities should have fair consideration for all vacancies against the requirements for the role. Where possible, we make reasonable adjustments in job design and provide appropriate training for existing employees who become disabled. We are committed to equal opportunity in recruitment, promotion and career development for all employees, including those with disabilities, and our policy recognises the right of all people to work in an environment that is free from discrimination.

In focus

100%

The conversion rate for the natural gas technician certificate programme we have developed in partnership with the State University of New York. This initiative is designed to address future hiring needs for our gas operations.

6.5

days per employee
The average amount of technical, safety and professional effectiveness training undertaken by our employees in the UK and US during 2016/17.

Celebrating our female role models

Vicky Higgin (pictured above), a senior leader in our Information Services function, won leader of the year at the FDM everywoman in Technology Awards, which recognise the value of women working in IT. Vicky, who joined National Grid in a junior role in 1997, was recognised for her leadership and varied National Grid career. This includes her work with Engineering UK, a charity that encourages young people into engineering.

We have reviewed some of our leadership development programmes to place a stronger emphasis on inclusion and diversity. For example we have further developed our unconscious bias training and added it to our US supervisor development programme.

We believe leadership involvement is an important factor in building an inclusive culture. Many leaders are sponsors of our employee resource groups or mentees in our reverse mentoring programme. These activities provide our leaders with a greater understanding of the challenges facing our diverse workforce, and more confidence in discussing diversity in the organisation. Senior role models are being encouraged to show how they are bringing an inclusive culture to life.

Our Employee Resource Groups build awareness and understanding of inclusion and diversity throughout the organisation. They also provide valuable feedback and suggestions for improvements. For example, a proposal from our US Work-Life group led to the launch of our new Parental Bonding Policy, which provides enhanced support to employees after the birth or adoption of a child. In the UK, 'One', our ethnic minority group, organised Black History Month events to raise the profile of ethnic diversity.

Externally, we were recognised as an employer of choice in the US with an award from the Human Rights Campaign Foundation as one of the 'best places to work' for LGBT equality. In the UK, our EmployAbility scheme, which provides supported work experience for young people with learning disabilities, is recognised as best practice by the Business Disability Forum.

Following the UK Gender Pay Gap Information Regulations in the UK, approved by Parliament in February 2017, we will be disclosing additional pay gap information during 2017 according to the approach outlined in the regulations.

The table opposite shows the breakdown in numbers of employees by gender at different levels of the organisation. We have included information relating to subsidiary directors, as this is required by the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We define 'senior management' as those managers who are at the same level, or one level below, our Executive Committee. It also includes those who are directors of subsidiaries, or who have responsibility for planning, directing or controlling the activities of the Group, or a strategically significant part of the Group, and are employees of the Group.

Financial year ended 31 March 2017

	Our Board	Senior management	Whole Company*
Male	8	167	16,802
Female	4	68	5,330
Total	12	235	22,132
Male %	66.7%	71.1%	75.9%
Female %	33.3%	28.9%	24.1%

* This measure is also one of our Company KPIs. See page 12 for more information.

Health and well-being

During 2016/17 we have continued to promote the importance of well-being across our business.

In the UK, we have a leading role in the Business in the Community Workwell campaign, which promotes mental well-being in the workplace. More than 900 people, including around 30 of our senior leaders, have attended our mental health first aid course to date. We also ran a diabetes awareness campaign in which employees could assess risk and learn more about diet and activity.

Our activities in the US included a programme aimed at reducing soft tissue injuries through early intervention and prevention. Specialists are available to employees, providing on-site therapy services and advice. Other activities included a focus on chronic disease prevention through educational programmes and wellbeing initiatives.

Building strong communities

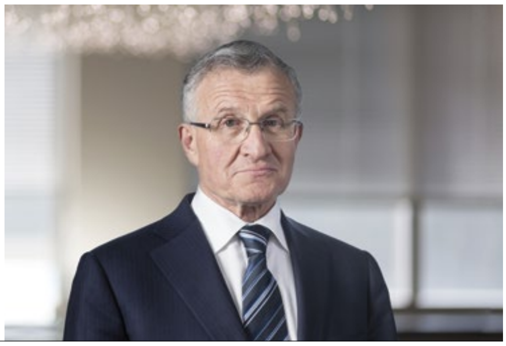
We believe a strong community is good for the people who live there, good for our business and good for the wider economy. To further support the communities in which we work and live, we partner with charity organisations, and provide communities with one-off grants to support their social, economic and environmental development. We also empower our employees to pursue projects and their chosen causes through volunteering in their neighbourhoods.

We support local schools and colleges with work experience opportunities and careers advice sessions. Our engineers help to bring STEM subjects to life. Last year, our community engagement and investment in education was valued at £12,364,891, with our UK employees giving over 18,400 hours of volunteering support and the US providing more than 22,900 hours of interactions with young people on STEM subjects.

Human rights

Respect for human rights is incorporated into our employment practices and our values. See page 191 for more information.

Letter from the Chairman and Corporate Governance contents



Sir Peter Gershon
Chairman

Corporate Governance contents

Dear Shareholders,

This last year has seen a significant focus on shaping the strategic direction of the Company and maximising value creation for our shareholders. The Board has overseen the sale of a majority interest in the Company's UK Gas Distribution business, given approval for the IFA2 interconnector, the formation of a partnership with Sunrun in the US and the work undertaken to support a more independent electricity system operator in the UK.

We are mindful of value creation for shareholders as well as our responsibility to all stakeholders in our decision making. The Board always takes into consideration its fiduciary duties to the Company under the Companies Act 2006, in particular the duty to promote the success of the business, when arriving at decisions that it believes are in the best interests of shareholders and the long-term future of the Company.

The Board has also undertaken site visits in Buffalo, US, participated in three strategy sessions and received training on the Market Abuse Regulations that came into force in July 2016 as a result of EU legislation.

Management reporting

During the year, a review was undertaken to make sure that the management reports to the Board were providing the information required to facilitate effective discussions and support decisions. Changes were also made to the timing and frequency of reporting to the Board. We believe that these changes will allow the Board to better monitor the performance of the Company and hold management to account.

Cyber security

Cyber security continued to be a key area of focus for the Board this year. In addition to various updates from management, an external advisor delivered a Board training session designed to highlight the role of the Board in effective cyber security governance and provide an insight to the key challenges unique to the Company. The training also sought to equip Board members with examples of questions to ask in order to challenge management and make sure that the controls in place align with the Company's risk appetite and culture. Management has recently developed a new cyber security management report and we will continue to monitor the performance and level of risk on a regular basis next year.

Corporate Governance Reform

Corporate Governance developments continue to be subject to political and media scrutiny. This topic is kept under frequent review by your Board. In February, we responded to the Department of Business, Energy and Industrial Strategy's consultation on Corporate Governance Reform. We also noted the Financial Reporting Council's (FRC) intention to undertake a fundamental review of the UK Corporate Governance Code (the Code) and we will look to play an active role in the consultation process.

Board culture

In my role as Chairman, I am responsible for promoting a culture of openness and debate by facilitating the effective contribution of all directors in meetings. We welcome the FRC's report on 'Corporate Culture and the Role of Boards' and the re-emphasis on the importance of setting the standards at the top of the Company to permeate throughout the organisation. Culture formed the basis of this year's Board performance evaluation. You can read more about the process and outcomes of the evaluation on page 38.

Board changes

As previously announced, we will be saying goodbye to Ruth Kelly at the end of the 2017 AGM after nearly six years on the Board. Additionally, Steve Holliday stepped down from the Board in July last year and Nicola Shaw joined as Executive Director, UK the same month. More recently, we welcomed Pierre Dufour as a Non-executive Director in February. The Nominations Committee oversaw the rigorous selection process for Pierre's appointment. You can read more about this on page 47.

Peter Gershon

Sir Peter Gershon
Chairman

Looking back. Examples of Board focus during the year included:

Areas of focus	Commentary
The sale of the Gas Distribution business	The sale of the UK Gas Distribution business has been a feature on every agenda this year and the Board has had input into all the key decisions. The Board has received updates from the project management team on a range of topics, including the transfer of employees to the new, separate company, negotiations with the pension trustees and progress against the project timetable. In September, an additional Board meeting was arranged to consider the first round bids and again in December to consider second round bids. The Board assessed the bids against a set of financial and non-financial criteria that evaluated the value of the bid but also the suitability of the bidder. Following discussion, the Board unanimously approved entering in to detailed discussions with the Consortium for the disposal of a majority interest in the UK Gas Distribution business and an announcement to the market was made. Discussions in March and April focused on the most appropriate way to return the proceeds of the sale to shareholders.
The future of the System Operator	The Board has been kept involved with the future of the ESO ahead of the joint announcement with the government and Ofgem of a more independent system operator (ISO) earlier this year. Updates on progress were received in April, June and November and the Board considered the proposed operator model and governance arrangements and whether the move to an ISO was in the interests of both customers and shareholders.
Cyber security	Cyber security has remained high on the Board agenda this year. In December the Board participated in a two-hour cyber training session delivered by an industry expert. Moving forward the Board will also receive triannual cyber management reports to monitor this risk.
The strategic partnership with Sunrun in the US	In line with the Code, the Board, and in particular, the Non-executive Directors should constructively challenge and help develop proposals on Strategy. Further to discussions in the July and September strategy sessions around distributed energy resources, the Board considered a proposal to form a strategic partnership with Sunrun in December. The proposal was carefully considered and approved.
European Energy and the implications of Brexit	Following the outcome of the EU Referendum, the Board discussed the implications for the Company at its June meeting. The issue was also considered in relation to the final investment decision for the IFA2 interconnector project with respect to access to the Internal Energy Market and any adverse effect on import tariffs. The Board will receive an update on a triannual basis so it can monitor the external political environment and take this into account in its strategic decision making.
US regulatory rate case filings	The Board has received regular updates on the Company's regulatory strategy and the progress of regulatory rate case filings in the US. Senior employees from the US jurisdictions have attended Board meetings to provide an overview of the political and stakeholder context in each area and to discuss the opportunities and challenges that exist.
Mid-period review	In August, Ofgem published initial proposals for a mid-period review into the price controls for RIIO-T1. The Board has been kept up to date with progress on the Company's response to the consultation and also market reaction to the review stages. The Board noted Ofgem's final decision in February and will continue to monitor the Company's engagement with the regulator.
Principal risks and viability	The Board is responsible for determining the nature and extent of the Company's principal risks. The Board discussed the Group risk profile in September and March and gave consideration to whether there were any changes to existing risks, any emerging risks, and whether the agreed principal risks were consistent with the Company's risk appetite levels. The impact of the principal risks was tested over the established assessment period of five years. The Board confirmed that it was satisfied with the assessment of the risks including the testing, management and mitigation. In May, the Audit Committee recommended the viability statement to the Board and it was approved.
Purpose, vision and strategy	In addition to time spent in Board meetings discussing strategy, the Board also participated in three separate strategy sessions this year. The first session focused on how the energy industry is evolving, the Company's strategic priorities and proposals for developing the Company's purpose, vision and values. The final two sessions considered the Company's capabilities and resources and also explored technology and innovation projects used internally and those available externally.
Site visits	As referenced last year, the Board meeting in September 2016 took place in Buffalo in the US. The Board members took this opportunity to explore the work undertaken by the Company in the local area such as the collaboration with the Buffalo Niagara Partnership and the Company's role in providing infrastructure for the developments in the River Bend area. The visit also allowed the Board to interact with various local stakeholders and employees and gain further insight in to the day-to-day operations of the Company.

Looking forward. The Board's focus for next year is expected to include:

- continued regular reviews of safety activities;
- UK and US operational business overviews;
- preparation for RIIO T-2;
- continued detailed review of our strategy for growth and its financing;
- the implications of Brexit on our activities;
- the future of the SO;
- the outcome of the US regulatory rate case filings, including upstate New York, Rhode Island and the Massachusetts gas companies;
- cyber security updates;
- innovation;
- the 2017 UK Winter Outlook;
- results and follow-up on the action planning from the Board and committee evaluation;
- updates on UK and US corporate governance and other policy developments; and
- results of the 2017 employee engagement survey.

Corporate Governance continued

Our Board

Key

A Audit Committee

F Finance Committee

N Nominations Committee

R Remuneration Committee

S Safety, Environment and Health Committee

(ch) Chairman of committee

Tenure as at 31 March 2017

Charts and committee membership are as at 17 May 2017

Sir Peter Gershon CBE FREng (70)
Chairman N (ch)

Appointed: 1 August 2011 as Deputy Chairman and became Chairman with effect from 1 January 2012

Tenure: 5 years

Career and skills: Sir Peter is a Fellow of the Royal Academy of Engineering and has had a varied career holding a number of senior positions across multiple industries. His previous appointments include Chief Executive of the Office of Government Commerce, Managing Director of Marconi Electronic Systems and a member of the UK Defence Academy Advisory Board. Sir Peter brings to his role of Chairman of the Board extensive general management, government and advisory experience as well as significant board level experience, including a seven-year tenure as Chairman of Tate and Lyle plc from which he retired from on 31 March 2017. Sir Peter currently holds external appointments as a Non-executive Chairman of the Aircraft Carrier Alliance Management Board and a Trustee of The Sutton Trust.

Skills and experience:
Ci, Cu, E, GM, G and I.

John Pettigrew FEI, FIET (48)
Chief Executive F

Appointed: 1 April 2014 and became Chief Executive with effect from 1 April 2016

Tenure: 3 years

Career and skills: John joined the Company in 1991 and progressed through a variety of roles before joining the Board as UK Executive Director in 2014. With over 25 years of varied experience at National Grid, his previous roles include Director of Engineering in the UK, Chief Operating Officer and Executive Vice President for the US Electricity Distribution & Generation business, Chief Operating Officer for UK Gas Distribution and UK Chief Operating Officer from 2012 to 2014. John's extensive experience within the Company brings to the Board a deep understanding of the energy and utilities industry and operation within a regulatory environment as well as a full appreciation of the landscape National Grid works in.

Skills and experience:
E, G, GM, R and U.

Nicola Shaw CBE (47)
Executive Director, UK

Appointed: 1 July 2016

Tenure: Less than a year

Career and skills: Nicola joined the Board in July 2016 as Executive Director following her previous roles as CEO at HS1 plc from 2011 to 2016 and FirstGroup plc from 2005 to 2010. She was also an independent Non-executive Director of Aer Lingus Group plc until September 2015. Nicola's career, both in the UK and overseas, has included roles at the Strategic Rail Authority, Office of the Rail Regulator, Bechtel Ltd, Halcrow Fox, the World Bank and London Transport and she is currently a Non-executive Director of Ellevio AB, a Swedish electricity distribution company. Nicola has a broad range of experience and strong track-record working with the UK Government, the European Commission and Parliament and industry Regulators as well as leading important infrastructure businesses which she brings to her role as UK Executive Director on the Board and a member of the Executive Committee.

Skills and experience:
G, I, R and U.

Andrew Bonfield (54)
Finance Director F

Appointed: 1 November 2010

Tenure: 6 years

Career and skills: Andrew is a chartered accountant with significant financial experience having previously held the position of Chief Financial Officer at Cadbury plc; he also spent five years as Executive Vice President & Chief Financial Officer at Bristol-Myers Squibb, an American pharmaceutical company. Andrew also has prior experience in the energy sector as he was Finance Director of BG Group plc from 2001 to 2002. He currently has an external appointment on the Kingfisher plc Board as a Non-executive Director. Andrew's varied financial experience across several different industries enables him to bring valued and technical expertise to Board meetings through thorough knowledge of the financial industry both in the UK and internationally.

Skills and experience:
Fi, I and U.

Dean Seavers (56)
Executive Director, US

Appointed: 1 April 2015

Tenure: 2 years

Career and skills: Dean began his career at the Ford Motor Company, moving to Tyco International Ltd where he held various senior management positions before joining General Electric Company/United Technologies Corporation. He was President and Chief Executive Officer of General Electric Security and then President, Global Services of United Technologies Fire & Security. Dean was also a member of the Board of Directors of the National Fire Protection Association and most recently he has been a lead network member at City Light Capital and President and Chief Executive of Red Hawk Fire & Security, LLC and currently holds an external appointment as a Board member of Red Hawk Fire & Security, LLC. Dean brings to the Board a wide range of financial and customer experience along with significant general management experience with a particular focus on change and performance improvement programmes.

Skills and experience:
Ci, Cu, Fi, GM and I.

Nora Mead Brownell (69)
Non-executive Director N, R, S

Independent

Appointed: 1 June 2012

Tenure: 4 years

Career and skills: A key individual in the US energy industry, Nora has significant experience gained in a variety of roles including Commissioner of the Pennsylvania Public Utility Commission and FERC and former President of the National Association of Regulatory Utility Commissioners. Most recently, Nora sat on the Boards of ONCOR Electric Delivery Holding Company LLC and Comverge, Inc. She is currently a member of the Board of Spectra Energy Partners LP and the Advisory Board of Morgan Stanley Infrastructure Partners as well as a partner in ESPY Energy Solutions LLC. Through her Executive experience and her Non-executive directorships, Nora brings extensive experience in US Government and regulatory matters to the Board as well as significant expertise in the US utilities industry.

Skills and experience:
G, R and U.

Jonathan Dawson (65)
Non-executive Director F, N, R (ch)

Independent

Appointed: 4 March 2013

Tenure: 4 years

Career and skills: Jonathan started his career in the Ministry of Defence before moving to Lazard where he spent more than 20 years. He was a Non-executive Director of Galliford Try plc, National Australia Group Europe Limited and Standard Life Investments (Holdings) Limited. Most recently Jonathan was Chairman of the Remuneration Committee and Senior Independent Director of Next plc. His extensive experience in the pensions and financial industries brings significant and in-depth understanding in remuneration and other financial matters to his role as Chairman of the Remuneration Committee and to the Board. Jonathan is currently Senior Independent Director and Chairman of the Audit & Risk Committee of Jardine Lloyd Thompson Group plc and Chairman and a founding partner of Penfida Limited.

Skills and experience:
B, Ci, Fi and P.

Pierre Dufour (62)
Non-executive Director [N, R, S]

Independent

Appointed: 16 February 2017

Tenure: Less than a year

Career and skills: Pierre started his career at SNC Lavalin Group, a Canadian engineering, procurement and construction management business. He joined Air Liquide in 1997, later going on to roles such as Chief Executive of the US operations, Chairman of the Board of Air Liquide Canada and several different positions within Air Liquide where he had responsibility for North American operations, while also overseeing safety and industrial risk management and operations in South America, Africa and the Middle East. Pierre then became Senior Executive Vice President of the Air Liquide Group with responsibility for all Air Liquide group activities across The Americas, Middle East, Africa and Asia. Pierre brings significant safety and engineering knowledge to the Board and, in addition to his executive experience, Pierre is also a Non-executive Director of Archer Daniels Midland.

Skills and experience:
Cu, E, GM, I and Sa.

Therese Esperdy (56)
Non-executive Director [A, F (ch), N]

Independent

Appointed: 18 March 2014, and appointed to the Board of National Grid USA from 1 May 2015

Tenure: 3 years

Career and skills: Having started her banking career at Lehman Brothers, Therese joined Chase Securities in 1997 going on to hold a variety of senior roles at JP Morgan Chase & Co. These included roles as Head of US Debt Capital Markets and Global Head of Debt Capital Markets, co-head of Banking, Asia Pacific at JPMorgan and Global Chairman of the Financial Institutions Group, JPMorgan Chase & Co. Most recently, Therese was appointed as a Non-executive Director on the Imperial Brands PLC Board on 1 July 2016. Therese has significant experience in the financial services industry where she has operated across international markets and as a result brings this experience and insight to the Board and to her role as Chairman of the Finance Committee.

Skills and experience:
B, Ci, Fi and I.

Paul Golby CBE FREng (66)
Non-executive Director [A, N, S (ch)]

Independent

Appointed: 1 February 2012

Tenure: 5 years

Career and skills: A fellow of the Royal Academy of Engineering, Paul has held a variety of roles within the energy and utilities industries and was an Executive Director of Clayhithe plc, before going on to join E.ON UK plc where he was Chief Executive and later Chairman. Paul also held previous appointments as a Non-executive Chairman of AEA Technology Group plc and Chairman of EngineeringUK. He is currently the Chairman of Costain Group plc, the UK National Air Traffic Services, the Engineering and Physical Sciences Research Council and a member of the Prime Minister's Council for Science and Technology. Paul has significant experience in energy utilities, and within Government and regulatory industries with a specific background in safety and risk management which he brings to the Board and to his position as Chairman of the Safety, Environment and Health Committee.

Skills and experience:
Cu, E, G, R, Sa and U.

Ruth Kelly (49)
Non-executive Director [A, F, N]

Independent

Appointed: 1 October 2011

Tenure: 5 years

Career and skills: Ruth began her career in Government where she held various senior roles, including Secretary of State for Transport, for Communities and Local Government, for Education and Skills and Financial Secretary to the Treasury. She was a senior executive at HSBC until August 2015 before moving to her current role as Pro Vice Chancellor at St Mary's University. Ruth is also Governor for the National Institute of Economic and Social Research and has also been a Non-executive Director on the Financial Conduct Authority Board since April 2016. She brings in-depth knowledge of Government and regulatory practice to the Board along with experience in banking and corporate finance.

Skills and experience:
B, Fi, G and R.

Mark Williamson (59)
Non-executive Director and Senior Independent Director [A (ch), N, R]

Independent

Appointed: 3 September 2012

Tenure: 4 years

Career and skills: A chartered accountant, Mark has a strong financial background and significant, recent and relevant financial experience gained from roles as Chief Accountant and then Group Financial Controller of Simon Group plc, and Financial Controller and later Chief Financial Officer of International Power plc. Mark was also a Non-executive Director at Alent plc where he was Chairman of the Audit Committee and Senior Independent Director. As well as considerable financial experience, Mark brings a thorough knowledge of energy and regulatory matters and provides the Board with valuable insight in this area. Mark is currently Chairman of Imperial Brands PLC and will join the Board of Spectris plc as Non-executive Chairman with effect from 26 May 2017.

Skills and experience:
Ci, Fi, G, R and U.

Alison Kay (53)
Group General Counsel & Company Secretary

Appointed: 24 January 2013

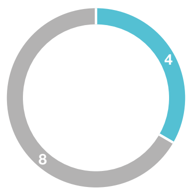
Career and skills: Alison has undertaken several roles since joining National Grid in 1996 including UK General Counsel and Company Secretary from 2000 to 2008 and Commercial Director, UK Transmission from 2008 to 2012. Before joining National Grid she was a corporate/commercial solicitor in private practice. Alison is an experienced commercial lawyer bringing a wealth of practical advice and guidance to her current role. She has developed expertise in regulatory and contractual law and legal risk management through her experience at National Grid. She also brings rigour around corporate governance and reporting to the Board, gained partly through her current role and also in her previous role as Secretary to the boards of the subsidiary companies, National Grid Gas plc and National Grid Electricity Transmission plc. She has recently served as an observer on the Board of the Nuclear Decommissioning Authority.

Skills and experience key

B Banking
Ci City*
Cu Customer
E Engineering
Fi Finance
GM General Management
G Government
I International
P Pensions
R Regulation
Sa Safety
U Utilities

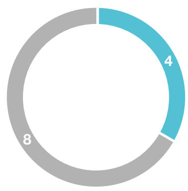
*Understanding the concerns of the investment community and listed company matters.

Board gender



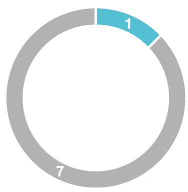
Women   Men

Executive and Non-executive Directors



Executive
Non-executive (includes Chairman)

Non-executive Director tenure



0–3 years
3+ years (includes Chairman)

Corporate Governance

Board composition

The successful delivery of our strategy depends upon attracting and retaining the right talent. This starts with having a high-quality Board. Balance is an important requirement for the composition of the Board, not only in terms of the number of Executive and Non-executive Directors, but also in terms of expertise, diversity and backgrounds.

While traditional diversity criteria such as gender and ethnicity are important, we also value diversity of skills, experience, knowledge and thinking styles. You can read about our Board diversity policy in the Nominations Committee report on page 48.

This year we welcomed Nicola Shaw on to the Board as Executive Director, UK on 1 July 2016 and Pierre Dufour as a Non-executive Director on 16 February 2017. Steve Holliday stepped down from the Board with effect from 22 July 2016. Ruth Kelly will step down from the Board at the conclusion of the 2017 AGM.

Our Board and its committees

The Board delegates authority to its Board committees to carry out certain tasks on its behalf, so that it can operate efficiently and give the right level of attention and consideration to relevant matters.

The committee structure, reporting and communication lines are set out in the diagram below and the role and responsibilities of the committees are set out in their respective terms of reference, available on our website. Committee agendas and schedules of items to be discussed at future meetings are prepared in accordance with the terms of reference of each committee and take account of other topical and ad-hoc matters.

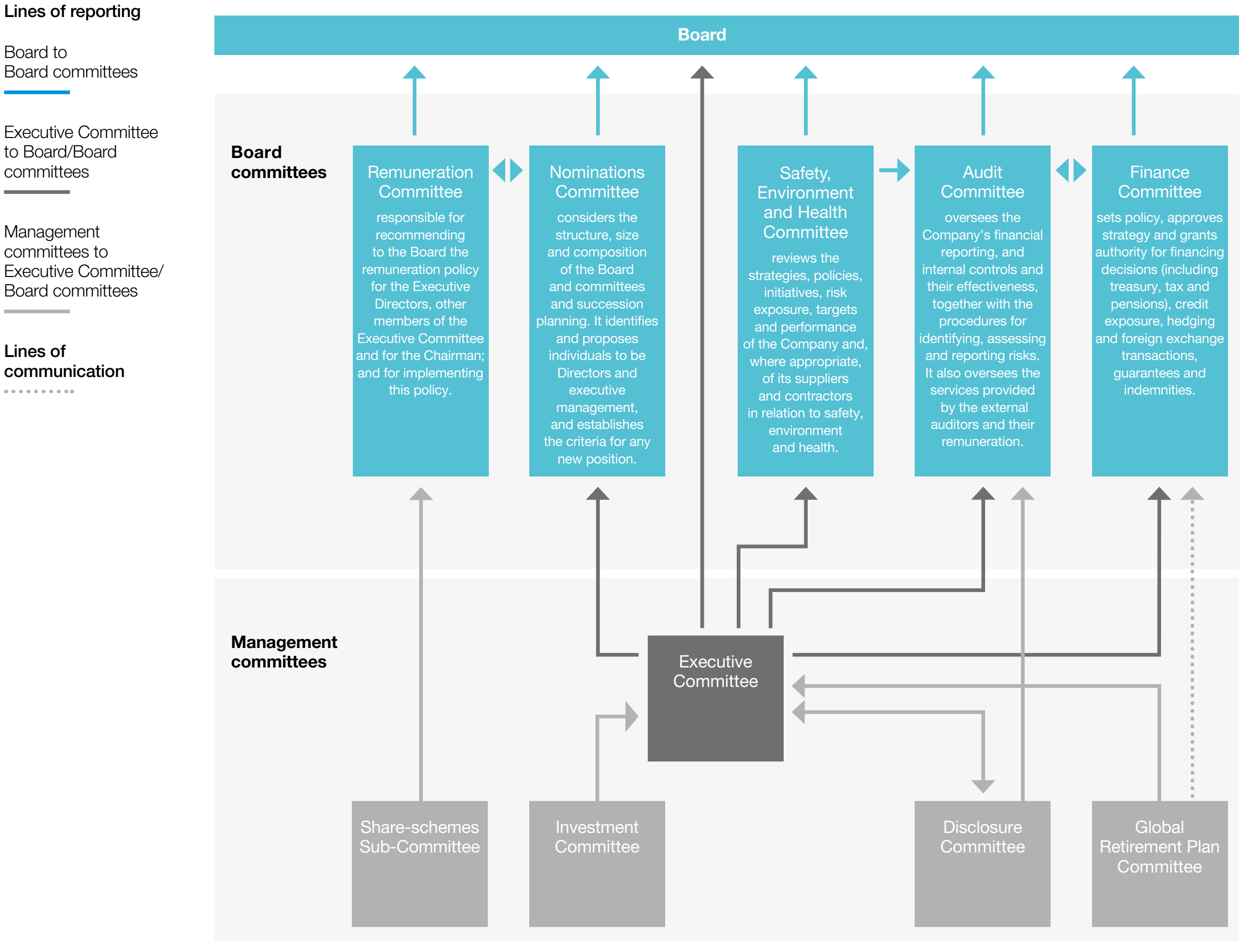
In addition to the vertical lines of reporting, the committees communicate and work together where required. For example, the Finance Committee and the Audit Committee both review the going concern assumptions and provide recommendations to the Board.

At Board committee meetings, items are discussed and, as appropriate, endorsed, approved or recommended to the Board, by the committee. Following Board committee meetings, the chairman of each committee provides the Board with a summary of the main decisions and discussion points so the non-committee members are kept up to date with the work undertaken by each Board committee.

Below the Board committees are a number of management committees, including the Executive Committee. You can read more about some of the management committees, including the membership and operation of the Executive Committee, on page 49.

Reports from each of the Board committees together with details of their activities during the year are set out on the following pages.

Board and committee interactions



Board and committee membership and attendance

The table below sets out the Board and committee attendance during the year to 31 March 2017. Attendance is shown as the number of meetings attended out of the total number of meetings possible for the individual Director during the year.

If any Directors are unable to attend a meeting, they are encouraged to communicate their opinions and comments on the matters to be considered via the Chairman of the Board or the relevant committee chairman. Instances of non-attendance during the year were considered and determined as being reasonable in each case due to the individual circumstances.

All instances of Board and committee meeting non-attendances throughout the year were due to ad-hoc meetings being arranged at short notice meaning members were unable to attend due to prior engagements.

The Board has determined that Mark Williamson, Chairman of the Audit Committee, has recent and relevant financial experience; is a suitably qualified audit committee financial expert within the meaning of the SEC requirements; and is independent within the meaning of the New York Stock Exchange listing rules.

Director	Board Meetings	Audit	Finance	Nominations	Remuneration	Safety, Environment & Health
Sir Peter Gershon	11 of 11	–	–	7 of 7	–	–
John Pettigrew	11 of 11	–	4 of 4	–	–	–
Andrew Bonfield	11 of 11	–	4 of 4	–	–	5 of 5
Dean Seavers	11 of 11	–	–	–	–	–
Nicola Shaw[1]	8 of 8	–	–	–	–	–
Nora Mead Brownell	11 of 11	–	–	7 of 7	8 of 8	5 of 5
Jonathan Dawson	10 of 11	–	3 of 4	6 of 7	8 of 8	–
Pierre Dufour[2]	1 of 1	–	–	–	1 of 1	0 of 1
Therese Esperdy	11 of 11	6 of 6	4 of 4	7 of 7	–	–
Paul Golby	11 of 11	5 of 6	–	6 of 7	5 of 8	5 of 5
Ruth Kelly	11 of 11	6 of 6	4 of 4	7 of 7	–	–
Mark Williamson	11 of 11	6 of 6	–	7 of 7	8 of 8	–
Steve Holliday[3]	3 of 3	–	–	–	–	–

Attendance notes
1. Nicola Shaw was appointed as Executive Director, UK with effect from 1 July 2016. 2. Pierre Dufour was appointed as a Non-executive Director with effect from 16 February 2017. 3. Steve Holliday stepped down from the Board with effect from 22 July 2016.

In focus

365

meetings held with institutional and private investors during the year in 11 countries

Further detail on
www.nationalgrid.com/investors

Directors' induction programme

Following new appointments to the Board, the Chairman, Chief Executive and Group General Counsel & Company Secretary arrange a comprehensive induction programme. The programme is tailored based on experience and background and the requirements of the role.

Following Nicola Shaw's appointment to the Board in July 2016 she has undertaken a thorough tailored induction which has included a number of site visits both in the UK and the US, along with meetings with all of the Company's Directors and senior executives.

Pierre Dufour was appointed to the Board in February 2017 and is undergoing a structured induction which will include meetings with senior leaders from across the Company. He will also undertake visits to some of our operational sites to help build his understanding of the Company. Pierre's induction is ongoing and will be reviewed by the Chairman to ensure that it is stretching and appropriate. Consideration is given to committee appointments and where relevant, tailored training can be undertaken.

Director development and training

As our internal and external business environment changes, it is important to make sure that Directors' skills and knowledge are refreshed and updated regularly. The Chairman is responsible for the ongoing development of all Directors.

To strengthen the Directors' knowledge and understanding of the Company, Board meetings regularly include updates and briefings on specific aspects of the Company's activities. The Board has participated in a cyber training session, see page 32 for more details. The Board also undertook training on the new EU Market Abuse Regulations which came into force in July 2016 to ensure that they understood the new obligations and reporting requirements.

Updates on corporate governance and regulatory matters are also provided at Board meetings along with details of training and development opportunities available to our Directors. Additionally, the Non-executive Directors are expected to visit at least one operational site annually. In September, the Board visited one of our US sites in Buffalo, New York to gain an insight into one area of our US business operations.

Investor engagement

We believe it is important to maintain effective channels of communication with our debt and equity institutional investors and individual shareholders. This helps us to understand their views about the Company and allows us to make sure they are provided with timely and appropriate information on our strategy, performance, objectives, financing and other developments.

Institutional investors

We carry out a comprehensive engagement programme for institutional investors and research analysts, providing the opportunity for our current and potential investors to meet with executive and operational management.

This includes:

- meetings, presentations and webinars;
- attendance at investor conferences across the world;
- holding road shows in major investor centres, mainly in the UK, Europe and the US; and
- offering the opportunity for individual stewardship meetings.

In the last year, our engagement programme has focused on clarifying our Group growth expectations and updating investors on the progress of our rate case filings in the US and the proposed sale of the majority interest in our UK Gas

Distribution business. We have also been explaining to investors how we expect the Company to continue to perform against its regulatory contracts in both the UK and US.

In September 2016 we arranged a seminar in London to provide institutional investors and research analysts with an opportunity to meet some of the leaders of businesses within our Other Activities such as Property, Grain LNG, Interconnectors and Metering, in addition to a presentation on US business development. The event was led by Andrew Bonfield and designed to provide an understanding of the current performance of this portfolio of businesses and their future outlook. A copy of the presentation and associated materials are available in the Investors section of our website.

In addition to these engagement activities, we will also be holding a stewardship meeting in July this year. The event is designed to update major investors on our activities over the year and future plans. It will also provide the opportunity for attendees to ask questions and meet members of the Board and for our Non-executive Directors to further develop their understanding of our shareholders' views and concerns.

The Board receives regular feedback on investor perceptions and opinions about the Company. Specialist advisors and the Director of Investor Relations provide updates on market sentiment.

Additionally, each year, the Board receives the results of an independent audit of investor perceptions. Interviews are carried out with investors to establish their views on the performance of the business and management. The findings and recommendations of the audit are then discussed by the Board.

Debt investors

Over the last year senior group treasury representatives have met debt investors in Europe, Canada and the US to discuss various topics such as our full-year results and upcoming US rate case filings. We also met with debt investors in London, Edinburgh, Amsterdam and Paris in September 2016 to market the bonds issued for the new Gas Distribution company.

We also communicated with our debt investors through regular announcements and the debt investor section of our website which contains bond information, credit ratings and materials relating to the subsidiary year-end reports, and information about our long-term debt maturity profile so investors can see our future refinancing needs.

Individual shareholders

Engagement with individual shareholders, who represent more than 96% of the total number of shareholders on our share register, is led by the Group General Counsel & Company Secretary.

Shareholders are invited to learn more about the Company through our shareholder networking programme. The programme includes visits to UK operational sites and presentations by senior managers and employees over two days. UK resident shareholders can apply to take part in this programme via the Investors section of our website.

For information on the 2017 Annual General Meeting, please see page 52.

Board and committee evaluation

This was the second year of our three-year performance cycle, as shown in the diagram below. We undertook an internal Board performance evaluation, led by Sir Peter, and focused on the Company's culture, as well as the role of the Board in shaping, monitoring and overseeing the culture.

Board and committee evaluation cycle	**Year 1** 2015/16	**Year 2** 2016/17	**Year 3** 2017/18
	Externally facilitated evaluation	Internal review	Internal review

Board members completed a structured questionnaire with a series of open questions designed to assess how the Board effectively sets the 'tone from the top' and determines how effectively this is cascaded throughout the Company. The questions asked covered the following areas:

- clarity of the Company's purpose and values;
- effectiveness of the Board's oversight, shaping and monitoring of the Company's culture;
- the balance and structure of Board governance;
- the ability of the Board to hold management accountable for operating the business day-to-day in alignment with the Company's purpose and values;
- how the right tone in the boardroom can be set to reinforce the Company's purpose and culture and to empower Board members to raise concerns; and
- ascertaining how the Company's reward structure encourages behaviours consistent with the Company's culture.

The Chairman then met with each Board member to discuss their responses to the questionnaire as well as their individual performance throughout the year.

The outcome of the Board evaluation was reported to the Board in April. The Board discussed the findings of this year's evaluation and agreed a number of actions for the coming year as set out opposite.

The Board also discussed its performance generally and agreed that the Board had worked well together as a unit, discharged its duties and responsibilities effectively, and worked effectively with the Board committees.

Committee evaluation

An evaluation of committee performance was also conducted by the chairman of each of the Board committees. The process broadly followed that conducted by the Board with each committee using their own set of open questions.

Actions were identified as appropriate and agreement reached that the committees continued to operate effectively. Progress against the action plans will be monitored throughout the year by the respective committee and the Board.

Actions for 2017/18

- Develop a common definition of 'culture' for the Board and Executive Committee
  Responsibility: Chief Executive/Group General Counsel & Company Secretary/Human Resources
- Determine the Board's role in guiding the cultural destination of the Company
  Responsibility: Chairman/Chief Executive/Group General Counsel & Company Secretary/Human Resources/Corporate Affairs

- Develop a method for the Board to track culture within National Grid
Responsibility: Executive Directors/Human Resources
- Assist with the establishment of a desired culture throughout the National Grid businesses
Responsibility: Executive Directors/Group General Counsel & Company Secretary

Individual performance

As noted above, the Chairman met with each director individually to discuss their contribution and performance over the year.

As part of our annual evaluation process, Mark Williamson, as Senior Independent Director, led a review of the Chairman's performance. The Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman. It was concluded that the Chairman showed effective leadership of the Board and his actions continued to influence the Board and wider organisation. Mark Williamson discussed the feedback and development opportunities with the Chairman.

Progress against actions from 2015/16

Progress against the actions from last year's externally facilitated evaluation has been monitored by the Group General Counsel & Company Secretary and the Chairman throughout the year and an update on progress was provided at the April 2017 Board meeting. A commentary against each action from last year's review is set out below. Progress against the actions from last year's Board Committee evaluation has also been monitored throughout the year.

Update on actions from last year

Area	Actions	Commentary
Board papers	Give a renewed push to improve Board and committee papers, including the enforcement of standards of papers and timely submissions. **Responsibility:** Chief Executive/ Group General Counsel & Company Secretary/Executive Directors	The Board and committee reporting templates and the sequencing of management reporting were reviewed and changes approved by the Executive Committee and Board. Enhancements were made to the Chief Executive's Board report and new Key Performance Indicators and reporting dashboards were added to papers where appropriate. The Chairman, Chief Executive and Group General Counsel & Company Secretary review the Board's forward business schedule on a bi-annual basis to ensure the Board is considering the right matters in order for it to carry out its role effectively. Additionally, the Group General Counsel & Company Secretary continues to work with the management team to enhance reporting standards, Executive ownership of papers, and the timeliness of paper submissions.
Bringing out strategic themes	Bring out strategic themes more clearly in the Board papers, pre-read papers and the Chief Executive's report. **Responsibility:** Chief Executive/ Group General Counsel & Company Secretary	In order to more clearly bring out strategic themes in Board materials, the Chief Executive's Board report was re-formatted to emphasise the key areas of focus for the Chief Executive. The Chief Executive also continues to review Board pre-read materials to ensure strategic themes are clearly articulated. A review was also undertaken of the format of the Board agenda to identify any areas for improvements. Following review, the Board agenda format was confirmed as fit for purpose.
Strategic proposals	The Chairman will discuss with the Non-executive Directors the strategy items on the draft agenda for the next following meeting and articulate the views from the Non-executive Directors as to what is required at the Board meeting including any questions that need answering. **Responsibility:** Chairman	In order to identify key focus areas for strategic discussions, the Non-executive Directors have been invited to review the items proposed for discussion at the Board Strategy session to be held in July 2017. As noted above, the Chairman, Chief Executive and Group General Counsel & Company Secretary review the Board's forward business schedule on a bi-annual basis to ensure the Board is considering the right strategic topics. Executive Committee members attend Board dinners in order to achieve alignment between the Board and the Executive management team on strategic matters.
Risk and risk management	Integrate risk more effectively into strategy development and planning. **Responsibility:** Chief Executive/ Group General Counsel & Company Secretary/Executive Directors	Executive Directors present the risks and mitigations relating to their own areas at Board meetings as appropriate. It is intended that a Company Risk Framework will be finalised and implemented during the 2017/18 financial year. Additionally, an externally facilitated review of risk appetite is to be undertaken during 2017/18 to identify how risk appetite can better inform decision-making in the future and how it is integrated into Board and committee reporting.
Board composition	Continue to consider the skills and capabilities needed on the Board for executing the Company's future strategy. **Responsibility:** Chairman	The Nominations Committee aims to keep the Board fresh with a diversity of skill sets. Therefore, during the year a formal process was undertaken by the Nominations Committee to find an appropriate addition to the Board of a new Non-executive Director, to strengthen the experience and skills on the Board and its committees. Pierre Dufour was appointed to the Board with effect from 16 February 2017. A detailed review of the Board skills matrix will be undertaken during the 2017/18 financial year to assess the skills and capabilities required on the Board in the future.
People	Review whether there is enough focus on people on the Board agenda. **Responsibility:** Chief Executive/ Group General Counsel & Company Secretary	The Nominations Committee undertook a review of Executive and senior succession planning and talent during the year. In addition, senior leaders in the Company's management team have been invited to Board dinners, providing the Board with further opportunities to spend more time with the Company's management team.

Mark Williamson
Committee chairman

Audit Committee

Review of the year

This report provides an insight into the work of the Audit Committee over the year in relation to the UK and US businesses, the external auditors, and our role overseeing the Company's internal assurance functions, as well as the significant issues relating to the financial statements which were debated by the Committee during the year.

UK business review

A substantial proportion of the Committee's time has been spent in relation to the sale of a majority interest in the UK Gas Distribution business.

The accounting for the transaction is complex and judgemental, and it follows that the reporting of the Group's financial performance was more complex than usual, with the presentation of the UK Gas Distribution results as discontinued operations in the current and prior periods, additional subtotals in the income statement, and revised and additional disclosure notes, amongst other things.

The Committee has been focused on the impact on financial processes and systems as well as the staff within the UK finance function. In November, the Committee received a detailed update and briefing on the risks and responses identified by the UK finance team in relation to the business separation activities required in order to prepare the business for the sale.

The Committee has received regular updates on the progress of the sale and has challenged and monitored management's judgements and estimates in relation to the financial statements. You can read more about this on page 43.

The Committee met in addition to its usual meetings in April to consider the interim accounts of National Grid plc, which were required in support of the declaration of the special dividend. The Committee's role in this part of the sale of the UK Gas Distribution business is set out in the Committee in action box set out above right.

US business review

We have seen a steady year of progress and improvements in the financial control environment in the US.

Following the transition to a new jurisdictionally focused operating model in 2016 and supported by a strengthened US finance leadership team, the US business has continued to enhance the processes and controls within the financial controls environment and has successfully delivered the US finance transformation plan.

In June 2016 and January 2017, the Committee met in addition to its usual meetings to receive in-depth updates from the US finance team on progress against the initiatives underpinning the US finance team transformation plan and the improvements in the US financial controls environment.

Our US finance team have also demonstrated its ability to support the wider business as part of the rate case filings for Massachusetts, New York and Long Island, alongside business-as-usual activities.

Auditor transition

In May 2017, PwC completed their final audit for the Group for the year ended 31 March 2017. We thank PwC for all their hard work as our auditors since the inception of National Grid plc.

Deloitte will take office as the Company's auditors for the year ending 31 March 2018, subject to shareholder approval at the 2017 AGM. We look forward to working with Deloitte and building constructive working relationships. Further details of the auditor transition are set out on page 44.

Looking forward

The Committee will be receiving regular updates, as appropriate, on the Group finance team's preparations for and the impact of the new accounting standards which will become effective in the next couple of years – IFRS 9 financial instruments, IFRS 15 revenue from contracts and IFRS 16 leases.

The Committee in action

Interim accounts

In order to declare the special dividend following the sale of UK Gas Distribution, management was required to demonstrate that sufficient realised profits were available for distribution as at 31 March 2017 in the books of the parent company. As the balance sheet of the Company as at 31 March 2016 showed insufficient reserves, a set of unaudited interim accounts for National Grid plc were prepared on a stand-alone basis for the year to 31 March 2017 specifically for this purpose, as required by UK company law.

The Committee met in April 2017 to consider the draft interim accounts, and received a paper from management and advisors summarising the approach to reserves management, the level of profits available for distribution after these activities, and the key process and assurance activities undertaken to ensure that the interim accounts were free from material misstatement. Following due consideration, the Committee recommended the interim accounts for approval by the Board.

Mark Williamson
Committee chairman

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 – statement of compliance.

The Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

Examples of Committee focus during the year included:

Areas of focus	Commentary
Viability statement	The viability statement requires the Board to confirm that it has assessed the Company's principal risks and viability. At its September meeting as part of its bi-annual review of risk, the Board considered the Company's principal risks. The impact of these risks over the assessment period was tested to determine whether or not there was a reasonable expectation that the Company would be able to continue to operate and meet its liabilities as they fall due during that period. This review then informed the wording of the viability statement in the Annual Report and Accounts. The Committee considered the viability statement to be included in the Annual Report and Accounts at its meetings in March and May 2017 and recommended the statement to the Board for approval at its May meeting. You can find the viability statement on page 19.
Fair, balanced and understandable	The Committee considered the requirement of the Code to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable in the context of the applicable accounting standards and confirmed this view to the Board.
Financial reporting	The Committee monitors the integrity of the Group's financial information and other formal documents relating to its financial performance and makes appropriate recommendations to the Board before publication. An important factor in the integrity of financial statements is making sure that suitable and compliant accounting policies are adopted and applied consistently on a year-on-year basis and across the Group. In May 2016, the Committee approved a framework for exceptional items which sets out the methodology for determining whether items of income and expense should be deemed exceptional. This did not represent a change in accounting policy but codified the approach adopted by management in the past. The framework sets out a three-stage process: consideration of the nature of the event, financial materiality, and the facts and circumstances. This framework was used by management to consider the presentation of exceptional items in relation to the UK Gas Distribution business sale transaction costs, environmental provisions and UK deferred tax credit.
External auditor independence and performance	Sarbanes-Oxley legislation (SOX) and the FRC's UK Corporate Governance Code supported by its Guidance on Audit Committees set out the requirements and expectations for the role of audit committees in actively monitoring and reviewing the external auditors' independence. In May 2016, the Committee considered an assessment by the Corporate Audit team of controls in place to ensure that our external auditor, PwC, is independent from National Grid. The controls testing did not find any significant items that would impact auditor objectivity and independence. The Committee also considered a revised Code for Recruitment of Employees from the External Auditor (Recruitment Code) which exists to help maintain the independence of the external audit. The revisions proposed strengthened the Recruitment Code by clarifying which roles within the Company could be considered financial reporting oversight roles. The proposed changes were consistent with the final draft of the FRC's Revised Ethical Standard 2016 issued in April 2016. The Committee also considered and approved amendments to the Company's policy on the provision of non-audit services by the auditor to take account of the implementation of the EU Audit Regulation and Directive on non-audit services. See page 43 for more details. Further details of the transition to Deloitte and the process undertaken to ensure that they were considered to be independent from 1 January 2017 are included on page 44.
Going concern statement	At its May meeting, the Committee considered the Group's short-term liquidity and capital and considered it appropriate to adopt the going concern basis in the financial statements. The Board considered and approved the Committee's recommendation at its May meeting. The Company's going concern statement is set out on page 92, note 1A.
Disclosure Committee reports	When reviewing the half- and full-year announcements, the Committee considers reports of the Disclosure Committee. The Disclosure Committee also reports the results of its evaluation of the effectiveness of the Company's disclosure controls to the Audit Committee. See page 49 for more information on the role of the Disclosure Committee.
Sarbanes-Oxley Act 2002 testing and attestations	The Committee receives regular updates on the status of testing and considers the impact of deficiencies reported in the past year. See page 18 for the Company's statement on the effectiveness of internal control over financial reporting. In September, alongside the SOX compliance update, the Committee received an update on the launch of a SOX refresh programme which would review the overall Group SOX approach following significant business change with the sale of the UK Gas Distribution business. The Committee also received updates on the SOX control findings in March and May in support of the year-end accounts, as well as an update on the SOX refresh programme.

Examples of Committee focus during the year included:

Areas of focus	Commentary
Corporate Audit	The Committee received regular controls updates from the Corporate Audit team. Management actions on audit findings have continued to be a focus at Executive meetings resulting in greater visibility of audit findings, increased ownership of actions and greater engagement by senior management. In accordance with best practice, the Corporate Audit Charter was reviewed against the Institute of Internal Auditors (IIA) international standards and the IIA model charter. No changes to the charter were proposed. See page 44 for more details on the work of the Corporate Audit team including the outcome of the recent review by the IIA.
Risk management	The Committee has been delegated responsibility by the Board for monitoring and assessing the effectiveness of our risk management processes. During the year, the Committee received reports to be considered by the Board on risk process developments to enable the Committee to keep fully appraised of changes in the risk profile of the Company and to allow it to monitor the management of risk throughout the year. The Committee continues to monitor the effectiveness of the risk management and internal control processes during the year and reports to the Board on the outcome of its annual review which covers all material controls, including financial, operational and compliance controls. You can read more about our risk management process and the review of effectiveness on pages 15 to 18. Details of our internal control systems, including those relating to the financial reporting process, can be found on pages 18 and 180.
Cyber security risk management	An update on the status of our cyber security risk management process and cyber security strategy was presented to the Committee in September 2016 and March 2017. The Committee noted that following an in-depth assessment of National Grid's cyber security maturity, a revised cyber security strategy was developed. The Committee also noted that during the development of the new strategy, Corporate Audit continued to provide assurance in relation to cyber security risk through delivery of a balanced portfolio of planned audits.
Compliance management	The Committee receives bi-annual reports on compliance with external legal obligations and regulatory commitments. These reports also updated the Committee on progress against the compliance improvement programme initiated in 2015. The Committee noted that significant progress had been made in strengthening the existing control framework with increased engagement and responsibility for actions improving our overall compliance performance. The Committee also requested that a review of the assurance framework against best practice be undertaken to identify if there were additional areas of assurance that needed to be covered. The benchmarking exercise indicated that there were no significant areas not covered by the framework and that the approach was consistent with the peer group reviewed. Improvements identified would be incorporated into the assurance programme to help strengthen our assurance framework.
Business separation compliance	National Grid Gas's Gas Transportation Licences require business separation between UK Gas Transmission and UK Gas Distribution to prevent any unfair advantage being obtained by our UK Gas Distribution business over other independent distribution networks. Business separation compliance reports are submitted to the Committee twice a year, in May and November. The Committee noted that the Business Separation Compliance Officer was actively engaged in the sale of the UK Gas Distribution business with regard to the review of business separation licence obligations.
Business conduct	The Committee receives a bi-annual ethics and business conduct report so that it can monitor the management and mitigation of business conduct issues as part of the wider control framework. The Committee reviews the confidential reporting procedures and whistleblowing procedures annually to make sure that complaints are treated confidentially and that a proportionate, independent investigation is carried out in all cases. The Committee also receives annual reports on the Company's anti-bribery procedures and reviewed their adequacy.
Committee performance evaluation	The Committee received updates on the action plan agreed following the 2015/16 Committee performance evaluation at its November 2016 and May 2017 meetings and noted the progress made against the actions identified. The 2016/17 Board and committee evaluation was conducted internally, see page 38 for more details. The recommended actions for the Audit Committee were considered by the Committee in May and an action plan agreed.

Significant issues

The most significant issues the Committee considered in relation to the financial statements concerned the accounting implications of the sale of a majority interest in the UK Gas Distribution business and the US financial control environment, including plant accounting.

In addition to commentary in these areas, the independent auditors' report (pages 75 to 82) also includes other areas of focus, including the accuracy and valuation of treasury derivative transactions, accounting for net pension obligations, revenue recognition, and valuation of environmental provisions which were also considered by the Committee during the year.

Accounting for the sale of the UK Gas Distribution business

The key accounting implications subject to detailed consideration by the Committee comprised:

- the point at which the business met the criteria to be classified as 'held for sale';
- the classification of costs between continuing and discontinued operations, (including exceptional and financing costs); and
- the accounting applied in respect of the retained 39% interest in the new separate business, including:
  - the classification of the retained interest as an associate, reflecting significant influence exercised by the Group through its equity interest; and
  - the assessment of the fair value of the retained interest on acquisition.

'Held for sale'

IFRS 5 states that an asset is considered as held for sale provided two conditions are met: it must be available for immediate sale in its present condition and its sale must be highly probable.

The Committee challenged management on the identification of the point at which the UK Gas Distribution business sale transaction became highly probable. Having considered evidence concerning the receipt and evaluation of bids as well as progress on the business separation activities, the Committee concurred with management's judgement that the sale was not deemed to be highly probable until shortly prior to the announcement on 8 December 2016. The resulting impact on depreciation and amortisation is set out in note 9.

Classification of costs

In relation to the classification of costs between continuing and discontinued operations, the Committee carefully considered management's approach to the contractual and other arrangements put in place at the point of the business separation for the purposes of determining an appropriate allocation of costs throughout 2016/17 and prior periods. The Committee concurred with management's analysis, and in particular the judgements described in note 9 concerning interest costs (including liability costs).

The retained interest

The Committee considered the judgements presented by management as regards the 'fair value' of the retained interest, of the UK Gas Distribution business. The Committee concurred with management that on the basis of evidence of recent and historic comparable transactions, a discount to the price paid by the Consortium for control should be reflected in the determination of the fair value of the retained interest. Refer to note 15 for further details.

The Committee also considered the accounting implications of the Further Acquisition Agreement relating to the option for the Consortium to acquire a further 14% interest in the UK Gas Distribution business, and the determination as to whether or not the contract contains an embedded derivative.

US financial control environment

The Committee has continued to devote a significant amount of time to reviewing progress made by management to remediate control deficiencies identified during 2015/16, in the US financial controls environment.

The Committee received updates on progress made by management against the measures taken and timetable to remediate the US financial control deficiencies. At year end the Committee was pleased to note that the majority of the control deficiencies identified had been remediated. Management are confident that the remaining control weaknesses in relation to plant accounting will be remediated in 2017/18.

As part of plant accounting, the Committee received regular updates in respect of a project to close out aged work orders addressing an issue identified during the 2015/16 external audit.

The Committee also received updates on the status of the US finance organisational design programme. Corporate Audit provided support during the transition to the new organisational design to ensure that the integrity of the US control environment was maintained.

External audit

The Committee is responsible for overseeing relations with the external auditors, including the proposed external audit plan, the approval of fees, and makes recommendations to the Board on their appointment or reappointment. Details of total remuneration paid to auditors for the year, including audit services, audit-related services and other non-audit services, can be found in note 3(e) of the consolidated financial statements on page 100.

Auditor appointment

Consistent with prior years, an annual review was conducted by the Committee of the level and make-up of the external audit and non-audit fees and the effectiveness, independence and objectivity of PwC. Following this process, the Committee was satisfied with the effectiveness, independence and objectivity of PwC and recommended to the Board their reappointment for the year ended 31 March 2017 at the 2016 AGM.

Following the audit tender, the Committee has recommended to the Board the appointment of Deloitte as auditors for the year ending 31 March 2018. A resolution to appoint Deloitte and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2017 AGM.

Auditor independence and objectivity

The independence of the external auditors is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Auditor independence and objectivity is safeguarded by a number of control measures, including:

- limiting the nature and value of non-audit services performed by the external auditors;
- ensuring that employees of the external auditors who have worked on the audit in the past one year (two years for a partner of the audit team) are not appointed to roles with financial reporting oversight within the Company in line with our internal code;
- monitoring the changes in legislation related to auditor objectivity and independence to help ensure we remain compliant;
- providing a business conduct helpline that employees can use to report any concerns, including those relating to the relationships between Company personnel and the external auditor;
- the rotation of the lead engagement partner at least every five years (a new lead engagement partner was appointed for the 2015/16 financial year);
- PwC's internal independence rules and processes, which have been designed to exceed professional standards and focus on both personal independence and scope of services;
- independent reporting lines from PwC to the Committee and the opportunity to meet with the Committee privately; and
- an annual review by the Committee of the structures, policies and practices in place to make sure the external auditors' objectivity and independence is maintained.

During the year, the Committee considered and approved changes to the Company's policy on the provision of non-audit services by the auditor to take account of the implementation of the EU Audit Regulation and Directive on non-audit services. The key changes made were to update the list of prohibited services, principally in respect of tax, and the introduction of a cap on the financial value of non-audit services to 70% of the average annual audit fees paid in the last three financial years. The cap will be implemented once we have three years of history of fees charged by Deloitte, and so will be effective for the financial year ending in March 2021.

Audit quality
To maintain audit quality and provide comfort on the integrity of financial reporting, the Committee reviews and challenges the proposed external audit plan, including its scope and materiality prior to approval, to make sure that PwC has identified all key risks and developed robust audit procedures and communication plans.

The Committee also considers PwC's response to accounting, financial control and audit issues as they arise, and meets with them at least annually without management present, providing the external auditors with the opportunity to raise any matters in confidence.

External audit transition arrangements
As described above, subject to shareholder approval of their appointment at the 2017 AGM, Deloitte will succeed PwC as the Company's auditor for the year ending 31 March 2018.

Auditor independence
The Company and Deloitte planned for the firm to be independent in line with SEC requirements with effect from 1 January 2017. This date was chosen as the most appropriate date for Deloitte to start to 'shadow' the activities of PwC in the 2016/17 year-end audit.

In order for Deloitte to be considered independent with effect from 1 January 2017, non-audit services provided by the firm were curtailed in a staged and orderly fashion over the period between November 2015 and December 2016. Regular updates were provided to the Audit Committee on the status of ongoing non-audit services throughout this period and all services ongoing as at 1 January 2017 were re-approved by the Committee as at that date. With effect from this date, all non-audit services are subject to the same protocols and policies as those applied in respect of PwC.

In addition to the SEC requirements, Deloitte became subject to EU independence requirements with effect from 1 April 2017, being the first day of the year ending 31 March 2018, adding certain further restrictions on non-audit services (principally taxation).

Other audit transition activities
The Committee welcomed Deloitte LLP to the January, March, April and May 2017 Committee meetings to shadow PwC as part of the transition process. Deloitte were also granted access to management and key documents in the UK and US to assist in their transition activities.

Non-audit services provided by the external auditors
In accordance with our policy, non-audit services provided by the external auditors above a threshold of £50,000 require approval in advance by the Committee.

The Committee has delegated approval of services under this threshold to the Finance Director. A list of all approved non-audit work requests is presented to the Committee quarterly, as well as annually in aggregate to ensure the Committee is aware of all non-audit services provided.

Additionally, the Committee receives quarterly reports from management on non-audit services and other consultants' fees to monitor the types of services being provided and fees incurred.

Approval for the provision of non-audit services is given on the basis the service will not compromise independence and is a natural extension of the audit, or if there are overriding business or efficiency reasons making the external auditors most suited to provide the service. Certain services are prohibited from being performed by the external auditors, as required under the Sarbanes-Oxley Act 2002.

Total non-audit services provided by PwC during the year ended 31 March 2017 were £17.3 million (2016: £8.9 million), representing 87% (2016: 63%) of total audit and audit-related fees (see note 3(e)). £10 million of the non-audit fees related to work performed by PwC relating to the disposal of the UK Gas Distribution business, including a vendor due diligence assignment, and work on the separation of the business and its support functions.

Both these projects were discussed by the Committee and approved in advance by the Chairman of the Audit Committee prior to work commencing. The Committee concluded that the appointment of PwC would allow the Group to realise significant benefit through the utilisation of PwC's accumulated knowledge concerning the key financial reporting and IT systems, as well as their knowledge of the Gas Distribution business and the UK operations more generally.

Total audit and audit-related fees include the statutory fee and fees paid to PwC for other services that the external auditors are required to perform, such as regulatory audits and SOX attestation. Non-audit fees represent all other services provided by PwC not included in the above.

Non-audit services provided by PwC in the year included tax compliance services in territories other than the US (£0.4 million), the significant majority of which related to the UK.

The Committee considered that tax compliance services were most efficiently provided by the external auditors, as much of the information used in preparing computations and returns was derived from audited financial information. In order to maintain the external auditors' independence and objectivity, management reviewed and considered PwC's findings and PwC did not make any decisions on behalf of management.

Non-audit services provided by Deloitte
As set out above, Deloitte became subject to the Company's policy on the provision of non-audit services with effect from 1 January 2017.

Internal (corporate) audit
The corporate audit function provides independent, objective assurance to the Audit, Safety, Environment and Health and Executive Committees on whether our existing control and governance frameworks are operating effectively in order to meet our strategic objectives. Assurance work is conducted and managed in accordance with the IIA international standards for the Professional Practice of Internal Auditing and Code of Ethics. Following its most recent review, Corporate Audit was given the highest rating – Generally Conforms by the IIA on Standards and Code of Ethics.

To keep the Committee informed of trends identified from the assurance work and to update on progress against the corporate audit plan, the Head of Corporate Audit reports to the Committee at least twice each year. These reports present information on specific audits, as appropriate, summarise common control themes arising from the work of the team and update on progress with implementing management actions.

In order to meet the objectives set out in the Corporate Audit Charter, audits of varying types and scopes are conducted as part of the annual corporate audit plan. The audit plan is based on a combination of risk-based and cyclical reviews, together with a small amount of work that is mandated, typically by US regulators. The audit plan is agile and regularly reviewed to prioritise audits relevant to the needs of and to reflect evolving risks and changes to the business. The audit plan is now aligned between General Audit, Safety, Environment and Health and Information Systems audits allowing us to manage global and integrated audit opportunities. The audit plan was also reviewed and updated to reflect the audits attributed to the UK Gas Distribution business.

Inputs to the audit plan include principal risks, risk registers, corporate priorities, external research of emerging risks and trends, and discussions with senior management to make sure the plan aligns with the Committee and Company's view of risk. The audit plan is considered and approved by the Committee annually and progress against the plan is monitored throughout the year.

The Committee is responsible for the appointment and removal of the Head of Corporate Audit. The Committee met privately with the Head of Corporate Audit during the year.

Therese Esperdy
Committee chairman

Finance Committee

Review of the year

The financing and other related aspects of the Company's sale of a majority interest in the UK Gas Distribution business remained a key area of focus for the Committee throughout 2016/17. The Committee also considered the impact of the sale on our retained business, including financing, insurance arrangements, liquidity management and pension funding.

The Committee oversaw several major aspects of the Gas Distribution sale process, including the sectionalisation of the National Grid UK Pension Scheme. This was a complex project that ran alongside the sale process, ensuring the continued protection of all scheme members' benefits. See the Committee in action box opposite for more details of the Committee's involvement.

During 2016/17, the Committee was briefed on funding activities in our US business, specifically the long-term bond issuance programme for our downstate New York gas businesses and our Massachusetts electricity operations business. The year saw the initial debt financing of the Company's New York Transco joint venture. The completion of our first two Export Credit arrangements in relation to our new joint venture for our Norwegian interconnector represented another major achievement for the treasury team.

During the year, the Committee monitored the execution of management's readiness plans in relation to the potential short-term market impacts of the Brexit referendum. The eventual market movements were well within our contingency planning, although the ever-changing macroeconomic and political environment remains a key focus for the Committee.

The Committee assessed the appropriateness of National Grid's balance sheet hedging policy to determine whether the current policy continued to effectively manage the foreign exchange translation risk associated with our US investments. Following review, the Committee approved changes to the policy and agreed an implementation plan for the agreed policy change.

We continued to keep the Company's insurance strategy under review. Specific focus areas during 2016/17 included the impact of the UK Gas Distribution business sale on our ongoing captive insurance programme together with a review of management's proposals to consider the placement of cyber insurance across National Grid's operations. Additionally, the Committee considered the Company's approach to the insuring of construction risks of interconnector projects, a particularly bespoke insurance market.

Looking forward to 2017/18, we will continue to focus on the financing strategy for the reshaped Group following the sale of the majority interest in the UK Gas Distribution business. This, together with funding the ongoing capex programme in our US business remain the major focus areas for the treasury team.

We will also assess, with our tax team, the potential impact of anticipated US tax policy changes, as more details continue to emerge from the new administration in the US following the Presidential election.

Examples of other key matters the Committee considered during the year included:

- funding requirements and financing for the business plan;
- setting and reviewing treasury policies;
- counterparty risk policy;
- foreign exchange and interest rate risk management;
- treasury performance updates;
- UK and US tax updates;
- update on US energy procurement activities and electricity and gas trading activities in the UK;
- the triennial valuation of the National Grid Electricity Group of the Electricity Supply Pension Scheme;
- the draft going concern statement for the half- and full-year results prior to consideration by the Board; and
- update on US post-retirement employee benefits plans.

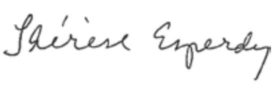
The Committee in action – the sale of the UK Gas Distribution business

2016/17 saw a range of work streams across the financing and related aspects of the transaction. The Committee reviewed the planning for these, assessing various different options before overseeing the execution and approving related policy changes.

The Committee oversaw activities across a range of workstreams including:

- restructuring the existing UK debt portfolio;
- financing the new standalone UK Gas Distribution business prior to sale;
- sectionalisation of the National Grid UK Pension Scheme;
- establishing a new treasury team and banking group and implementing associated systems and committed lending facilities;
- establishing initial credit ratings for the new business and the retained Group;
- liaison with HMRC around the detailed transaction steps; and
- options for implementing a structure to enable additional debt leverage through the sale process.

On completion of the sale, the Committee reviewed the proposals for investing the proceeds of the sale (in excess of £5 billion) ensuring the Group's counterparty risk policies were appropriately managed.



Therese Esperdy
Committee chairman

Paul Golby
Committee chairman

Safety, Environment and Health Committee

Review of the year

In February, we welcomed Pierre Dufour to the Safety, Environment and Health Committee. He brings considerable experience as an engineer and in safety, industrial risk management and operations. Last month Andrew Bonfield stepped down from the Committee, having been a member for three years. His contribution to the Committee, as well as his chairmanship of the Engineering Assurance Committee (EAC), has been extensive.

Over the year, the Committee has seen the Company's safety performance remain in line with last year with a Group employee lost time injury frequency rate of 0.10.

However, this good performance must be viewed in the context of the death in the UK last November of an employee working in our Electricity Transmission business, as referred to in the Chief Executive's review on page 6. The Committee has spent time with the business seeking to understand the circumstances and causes of this fatality as well as the actions taken by the Company to ensure lessons are learnt. It will continue to receive updates as investigations proceed.

Road traffic collisions have reduced in both the UK and US following an increased programme of training for employees, although the level is still above target in the US. Cable strikes (a UK Gas Distribution measure) have reduced.

The US business is currently focusing on switching errors, which remain at an unsatisfactory level. An external consultant is currently reviewing relevant incidents from a human factors perspective and will be advising on ways to improve our training, processes and procedures in this respect.

More widely, the Committee has spent considerable time reviewing the safety culture of the Company. While this is generally very good, in some parts of the business the analysis of significant incidents has shown instances of processes not being followed or inappropriate behaviours. The Committee monitors the steps taken by the Company following significant incidents, including looking at its processes and procedures and how they are being applied (see the Committee in action box opposite).

The Committee continues to receive reports from the EAC. In particular, we reviewed the progress made in succession planning for the Company's engineering employee population as well as the career progression and additional specialist qualification options and incentives available for engineers within the Company. We were pleased to note the appointment of chief engineers for both gas and electricity, with Group-wide remits. The EAC also reported to the Committee on peer reviews and sharing of best practice across the UK and US gas and electricity businesses, focusing in particular on asset data risk and its ongoing review of asset data records.

We have also continued to monitor the Company's process safety management system. We received updates on the measures being taken to address levels of risk for major hazard assets, including key US LNG plants. The Committee also received updates on the Company's US gas pipeline safety compliance and its interface with the NYPSC on the subject of new gas pipeline safety rules.

In terms of the environment, we have continued to monitor our strategy and approach to sustainability, as well as the Company's external reporting of its environmental performance, including its greenhouse gas emissions. In particular, we reviewed the impact of the sale of the UK Gas Distribution business on the Company's greenhouse gas emissions and its ability to meet its target of reducing emissions by 80% by 2050 against a revised 1990 baseline.

Examples of other matters the Committee reviewed during the year included:

- ongoing monitoring of safety performance and significant incidents in the UK and US;
- the expected impact of the UK Gas Distribution business sale on the Company's safety and environmental performance;
- compliance and risk reporting for safety, environment and health matters;
- the Company's approach to electromagnetic fields and its alignment with scientific research on the subject;
- sickness absence levels and trends for both UK and US businesses; and
- employee assistance programmes for mental well-being and their take up as well as soft tissue injury prevention programmes.

The Committee in action – safety processes and procedures

In its monitoring of major safety incidents and work on process safety management systems, the Committee has spent time looking at the processes and procedures that are in place and how these are implemented and applied in order to promote a strong safety culture across the whole of the Company.

When significant incidents occur, the Committee closely monitors management's analysis of the causes, as well as reviewing the steps taken by the Company to promote awareness by both employees and contractors and to address the risk of recurrence of incidents, including safety 'stand downs', briefings and training.

It is essential that all employees and contractors should be able to understand and apply instructions as a matter of routine. Where processes and procedures become too long and complex, there may be a risk that they are misapplied, circumvented or ignored. In other cases, there may be a lack of risk and control awareness because processes and procedures are inadequately designed or controlled. The Company's internal audit function, and its safety specialists, report regularly to the Committee on their findings and on work being undertaken to address these issues.

Paul Golby
Committee chairman

Sir Peter Gershon
Committee chairman

Nominations Committee

Review of the year

Once again succession planning has been the main area of focus for the Committee during the year. It is important for the Board to anticipate and prepare for the future and to ensure that the skills, experience and knowledge at director and senior management level reflect the changing demands of the business. The process of building a strong and effective Board also requires a good balance of continuity and refreshment and the Committee has borne this in mind in its deliberations throughout the year.

Succession planning

We recognise that an active Nominations Committee is key to promoting effective board succession and we are committed to continuing to regularly review succession planning policy, taking into account the FRC's guidance to ensure that our policy is aligned to Company strategy, both current and in the future.

Following a thorough and rigorous process, Pierre Dufour was appointed as a Non-executive Director to the Board on 16 February 2017 and Badar Khan was appointed to the Executive Committee on 1 April 2017; see opposite for more details on these search and appointment processes.

Composition

Balance and fit in terms of skills, knowledge and experience are important considerations in recruitment to the Board. Therefore, part of the selection process for Board appointments is for the Committee to review the existing skills and experience of the Board and consider the current composition against the needs of the business and the requirements of the new position. External benchmarking of skills and a review of potential external candidates is also undertaken by external search and assessment consultancies to make sure that the Committee is fully briefed when making its considerations.

The Committee also takes into account the need to make sure there is appropriate diversity on the Board, including diversity in thinking styles. The Committee has considered the external reviews on diversity published during the year, namely the Parker Review and the Hampton-Alexander Review. Further details on the Company's approach to diversity are set out overleaf.

Board and committee membership

Following the changes in Board membership, the composition of the committees was also reviewed. As a result, our new Non-executive Director, Pierre Dufour joined the Safety, Environment and Health Committee, Remuneration Committee and Nominations Committee upon appointment. Following Pierre's appointment, Andrew Bonfield stepped down from the Safety, Environment and Health Committee on 21 April 2017 and Paul Golby stepped down from the Remuneration Committee on 16 May 2017.

The Committee in action – Non-executive search and appointment process

During the year a formal process was undertaken by the Committee to find an appropriate new Non-executive Director, to strengthen the experience and skills on the Board and its Committees.

- The Nominations Committee appointed The Zygos Partnership as the search consultancy. A Non-executive Director profile was reviewed and agreed by the Committee.
- Zygos conducted initial searches and produced a potential list of candidates which was reduced to a shortlist against the agreed profile.
- Zygos narrowed its shortlist and interviews were undertaken with the Chairman, Chief Executive and other members of the Board.
- References for the potential candidates were circulated to the Committee and a meeting was held in October 2016 where the Chairman invited feedback from the Committee on the search and interview process.
- The Committee agreed a preferred candidate and made a recommendation to the Board in February 2017.
- The Board approved the recommendation and Pierre Dufour was appointed to the Board with effect from 16 February 2017.

Search and appointment process to the Executive Committee

The Committee was also involved in the recruitment process for the newly created Executive Committee position to lead the new business, National Grid Ventures. The search and appointment process for this position was as follows:

- the Nominations Committee appointed Heidrick and Struggles as the search consultancy. With input from the Committee a role and person specification was agreed;
- Heidrick and Struggles conducted initial searches for potential candidates, with both internal and external candidates being put forward for the role;
- a series of interviews were undertaken by the Chairman, Chief Executive and other members of the Board;
- the Committee considered the outcomes from the interviews and selected candidates for further consideration;
- final interviews with the candidates were carried out by John Pettigrew and members of the Executive Committee and Board;
- the Committee recommended Badar Khan for appointment to the Executive Committee; and
- the Board approved the appointment and Badar Khan joined the Company as a member of the Executive Committee on 1 April 2017.

Examples of other matters the Committee considered during the year included:

- review of the Chairman's performance, led by Mark Williamson, the Senior Independent Director;
- review of Director independence and potential conflicts; and
- review of Executive Committee succession.

Sir Peter Gershon
Committee Chairman

Board diversity

National Grid supports the creation of an inclusive and diverse culture which we believe supports the attraction and retention of talented people, improves effectiveness, delivers superior performance and enhances the success of the Company.

Following the publication of the Parker Review 'Beyond One by '21'' and the Hampton-Alexander Report the Committee considered the recommendations of these reports and approved updates to the Board diversity policy and the associated objectives.

We have previously reported against eight objectives, set out below, to measure our progress against our Board diversity policy. At its April 2017 meeting the Committee reviewed these objectives and agreed that the majority of these should no longer be objectives but instead be the minimum standard required to support our Board diversity policy. As a result, only one of the original eight objectives was retained and updated and a new objective was added to address the recommendations of the Parker Review and the Hampton-Alexander Report, as set out below.

The Board diversity policy reflects all of the previous objectives and the Committee will continue to follow the requirements of the old objectives including only engaging executive search firms who have signed up to the Voluntary Code of Conduct on Gender Diversity, adopting best practice as appropriate, reviewing progress against the objectives and the policy annually and reporting on progress in this report.

Our Board diversity policy continues to promote an inclusive and diverse culture and reaffirms our aspiration to meet and exceed the recommended voluntary target of 33% of Board positions being held by women by 2020. This objective, as set out below, has been updated following the recommendations of the Hampton-Alexander Report, to extend this voluntary target of 33% women by 2020 to the Executive Committee and direct reports to this committee.

The Parker Review, published in November 2016, recommended every FTSE 100 board should have at least one director from a non-white ethnic minority by 2021. The Committee has reflected this recommendation in a new objective as set out below.

Examples of the initiatives to promote and support inclusion and diversity throughout our Company are set out on page 30.

Objectives	Progress
Current	
The Board aspires to meet the target of 33% of Board and Committee positions, and direct reports to the Executive Committee, to be held by women by 2020.	**Objective ongoing.** We currently have 33% women on our Board and 22% women on our Executive Committee and 30% women direct reports to the Executive Committee. The number of women in senior management positions and throughout the organisation is set out on page 31.
The Board aspires to meet the Parker Review target for FTSE 100 boards to have at least one director from a non-white ethnic minority by 2021.	**Objective met.** We currently have one Director from a non-white ethnic minority on the Board.
Previous	
All Board appointments will be made on merit, in the context of the skills and experience that are needed for the Board to be effective.	**Objective met.** The appointment of Pierre Dufour was made on merit.
We will only engage executive search firms who have signed up to the Voluntary Code of Conduct on Gender Diversity.	**Objective met.** Heidrick and Struggles and The Zygos Partnership are signed up to the Voluntary Code of Conduct on Gender Diversity.
Where appropriate, we will assist with the development and support of initiatives that promote gender and other forms of diversity among our Board, Executive Committee and other senior management.	**Objective met.** See page 30 for further details.
Where appropriate, we will continue to adopt best practice in response to the Davies Review.	**Objective met.** Ongoing as appropriate.
We will review our progress against the Board diversity policy annually.	**Objective met.** Ongoing.
We will report on our progress against the policy and our objectives in the Annual Report and Accounts along with details of initiatives to promote gender and other forms of diversity among our Board, Executive Committee and other senior management.	**Objective met.** Ongoing.
We will continue to make key diversity data, both about the Board and our wider employee population, available in the Annual Report and Accounts.	**Objective met.** Ongoing.

Executive Committee membership key

1 John Pettigrew
Chief Executive and Committee chairman
2 Andrew Bonfield
Finance Director
3 Badar Khan
Group Director, Corporate Development and National Grid Ventures
4 Alison Kay
Group General Counsel & Company Secretary
5 Richard Adduci
Chief Information Officer
6 George Mayhew
Group Corporate Affairs Director
7 Dean Seavers
Executive Director, US
8 Mike Westcott
Group Human Resources Director
9 Nicola Shaw
Executive Director, UK

Membership as at 1 April 2017

Management committees

To help make sure we allocate time and expertise appropriately, the Company has a number of management committees, which include the Executive Committee, and Disclosure Committee. These committees provide reports, where relevant, to the appointing committee in line with our governance framework on the responsibilities they have been delegated. See page 36 for management committee reporting lines.

Executive Committee

Led by the Chief Executive, the Executive Committee oversees the safety, operational and financial performance of the Company. It is responsible for making day-to-day management and operational decisions it considers necessary to safeguard the interests of the Company and to further the strategy, business objectives and targets established by the Board. It approves expenditure and other financial commitments within its authority levels and discusses, formulates and approves proposals to be considered by the Board.

The committee in action – National Grid Smart (NGS)

Following the decision last year to invest in the NGS business, the Committee reviewed the investment opportunities of the business, and considered a number of matters impacting the opportunities, including the Government's support for the smart metering roll-out in the UK, the associated roll-out challenges faced by the industry and the alignment of the NGS business to wider distributed energy opportunities.

The Committee challenged the NGS team on the business mobilisation progress, the strength of the customer pipeline, the service proposition, rental pricing and the operational capability required to make the business a success.

Acknowledging the competitive nature of the market, the Committee endorsed a governance framework that would enable NGS to respond quickly to future contracting opportunities, manage the performance of the business, and allow the Committee to monitor the performance of NGS as appropriate.

The nine Committee members have a broad range of skills and expertise, which are updated through training and development. Some members also hold external non-executive directorships, giving them valuable board experience. The Committee officially met 12 times this year, but the members interact much more regularly. Those members of the Committee who are not Directors regularly attend Board and committee meetings for specific agenda items. This means that knowledge is shared and all members are kept up to date with business activities and developments.

Disclosure Committee

The role of the Disclosure Committee is to assist the Chief Executive and the Finance Director in fulfilling their responsibility for overseeing the accuracy and timeliness of disclosures made – whether in connection with our presentations to analysts, financial reporting obligations, or other material stock exchange announcements, including the disclosure of price sensitive information.

This year the Committee met to consider the announcements of the full- and half-year results and reported on relevant matters to the Audit Committee. It also met in December to consider the announcement of the preferred bidder for the sale of a majority interest in the UK Gas Distribution business and again at the end of March to review the announcement of the completion of the sale and the option for the sale of a further 14% equity interest in the business.

The Committee reports the results of its evaluation of the effectiveness of the Company's disclosure controls to the Audit Committee.

The Committee is chaired by the Finance Director and its members are the Group General Counsel & Company Secretary, the Group Tax & Treasury Director, the Group Financial Controller, the Director of Investor Relations, the Head of Corporate Audit and the Deputy Group General Counsel, with other attendees as appropriate.

Statement of compliance with the UK Corporate Governance Code

The UK Listing Rules require that listed companies must include in their annual report a statement of whether the Company has complied with all the relevant provisions of the UK Corporate Governance Code (the Code). The Code was published in September 2014 and updated in 2016 to reflect forthcoming legislation on audit committees and auditor appointments, and is available in full at www.frc.org.uk.

For the year ended 31 March 2017, the Board considers that it has complied in full with the provisions of the 2014 Code. Our statement of compliance opposite explains the main aspects of the Company's governance structure to give a greater understanding of how the Company has applied the principles and complied with the provisions in the Code. The Corporate Governance report also explains compliance with the Disclosure Guidance and Transparency Sourcebook. The index on page 53 sets out where to find each of the disclosures required in the Directors' Report in respect of Listing Rule 9.8.4.

A. Leadership

A.1 The role of the Board

Our Board is collectively responsible for the effective oversight of the Company and its businesses. It also determines the strategic direction, business plan, objectives, principal risks, viability of the Company and governance structure that will help achieve the long-term success of the Company and deliver sustainable shareholder value.

The Board sets the risk appetite and principal risks for the Company and takes the lead in areas such as safeguarding the reputation of the Company and its financial policy, as well as making sure we maintain a sound system of internal control and risk management (see pages 15 to 18).

There is a clear schedule of matters reserved for the Board and a schedule of delegation, which were both reviewed and updated in January 2017. The schedule of matters reserved for the Board is available on our website, together with other governance documentation.

A.2 A clear division of responsibilities

The Board supports the separation of the roles of the Chairman and Chief Executive. The key responsibilities are clearly documented and reviewed when appropriate. The Chairman manages and leads the Board. The Chief Executive is responsible for the executive leadership and day-to-day management of the Company and the Group's businesses, to ensure the delivery of the strategy agreed by the Board.

A.3 Role of the Chairman

The Chairman, who was independent on appointment, is responsible for the leadership and management of the Board and its governance. He makes sure the Board is effective in its role by promoting a culture of openness and debate, facilitating the effective contribution of all Directors and helping to maintain constructive relations between Executive and Non-executive Directors. The Chairman sets the Board's agenda making sure consideration is given to the main challenges and opportunities facing the Company, and adequate time is available to discuss all items, including strategic issues.

A.4 Role of the Non-executive Directors

Independent of management, our Non-executive Directors bring diverse skills and experience, vital to constructive challenge and debate. Exclusively, they form the Audit, Nominations and Remuneration Committees, and their views are actively sought when developing proposals on strategy.

Our Senior Independent Director acts as a sounding board for the Chairman and serves as an intermediary for the other Directors, as well as shareholders when required.

Around each of the nine scheduled Board meetings, the Chairman held meetings with the Non-executive Directors without the Executive Directors present. These meetings were not held around the two ad-hoc Board meetings in September and December to consider the bids in relation to the sale of the UK Gas Distribution business.

B. Effectiveness

B.1 The composition of the Board
The Board believes it operates effectively with an appropriate balance of independent Non-executive and Executive Directors who have the right balance of skills, experience, independence and knowledge of the Company. Details of our Board, their individual biographies and committee membership are set out on pages 34 and 35. Board and committee attendance during the year to 31 March 2017 is set out on page 37. The independence of the Non-executive Directors is considered at least annually along with their character, judgement, commitment and performance on the Board and relevant committees. The Board took into consideration the Code and indicators of potential non-independence, including length of service. At year end, all of the Non-executive Directors, with the exception of the Chairman, whose independence is only determined on appointment, have been determined by the Board to be independent.

B.2 Appointments to the Board
The Nominations Committee, which comprises the Chairman and Non-executive Directors, leads the process for Board appointments and makes recommendations to the Board. Further details of appointment processes for Nicola Shaw and Pierre Dufour, succession planning and the role of the Nominations Committee can be found on page 47.

The Zygos Partnership and Heidrick and Struggles provided external search consultancy services in relation to the above appointments. Neither have any other connection to the Company other than providing these external search consultancy services.

B.3 Time commitment
Non-executive Directors are advised of the time commitment expected from them on appointment. External commitments, which may impact existing time commitments, must be agreed with the Chairman. Details of external appointments are set out in the biographies on pages 34 and 35. As part of the evaluation of the Chairman, the Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman, taking into account other significant appointments.

With the agreement of the Board, Executive Directors gain experience of other companies' operations, governance frameworks and boardroom dynamics through non-executive appointments. The fees for these positions are retained by the individual. For further details about the Directors' service contracts and letters of appointment, see page 61 of the Directors' Remuneration Report.

B.4 Development
All new Directors are provided with a full induction programme when they are appointed to the Board. Details of Director induction and development can be found on page 37.

B.5 Information and support
The Group General Counsel & Company Secretary makes sure that appropriate and timely information is provided to the Board and its committees and is responsible for advising and supporting the Chairman and the Board on all governance matters. All Directors have access to the Group General Counsel & Company Secretary and may take independent professional advice at the Company's expense in conducting their duties. To support discussion and decision making, Board and committee members receive papers sufficiently in advance of meetings so that they can prepare for and consider agenda items. Additionally, the Chairman holds a short meeting with the Non-executive Directors before each Board meeting to discuss the focus of the upcoming meeting as well as afterwards to share feedback from the meeting. Similarly, the Chief Executive holds a short meeting with the Executive Directors and the Group General Counsel & Company Secretary after each meeting and shares the feedback from these meetings with the Chairman. A clear set of guidelines are in place to assist the Executive Directors and management on the content and presentation of papers to the Board and committees. A further refresh of the Board paper process took place this year. See page 39 for more details.

B.6 Evaluation
See pages 38 and 39 for more information on our Board evaluation. During the year, the Chairman met each Director individually to discuss their contribution, performance over the year and training and development needs. Following these meetings, Sir Peter confirmed to the Nominations Committee that he considered that each Director demonstrated commitment to the role and their performance continued to be effective. At a private meeting of the Non-executive Directors, Mark Williamson, as Senior Independent Director, led a review of the Chairman's performance. The Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman and considered the arrangements he has in place, given he was also chairman of a FTSE 250 company during the year and the Aircraft Carrier Alliance Management Board and a Trustee of The Sutton Trust. They concluded that Sir Peter's performance continued to be effective.

B.7 Election/re-election
Each Director is subject to election at the first AGM following their appointment, and re-election at each subsequent AGM. Following recommendations from the Nominations Committee the Board considers all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties. Therefore, in accordance with the Code, Pierre Dufour will seek election and all other Directors (except Ruth Kelly) will seek re-election at the 2017 AGM as set out in the Notice of Meeting.

Statement of compliance with the UK Corporate Governance Code continued

C. Accountability

C.1 Financial and business reporting
The requirement for Directors to state that they consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable remains a key consideration in the drafting and review process. The coordination and review of the Annual Report and Accounts is conducted in parallel with the formal audit process undertaken by the external auditors and the review by the Board and its committees (of relevant sections).

The drafting and assurance process supports the Audit Committee's and Board's assessment of the overall fairness, balance and clarity of the Annual Report and Accounts and the statement of Directors' responsibilities as set out on page 74. The independent auditors' report is on pages 75 to 82 and the Company's business model is on page 14.

C.2 Internal control and risk management
The Board has carried out a robust assessment of the principal risks facing the Company including those that would threaten the business model, future performance, solvency or liquidity. Further details can be found on pages 16 and 17.

The Board also sets the Company's risk appetite, internal controls and risk management processes. The Board undertakes a review of their effectiveness annually. Further details are set out on pages 15 to 18.

The activities of the Audit Committee, which assists the Board with its responsibilities in relation to risk and assurance, are set out on pages 40 to 44.

C.3 Audit Committee and auditors
The Audit Committee report on pages 40 to 44 sets out details of how the Committee has discharged its duties during the year, matters reviewed by the Committee and how it ensures the auditors' objectivity, effectiveness and continued independence.

D. Remuneration

D.1 The level and components of remuneration
The Remuneration Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and other members of the Executive Committee and for the Chairman, and for implementing this policy. The aim is to align remuneration policy to Company strategy and key business objectives and make sure it reflects our shareholders', customers' and regulators' interests.

The Remuneration Report on pages 54 to 71 outlines the activities of the Committee during the year and sets out the proposed Directors' remuneration policy which will be presented to shareholders for approval at the 2017 AGM. The new resolution to approve the remuneration policy is set out in the Notice of Meeting for the 2017 AGM.

D.2 Procedure
For further information on the work of the Remuneration Committee and Directors' remuneration packages see the Directors' Remuneration Report on pages 54 to 71. The Committee's terms of reference are available on our website.

E. Relations with shareholders

E.1 Dialogue with shareholders
The Board as a whole is responsible for making sure that satisfactory dialogue with shareholders takes place. We believe that effective channels of communication with the Company's debt and equity institutional investors and individual shareholders are very important. More information about our approach to relations with shareholders can be found on page 37.

E.2 Constructive use of General Meetings
The AGM provides a key opportunity for the Board to communicate with and meet shareholders. Shareholders are able to learn more about the Company through exhibits and can ask questions directly of the Board. Company representatives and our Registrar are also on hand to answer any questions shareholders might have.

Our AGM will be held on Monday 31 July 2017 at The International Convention Centre in Birmingham and broadcast via our website. The Notice of Meeting for the 2017 AGM, available on our website, sets out in full the resolutions for consideration by shareholders, together with explanatory notes and further information on the Directors standing for election and re-election.

We will also be holding a General Meeting on 19 May 2017 to seek shareholder approval for a proposed share consolidation in connection with the return of cash as a result of the sale of a majority interest in our UK Gas Distribution business.

In addition, at the General Meeting, shareholder approval will in addition be sought to renew the annual authority to enable the Company to make market purchases of its own shares, as well as to allot ordinary shares and to disapply pre-emption rights, to cover the period between the date of the General Meeting and the 2017 AGM.

Index to Directors' Report and other disclosures
(starting on page indicated)

Jonathan Dawson
Committee chairman

Annual statement from the Remuneration Committee chairman

Introduction

Three years ago, at our 2014 AGM, shareholders approved a new three-year remuneration policy for National Grid, with 96% of the votes in favour. At our 2015 and 2016 AGMs shareholders supported our execution of the policy with 97% of the votes in favour each year. This year we are seeking your approval of our remuneration policy for a further three years.

We have reviewed the remuneration policy reflecting on the wider environment as well as the strategic review of our business, leading to an evolution of National Grid's purpose, vision, values and strategy. In this context, we consider that the existing framework will continue to provide executives with an appropriate opportunity to earn remuneration in line with National Grid's overall performance and strategy. **We are therefore proposing that the 2014 policy is renewed without any changes either to the structure, or to the maximum amounts for the APP and LTPP.**

The key elements of our remuneration approach are:

- significant weighting towards the Long Term Performance Plan (LTPP) versus the Annual Performance Plan (APP);
- the bulk of senior executive remuneration is paid in National Grid shares, with all of the LTPP paid only in shares, and half of the APP paid in shares;
- very high levels of personal shareholding required to be held by senior executives – specifically, 500% of pre-tax salary for the Chief Executive and 400% for other Executive Directors;
- a three-year performance period for measuring potential awards under the LTPP, coupled with a holding period of a further two years, irrespective of whether the mandatory personal shareholding target has been attained;
- performance metrics for the LTPP which are Return on Equity (measuring management's performance in generating profit from the business) and Value Growth (measuring management's creation of shareholder value over the longer term); and
- malus and clawback provisions applicable to both the APP and LTPP.

We think that the best way to make sure management and other shareholders share the same interest comes from requiring executives to have a very substantial personal shareholding in National Grid. We want executives to view their remuneration from employment at National Grid as a mix of annual earnings, together with both the growth of their shareholdings in National Grid and the value of dividends received. As a result, we consider that the remuneration policy currently in place demonstrates close alignment between management and other shareholders, and a proper focus on generating long-term value.

Review of remuneration policy

The Committee held a number of discussions last Autumn to determine whether any material changes to the remuneration policy would be appropriate for the future. Discussions covered recent trends in remuneration strategy adopted by other major UK corporates, an appraisal of developments in other major jurisdictions, data comparing National Grid's remuneration policy and outturns against peer group companies, and the pay and conditions for employees below Board level. The main questions we considered were:

- Is the current split between short-term and long-term incentive pay appropriate?
- Are we incentivising behaviours that support National Grid's strategy and values?
- Are we paying executives fairly for performance and is this appropriate in the context of the wider employee population?
- Is the overall amount paid to senior management aligned with shareholder value creation?

The conclusion we reached was that the overall structure which we initiated three years ago remains appropriate for National Grid. We felt that to make any significant changes to the policy – particularly given that the first LTPP awarded under the 2014 policy had yet to vest – was premature for a long-term business. We also felt that the division between short-term and long-term pay gave proper focus and weight to generating long-term returns for shareholders.

There is no single approach to executive pay that is definitively 'right' for all companies. What we did was to appraise the way National Grid creates value for its shareholders over time, and fulfils its national and societal obligations, recognising also that we are in a competitive market for senior executive talent. Against this backdrop, we believe the overall structure described above remains fair.

We are proposing some minor modifications to the metrics (but not the quantum) in respect of both the APP and LTPP for the implementation of the policy in 2017/18. More specifically, for the APP we will sharpen the focus on annual regional performance for the UK and US Executive Directors, with half of the weighting of the financial performance being on regional RoE and half on regional Value Added. There will be no change to the financial performance metrics for either the Chief Executive or the Finance Director. The LTPP will then focus solely on long-term Group performance for all Executive Directors with a 50% weighting on Group RoE and a 50% weighting on Group Value Growth. These changes should enhance the visibility for executives between their annual performance and short-term incentive outcome, while reinforcing executives' collective incentive on sustaining long-term Group performance. No changes are being proposed to the maximum level of awards in respect of either the APP or the LTPP.

Page 70 provides more detail on the implementation of our policy related to incentive plans for 2017/18.

We also looked at pension provisions as part of our policy review, including in relation to other employees of the Company. The annual contribution to a Defined Contribution plan (DC) is 30% of base salary for UK-based Directors and certain other senior UK-based employees. In the US the contribution rate is up to 13% of base salary plus APP award for US-based Directors and certain other senior US-based employees. Pension contributions are tiered by managerial grade down to 12% of base salary in the UK, and in the US 4-8% of base salary plus APP award (depending on age and years of service). To highlight the flexibility on any pension arrangements for new UK-based Directors, we have modified the wording in the policy related to UK DC pension contributions to 'up to' 30%.

Performance for the year

APP

National Grid had another successful year in 2016/17. At £4.7 billion, this year's total adjusted operating profit was 14% higher than in 2015/16; earnings per share was 73 pence. During the year the Company made significant capital investment in its networks of some £4.5 billion, split equally between the UK and the US. In addition, a majority interest in the UK Gas Distribution business was sold to a consortium of investors for a price of £13.8 billion. As already announced, we will be returning the majority of the net proceeds to shareholders, and a special dividend of some £3.2 billion is being paid to shareholders on 2 June 2017. Additionally, a further £835 million is being returned to shareholders via share buybacks this year.

When assessing the results of the APP for the Executive Directors, one of the performance measures, Earnings per share (EPS), was adjusted down as in other years to adjust for the impact of timing, scrip dividend uptake and currency adjustments. This year we also removed a 2 pence benefit arising from a one-off gain from the cessation of depreciation of the UK Gas Distribution assets since December. No adjustments were made to Group, US or UK RoE outturns.

Based on National Grid's financial performance, and taking account of performance against individual objectives, the APP payments to Executive Directors on the Board at 31 March 2017 would have been between 96% and 104% of salary. However, following the fatal incident in November 2016 at the Company's electricity sub-station at East Claydon in Buckinghamshire, UK, the Committee considered carefully whether it would be appropriate to exercise its discretion to reduce short-term incentive levels for senior executives. The Committee decided to reduce the overall APP payout by 10% for the four Executive Directors at that time, resulting in APP awards of 86% to 94% of salary. This is in addition to a zero score for individual objectives relating to UK safety, which were applicable to John Pettigrew and Nicola Shaw this year. Similar reductions in APP have been made to other members of the Group Executive Committee, UK Executive Committee, and relevant line management. The Committee considers that this approach to allocating short-term incentive reductions – which is fully supported by senior management – serves to emphasise the collective interest and importance of safety at National Grid.

Details of the APP payouts are presented on page 64, including that for Steve Holliday, who was an Executive Director from 1 April until 22 July. He received an APP payment for that time period, amounting to 81% of his prorated salary.

Looking ahead to the 2017/18 APP, and following the sale of a majority interest in the UK Gas Distribution business, the UK RoE metric for the 2017/18 APP for the Executive Director, UK will be specific to the wholly-owned regulated businesses in the UK. The Executive Director, UK also has an individual objective to manage the 39% retained interest in the UK Gas Distribution business as a member of its board.

LTPP

As I reported in my statement last year, our remuneration has been in a transitional phase since the approval of our current remuneration policy in 2014. At that time the APP opportunity was lowered, the LTPP opportunity was increased and the LTPP performance period was simplified. This led to the vesting of the final quarter of the 2013 award made under the previous policy as well as the 2014 award under the current policy in July 2017, with both performance periods ending 31 March 2017.

2013 LTPP

Three-quarters of the LTPP that was awarded in 2013 (before the present policy came into force) had a vesting date of July 2016 and the remaining quarter is due to vest in July 2017. The performance periods for both portions have ended, and vesting outcomes ranged from 77% to 90%.

2014 LTPP

The LTPP that was awarded in 2014 according to the remuneration policy adopted at the 2014 AGM is due to vest in full in July 2017. The performance period has ended and the vesting outcomes ranged from 67% to 91%. This vesting range reflects the Committee's decision to include, in the Value Growth outcome, a portion of the value added from the sale of a majority interest in the UK Gas Distribution business. The Committee believes this adjustment properly reflects performance during the year and the benefit to shareholders.

Reflecting the final year of the transitional phase, the single total figure of remuneration table for 2016/17 discloses both the 2013 and 2014 LTPP awards in full, although no Executive Director received more than one LTPP grant in any year. We have illustrated the impact of the transitional phase graphically on page 65. Next year the disclosure of LTPP awards for 2017/18 will be simpler as the number in the single total figure of remuneration table will incorporate only the amounts for the 2015 LTPP whose performance period will have just ended.

Executive Director shareholdings

In 2014, we introduced high levels of shareholding requirement for our Executive Directors in order to align them further to shareholders. As at 31 March 2017, Andrew Bonfield exceeded this shareholding requirement. As John Pettigrew, Dean Seavers and Nicola Shaw were appointed to the Board relatively recently, they have not yet met this shareholding requirement and therefore under our rules will not be given permission to sell shares (other than to pay income tax on receipt of the shares or in exceptional circumstances).

Annual salary review

As I reported last year, when John Pettigrew and Nicola Shaw were appointed to their respective positions, the Committee decided not to award them salaries at our assessment of then current market levels, but instead, and subject to their individual performance, we would gradually phase over time increases to salary in excess of increases awarded to other company employees. This approach is consistent with that used for the wider managerial population, where employees whose salaries are relatively low compared to the market receive significantly larger salary increases than budget when justified by individual performance.

The Committee therefore considered John Pettigrew's and Nicola Shaw's performance during the year to determine whether performance in their respective roles merited awarding base salary increases above the general level within the Company. In John Pettigrew's case the Committee concluded that he had made a very strong start in establishing himself as Chief Executive, notably with regard to evolving National Grid's purpose, vision and strategy; delivering a strong set of Group financial results; establishing National Grid Ventures as a new business; agreeing with BEIS and Ofgem a sound basis for the redefined Electricity System Operator (ESO); achieving an excellent outcome to the 2016/17 employee survey; achieving good rate case outcomes; and securing a very good price for the sale of a majority interest in the UK Gas Distribution business (and associated return of capital to shareholders).

Regarding Nicola Shaw, the Committee considered that she had also made a very strong start in her role as Executive Director, UK, demonstrated in particular by effective leadership both with employees (as evidenced by strong employee survey results) and key external stakeholders; delivering strong results for the UK business; making a major contribution to the redefinition of the ESO; supporting the successful sale of a majority interest in the UK Gas Distribution business; and contributing to a fair outcome from the Mid-Period Review with Ofgem for National Grid and its customers.

The Committee also took account of pay ratios and National Grid's investors' experience and concluded that it was appropriate to award John Pettigrew and Nicola Shaw a salary increase of 9% comprising the UK managerial budgeted increase of 2.6% plus a further 6.4%. Salary increases to Andrew Bonfield and Dean Seavers, whose salaries are closer to market levels, are in line with UK and US managerial budgets, at 2.6% and 2.5%, respectively. We intend to apply the same approach next year, once again subject to individual performance.

Disclosure enhancements

In its review of the remuneration policy, the Committee took note of evolving best practice regarding detailed disclosure of APP targets. Accordingly, full details of the retrospective threshold, target and stretch performance levels for the financial metrics within the APP in respect of the year ended 31 March 2017 are set out on page 64. These disclosures complement our current threshold, target and stretch performance level disclosures in respect of the LTPP.

Committee membership

Pierre Dufour joined the Remuneration Committee in February 2017, and Paul Golby stepped down from the Committee in May 2017.

Conclusion

The Committee has given very careful thought to the remuneration structure for senior executives at National Grid. We believe that the arrangements set up three years ago, focussed on mainly share-based incentives, long-term performance and substantial personal shareholdings in National Grid, remain appropriate and fair. **We therefore propose to make no changes either to the structure or to the maximum amounts for the APP and LTPP.** As I have described above, we propose to make some minor adjustments to some of the metrics and between the split of group and regional performance across the APP and LTPP. We believe these changes will improve alignment and transparency.

For the 2016/17 financial year, the Committee believes that it has correctly implemented the approved policy and that it has appropriately and reasonably exercised its discretion as discussed above. Overall the Committee believes that the remuneration earned last year by senior executives continues to reflect their performance, the Company's performance, and the value generated for National Grid's shareholders.

This year there are two separate remuneration votes – to approve a binding three-year policy, and to approve the remuneration report for 2016/17. On behalf of the Committee I commend this report to you and ask for your support for both resolutions at the AGM.

Jonathan Dawson
Committee chairman

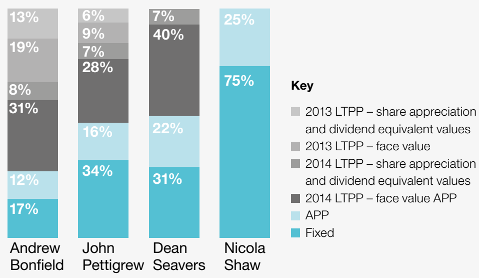
At a glance

Performance

A comparison of the total 2016/17 single figure of remuneration to the maximum remuneration if variable pay had vested in full is set out below for the four Executive Directors in office for the full year. Due to the transition in vesting schedules, both the 2013 and 2014 LTPPs have been included.

Total remuneration

Executive Director	Maximum if variable pay vested in full £'000	2016/17 single figure remuneration £'000
Andrew Bonfield	7,050	5,891
John Pettigrew	5,143	4,636
Dean Seavers	4,196	3,165
Nicola Shaw	1,362	1,254



	Key features of policy	Annual report on remuneration for 2016/17
Salary	• Target broadly mid-market against FTSE 11–40 for UK Directors and general industry and energy services companies with similar revenue for US Directors	• John Pettigrew appointed as CEO from 1 April 2016 on £825,000 • Nicola Shaw appointed as Executive Director, UK from 1 July 2016 on £450,000 • Salary increases of 2.0% and 2.5% for Andrew Bonfield and Dean Seavers, respectively, for 2016/17
Annual Performance Plan (APP)	• Maximum opportunity is 125% of salary • 50% paid in cash, 50% paid in shares which must be retained until later of two years and meeting shareholding requirement • Subject to both clawback and malus	• 70% based on financial metrics (35% EPS, 35% RoE), 30% based on individual objectives • Group RoE for CEO and Finance Director; UK RoE for Executive Director, UK; US RoE for Executive Director, US • Individual objectives cover safety and compliance, business growth, operational excellence, customer satisfaction, community engagement, stakeholder engagement, Group strategy, and completion of the partial sale of our UK Gas Distribution business
Long Term Performance Plan (LTPP)	• Maximum award level is 350% of salary for CEO and 300% for other Executive Directors • Vesting subject to long-term performance conditions over a three-year performance period • Shares must be retained until later of two years from vesting and meeting shareholding requirement • Subject to both clawback and malus	• 50% Value Growth, 50% RoE • Group RoE for CEO and Finance Director; even split of Group and UK RoE for Executive Director, UK; even split of Group and US RoE for Executive Director, US
Pension and other benefits	• External appointees participate in DC plan or cash in lieu; internal appointees retain current benefits, subject to capping of pensionable pay increases for DB plans, or can opt for cash in lieu • Pensionable pay is salary only in UK and salary and APP in US in alignment with market • Other benefits as appropriate	• UK cash allowance (Andrew Bonfield, John Pettigrew and Nicola Shaw): 30% of pensionable pay • US DC (Dean Seavers): 9% of pensionable pay with additional match of up to 4% • Other benefits include private medical insurance, life assurance, and, for UK-based Executive Directors either a fully expensed car or a cash alternative to a car and the use of a car and driver when required
Shareholding requirement	• 500% of salary for CEO • 400% of salary for other Executive Directors	• Andrew Bonfield has met the shareholding requirement • John Pettigrew, Dean Seavers and Nicola Shaw were appointed to the Board relatively recently, and therefore have not yet met the shareholding requirement

Directors' remuneration policy

The following tables provide details of the policy we intend to apply, subject to shareholder approval, for the three years from the date of the 2017 AGM. Following approval it will be displayed on the Company's website.

There may be circumstances from time to time when the Committee will consider it appropriate to apply some judgement and exercise discretion in respect of the approved policy. This ability to apply discretion is highlighted where relevant in the policy, and the use of discretion will always be in the spirit of the approved policy.

The Committee will honour any commitments made to Directors before the policy outlined in this report comes into effect.

Our peer group
The Committee reviews its remuneration policy against appropriate peer groups annually to make sure we remain competitive in the relevant markets. The primary focus for reward market comparisons is the FTSE 11–40 for UK-based Executive Directors and general industry and energy services companies with similar levels of revenue for US-based Executive Directors. These peer groups are considered appropriate for a large, complex, international and predominantly regulated business.

Future policy table – Executive Directors

Salary
Purpose and link to strategy: to attract, motivate and retain high-calibre individuals, while not overpaying.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Salaries are targeted broadly at mid-market level. They are generally reviewed annually. Salary reviews take into account: • business and individual contribution; • the individual's skills and experience; • scope of the role, including any changes in responsibility; and • market data in the relevant comparator group.	No prescribed maximum annual increase. Any increases are generally aligned to salary increases received by other Company employees and to market movement. Increases in excess of this may be made at the Committee's discretion in circumstances such as a significant change in responsibility, progression in the role and alignment to market level.	Not applicable.

Benefits
Purpose and link to strategy: to provide competitive and cost-effective benefits to attract and retain high-calibre individuals.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Benefits provided include: • company car or a cash alternative (UK only); • use of a car and driver when required; • private medical insurance; • life assurance; • personal accident insurance; • opportunity to purchase additional benefits under flexible benefits schemes available to all employees; and • opportunity to participate in the following HMRC (UK) or Internal Revenue Service (US) tax-advantaged all-employee share plans: Sharesave: UK employees may make monthly contributions from net salary for a period of three or five years. The savings can be used to purchase shares at a discounted price, set at the launch of each plan period. Share Incentive Plan (SIP): UK employees may use gross salary to purchase shares. These shares are placed in trust. Incentive Thrift Plans (401(k) plans): US employees may participate in these tax-advantaged savings plans. They are DC pension plans in which employees can invest their own and Company contributions. Employee Stock Purchase Plan (ESPP) (423(b) plan): eligible US employees may purchase ADSs on a monthly basis at a discounted price. Other benefits may be offered at the discretion of the Committee.	Benefits have no predetermined maximum, as the cost of providing these varies from year to year. Participation in tax approved all-employee share plans is subject to limits set by the relevant tax authorities from time to time.	Not applicable.

Pension

Purpose and link to strategy: to reward sustained contribution and assist attraction and retention.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Pension for an Executive Director will reflect whether they were internally promoted or externally appointed. If internally promoted: • retention of existing DB benefits without enhancement, with capping of pensionable pay increases following promotion to the Board; or • retention of existing UK DC benefits with discretion to enhance contribution rate to up to 30%; or • cash in lieu; or • retention of existing US DC benefits plus 401(k) plan match, provided through 401(k) plan and non-qualified plans. If externally appointed: • UK DC benefits or equivalent cash in lieu; or • US DC benefits plus 401(k) plan match. In line with market practice, pensionable pay for UK-based Executive Directors includes salary only and for US-based Executive Directors it includes salary and APP award.	UK DB: a maximum pension on retirement, at age 60, of two thirds final capped pensionable pay or up to one sixtieth accrual. On death in service, a lump sum of four times pensionable pay and a two thirds dependant's pension is provided. UK DC: annual contributions of up to 30% of salary. Life assurance provision of four times pensionable salary and a dependant's pension equal to one third of the Director's salary are provided on death in service. Cash in lieu: annual payments of up to 30% of salary. Life assurance and dependant's pension in line with UK DC (or UK DB where the Director was previously a member of a UK DB scheme). US DB: an Executive Supplemental Retirement Plan provides for an unreduced pension benefit at age 62. For retirements at age 62 with 35 years of service, the pension benefit would be approximately two thirds of pensionable pay. Upon death in service, the spouse would receive 50% of the pension benefit (100% if the participant died while an active employee after the age of 55). US DC: annual contributions of up to 9% of base salary plus APP with additional 401(k) plan match of up to 4%.	Not applicable.

Annual Performance Plan

Purpose and link to strategy: to incentivise and reward the achievement of annual financial and strategic business targets and the delivery of annual individual objectives.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Performance metrics and targets are agreed at the start of each financial year and are aligned with strategic business priorities. Targets are set with reference to the budget. Awards are paid in June. 50% of awards are paid in shares, which (after any sales to pay associated income tax) must be retained until the shareholding requirement is met, and in any event for two years after receipt. Awards are subject to clawback and malus provisions.	The maximum award is 125% of salary.	A majority of the APP is based on performance against corporate financial measures, with the remainder based on performance against individual objectives. Individual objectives are role-specific. The Committee may use its discretion to set measures that it considers appropriate in each financial year and reduce the amount payable, taking account of significant safety or customer service standard incidents, environmental and governance issues. The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100%, respectively.

Directors' remuneration policy continued

Long Term Performance Plan
Purpose and link to strategy: to drive long-term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Awards of shares may be granted each year, with vesting subject to long-term performance conditions. The performance metrics have been chosen as the Committee believes they reflect the creation of long-term value within the business. Targets are set each year with reference to the business plan. Participants may receive ordinary dividend equivalents on vested shares at the discretion of the Committee. Awards are subject to clawback and malus provisions. Notwithstanding the level of award achieved against the performance conditions, the Committee may use its discretion to reduce the amount vesting, and in particular will take account of compliance with the dividend policy. Participants must retain vested shares (after any sales to pay tax) until the shareholding requirement is met, and in any event for a further two years after vesting.	The maximum award for the Chief Executive is 350% of salary and it is 300% of salary for the other Executive Directors.	For awards between 2014 and 2016, the performance measures were: • Value Growth and Group RoE (for the Chief Executive and Finance Director); and • Value Growth, Group RoE and UK or US RoE (for the UK and US Executive Directors respectively). For awards from 2017, the performance measures are Value Growth and Group RoE for all Executive Directors. All are measured over a three-year period. The weightings of these measures may vary year to year, but would always remain such that the Value Growth metric would never fall below a 25% weighting and never rise above a 75% weighting. Only 20% of the award vests at threshold.

Approved policy table – Non-executive Directors (NEDs)

Fees for NEDs
Purpose and link to strategy: to attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
NED fees (excluding those of the Chairman) are set by the Executive Committee in conjunction with the Chairman; the Chairman's fees are set by the Committee. Fee structure: • Chairman fee; • basic fee, which differs for UK- and US-based NEDs; • committee membership fee; • committee chair fee; and • Senior Independent Director fee. Fees are reviewed every year taking into account those in companies of similar scale and complexity. NEDs do not participate in incentive, pension or benefit plans. However, they are eligible for reimbursement for all company-related travel expenses. In instances where these costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC. Additionally, the Chairman is covered by the Company's private medical and personal accident insurance plans and receives a fully expensed car or cash alternative to a car, and the use of a car and driver, when required. NEDs who also sit on National Grid subsidiary boards may receive additional fees related to service on those boards. There is no provision for termination payments. NEDs stand for re-election every year.	There are no maximum fee levels. The benefits provided to the Chairman are not subject to a predetermined maximum cost, as the cost of providing these varies from year to year.	Not applicable.

Directors' remuneration policy continued

Shareholding requirement

The requirement of Executive Directors to build up and hold a relatively high value of National Grid shares ensures they share a significant level of risk with shareholders and aims to align their interests.

Executive Directors are required to build up and retain shares in the Company. The level of holding required is 500% of salary for the Chief Executive and 400% of salary for the other Executive Directors.

Unless the shareholding requirement is met, Executive Directors will not be permitted to sell shares, other than to pay income tax liabilities on shares just vested or in exceptional circumstances approved by the Remuneration Committee.

Differences in remuneration policy for all employees

The remuneration policy for the Executive Directors is designed with regard to the policy for employees across the Company as a whole. However, there are some differences in the structure of remuneration policy for the senior executives. In general, these differences arise from the development of remuneration arrangements that are market competitive for our various employee categories. They also reflect the fact that, in the case of the Executive Directors, a greater emphasis tends to be placed on performance-related pay in the market, in particular long-term performance-related pay.

All employees are entitled to base salary, benefits and pension contributions. Many employees are eligible for an APP award based on Company and individual performance. Eligibility and the maximum opportunity available is based on market practice for the employee's job band. In addition, around 380 senior management employees are awarded LTPPs annually.

The Company has a number of all-employee share plans that provide employees with the opportunity to become, and to think like, a shareholder. These plans include Sharesave and the Share Incentive Plan (SIP) in the UK and the 401(k) and 423(b) plans in the US. Further information is provided on page 58.

Consideration of remuneration policy elsewhere in the Company

In setting the remuneration policy the Committee considers the remuneration packages offered to employees across the Company. As a point of principle, salaries, benefits, pensions and other elements of remuneration are assessed regularly to ensure they remain competitive in the markets in which we operate. In undertaking such assessment our aim is to be at mid-market level for all job bands, including those subject to union negotiation.

As would be expected, we have differences in pay and benefits across the business which reflect individual responsibility and there are elements of remuneration policy which apply to all, for example, flexible benefits and share plans.

When considering annual salary increases, the Committee reviews the proposals for salary increases for the employee population generally, as it does for any other changes to remuneration being considered.

The Company issues an employee engagement survey each year which includes questions on remuneration. It does not specifically invite employees to comment on the Directors' remuneration policy but any comments made by employees are noted.

Policy on recruitment remuneration

Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment, and in particular will take account of the appointee's skills and experience as well as the scope and market rate for the role.

Where appropriate, salaries may be set below market level initially, with the Committee retaining discretion to award increases in salary in excess of those of the wider workforce and inflation to bring salary to a market level over time, where this is justified by individual and Company performance.

Benefits consistent with those offered to other Executive Directors under the approved remuneration policy in force at the time of appointment will be offered, taking account of local market practice. The Committee may also agree that the Company will meet certain costs associated with the recruitment, for example legal fees, and the Committee may agree to meet certain relocation expenses or provide tax equalisation as appropriate.

Pensions for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment.

Ongoing incentive pay (APP and LTPP) for new Executive Directors will be in accordance with the approved remuneration policy in force at the time of appointment. This means the maximum APP award in any year would be 125% of salary and the maximum LTPP award would be 300% of salary (350% of salary for the Chief Executive).

For an externally appointed Executive Director, the Company may offer additional cash or share-based payments that it considers necessary to buy out current entitlements from the former employer that will be lost on recruitment to National Grid. Any such arrangements would reflect the delivery mechanisms, time horizons and levels of conditionality of the remuneration lost.

In order to facilitate buy-out arrangements as described above, existing incentive arrangements will be used to the extent possible, although awards may also be granted outside of these shareholder-approved schemes if necessary and as permitted under the Listing Rules.

For an internally appointed Executive Director, any outstanding variable pay element awarded in respect of the prior role will continue on its original terms.

Fees for a new Chairman or Non-executive Director will be set in line with the approved policy in force at the time of appointment.

Service contracts and policy on payment for loss of office

In line with our policy, all Executive Directors have service contracts which are terminable by either party with 12 months' notice.

The contracts contain provisions for payment in lieu of notice, at the sole and absolute discretion of the Company. Such contractual payments are limited to payment of salary only for the remainder of the notice period. In the UK such payments would be phased on a monthly basis, over a period not greater than 12 months, and the Executive Director would be expected to mitigate any losses where employment is taken up during the notice period. In the US, for tax purposes the policy is to make any payment in lieu of

Directors' remuneration policy continued

notice as soon as reasonably practicable, and in any event within two and a half months of the later of 31 December and 31 March immediately following the notice date.

In the event of a UK Director being made redundant, statutory compensation would apply and the relevant pension plan rules may result in the early payment of an unreduced pension.

On termination of employment, no APP award would generally be payable. However, the Committee has the discretion to deem an individual to be a 'good leaver', in which case an APP award would be payable on the termination date, based on performance during the financial year up to termination. Examples of circumstances in which a Director would be treated as a 'good leaver' include redundancy, retirement, illness, injury, disability and death. Any APP award would be prorated and would be subject to performance achieved against the objectives for that year.

On termination of employment, outstanding awards under the share plans will be treated in accordance with the relevant plan rules approved by shareholders. Share awards would normally lapse. 'Good leaver' provisions apply at the Committee's discretion and in specified circumstances, including redundancy, retirement, illness, injury, disability and death, where awards will be released to the departing Executive Director or, in the case of death, to their estate. Long-term share plan awards held by 'good leavers' may vest subject to performance measured at the normal vesting date and are prorated. Such awards would vest at the same time as for other participants, apart from circumstances in which the award recipient has died, in which case the awards vest as soon as practicable (based on a forecast of performance).

The Chairman's appointment is subject to six months' notice by either party; for the other Non-executive Directors, notice is one month. No compensation is payable to Non-executive Directors if they are required to stand down or are not re-elected.

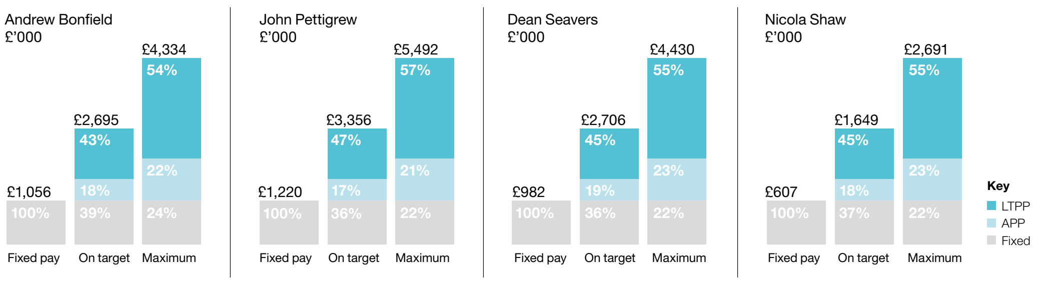
Copies of Directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

External appointments

The Executive Directors may, with the approval of the Board, accept one external appointment as a non-executive director of another company and retain any fees received for the appointment. Experience as a board member of another company is considered to be valuable personal development, that in turn is of benefit to the Company.

Total remuneration opportunity

The total remuneration for each of the Executive Directors that could result from the remuneration policy in 2017 under three different performance levels (below threshold, when only fixed pay is receivable, on target and maximum) is shown below.



1. 'Fixed pay' consists of salary, pension and benefits-in-kind as provided under the remuneration policy.
2. Salary is that to be paid in 2017/18, taking account of the increases that will be effective from 1 June 2017 shown on page 70. Dean Seavers' salary has been converted at $1.2949:£1
3. Benefits-in-kind and pension are as shown in the Single Total Figure of Remuneration table for 2016/17 on page 63. Benefits-in-kind for John Pettigrew exclude one-off relocation payments made in 2016/17 as a result of his appointment as Chief Executive.
4. APP calculations are based on 125% of salary for the period 1 April 2017 to 31 March 2018.
5. LTPP calculations are based on awards with a face value of 350% of 1 June 2017 salary for John Pettigrew and 300% of 1 June 2017 salary for all other Executive Directors. Excludes changes in share price and dividend equivalents.
6. LTPP and APP payout is 50% for on-target performance and the maximum of 100% is for achieving stretch.

Statement of consideration of shareholder views

The Committee considers all feedback relating to executive remuneration received from shareholders throughout the year. While the committee understands that not all shareholders' views will be the same, we consult with our larger shareholders when appropriate to understand expectations and views regarding executive remuneration.

Annual report on remuneration
Statement of implementation of remuneration policy in 2016/17

Role of Remuneration Committee
The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and the other members of the Executive Committee and for the Chairman, and for implementing this policy. The aim is to align remuneration policy to Company strategy and key business objectives and ensure it reflects our shareholders', customers' and regulators' interests. The members of the Remuneration Committee in 2016/17 were Nora Mead Brownell, Jonathan Dawson (chair), Pierre Dufour (from March), Paul Golby and Mark Williamson.

The Committee's activities during the year

Meeting	Main areas of discussion
April	Final approval of 2016 LTPP targets 2015/16 individual objectives scoring for Executive Committee Executive Committee shareholdings and dilution limits Review of Committee Terms of Reference
May	2015/16 APP financial outturns and individual performance and confirmation of awards Annual salary review and LTPP proposals for Executive Committee Final approval of APP targets for 2016/17 financial year Final approval of 2016/17 objectives for Executive Committee
August	Items related to new Executive Committee appointment
November	2017 Remuneration Policy discussion
December	Review of ISS Pay for Performance peer group 2017 Remuneration Policy discussion Items related to new Executive Committee appointment
January	Discussion of impact of sale of majority stake in UK Gas Distribution business on APP and LTPP metrics
March	Market data review for Executive Committee remuneration 2017 Directors' Remuneration Report – reviewed first draft Discussion of metrics and targets for 2017/18 APP and 2017 LTPP Review of 2017/18 objectives for Executive Committee

Single Total Figure of Remuneration – Executive Directors (audited information)
The following table shows a single total figure in respect of qualifying service for 2016/17, together with comparative figures for 2015/16:

	Salary £'000		Benefits in kind £'000		APP £'000		2013 LTPP £'000	2014 LTPP £'000	Total LTPP £'000		Pension £'000		Other £'000		Total £'000	
	2016/17	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	2016/17	2016/17	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16
Andrew Bonfield	**749**	736	**60**	61	**684**	865	1,855	2,318	**4,173**	1,383	**225**	221	**–**	–	**5,891**	3,266
Steve Holliday	**320**	1,033	**12**	41	**260**	1,222	2,490	–	**2,490**	2,185	**262**	730	**–**	–	**3,344**	5,211
John Pettigrew	**825**	503	**497**	14	**762**	503	694	1,610	**2,304**	425	**248**	143	**–**	–	**4,636**	1,588
Dean Seavers	**800**	678	**25**	39	**694**	649	–	1,501	**1,501**	–	**145**	148	**–**	170	**3,165**	1,684
Nicola Shaw	**338**	–	**15**	–	**315**	–	–	–	**–**	–	**101**	–	**485**	–	**1,254**	–
Total	**3,032**	2,950	**609**	155	**2,715**	3,239	5,039	5,429	**10,468**	3,993	**981**	1,242	**485**	170	**18,290**	11,749

Notes:
Salary: Base salaries were last increased on 1 June 2016. At this time Andrew Bonfield and Dean Seavers received salary increases of 2.0% and 2.5% respectively, in line with the average salary increases given to other managerial employees of the Company in the UK and US respectively. Dean Seavers' salary has been converted at \$1.2767:£1 for 2016/17 (\$1.4744:£1 for 2015/16). Steve Holliday did not receive a salary increase due to his planned retirement on 22 July 2016, and his salary was only paid to this date. John Pettigrew and Nicola Shaw were newly appointed as Chief Executive and Executive Director, UK respectively. Nicola Shaw's base salary was paid from her start date of 1 July 2016.
APP: Steve Holliday's APP award is based on his prorated salary for the time on the Board in the 2016/17 financial year before he stepped down on his retirement in July 2016. Following a fatality in the UK that occurred in November 2016, the APP awards have been reduced by 10% for the Executive Directors at that time.
Benefits in kind: Benefits in kind include private medical insurance, life assurance and for UK-based Executive Directors, either a fully expensed car or a cash alternative to a car and the use of a car and driver when required. For John Pettigrew, this amount includes a reimbursement for costs relating to his relocation to London on appointment as Chief Executive.
Other: For Nicola Shaw, Other includes a £485,000 cash payment to compensate her for the forfeiture of short-term and long-term incentive cash awards at her former employer which were due to vest in June 2016.
LTPP: Three quarters of the 2013 LTPP award vested in July 2016, and the remaining quarter is due to vest in July 2017. Additionally, the entire 2014 LTPP award is due to vest in July 2017. The above value for 2016/17 therefore includes all of these amounts, and separate columns have been provided to delineate the two awards. No Executive Director received two LTPP awards in the same year. For amounts vesting on 1 July 2016, the share price on that date of 1,105.5 pence (\$74.36 per ADS) has been applied. For amounts due to vest on 1 July 2017, the average share price over the three months from 1 January 2017 to 31 March 2017 of 962.75 pence (\$59.84 per ADS) has been applied. The 2015/16 LTPP amount has been restated to reflect the actual amounts that vested on 1 July 2016 for RoE, rather than the estimate shown in last year's annual report. Due to a higher share price at vesting of 1,105.5 pence (\$74.36 per ADS) versus the estimate of 958 pence (\$69.23 per ADS), the actual value at vesting was £38,425, £60,700, and £18,882 higher than the estimate for Andrew Bonfield, Steve Holliday and John Pettigrew respectively. The remaining 25% portion of Steve Holliday's 2013 LTPP award (with expected vesting of £0.3 million) and the full 2014 LTPP award (with expected vesting of £2.2 million) will not vest until 1 July 2017, approximately one year after he stepped down from the Board. Therefore the vested amounts will be disclosed in the Payments to Past Directors section in next year's Annual Report and Accounts.
Total: The Total remuneration excluding the 2013 LTPP would have been £4.0 million, £0.9 million and £3.9 million for Andrew Bonfield, Steve Holliday and John Pettigrew respectively. As a result, the Total for all Executive Directors would have been £13.3 million.

Annual report on remuneration continued

Performance against targets for APP 2016/17 (audited information)

APP awards are earned by reference to the financial year and paid in June. 50% of awards are paid in shares which (after any sales to pay income tax) must be retained until the shareholding requirement is met, and in any event for two years after receipt. In relation to both the financial measures and individual objectives, threshold, target and stretch performance levels are pre-determined by the Committee and pay out at 0%, 50% and 100% respectively and on a straight-line basis in between threshold and target performance and target and stretch performance. The individual objectives of the Executive Directors reflect the primary focus areas within the Company's overall strategic priorities:

- safety;
- business growth in the UK and US;
- operational excellence and improvement in overall Company performance and service to customers and communities;
- the talent pipeline and employee engagement;
- stakeholder engagement, sustainability and the environment; and
- successful completion of the sale of a majority of the UK Gas Distribution business.

The outcomes of APP awards earned in 2016/17 for the four Executive Directors at 31 March and prior to the 10% reduction (described in the note below), are shown in the tables below:

	Proportion of max opportunity	Threshold	Target	Stretch	Actual	Proportion of max achieved
Adjusted EPS (p/share)	35%	60.0	62.5	65.0	65.1	100%
Group RoE (%)		11.2	11.6	12.0	11.7	62.5%
UK RoE (Percentage points above average allowed regulatory return)	35%	2.65	2.90	3.15	3.00	70%
US RoE (%)		8.0	8.2	8.4	8.2	50%
Individual objectives	30%	See adjacent table				78-84%

Notes:
Overall: Group RoE pertains to the Chief Executive and Finance Director, while UK RoE and US RoE pertain to the Executive Director, UK and Executive Director, US respectively. RoE in some form comprises 35% of the total maximum opportunity.
Adjusted EPS: Adjusted EPS actual is reduced by 7.9 pence to account for the impact of timing, scrip dividend uptake, currency adjustments and certain actuarial assumptions on pensions, and to remove the benefit of ceasing to depreciate UK Gas Distribution business assets since December 2016.

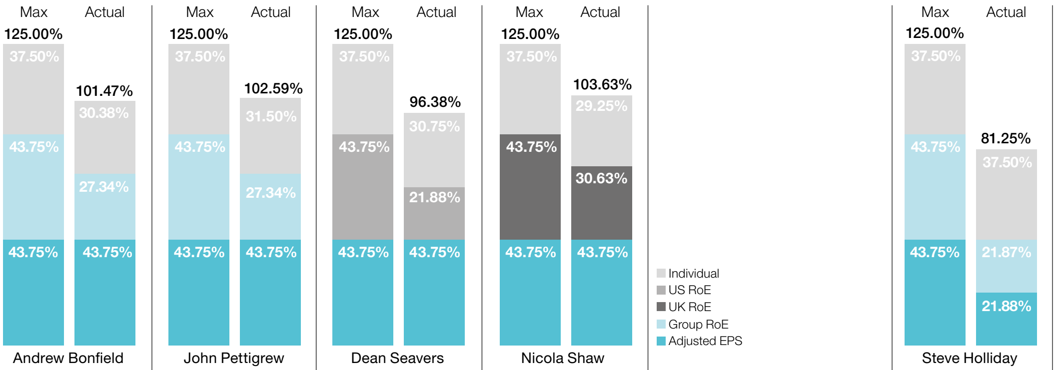
	Andrew Bonfield	John Pettigrew	Dean Seavers	Nicola Shaw
Safety and compliance		•	•	•
Business growth		•	•	•
Capability development	•	•	•	•
Stakeholder relations		•	•	•
Employee engagement	•	•	•	•
Financial strategy	•			
Operational excellence		•	•	•
Customer experience			•	•
Group strategy	•	•		
Completion of sale of majority stake in UK Gas Distribution	•	•		•
Proportion of maximum achieved	**81%**	**84%**	**82%**	**78%**

Steve Holliday's APP award for 2016/17 was based on his prorated salary from 1 April until 22 July and reflected target financial performance and stretch individual performance based on an assessment of his performance against the objective of completing a successful transition between himself and the newly appointed Chief Executive, John Pettigrew.

Following the fatal incident at the Company's electricity sub-station in November at East Claydon, Buckinghamshire, UK, the APP awards for the four Executive Directors on the Board at that time were reduced by 10%. The impact of the reduction is shown in the bar charts below.

2016/17 APP as proportion of base salary

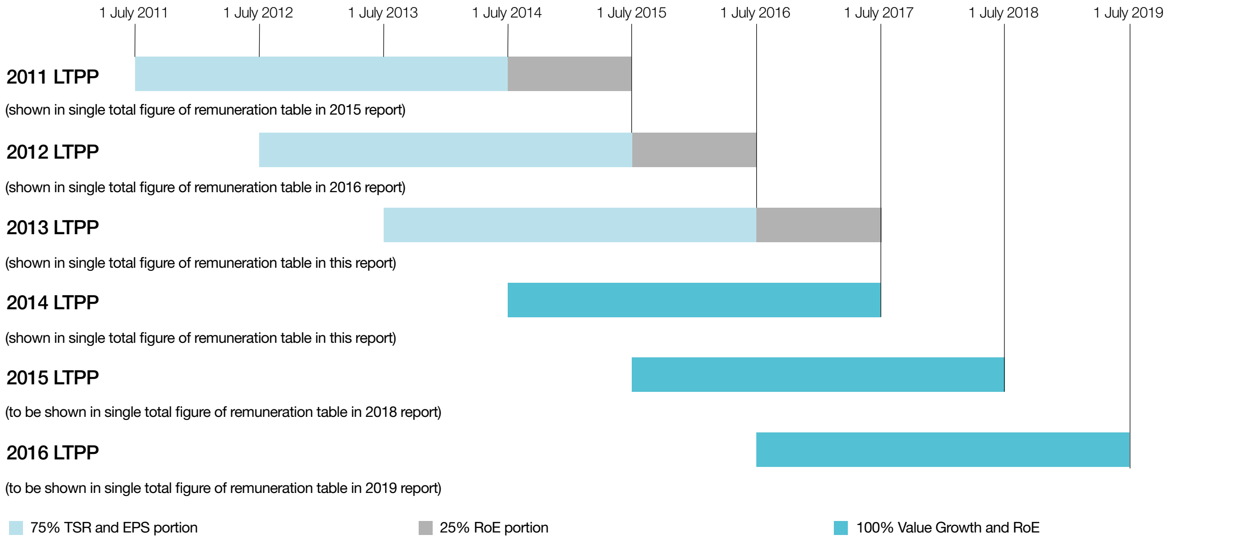
Executive Directors at 31 March 2017 **Former CEO**



Andrew Bonfield Max	Andrew Bonfield Actual	John Pettigrew Max	John Pettigrew Actual	Dean Seavers Max	Dean Seavers Actual	Nicola Shaw Max	Nicola Shaw Actual		Steve Holliday Max	Steve Holliday Actual
£936,604	£760,289	£1,031,250	£846,399	£999,484	£770,602	£421,875	£349,734	**APP amount before reduction**	£399,949	£259,967
	£76,029		£84,640		£77,060		£34,973	**10% reduction**		–
	£684,260		£761,759		£693,542		£314,761	**Final APP amounts**		£259,967
	91.32%		**92.33%**		**86.74%**		**93.26%**	**Final APP amounts as a percentage of maximum**		**81.25%**

2016/17 LTPP performance (audited information)

The LTPP value included in the 2016/17 single total figure relates to vesting of the conditional LTPP awards granted in both 2013 and 2014. This arises from the change to the performance periods as part of the policy implemented in 2014. A visual illustration of this transition is presented below. No Executive Director received more than one LTPP grant in any year.



2013 LTPP

The 2013 award is determined based on differing performance periods and vesting dates:

- performance over the three years ending 31 March 2016 for the EPS measure (50% weighting) which vested on 1 July 2016;
- performance over the three years ending 30 June 2016 for the TSR measure (25% weighting) which vested on 1 July 2016; and
- performance over the four years ending 31 March 2017 for the UK RoE and US RoE measures (25% weighting overall, split by Executive Director as shown below) which will vest on 1 July 2017.

The performance achieved against the 2013 LTPP award performance targets, including the expected vesting percentage for the RoE measures, was:

Performance measure	Threshold – 25% vesting	Maximum – 100% vesting	Actual/expected vesting	Actual/expected proportion of maximum achieved
TSR ranking (25% weighting)	Ranked at median of the comparator group (FTSE 100)	7.5 percentage points or more above median	7.72 percentage points above median	100.0%
Adjusted EPS (50% weighting)	EPS growth exceeds RPI increase by 3 percentage points	EPS growth exceeds RPI increase by 8 percentage points or more	Exceeded RPI increase by 6.7 percentage points	80.0%
UK RoE (12.5% weighting for the former CEO and current Finance Director; 25% weighting for the former Executive Director, UK)	RoE is equal to the average allowed regulatory return	RoE is 2 percentage points or more above the average allowed regulatory return	Exceeded average allowed regulatory return by 3.1 percentage points	100.0%
US RoE (12.5% weighting for the former CEO and current Finance Director; 25% weighting for the former Executive Director, US)	RoE is 1 percentage point below the average allowed regulatory return	RoE is 1 percentage point or more above the average allowed regulatory return	1.3 percentage points below the average allowed regulatory return	0.0%

The amounts vesting or expected to vest under the 2013 LTPP during the year and included in the 2016/17 single total figure are shown in the table below. The valuation is based on the following share prices:

- 1,105.5 pence ($74.36 per ADS) on the vesting date of 1 July 2016 for the EPS and TSR elements of the award; and
- average share price over the three months from 1 January 2017 to 31 March 2017 of 962.75 pence ($59.84 per ADS) for the RoE element of the award.

	Original number of share awards in 2013 LTPP	Overall vesting percentage (including expected vesting percentage for RoE measure)	Number of awards vesting (including expected vesting for RoE measure)	Dividend equivalent shares	Total value of awards vesting (including expected vesting for RoE measure) and dividend equivalent shares £'000
Andrew Bonfield	194,798	77.49%	150,959	20,583	1,855
Steve Holliday	230,844	86.66%	200,049	25,214	2,490
John Pettigrew	63,361	90.00%	57,021	8,198	694

For Steve Holliday, all values reflect the TSR and EPS portions of the award (75% of the total) which vested while he was on the Board. The 25% RoE portion which is due to vest in July 2017 will be included in the 'Payments to Past Directors' section in next year's Directors' Remuneration Report. Dean Seavers and Nicola Shaw were both appointed since the 2013 LTPP was awarded and therefore did not receive any awards under the 2013 LTPP.

Annual report on remuneration continued

No further awards will be made under this LTPP structure, the 2014 structure described below having been adopted at the 2014 AGM.

2014 LTPP

The 2014 award is determined by performance over the three years ending 31 March 2017 of RoE (50% weighting) and Value Growth (50% weighting) which will vest on 1 July 2017. For the UK and US Executive Directors at that time, the RoE component is split equally between Group RoE and UK and US RoE respectively. For the Chief Executive at that time and the Finance Director, the entire RoE component is based on Group RoE.

The performance achieved against the 2014 LTPP award performance targets was:

Performance measure	Threshold – 20% vesting	Maximum – 100% vesting	Actual/expected vesting	Actual/expected proportion of maximum achieved
Group RoE (50% weighting for the former Chief Executive and Finance Director, 25% weighting for the former Executive Director, UK and the Executive Director, US)	11.0%	12.5% or more	11.93%	69.8%
UK RoE (25% weighting for the former Executive Director, UK)	RoE is 1 percentage point above the average allowed regulatory return	RoE is 3.5 percentage points or more above the average allowed regulatory return	3.3 percentage points above the average allowed regulatory return	92.5%
US RoE (25% weighting for the Executive Director, US)	90% of the average allowed regulatory return	105% or more of the average allowed regulatory return	85% of the average allowed regulatory return	0.0%
Value Growth (50% weighting)	10.0%	12.0% or more	12.0%	100.0%

The Value Growth outturn includes an amount to reflect the value added from the sale of a majority interest in the UK Gas Distribution business.

The amounts expected to vest under the 2014 LTPP for the performance period ended on 31 March 2017 and included in the 2016/17 single total figure are shown in the table below. The valuation is based on the average share price over the three months from 1 January 2017 to 31 March 2017 of 962.75 pence ($59.84 per ADS).

	Original number of share awards in 2014 LTPP	Overall vesting percentage	Number of awards vesting	Dividend equivalent shares	Total value of awards vesting and dividend equivalent shares £'000
Andrew Bonfield	248,470	84.89%	210,923	29,828	2,318
John Pettigrew	161,720	90.58%	146,482	20,715	1,610
Dean Seavers (ADSs)	40,966	67.44%	27,629	4,397	1,501

Nicola Shaw was appointed in July 2016 and therefore did not receive any share awards under the 2014 LTPP.

Last year's Directors' Remuneration Report covering remuneration for 2015/16 included an estimated vesting of the US and UK RoE portions of the 2012 LTPP award. These awards vested on 1 July 2016 and the performance achieved against the performance targets was the same as the expected vesting disclosed in the 2015/16 report. As a result of the actual achievement against the performance targets being the same as estimated, the vesting percentage and number of awards vesting are the same as disclosed in the 2015/16 report. However, the actual number of dividend equivalent shares varied as did the total value of awards vesting due to share price changes between the estimate and the actual date of vesting of the RoE portion. Specifically, the actual price on 1 July 2016 was 1,105.5 pence ($74.36 per ADS) rather than the estimate of 958 pence ($69.23 per ADS) disclosed in the 2015/16 report based on the average price from 1 January 2016 to 31 March 2016. As a result, the actual numbers of dividend equivalent shares granted for the 2012 LTPP were 23,001, 36,343, and 6,749 and the total values of awards that vested were £1,383,119, £2,185,387 and £424,568 for Andrew Bonfield, Steve Holliday and John Pettigrew, respectively.

Total pension benefits (audited information)

The table below provides details of the Executive Directors' pension benefits. Andrew Bonfield, John Pettigrew and Nicola Shaw received a cash allowance in lieu of participation in a pension arrangement. Dean Seavers participated in Defined Contribution pension arrangements in the US. Steve Holliday participated in a Defined Benefit pension arrangement, under a salary sacrifice scheme in which the individual's salary is reduced by the employee pension contribution. An equivalent contribution is paid by the employer to the pension arrangement. There are no additional benefits on early retirement.

	Total contributions to DC arrangement £'000	Cash in lieu of pension contributions £'000	Accrued DB pension at 31 March 2017 £'000 pa	Increase in accrued DB pension over year £'000 pa	Reduction in salary due to FPS £'000	Increase/ (decrease) in any lump sum £'000	Value of pension benefit calculated using BIS methodology £'000	Normal retirement date
Andrew Bonfield	–	225	–	–	–	–	225	n/a
Steve Holliday	–	–	606	14	26	1	262	26/10/2016
John Pettigrew	–	248	–	–	–	–	248	26/10/2031
Dean Seavers	145	–	–	–	–	–	145	30/08/2025
Nicola Shaw	–	101	–	–	–	–	101	n/a

Notes:
Steve Holliday: In addition to the pension shown above, there was an accrued lump sum entitlement of £129,000. The increase to the lump sum over the year, net of inflation, was £647. The increase to the pension over the year, net of inflation, was £14,349. The total accrued pension and lump sum was split between two pension arrangements. A transfer payment from one of the pension arrangements was made in July 2016, leaving a remaining pension of £521,709 pa and a lump sum of £6,717. This pension and lump sum entered payment on the normal retirement date listed above.
John Pettigrew: John Pettigrew opted out of a DB pension arrangement on 31 March 2016 with a deferred pension and lump sum payable from a normal retirement date of 26 October 2031. There was no increase to these benefits over the period, net of inflation.

Dean Seavers: The average exchange rate for 2016/17 was $1.2767:£1. Through his participation in the 401(k) plan in the US (a DC arrangement) the Company made contributions worth £21,197. The Company also made contributions worth £123,983 to the Non-Qualified Executive Supplemental Retirement Plan which pays the portion of core contributions that cannot be paid under the qualified plan due to IRS limitations. The plan provides a supplemental top-up benefit through additional company contributions to yield an overall company contribution of 9% of pensionable pay, including both the qualified and non-qualified plan benefits. The retirement date shown reflects the typical retirement age in the US. The 401(k) plan does not have a retirement age. Benefits can be taken without penalty on leaving the Company from age 55 (subject to vesting requirements) or can be rolled over into another qualifying plan.
BIS calculation: In accordance with BIS methodology, the pension benefit for Andrew Bonfield, John Pettigrew, Nicola Shaw and Dean Seavers is calculated as the aggregate of contributions made to a DC-type pension plan and cash in lieu of contributions to a DC-type pension plan. In accordance with BIS disclosure regulations, the pension benefit for Steve Holliday is calculated as the increase in accrued DB-type pension over the year multiplied by 20 plus the increase in the lump sum, less the reduction in salary due to salary sacrifice. Each element is calculated separately and rounded to produce the numbers in the table on the previous page.

Single total figure of remuneration – Non-executive Directors (audited information)

The following table shows a single total figure in respect of qualifying service for 2016/17, together with comparative figures for 2015/16:

	Fees £'000		Other emoluments £'000		Total £'000	
	2016/17	2015/16	**2016/17**	2015/16	**2016/17**	2015/16
Nora Mead Brownell	**96**	94	**–**	–	**96**	94
Jonathan Dawson	**102**	99	**–**	–	**102**	99
Pierre Dufour	**11**	–	**–**	–	**11**	–
Therese Esperdy	**133**	128	**–**	–	**133**	128
Sir Peter Gershon	**499**	494	**68**	15	**567**	509
Paul Golby	**105**	103	**–**	–	**105**	103
Ruth Kelly	**84**	82	**–**	–	**84**	82
Mark Williamson	**124**	121	**–**	–	**124**	121
Total	**1,154**	1,121	**68**	15	**1,222**	1,136

Therese Esperdy: Fees for 2016/17 include £25,000 in fees for serving on the National Grid USA Board.
Sir Peter Gershon: Other emoluments comprise private medical insurance, cash in lieu of a car and the use of a car and driver when required.

In accordance with the Company's expenses policies, Non-executive Directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where these costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC.

The total emoluments paid to Executive and Non-executive Directors in the year was £19.5 million (2015/16: £12.8 million), though this figure includes two years' worth of LTPPs to the Executive Directors for 2016/17. Excluding the 2013 LTPP, the total emoluments would be £14.5 million.

LTPP (conditional award) granted during the financial year (audited information)

The face value of the awards is calculated using the volume weighted average share price at the date of grant. For Andrew Bonfield, John Pettigrew and Dean Seavers this is 28 June 2016 at a price of £10.21 per share and $69.1825 per ADS. For Nicola Shaw this is 12 July 2016 at a price of £11.05 per share.

LTPP	Basis of award	Face value '000	Proportion vesting at threshold performance	Number of shares	Performance period end date
Andrew Bonfield	300% of salary	£2,255	20%	220,883	March 2019
John Pettigrew	350% of salary	£2,888	20%	282,810	March 2019
Dean Seavers	300% of salary	$3,075	20%	44,447 (ADSs)	March 2019
Nicola Shaw	300% of salary	£1,350	20%	122,164	March 2019

Performance period end date: The normal vesting date is in June 2019, following the performance period end.

Performance conditions for LTPP awards granted during the financial year (audited information)

	Weighting				Conditional share awards granted – 2016	
Performance measure	Andrew Bonfield	John Pettigrew	Dean Seavers	Nicola Shaw	Threshold – 20% vesting	Maximum – 100% vesting
Group RoE	50%	50%	25%	25%	11.0%	12.5% or more
UK RoE				25%	1 percentage point above the average allowed regulatory return	3.5 percentage points or more above the average allowed regulatory return
US RoE			25%		90% of the average allowed regulatory return	105% or more of the average allowed regulatory return
Value Growth	50%	50%	50%	50%	10.0%	12.0% or more

Payments for loss of office (audited information)

Steve Holliday stepped down from the Board and retired from the Company on 22 July 2016.

Since his departure was due to retirement, which qualifies as 'good leaver' status, he is eligible to receive a prorated number of shares under the outstanding LTPPs. Awards for 261,506 remain outstanding after the prorating calculation for time served during the respective performance periods. Awards remain subject to performance conditions, measured at the normal performance measurement date. The prorated number of shares he is due to receive under the remaining portion of the 2013 LTPP and the full 2014 LTPP on 1 July 2017 will be disclosed in the 'Payments to past Directors' section next year, along with those vesting for Nick Winser and Tom King at that time.

Annual report on remuneration continued

Payments to past Directors (audited information)

Nick Winser stepped down from the Board at the 2014 AGM and left the Company on 31 July 2015. Tom King stepped down from the Board and left the Company on 31 March 2015. Both Mr Winser and Mr King held awards over shares and ADSs, respectively, that were prorated according to their departure date. The vesting of all these awards will occur at the normal vesting dates subject to satisfaction of their specified performance conditions at that time. Portions of these awards vested in July 2016 and pertain to the RoE portion of the 2012 LTPP and the TSR and EPS portions of the 2013 LTPP.

	Prorated number of share awards in 2012 (RoE portion) and 2013 (EPS and TSR portion) LTPPs	Overall vesting percentage	Number of awards vesting	Dividend equivalent shares	Total value of awards vesting and dividend equivalent shares £'000
Tom King (ADSs)	25,703	60.81%	15,629	2,105	1,033
Nick Winser	109,293	90.50%	98,914	13,760	1,246

Shareholder dilution

Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive share-based incentives will not exceed 5% in any 10 year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any 10 year period. The Committee reviews dilution against these limits regularly and under these limits the Company, as at 31 March 2017, had headroom of 4.08% and 7.98% respectively.

Statement of Directors' shareholdings and share interests (audited information)

The Executive Directors are required to build up and hold a shareholding from vested share plan awards. Deferred share plan awards are not taken into account for these purposes until the end of the deferral period. Shares are valued for these purposes at the 31 March 2017 price, which was 1,012.51 pence per share ($63.39 per ADS).

The following table shows how each Executive Director complies with the shareholding requirement and also the number of shares owned by the Non-executive Directors, including connected persons (as Non-executive Directors do not have a shareholding requirement).

The shareholding is as at 31 March 2017 and the salary used to calculate the value of the shareholding is the gross annual salary as at 31 March 2017. Andrew Bonfield has met the shareholding requirement. As John Pettigrew, Dean Seavers and Nicola Shaw were relatively new in post, they have not yet met the requirement, but are expected to do so in 2020, 2020 and 2023 respectively, and will not be allowed to sell shares until this requirement is met. Non-executive Directors do not have a shareholding requirement.

The normal vesting dates for the conditional share awards subject to performance conditions are 1 July 2017, 1 July 2017, 1 July 2018, and 1 July 2019 for the LTPP 2013, LTPP 2014, LTPP 2015 and LTPP 2016 respectively. In each of April and May 2017 a further 15 shares were purchased on behalf of John Pettigrew. In April 2017 a further 15 shares were purchased on behalf of Andrew Bonfield and 14 shares in May 2017. The shares were purchased via the Share Incentive Plan (an HMRC approved all-employee share plan), thereby increasing their beneficial interests. There have been no other changes in Directors' shareholdings between 1 April 2017 and 17 May 2017.

Directors	Share ownership requirements (multiple of salary)	Number of shares owned outright (including connected persons)	Value of shares held as a multiple of current salary	Number of options granted under the Sharesave Plan	Conditional share awards subject to performance conditions (LTPP 2013, 2014, 2015 and 2016)	Conditional share awards subject to continuous employment (DSP 2014)
Executive Directors						
Andrew Bonfield	400%	460,511	620%	3,230	777,720	47,048
John Pettigrew	500%	253,060	311%	4,286	639,442	14,350
Dean Seavers (ADSs)	400%	5,905	37%	–	130,214	–
Nicola Shaw	400%	–	–	–	122,164	–
Non-executive Directors						
Nora Mead Brownell (ADSs)	–	5,000	n/a	–	–	–
Jonathan Dawson	–	38,268	n/a	–	–	–
Pierre Dufour	–	–	n/a	–	–	–
Therese Esperdy (ADSs)	–	1,646	n/a	–	–	–
Sir Peter Gershon	–	87,194	n/a	–	–	–
Paul Golby	–	2,500	n/a	–	–	–
Ruth Kelly	–	800	n/a	–	–	–
Mark Williamson	–	4,726	n/a	–	–	–

Notes:
Overall: 2014 DSP relates to the Deferred Share Plan under which 50% of APP awards were deferred into shares. This plan was discontinued from the 2014/15 APP in lieu of 50% payment via shares with a two-year holding period.
Andrew Bonfield: On 31 March 2017 Andrew Bonfield held 3,230 options granted under the Sharesave Plan. 2,022 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020. 1,208 options were granted at a value of 745 pence per share and they can be exercised at 745 pence per share between April 2019 and September 2019. On 1 April 2016, he exercised a sharesave option over 3,421 shares at the option price of 455 pence per share for expiration in September 2016 at a gain of £18,549. For Andrew Bonfield, the number of conditional share awards subject to performance conditions is as follows: LTPP 2013: 48,699; LTPP 2014: 248,470; LTPP 2015: 259,668; LTPP 2016: 220,883. The number of conditional share awards subject to continuous employment is as follows: DSP 2014: 47,048.
John Pettigrew: On 31 March 2017 John Pettigrew held 4,286 options granted under the Sharesave Plan. 1,252 options were granted at a value of 599 pence per share and they can be exercised at 599 pence per share between April 2019 and September 2019. 3,034 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020. The number of conditional share awards subject to performance conditions is as follows: LTPP 2013: 15,840; LTPP 2014: 161,720; LTPP 2015: 179,072; LTPP 2016: 282,810. The number of conditional share awards subject to continuous employment is as follows: DSP 2014: 14,350.
Dean Seavers: The number of conditional share awards subject to performance conditions is as follows: LTPP 2014: 40,966; LTPP 2015: 44,801; LTPP 2016: 44,447.
Nicola Shaw: The number of conditional share awards subject to performance conditions is as follows: LTPP 2016: 122,164.
Dean Seavers, Nora Mead Brownell and Therese Esperdy: Holdings and, for Dean Seavers, awards are shown as ADSs and each ADS represents five ordinary shares.

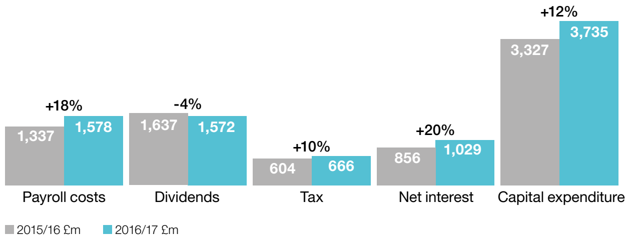
External appointments and retention of fees

The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2017:

	Company	Retained fees
Andrew Bonfield	Kingfisher plc	£82,400
Nicola Shaw	Ellevio AB	£44,646 (517,000 SEK)

Relative importance of spend on pay

This chart shows the relative importance of spend on pay compared with other costs and disbursements (dividends, tax, net interest and capital expenditure). Given the capital-intensive nature of our business and the scale of our operations, these costs were chosen as the most relevant for comparison purposes. All amounts exclude exceptional items and remeasurements, and amounts relating to the UK Gas Distribution business.

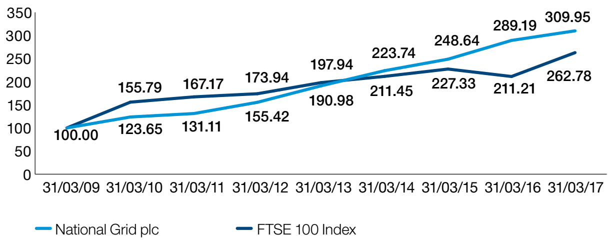


Performance graph and table

This chart shows National Grid plc's eight-year annual total shareholder return (TSR) performance against the FTSE 100 Index since 31 March 2009. The FTSE 100 Index has been chosen because it is the widely recognised performance benchmark for large companies in the UK.

The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30-day period up to and including that date. It assumes dividends are reinvested.

Total shareholder return



Source: Thomson Reuters

Chief Executive's pay in the last eight financial years

Steve Holliday was the Chief Executive throughout the seven-year period from 1 April 2010 to 31 March 2016. John Pettigrew became Chief Executive on 1 April 2016. His outcomes have been shown for the year 2016/17 in two ways, one to reflect the full total single figure of remuneration which includes the vesting outcomes of both the 2013 and 2014 LTPP awards, and the other to reflect the total single figure of remuneration using just the 2014 LTPP award to reflect his annualised total remuneration.

	Steve Holliday							John Pettigrew
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Total single figure of remuneration (£'000)	3,931	3,738	3,539	3,170	4,801	4,845	5,151	4,636
Total single figure of remuneration – including only 2014 LTPP (£'000)								3,942
APP (proportion of maximum awarded)	95.33%	81.33%	68.67%	55.65%	77.94%	94.80%	94.60%	73.86%
PSP/LTPP (proportion of maximum vesting including expected vesting for RoE measure)	100.00%	65.15%	49.50%	25.15%	76.20%	55.81%	63.45%	90.41%

Total single figure of remuneration: The figure for 2016/17 includes both the 2013 and 2014 LTPP awards due to the transition from a four-year to a three-year period before all portions vest between the 2013 and 2014 LTPP grants, resulting in a one-time overlapping of vesting periods.
Total single figure of remuneration – including only 2014 LTPP: The total single figure of remuneration is restated for 2016/17 to include only the 2014 LTPP award in order to capture one year's worth of remuneration for comparison purposes.
PSP/LTPP: This vesting proportion for 2016/17 reflects combined vesting outcomes for the 2013 (90.00%) and 2014 (90.58%) LTPP awards.

Percentage change in Chief Executive's remuneration

The table below shows how the percentage change in the Chief Executive's salary, benefits and APP between 2015/16 and 2016/17 compares with the percentage change in the average of each of those components of remuneration for non-union employees. The Committee views this group as the most appropriate comparator group, as it excludes employees represented by trade unions, whose pay and benefits are negotiated with each individual union.

	Salary			Taxable benefits			APP		
	£'000 2016/17	£'000 2015/16	Increase	£'000 2016/17	£'000 2015/16	Increase	£'000 2016/17	£'000 2015/16	Increase
Chief Executive	825	1,033	(20)%	497	41	1,112%	762	1,222	(38)%
Non-union employees (increase per employee)			3%			1%			6%

Chief Executive: John Pettigrew succeeded Steve Holliday as Chief Executive on 1 April 2016 and therefore the table compares Steve Holliday's pay from 2015/16 with John Pettigrew's pay in 2016/17. Taxable benefits for John Pettigrew in 2016/17 include a one-time relocation benefit.
Non-union employees: Pay data for US employees has been converted at $1.2767:£1 for 2016/17 ($1.4744:£1 for 2015/16).

Annual report on remuneration continued

Statement of implementation of remuneration policy in 2017/18

The remuneration policy for approval at the 2017 AGM will be implemented during 2017/18 as described below.

Salary

Salary increases will normally be in line with the increase awarded to other employees in the UK and US, unless there is a change in role or responsibility. In line with the policy on recruitment remuneration, salaries for new directors may be set below market level initially and aligned to market level over time (provided the increase is merited by the individual's contribution and performance).

	From 1 June 2017	From 1 June 2016	Increase
Andrew Bonfield	£771,285	£751,740	2.6%
John Pettigrew	£899,250	£825,000	9.0%
Dean Seavers	$1,050,625	$1,025,000	2.5%
Nicola Shaw	£490,500	£450,000	9.0%

APP measures for 2017/18

The APP targets are considered commercially sensitive and consequently will be disclosed after the end of the financial year in the 2017/18 annual report on remuneration.

Andrew Bonfield and John Pettigrew	Weighting
Adjusted EPS	35%
Group RoE	35%
Individual objectives	30%

Dean Seavers and Nicola Shaw	Weighting
UK or US Value Added	35%
UK or US RoE	35%
Individual objectives	30%

Performance measures for LTPP to be awarded in 2017

	Andrew Bonfield	John Pettigrew	Dean Seavers	Nicola Shaw	Threshold – 20% vesting	Maximum – 100% vesting
Group RoE	50%	50%	50%	50%	11.0%	12.5% or more
Value Growth	50%	50%	50%	50%	10.0%	12.0% or more

Fees for NEDs

Committee chair fees are in addition to committee membership fees. Therese Esperdy was appointed as Non-executive Director to the National Grid USA Board in 2015 with an annual fee of £25,000 in addition to her current NED fees.

	From 1 June 2017 £'000	From 1 June 2016 £'000	Increase
Chairman	513	500	2.6%
Senior Independent Director	22	22	0%
Board fee (UK-based)	66	66	0%
Board fee (US-based)	78	78	0%
Committee membership fee	10.3	9	14.4%
Chair Audit Committee	19.4	19	2.1%
Chair Remuneration Committee	19.4	19	2.1%
Chair (other Board committees)	12.5	12.5	0%

Advisors to the Remuneration Committee

The Committee received advice during 2016/17 from independent remuneration consultants New Bridge Street (NBS), a trading name of Aon Hewitt Ltd (part of Aon plc). NBS was selected as our advisor by the Committee from 1 August 2013 following a competitive tendering process.

Work undertaken by NBS included updating the Committee on trends in compensation and governance matters, advising the Committee in connection with benchmarking of the total reward packages for the Executive Directors and other senior employees, and facilitating the development of the proposed 2017 remuneration policy. NBS is a member of the Remuneration Consultants Group and has signed up to that group's Code of Conduct. The Committee is satisfied that any potential conflicts were appropriately managed. NBS does not provide any other advice or services to the Company. In the year to 31 March 2017 the Committee paid a total of £148,313 to NBS, with fees being charged on a time incurred basis.

The Committee also received specialist advice from the following organisations:

- Alithos Limited: provision of TSR calculations for the LTPP (£3,125 paid in 2016/17);
- Linklaters LLP: advice relating to share schemes and to Directors' service contracts as well as providing other legal advice to the Company (£31,067 paid in 2016/17); and
- Willis Towers Watson: advice relating to the market assessments of the total reward packages for the Executive Committee, inclusive of the Executive Directors (£107,040 paid in 2016/17).

The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that they all provided credible and professional advice.

The Committee considers the views of the Chairman on the performance and remuneration of the Chief Executive; and of the Chief Executive on the performance and remuneration of the other members of the Executive Committee. The Committee is also supported by the Group General Counsel & Company Secretary who acts as Secretary to the Committee, the Group HR Director, the Group Head of Reward & Performance and the Acting Group Head of Pensions. No other advisors have provided significant services to the Committee in the year.

Voting on 2013/14 Directors' remuneration policy at 2014 AGM

The voting figures shown refer to votes cast at the 2014 AGM and represent 61.76% of the issued share capital. In addition, shareholders holding 74 million shares abstained.

	For	Against
Number of votes	2,223,573,203	85,131,552
Proportion of votes	96.31%	3.69%

Voting on 2015/16 Annual Remuneration Report at 2016 AGM

The voting figures shown refer to votes cast at the 2016 AGM and represent 60.51% of the issued share capital. In addition, shareholders holding 62 million shares abstained.

	For	Against
Number of votes	2,305,471,537	68,788,657
Proportion of votes	97.10%	2.90%

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

Jonathan Dawson
Chairman of the Remuneration Committee
17 May 2017

Financial Statements contents

Introduction to the Financial Statements

Throughout these financial statements we have provided explanations of the disclosures and why they are important to the understanding of our financial performance and position. In places we have also highlighted 'Our strategy in action', drawing out the key elements of our business model (set out in the Strategic Report on page 14), and showing how the disclosures reflect this strategy.

Audit opinions

We have two audit opinions on our financial statements, reflecting our listing on both the London Stock Exchange and the New York Stock Exchange. Due to the different reporting requirements for each listing, our auditors are required to confirm compliance with each set of standards in a prescribed format. The audit opinion as required under our UK listing (starting on page 75) continues to provide more detail as to how our auditors have planned and conducted their audit, as well as their views on significant matters they have noted and that were discussed by the Audit Committee.

Notes

Notes to the financial statements provide additional information required by statute, accounting standards or other regulations to assist in a more detailed understanding of the primary financial statements. In many notes we have included an accounting policy that describes how the transactions or balance in that note have been measured, recognised and disclosed. The basis of preparation section (note 1) provides details of accounting policies that apply to transactions and balances in general. There are also additional specific disclosure requirements due to our US listing which are included in the notes.

Unaudited commentary

We have presented with the financial statements certain analysis as part of the Strategic Report of our Annual Report and Accounts. This approach provides a clearer narrative, a logical flow of information and reduces duplication. We have created a combined financial review, including a commentary on items within the primary statements, on pages 84 to 91. Unless otherwise indicated, all analysis provided in the financial statements is on a statutory IFRS basis. All information in ruled boxes styled in the same manner as this one does not form part of the audited financial statements. This has been further highlighted by including the word 'unaudited' at the start of each box header. Unaudited commentary boxes appear on pages 85 to 87, 89, 91, 97 to 98, 108 to 109, 111, 115 and 128.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, including the consolidated financial statements and the Company financial statements, the Directors' Report, including the Remuneration Report and the Strategic Report, in accordance with applicable law and regulations.

UK Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the Company financial statements and the Remuneration Report in accordance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), and applicable law – United Kingdom Generally Accepted Accounting Practice (UK GAAP). In preparing the consolidated financial statements, the Directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB). 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 on a consolidated and individual basis and of the profit or loss of the Company on a consolidated basis 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 and prudent;
- state that the consolidated financial statements comply with IFRS as issued by the IASB and IFRS adopted by the European Union and, with regard to the Company financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated financial statements and Company financial statements on a going concern basis unless it is inappropriate to presume that the Company, on a consolidated and individual basis, will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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 on a consolidated and individual basis, and to enable them to ensure that the consolidated financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. The Directors are also responsible for ensuring that the Company financial statements and the Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Each of the Directors, whose names and functions are listed on pages 34 and 35, confirms that:

- to the best of their knowledge, the consolidated financial statements and the Company financial statements, which have been prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the European Union and UK GAAP FRS 101 respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Company on a consolidated and individual basis;
- to the best of their knowledge, the Strategic Report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces; and
- they consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Directors' Report
The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Listing Rules, and Disclosure Rules and Transparency Rules, comprising pages 08–71 and 172–201, was approved by the Board and signed on its behalf.

Strategic Report
The Strategic Report, comprising pages 02–31, was approved by the Board and signed on its behalf.

By order of the Board

Alison Kay
Group General Counsel & Company Secretary
17 May 2017
Company number: 4031152

Independent auditors' report
to the Members of National Grid plc

Report on the financial statements

Our opinion
In our opinion:
- National Grid plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2017 and of the Group's profit and cash flows for the 12 month period (the 'period') then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB
As explained in note 1 to the financial statements, the Group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the Group financial statements comply with IFRSs as issued by the IASB.

What we have audited
The financial statements, included within the Annual Report and Accounts, comprise the financial statements and notes on pages 84 to 171 with the exception of the unaudited commentary sections. Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the Group financial statements is IFRSs as adopted by the European Union, and applicable law. The financial reporting framework that has been applied in the preparation of the Company financial statements is United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework' (UK GAAP), and applicable law.

Overview of our audit

Materiality

£175m

(2016: £157m)

Based on 5% of total profit before tax, exceptional items and remeasurements.

Areas of focus	Component	Change in level of risk year-on-year
Event-driven		
Accounting for the disposal of UK Gas Distribution business	UK & Corporate centre	Increased
Recurring		
Accuracy of capital expenditures	UK & US	No change
Accuracy and valuation of treasury derivative transactions	US & Corporate centre	Increased
Accounting for net pension obligations	US & Corporate centre	Increased
Valuation of environmental provisions	UK & US	Increased
US financial controls	US	Decreased
Revenue recognition	UK & US	No change

Scope

82%

(2016: 80%)

In scope coverage of Group profit before tax, exceptional items and remeasurements.

Highlights of what we reported to the Audit Committee

- the disposal of the UK Gas Distribution business on 31 March 2017 has had a number of significant accounting and control implications for National Grid, and was a major driver of our audit effort this year;
- while areas for improvement remain, in particular Property, Plant and Equipment (PPE), there has been progress on improving the US financial control environment;
- although they contain significant judgements, estimates for pensions and environmental provisions fall within what we consider to be an acceptable range. The significant increase in US environmental provisions and the sectionalisation of the UK pension scheme this year meant there was increased risk in these two areas; and
- with respect to revenue, capital expenditures, and treasury we completed our work in accordance with our audit plan and had no specific matters of concern to report.

Our audit team
In identifying our audit team for National Grid we focused on continuity and relevant industry experience. The disposal of the UK Gas Distribution business necessitated additional senior team members for the corporate centre and UK audits, with a new separate team for the audit of UK Gas Distribution following separation from the UK business in September 2017.

This is my fifth and final year working on the National Grid audit and second as Senior Statutory Auditor. I have also been the Senior Statutory Auditor for three other large LSE Listed companies. With regards to the components, our US lead partner has had four years of involvement and our UK lead partner has two years of involvement on the National Grid audit. The UK and US lead partners and I all have significant electricity and gas utility audit experience, averaging 15 years each. Our core audit team, excluding specialists who support us in treasury, accounting technical, IT, tax, pensions, and valuations comprises approximately 74 people. At manager grade and above we have continuity from the prior year of 79% and an average of three years' experience on the National Grid audit and six years of electricity and gas utility audit experience.

Context for our audit
Our recurring areas of focus largely reflect National Grid's key activities of network investment and the associated financing, where it seeks to maximise returns allowable under the regulatory frameworks in the UK and US, as well as fulfilling their social and environmental responsibilities and remunerating their staff.

The most notable development during the year was the completion, on 31 March 2017, of the partial disposal of the UK Gas Distribution business. This was a complex transaction with significant accounting and control implications for the Group.

Independent auditors' report
to the Members of National Grid plc continued

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates. The UK Electricity Transmission, UK Gas Transmission, UK Gas Distribution and US Regulated businesses required an audit of their complete financial information due to their size. In respect of the UK Gas Distribution business, as a result of the hive out into a separate legal entity on 1 October 2016, we have determined that it is appropriate to treat it as two separate components for the 2016/17 audit. This is consistent with the way in which we will perform stand-alone audits of UK Gas Distribution and the way in which its results will be reported within the Group consolidation.

The Group has a number of separate operations in the US and UK and each of these operations maintain their own accounting records and report to the Group through an integrated consolidation system. For this reason we used component auditors within PwC UK and PwC US who are familiar with the local laws and regulations to perform this audit work. We ensured our involvement in the work of our component auditors was sufficient to allow us to conclude on our opinion on the Group financial statements as a whole. Given our audit areas of focus, the Group team visited both the UK and US component teams on a number of occasions for meetings with our team and local National Grid management.

The Group consolidation, financial statement disclosures and corporate activities including tax, treasury related activities and UK pensions were audited by the Group team using specialists where appropriate. The charts on the following page illustrate the in scope coverage obtained from the territories and functions where we performed our audit work.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

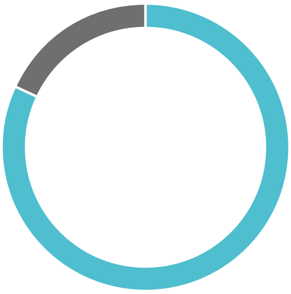
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Area	Commentary
Overall Group materiality £175m (2016: £157m)	£175 million (2016: £157 million) is 5% of profit before tax, exceptional items and remeasurements ('adjusted profit before tax'). While the benchmark has not changed, this is higher than the level we set for last year reflecting the increased profitability of the Group during the period.
Rationale for benchmark applied 5% of total profit before tax, exceptional items and remeasurements	We have chosen total adjusted profit before tax because it is the consistent year-on-year measure of performance used by management and excludes the non-recurring disproportionate impact of exceptional items and remeasurements. We also considered this measure to be suitable having compared it to other benchmarks: our materiality is 6.0% of total statutory profit before tax, 0.3% of total assets and 0.9% of net assets. Given the disposal of the UK Gas Distribution business, we considered whether a change to materiality was required in order to reflect only continuing operations. As the transaction completed on the final day of the year, we did not consider this appropriate as in total income statement terms there has been no change in the Group comparing 2016/17 and 2015/16.
Component performance materiality	In planning our audit we allocate a specific performance materiality to each of our component audit teams. This is used to determine the extent of our audit procedures at a component level for the purposes of reporting on the National Grid Group financial statements. These are summarised below:

	2017 £m	2016 £m
US Regulated (full scope audit)	**83**	65
UK Electricity Transmission (full scope audit)	**38**	38
UK Gas Transmission (full scope audit)	**30**	30
UK Gas Distribution (full scope audit) 2015/16		39
First half of 2016/17	**23**	
Second half of 2016/17	**22**	
Corporate activities		
UK treasury	**83**	68
UK tax	**75**	68
UK pensions	**124**	83

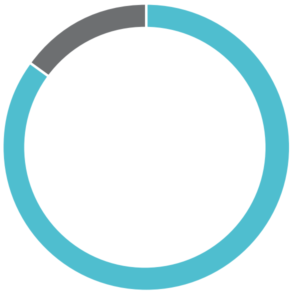
Area	Commentary
Reporting level £9m (2016: £7m)	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £9 million (2016: £7 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Profit before tax after exceptionals



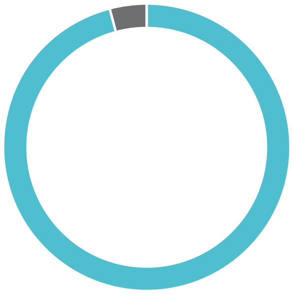
Full scope audit	82%
Other procedures	18%

Total assets



Full scope audit	85%
Other procedures	15%

Total revenue



Full scope audit	96%
Other procedures	4%

The scope of our audit and our areas of focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus and what we reported to the Audit Committee
Accounting for the disposal of the UK Gas Distribution business National Grid's disposal of a 61% majority stake in the UK Gas Distribution business on 31 March 2017 was a significant transaction for the Group. The key financial reporting implications of the disposal included the following: • accounting for the legal separation of the UK Gas Distribution business, including a Group and Gas Distribution re-financing exercise and an assessment of any tax implications; • sectionalisation of the National Grid UK Pension Scheme prior to sale; • calculation of the net gain on sale of £5.3 billion, including consideration of costs associated with the transaction; • loss of control and deconsolidation of UK Gas Distribution under IFRS 10; • classification of the retained interest as an investment in associate, and the determination of the investment fair value and provisional purchase price allocation; • the design, implementation and operation of internal controls specific to the key steps of the transaction; and • disclosure within the financial statements, including presenting the results of the UK Gas Distribution business as 'discontinued' and key judgements applied to the restatement of comparative information. Change in level of risk year-on-year: Increased Because of the completion of the transaction in the current period.	The disposal had a significant impact on our audit for 2016/17. To address this area of focus, our procedures included, among others: • testing of the design and operating effectiveness of internal controls over the separation of the UK Gas Distribution business; • testing of controls and underlying transaction data relating to the UK Gas Distribution business for the period up until disposal and assessment of the approach taken by management to restate prior periods to separately present the UK Gas Distribution business as a discontinued operation; • validating the accuracy of the net gain on sale of £5.3 billion presented within discontinued operations; • involvement of our tax specialists to assess the tax implications of the disposal; • consideration of the classification as an associate and valuation of the retained investment in the UK Gas Distribution business as an associate, including involving our valuation specialists; and • assessing the adequacy of the Group's financial statement disclosures relating to discontinued operations, exceptional items, and investments in joint ventures and associates. We noted no material issues arising from this testing.

Independent auditors' report
to the Members of National Grid plc continued

Area of focus	How our audit addressed the area of focus and what we reported to the Audit Committee
Accuracy of capital expenditures A key focus for National Grid is network investment with total capital expenditures across the Group of £4.3 billion during 2016/17 (2015/16: £3.9 billion). Depending upon its nature, expenditure may be capitalised as PPE or expensed in the year the cost is incurred. In making this decision the Directors have to consider whether the expenditure will generate future economic benefits which necessarily involves judgement, for example in determining whether activities or items are adding value or maintaining existing assets. Specifically in relation to the US, following matters arising last year, management have implemented new review controls in order to reduce the risk of misstatement, however there is a continuing risk that the controls over: • the classification of costs between PPE and expenses in relation to small value work orders; and • the transfer of assets under construction to assets in service may not have been working effectively throughout the period. In addition, there are complex adjustments required to translate local PPE accounting records prepared under generally accepted accounting principles in the United States (US GAAP) to comply with IFRS. Change in level of risk year-on-year: No change Due to the volume and complexity of transactions.	We assessed whether the Group's accounting policies in relation to the capitalisation of expenditures complied with IFRSs, and tested the implementation of those policies through a combination of controls testing, including IT General Controls over the PPE accounting systems, and substantive testing of the supporting documentation behind the costs and we found no material issues that would impact our audit approach. In the US, we performed additional testing to ensure the completeness and accuracy of capitalisation. Our procedures included stratification of the work orders into populations with similar risks, such as low value and aged, with testing designed to provide a high level of assurance. With respect to the IFRS adjustments to US GAAP reporting, we tested the analysis to underlying accounting records, recalculations and supporting documentation. Our testing of plant capitalisation and IFRS adjustments to plant identified potential misstatements which were reported to the Audit Committee but which were considered immaterial for adjustment. In the UK, we focused our testing on the capital expenditures that had the most significant value with a particular focus on Electricity Transmission which is the largest area of UK capital expenditures. As part of our testing, we inspected contracts and underlying invoices, to ensure the classification between capital and operating expenditure was appropriate. We reviewed the ageing of the assets under construction balance for indicators of impairment and key judgements associated with the PPE balance. Our approach is supported by comfort obtained from our testing of the key controls within the PPE process, which included reconciliations and controls over classification. We found one classification adjustment between PPE categories which was adjusted by management.
Accuracy and valuation of treasury derivative transactions In order to fund its activities, at 31 March 2017 National Grid had total borrowings of £28.6 billion, of which £6.8 billion is denominated in currencies other than Sterling or US Dollars, which exposes the Group to foreign exchange and interest rate risk. The Group has a significant treasury operation with sophisticated risk management activities and uses financial instruments including complex derivatives to manage the foreign exchange and interest rate risks, primarily interest rate swaps and cross-currency interest rate swaps. The valuation of a number of the derivative contracts entered into by National Grid is a complex and judgemental area and includes key assumptions over estimates of future interest and exchange rates, and determination of appropriate discount rates to apply to future cash flows. Change in level of risk year-on-year: Increased There was a significant increase in transactional activity as a result of the refinancing exercise related to the disposal of the UK Gas Distribution business, which increased the level of risk.	We tested the design and operating effectiveness of IT General Controls including user access, change management and segregation of duties within the treasury management system and we found no material issues that would impact our audit approach. We tested the design and operating effectiveness of key controls that relate to recording and valuing derivative transactions in the treasury management system. We also tested the accuracy and completeness of the information held within the system by agreeing to third-party confirmations and found no differences when compared to the system data. We tested the models and key assumptions used by management to value complex derivatives which were agreed as appropriate. Where management entered into new significant contracts in the year, we tested the contracts and assumptions used to assess whether the accounting treatment adopted is in accordance with IAS 39. In respect of the refinancing exercise undertaken as part of the disposal of the UK Gas Distribution business, we substantively tested to third-party documentation the transactions undertaken, including the buyback, novation and new issuance of debt, and changes in the associated hedges. We also audited related accounting judgements including the discontinuance of hedge relationships and valuation. We challenged management as to the treatment of the £1.3 billion related costs as part of the net gain on sale, and from reviewing minutes of meetings, financial strategy papers and presentations we found no evidence to suggest these costs were not related to the transaction. We had no material issues arising from this work.

Area of focus	How our audit addressed the area of focus and what we reported to the Audit Committee
Accounting for net pension obligations National Grid provides defined pension and other post-employment benefits to employees in the UK and US through a number of schemes. At 31 March 2017, National Grid's gross defined benefit obligation is £26.3 billion which is offset by scheme assets of £24.4 billion which are significant in the context of both the overall balance sheet and the results of the Group. The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Changes to the key assumptions including salary increases, inflation, discount rates, and mortality can have a material impact on the calculation of the liability. Also, the pension plan assets include a number of investments for which there is no observable input to the fair value (i.e. no quoted market price); the valuation technique used to measure the fair value of these assets involves a number of subjective judgements. Change in level of risk year-on-year: Increased The significance of a number of inputs to the valuation coupled with the sectionalisation of the pension scheme means there is increased risk around the Group's pension accounting in 2016/17.	We have tested the significant judgements made by National Grid's third-party actuaries and assessed their independence and competence as set out below and we found no material issues that would impact our audit approach. We agreed the discount and inflation rates used in the valuation of the pension liability to our internally developed benchmarks. We compared the assumptions around salary increases and mortality to national and industry averages. All of the assumptions used fell within our acceptable range. We obtained details of the measurement of fair value for assets with unobservable inputs. Such assets were typically private equity or real estate fund investments for which we obtained audited financial statements in support of the measurement of net asset value. We found no material issues from this testing. The major accounting impact of sectionalisation of the National Grid UK Pension Scheme is on the individual subsidiaries within the National Grid Group. For Group purposes, the key consequence of sectionalisation was the need to determine the value of the section disposed of with the UK Gas Distribution business. In this regard, we confirmed that the assets and liabilities had been split in accordance with the Deed of Sectionalisation, by obtaining evidence of the Trustees' expert independent verification of these splits. In addition, we reviewed the accounting for one-off payments to the scheme. We had no material issues arising from this work.
Valuation of environmental provisions Over time National Grid has acquired, owned and operated a number of businesses that have created an environmental impact that will require remediation. This is particularly significant in the US partly as a result of National Grid's exposure to certain 'Superfund' sites. At 31 March 2017 the total liability in respect of environmental provisions is £1.7 billion, of which £1.5 billion relates to the US. Environmental provisions require significant judgement in determining the form of remediation and the timing and value of projected cash flows associated with it, including the impact of regulation, accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. Change in level of risk year-on-year: Increased The level of risk has increased due to the increase in US provisions during the period.	In the US and UK, National Grid uses external and internal experts to help determine the total expenditure required to remediate sites. As part of the audit we obtained and inspected these experts' reports and assessed their independence and competence and we found no material issues that would impact our audit approach. For all material sites and a sample of other sites, we corroborated information on the nature of each of these sites to National Grid's underlying site usage records. In addition, to assess the reliability of the experts' estimates, we compared previous estimates against actual spend for sites which have been remediated, without material issue. In the US, due to the individually significant sites, we utilised our own environmental specialists to review management key assumptions underlying the calculations. Where possible we confirmed other inputs into the calculations by reference to publicly available information and noted no exceptions. We inspected responses to our confirmation requests from National Grid's legal advisors in order to identify any issues related to the valuation of the Group's exposure to environmental remediation costs and noted no issues. In order to assess the reasonableness of management's discount rate assumptions we compared these to our internally developed benchmarks, including performing sensitivity analysis. Following discussion with management the rates were adjusted with no material impact on the financial statements.

Independent auditors' report
to the Members of National Grid plc continued

Area of focus	How our audit addressed the area of focus and what we reported to the Audit Committee
US financial controls National Grid's US business is going through a continuing programme of process and control improvements. In this period of change there is higher risk of error in the financial information reported by the US Regulated business. Change in level of risk year-on-year: Decreased We are seeing progress on control remediation and additional focus on the control environment. We have considered the control implications of US plant accounting separately within the accuracy of capital expenditures area of focus.	Whilst there has been progress on remediation, US financial control continues to be an area of focus for the Audit Committee and our audit team. Our audit response is summarised below. We performed additional testing of key account reconciliations across a number of different general ledger accounts, ensuring that significant reconciling items were supported with sufficient and appropriate documentation. Management continue to operate their additional control of preparing an aggregation of unreconciled items across all accounts in order to assess the potential impact of adjusting for these items. We tested this aggregation to ensure it was complete and accurate by agreeing these items to the underlying account reconciliations and vice versa. The net impact on the income statement if all unsupported reconciling items were to be resolved was below our reporting level for the Audit Committee. We tested the design and operating effectiveness of journal review controls and found nothing that would cause us to believe these controls were not working as intended. We also tested manual journal entries based on a risk assessment of value and nature, with no matters requiring reporting to the Audit Committee arising.
Revenue recognition During 2016/17 National Grid has recognised revenue of £15.0 billion; £14.3 billion of which is related to the regulated segments in the UK and US. In the UK, National Grid's revenue is derived from a number of price controls imposed by the UK regulator, Ofgem, which combined with the application of IFRS means that revenue recognition involves limited judgement. The majority of revenue is derived from a small number of customers who settle within agreed terms. In the US, different services and locations are regulated by different authorities and are subject to numerous price controls. Unlike the UK, revenue is earned through the transportation and supply of gas and electricity to end customers, which does involve judgement as a result of the estimate of accrued income for services delivered but not yet billed to these customers. This is determined using a long-established methodology within the Group. As such, revenue recognition is not an area of significant risk for our audit but does require significant time and resource to audit due to the magnitude. Change in level of risk year-on-year: No change	In the UK, we have tested the design and operating effectiveness of key controls in relation to the recognition of revenue, with particular focus on controls over the setting of prices compared to those allowed by the Ofgem price controls and we found no material issues that would impact our audit approach. We have tested the revenue recognised to amounts invoiced to customers and the subsequent receipt of payment from those customers, with no material exceptions noted. In the US, in respect of transmission and other non-utility revenues, we selected and tested individual transactions to ensure they were appropriately recorded as revenue in the correct period. We inspected proof of cash payment or confirmed amounts with customers where it was possible to do so. We also inspected regulator-approved tariffs to test that amounts charged were consistent with such tariffs. We found no material issues arising from our work. For utility revenues, we selected samples of rate classes to test that customer rates were properly updated in the billing systems, and that rate types were assigned to customers consistent with the type of customer and (where appropriate) the volume of usage. We also selected samples of customer bills and tested that such bills were paid by customers and were consistent with the regulator-approved rate plans. For those bills selected that were outstanding at the end of the year, we confirmed a sample of balances with customers, and tested amounts to subsequent cash receipts where no confirmation was received. With respect to unbilled revenue we tested management's assumptions in relation to consumption by reference to historical data as well as specific current year factors, including weather patterns. In so doing, we did not note any significant issues which would impact the Group financial statements.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 92, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group, the Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in this respect.

ISAs (UK & Ireland) reporting
Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the information in the Annual Report and Accounts is:
  - materially inconsistent with the information in the audited financial statements; or
  - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or
  - otherwise misleading.
- the statement given by the Directors on page 74, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report and Accounts taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.
- the section of the Annual Report and Accounts on pages 36 to 44, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- the Directors' confirmation on page 52 of the Annual Report and Accounts, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the disclosures in the Annual Report and Accounts that describe those risks and explain how they are being managed or mitigated; or
- the Directors' explanation on page 52 of the Annual Report and Accounts, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit.

We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

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
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report – Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code.

We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 74, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 May 2017

Report of Independent Registered Public Accounting Firm
to the Board of Directors and Shareholders of National Grid plc

Audit opinion for Form 20-F

In our opinion, the accompanying consolidated statement of financial position and the related consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity, present fairly, in all material respects, the financial position of National Grid plc and its subsidiaries at 31 March 2017 and 31 March 2016, and the results of their operations and their cash flows for each of the three years in the period ended 31 March 2017 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union.

Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of 31 March 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Additional Information section appearing on page 180 of the Annual Report and Accounts.

Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
London
United Kingdom
17 May 2017

Consolidated income statement
for the years ended 31 March

	Notes	2017 £m	2017 £m	2016 Re-presented[1] £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m	2015 Re-presented[1] £m
Continuing operations							
Revenue	2(a)		**15,035**		13,212		13,357
Operating costs	3		**(11,827)**		(9,987)		(10,406)
Operating profit							
Before exceptional items and remeasurements	2(b)	**3,773**		3,214		3,034	
Exceptional items and remeasurements	4	**(565)**		11		(83)	
Total operating profit	2(b)		**3,208**		3,225		2,951
Finance income	5		**53**		22		36
Finance costs							
Before exceptional items and remeasurements	5	**(1,082)**		(878)		(908)	
Exceptional items and remeasurements	4,5	**(58)**		(99)		(165)	
Total finance costs	5		**(1,140)**		(977)		(1,073)
Share of post-tax results of joint ventures and associates	15		**63**		59		46
Profit before tax							
Before exceptional items and remeasurements	2(b)	**2,807**		2,417		2,208	
Exceptional items and remeasurements	4	**(623)**		(88)		(248)	
Total profit before tax	2(b)		**2,184**		2,329		1,960
Tax							
Before exceptional items and remeasurements	6	**(666)**		(604)		(543)	
Exceptional items and remeasurements	4,6	**292**		177		76	
Total tax	6		**(374)**		(427)		(467)
Profit after tax from continuing operations							
Before exceptional items and remeasurements		**2,141**		1,813		1,665	
Exceptional items and remeasurements	4	**(331)**		89		(172)	
Profit after tax from continuing operations			**1,810**		1,902		1,493
Profit after tax from discontinued operations							
Before exceptional items and remeasurements	9	**606**		576		516	
Exceptional items and remeasurements	9	**57**		116		2	
Gain on disposal of UK Gas Distribution after tax	9	**5,321**		–		–	
Profit after tax from discontinued operations	9		**5,984**		692		518
Total profit for the year (continuing and discontinued)							
Before exceptional items and remeasurements		**2,747**		2,389		2,181	
Exceptional items and remeasurements		**(274)**		205		(170)	
Gain on disposal of UK Gas Distribution after tax		**5,321**		–		–	
Total profit for the year			**7,794**		2,594		2,011
Attributable to:							
Equity shareholders of the parent							
From continuing operations		**1,810**		1,901		1,503	
From discontinued operations		**5,985**		690		516	
			7,795		2,591		2,019
Non-controlling interests							
From continuing operations		**–**		1		(10)	
From discontinued operations		**(1)**		2		2	
			(1)		3		(8)
Earnings per share[2]							
Basic							
From continuing operations	7(a)	**48.1p**		50.4p		39.4p	
From discontinued operations	7(a)	**17.6p**		18.3p		13.5p	
Gain on disposal of UK Gas Distribution	7(a)	**141.4p**		–		–	
	7(a)		**207.1p**		68.7p		52.9p
Diluted							
From continuing operations	7(b)	**47.9p**		50.2p		39.2p	
From discontinued operations	7(b)	**17.5p**		18.2p		13.5p	
Gain on disposal of UK Gas Distribution	7(b)	**140.8p**		–		–	
	7(b)		**206.2p**		68.4p		52.7p

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation. Further information is provided in notes 2 and 9.
2. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

Unaudited commentary on the consolidated income statement

The consolidated income statement shows income earned and expenditure for the year, with the difference being the overall profit for the year.

As a result of the sale of a 61% controlling interest in UK Gas Distribution, we are required to report our earnings for the Group excluding UK Gas Distribution ('continuing operations') separately from the results of that business, which we report within 'discontinued operations'. Further information is included in note 9.

The commentary below relates to continuing operations only.

Revenue

Revenue for the year ended 31 March 2017 increased by £1,823 million to £15,035 million. This increase was driven by higher revenues in both our UK and US Regulated businesses. US Regulated revenues were £1,438 million higher year-on-year including favourable impact from foreign exchange, increased regulatory revenue allowances and favourable timing of recoveries. UK regulated revenues increased by £495 million, including increased regulatory allowances, timing over-recoveries and increased system balancing revenues. Revenue from Other activities decreased, including lower interconnector and metering income.

Operating costs

Operating costs for the year ended 31 March 2017 of £11,827 million were £1,840 million higher than the prior year. This increase in costs included a £576 million increase in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £1,264 million higher, principally due to the impact of foreign exchange rates alongside increased balancing services costs in the UK and higher depreciation as a result of newly commissioned assets.

Net finance costs

For the year ended 31 March 2017, net finance costs before exceptional items and remeasurements were £173 million higher than 2015/16 at £1,029 million, mainly as a result of the impact of the stronger US dollar, higher UK RPI inflation and increased levels of average net debt in continuing operations.

Tax

The tax charge on profits before exceptional items and remeasurements was £62 million higher than 2015/16. This was mainly a result of increased taxable profits in the year. The effective tax rate for the year decreased to 23.7% (2015/16: 25.0%) reflecting settlements relating to prior years partially offset by an increased proportion of profits before tax being generated in the US.

Exceptional items and remeasurements

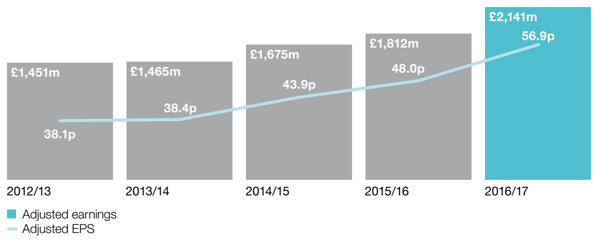
Operating costs for the year ended 31 March 2017 included a £68 million gain on remeasurements of commodity contracts, together with £633 million exceptional costs associated with environmental charges and gas holder decommissioning. In the previous year, operating costs included a net £11 million gain on remeasurements of commodity contracts.

Finance costs for the year ended 31 March 2017 included a loss of £58 million on financial remeasurements, relating to net losses on derivative financial instruments. For the previous year ended 31 March 2016, we incurred a loss of £99 million on financial remeasurements. Exceptional tax for 2016/17 was a credit of £292 million which represents tax credits on the exceptional items and remeasurements above, together with a deferred tax credit on the recalculation of deferred tax liabilities as a result of the reduction in the UK tax rate applicable from April 2020 from 18% to 17%.

Adjusted earnings and EPS from continuing operations

Adjusted earnings and EPS, which exclude exceptional items and remeasurements, are provided to reflect results of the Group on a 'business performance' basis, described further in note 4. The following chart shows the five-year trend in adjusted profit attributable to equity shareholders of the parent (adjusted earnings) and adjusted earnings per share. See page 195 for a reconciliation of adjusted basic EPS to EPS.

Adjusted earnings and adjusted EPS from continuing operations[1]



1. Adjusted earnings and adjusted EPS are attributable to equity shareholders of the parent.

The above earnings performance translated into adjusted EPS growth in 2016/17 of 8.9p (19%).

In accordance with IAS 33, all earnings per share and adjusted earnings per share amounts for comparative periods have been restated for shares issued via scrip dividends.

Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars, so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate. The table below shows the average and closing exchange rates of sterling to US dollars.

	2016/17	2015/16	% change
Weighted average (income statement)	1.28	1.47	(13)%
Year-end (statement of financial position)	1.25	1.44	(13)%

The movement in foreign exchange during 2016/17 has resulted in a £1,175 million increase in revenue, a £187 million increase in adjusted operating profit and a £189 million increase in operating profit.

Consolidated statement of comprehensive income
for the years ended 31 March

	Notes	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Profit after tax from continuing operations		**1,810**	1,902	1,493
Other comprehensive income/(loss) from continuing operations				
Items from continuing operations that will never be reclassified to profit or loss:				
Remeasurement gains/(losses) of pension assets and post-retirement benefit obligations	23	**423**	410	(758)
Tax on items that will never be reclassified to profit or loss	6	**(277)**	(95)	296
Total items from continuing operations that will never be reclassified to profit or loss		**146**	315	(462)
Items from continuing operations that may be reclassified subsequently to profit or loss:				
Exchange adjustments		**346**	69	175
Net gains/(losses) in respect of cash flow hedges		**70**	88	(86)
Transferred to profit or loss in respect of cash flow hedges		**(6)**	26	11
Net gains on available-for-sale investments		**81**	43	41
Transferred to profit or loss on sale of available-for-sale investments		**(25)**	–	(8)
Tax on items that may be reclassified subsequently to profit or loss	6	**(34)**	(39)	3
Total items from continuing operations that may be reclassified subsequently to profit or loss		**432**	187	136
Other comprehensive income/(loss) for the year, net of tax from continuing operations		**578**	502	(326)
Other comprehensive income/(loss) for the year, net of tax from discontinued operations	9	**42**	71	(68)
Other comprehensive income/(loss) for the year, net of tax		**620**	573	(394)
Total comprehensive income for the year from continuing operations		**2,388**	2,404	1,167
Total comprehensive income for the year from discontinued operations	9	**6,026**	763	450
Total comprehensive income for the year		**8,414**	3,167	1,617
Attributable to:				
Equity shareholders of the parent				
From continuing operations		**2,389**	2,403	1,176
From discontinued operations		**6,026**	761	448
		8,415	3,164	1,624
Non-controlling interests				
From continuing operations		**(1)**	1	(9)
From discontinued operations		**–**	2	2
		(1)	3	(7)

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation. Further information is provided in note 2.

Unaudited commentary on consolidated statement of comprehensive income

The consolidated statement of comprehensive income records certain items as prescribed by the accounting rules. For us, the majority of the income or expense included here relates to movements in actuarial assumptions on defined benefit pension schemes and the associated tax impact. These items are not part of profit for the year, yet are important to allow the reader to gain a more comprehensive picture of our performance as a whole.

Remeasurement gains/(losses) of pension assets and post-retirement benefit obligations
We had a net gain after tax of £146 million (2015/16: net gain of £315 million; 2014/15: net loss of £462 million) on our pension and other post-retirement benefit schemes which is due to changes in key assumptions made in the valuation calculation of pension liabilities and differences between the expected and actual pension asset returns.

Exchange adjustments
Adjustments are made when we translate the results and net assets of our companies operating outside the UK, as well as debt and derivative transactions designated as a net investment hedge of our foreign currency operations. The net movement for the year resulted in a gain of £346 million (2015/16: £69 million gain; 2014/15: £175 million gain).

Net gains/(losses) in respect of cash flow hedges
The value of derivatives held to hedge cash flows is impacted by changes in expected interest rates and exchange rates. The net gain for the year was £70 million (2015/16: £88 million gain; 2014/15: £86 million loss).

Consolidated statement of changes in equity
for the years ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Other equity reserves[1] £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
At 1 April 2014	439	1,336	14,895	(4,759)	11,911	8	11,919
Profit/(loss) for the year	–	–	2,019	–	2,019	(8)	2,011
Other comprehensive (loss)/income for the year	–	–	(472)	77	(395)	1	(394)
Total comprehensive income/(loss) for the year	–	–	1,547	77	1,624	(7)	1,617
Equity dividends	–	–	(1,271)	–	(1,271)	–	(1,271)
Scrip dividend related share issue[2]	4	(5)	–	–	(1)	–	(1)
Purchase of treasury shares	–	–	(338)	–	(338)	–	(338)
Issue of treasury shares	–	–	23	–	23	–	23
Purchase of own shares	–	–	(7)	–	(7)	–	(7)
Other movements in non-controlling interests	–	–	(3)	–	(3)	11	8
Share-based payments	–	–	20	–	20	–	20
Tax on share-based payments	–	–	4	–	4	–	4
At 31 March 2015	443	1,331	14,870	(4,682)	11,962	12	11,974
Profit for the year	–	–	2,591	–	2,591	3	2,594
Other comprehensive income for the year	–	–	414	159	573	–	573
Total comprehensive income for the year	–	–	3,005	159	3,164	3	3,167
Equity dividends	–	–	(1,337)	–	(1,337)	–	(1,337)
Scrip dividend related share issue[2]	4	(5)	–	–	(1)	–	(1)
Purchase of treasury shares	–	–	(267)	–	(267)	–	(267)
Issue of treasury shares	–	–	16	–	16	–	16
Purchase of own shares	–	–	(6)	–	(6)	–	(6)
Other movements in non-controlling interests	–	–	–	–	–	(5)	(5)
Share-based payments	–	–	22	–	22	–	22
Tax on share-based payments	–	–	2	–	2	–	2
At 31 March 2016	447	1,326	16,305	(4,523)	13,555	10	13,565
Profit/(loss) for the year	–	–	7,795	–	7,795	(1)	7,794
Other comprehensive income for the year	–	–	84	536	620	–	620
Total comprehensive income/(loss) for the year	–	–	7,879	536	8,415	(1)	8,414
Equity dividends	–	–	(1,463)	–	(1,463)	–	(1,463)
Scrip dividend related share issue[2]	2	(2)	–	–	–	–	–
Purchase of treasury shares	–	–	(189)	–	(189)	–	(189)
Issue of treasury shares	–	–	18	–	18	–	18
Purchase of own shares	–	–	(6)	–	(6)	–	(6)
Other movements in non-controlling interests	–	–	–	–	–	7	7
Share-based payments	–	–	35	–	35	–	35
Tax on share-based payments	–	–	3	–	3	–	3
At 31 March 2017	**449**	**1,324**	**22,582**	**(3,987)**	**20,368**	**16**	**20,384**

1. For further details of other equity reserves, see note 26.
2. Included within share premium account are costs associated with scrip dividends.

Unaudited commentary on consolidated statement of changes in equity

The consolidated statement of changes in equity shows additions and reductions to equity. For us, the main items are profit earned and dividends paid in the year.

Dividends
The Directors are proposing a final dividend of 29.10 pence per share, bringing the total dividend for the year to 44.27 pence per share, a 2.1% increase on 2015/16. The Directors intend to target increasing the annual dividend per share by at least the rate of RPI inflation for the foreseeable future.

Special dividend
Following completion of the sale of the majority interest in UK Gas Distribution, on 19 April 2017, the Directors approved a special interim dividend of 84.375 pence per existing ordinary share ($5.4224 per existing American Depositary Share).

Consolidated statement of financial position
as at 31 March

	Notes	2017 £m	2016 £m
Non-current assets			
Goodwill	10	**6,096**	5,315
Other intangible assets	11	**923**	887
Property, plant and equipment	12	**39,825**	43,364
Other non-current assets	13	**121**	82
Pension assets	23	**603**	410
Financial and other investments	14	**1,100**	482
Investments in joint ventures and associates	15	**2,083**	397
Derivative financial assets	16	**1,515**	1,685
Total non-current assets		**52,266**	52,622
Current assets			
Inventories and current intangible assets	17	**403**	437
Trade and other receivables	18	**2,782**	2,395
Current tax assets		**317**	77
Financial and other investments	14	**8,741**	2,998
Derivative financial assets	16	**192**	278
Cash and cash equivalents	19	**1,139**	127
Total current assets		**13,574**	6,312
Total assets		**65,840**	58,934
Current liabilities			
Borrowings	20	**(5,496)**	(3,611)
Derivative financial liabilities	16	**(1,054)**	(337)
Trade and other payables	21	**(3,438)**	(3,285)
Current tax liabilities		**(107)**	(252)
Provisions	24	**(416)**	(236)
Total current liabilities		**(10,511)**	(7,721)
Non-current liabilities			
Borrowings	20	**(23,142)**	(24,733)
Derivative financial liabilities	16	**(1,169)**	(1,732)
Other non-current liabilities	22	**(1,447)**	(2,071)
Deferred tax liabilities	6	**(4,479)**	(4,634)
Pensions and other post-retirement benefit obligations	23	**(2,536)**	(2,995)
Provisions	24	**(2,172)**	(1,483)
Total non-current liabilities		**(34,945)**	(37,648)
Total liabilities		**(45,456)**	(45,369)
Net assets		**20,384**	13,565
Equity			
Share capital	25	**449**	447
Share premium account		**1,324**	1,326
Retained earnings		**22,582**	16,305
Other equity reserves	26	**(3,987)**	(4,523)
Total shareholders' equity		**20,368**	13,555
Non-controlling interests		**16**	10
Total equity		**20,384**	13,565

The consolidated financial statements set out on pages 84 to 165 were approved by the Board of Directors on 17 May 2017 and were signed on its behalf by:

Sir Peter Gershon Chairman
Andrew Bonfield Finance Director

National Grid plc
Registered number: 4031152

Unaudited commentary on consolidated statement of financial position

The consolidated statement of financial position shows all of the Group's assets and liabilities at the year end. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

As at 31 March 2017, the Group's statement of financial position no longer includes the assets and liabilities of UK Gas Distribution (see note 9). The disposal of these assets and liabilities is referred to as 'disposals' in the commentaries below.

Goodwill and other intangible assets

Goodwill and intangibles increased by £817 million to £7,019 million as at 31 March 2017. This increase primarily relates to foreign exchange movements of £843 million and software additions of £234 million, partially offset by software amortisation of £164 million and disposals of £89 million.

Property, plant and equipment

Property, plant and equipment decreased by £3,539 million to £39,825 million as at 31 March 2017. This was principally due to capital expenditure of £4,089 million on the renewal and extension of our regulated networks and foreign exchange movements of £2,669 million, offset by depreciation of £1,535 million in the year and disposals of £8,700 million. See page 22 for further details of our capital expenditure.

Investments and other non-current assets

Investments in joint ventures and associates, financial and other investments and other non-current assets have increased by £2,343 million to £3,304 million. This is primarily due to our 39% retained interest in UK Gas Distribution of £1,611 million (classified as an associate) and the related shareholder loan of £429 million, an increase in investments in joint ventures of £137 million, together with an increase in other investments of £95 million and foreign exchange movements of £115 million, offset by disposals of £44 million.

Inventories and current intangible assets, trade and other receivables and current tax assets

Inventories and current intangible assets, and trade and other receivables and current tax assets have increased by £593 million to £3,502 million as at 31 March 2017. This is primarily due to a net increase in trade and other receivables of £617 million (including a foreign exchange movement of £252 million) less disposals of £230 million and a £240 million increase in tax receivables. The increase in trade and other receivables reflects the colder winter, higher gas costs and BSIS cost recoveries. This is partly offset by a decrease in inventories and current intangible assets of £34 million.

Trade and other payables

Trade and other payables have increased by £153 million to £3,438 million, primarily due to a foreign exchange impact of £220 million and movements in the US related to colder weather and increased level of accruals offset by disposals of £423 million.

Current tax balances

Net current tax liability has changed by £385 million to a net current tax asset of £210 million. This is primarily due to a number of prior year settlements, reclassification from deferred tax of US net operating losses to offset against US current tax liabilities and cash payments exceeding tax liabilities following the additional costs incurred in relation to the disposal of the UK Gas Distribution business.

Deferred tax balances

Deferred tax balances have decreased by £155 million to £4,479 million as at 31 March 2017. This is primarily due to the disposal of the UK Gas Distribution business offset by the deferred tax charge on actuarial gains in reserves and foreign exchange movements.

Provisions and other non-current liabilities

Provisions (both current and non-current) and other non-current liabilities increased by £245 million to £4,035 million as at 31 March 2017.

Total provisions increased by £869 million in the year. The underlying movements include additions of £633 million, primarily relating to an exceptional increase to the provision for estimated environmental restoration and remediation costs and other increases of £382 million as shown in note 24, together with foreign exchange movements of £188 million, offset by utilisation of £227 million in relation to all classes of provisions and disposals of £94 million. Other non-current liabilities reduced, principally due to £910 million of deferred income within UK Gas Distribution.

Net debt

Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and derivative financial assets and liabilities. See further analysis with the consolidated cash flow statement on page 90.

Net pension and other post-retirement obligations

A summary of the total UK and US assets and liabilities and the overall net IAS 19 (revised) accounting deficit is shown below:

Net plan liability	UK £m	US £m	Total £m
As at 1 April 2016	(15)	(2,570)	(2,585)
Exchange movements	–	(345)	(345)
Current service cost	(76)	(156)	(232)
Net interest cost	–	(105)	(105)
Curtailments and other	(18)	(35)	(53)
Disposal of UK Gas Distribution	(34)	–	(34)
Actuarial gains/(losses)			
– on plan assets	2,890	444	3,334
– on plan liabilities	(3,431)	445	(2,986)
Employer contributions	528	545	1,073
As at 31 March 2017	**(156)**	**(1,777)**	**(1,933)**
Represented by:			
Plan assets	15,489	8,886	24,375
Plan liabilities	(15,645)	(10,663)	(26,308)
	(156)	**(1,777)**	**(1,933)**

The principal movements in net obligations during the year include net actuarial gains of £348 million and employer contributions of £1,073 million. Net actuarial gains include gains of £3,334 million arising on plan assets resulting from actual asset returns being greater than assumed returns which is based upon the discount rate at the start of the year. This is partially offset by actuarial losses on plan liabilities of £2,986 million arising as a consequence of a decrease in the real discount rate giving an actuarial loss of £3,431 million in the UK and an increase in the nominal discount rate resulting in actuarial gains of £445 million in the US.

Further information on our pension and other post-retirement obligations can be found in note 23 to the consolidated financial statements.

Off balance sheet items

There were no significant off balance sheet items other than the contractual obligations shown in note 30(b) to the consolidated financial statements, and the commitments and contingencies discussed in note 28.

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

Consolidated cash flow statement
for the years ended 31 March

	Notes	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Cash flows from operating activities				
Total operating profit from continuing operations	2(b)	**3,208**	3,225	2,951
Adjustments for:				
Exceptional items and remeasurements	4	**565**	(11)	83
Depreciation, amortisation and impairment		**1,481**	1,311	1,202
Share-based payments charge		**32**	21	18
Gain on exchange of associate for available-for-sale investment		**–**	(49)	–
Changes in working capital		**151**	416	311
Changes in provisions		**(181)**	(58)	(41)
Changes in pensions and other post-retirement benefit obligations		**(768)**	(293)	(235)
Cash flows relating to exceptional items		**(36)**	(40)	(17)
Cash generated from operations – continuing operations		**4,452**	4,522	4,272
Tax paid		**(132)**	(230)	(251)
Net cash inflows from operating activities – continuing operations		**4,320**	4,292	4,021
Net cash inflows from operating activities – discontinued operations		**909**	1,076	986
Cash flows from investing activities				
Acquisition of investments		**(137)**	(116)	–
Proceeds from sale of investments in subsidiaries		**5,454**	–	–
Purchases of intangible assets		**(223)**	(196)	(171)
Purchases of property, plant and equipment		**(3,296)**	(2,855)	(2,578)
Disposals of property, plant and equipment		**18**	4	9
Dividends received from joint ventures and associates		**99**	72	79
Interest received		**51**	23	37
Net movements in short-term financial investments[2]		**(5,600)**	(391)	1,157
Net cash flow used in investing activities – continuing operations		**(3,634)**	(3,459)	(1,467)
Net cash flow used in investing activities – discontinued operations		**(680)**	(577)	(534)
Cash flows from financing activities				
Purchase of treasury shares		**(189)**	(267)	(338)
Proceeds from issue of treasury shares		**18**	16	23
Purchase of own shares		**(6)**	(6)	(7)
Proceeds received from loans		**2,463**	2,726	1,534
Repayment of loans		**(1,616)**	(896)	(2,839)
Net movements in short-term borrowings and derivatives		**90**	(730)	623
Interest paid		**(839)**	(711)	(700)
Exceptional finance costs on the redemption of debt		**–**	–	(152)
Dividends paid to shareholders		**(1,463)**	(1,337)	(1,271)
Net cash flow used in financing activities – continuing operations		**(1,542)**	(1,205)	(3,127)
Net cash flow from/(used in) financing activities – discontinued operations[3]		**1,611**	(123)	(126)
Net increase/(decrease) in cash and cash equivalents	27(a)	**984**	4	(247)
Disposal of bank overdraft in UK Gas Distribution		**15**	–	–
Exchange movements		**16**	4	24
Net cash and cash equivalents at start of year		**124**	116	339
Net cash and cash equivalents at end of year[4]	19	**1,139**	124	116

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation. Further information is provided in note 2.
2. Includes the impact of proceeds from the sale of UK Gas Distribution being transferred to short-term financial investments on 31 March 2017.
3. Included within net cash flows used in financing activities – discontinued operations are cash flows relating to the liability management programme, comprising £4.8 billion of debt issued and term debt raised, offset by £3.2 billion in respect of bond buybacks.
4. Net of bank overdrafts of £nil (2016: £3 million; 2015: £3 million).

Unaudited commentary on the consolidated cash flow statement

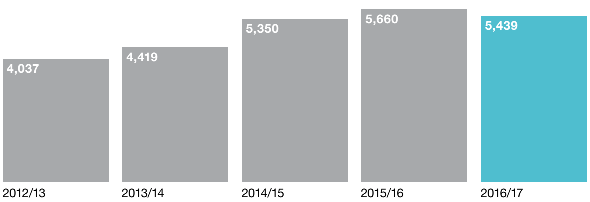
The consolidated cash flow statement shows how the cash balance has moved during the year. Cash inflows and outflows are presented to allow users to understand how they relate to the day-to-day operations of the business (Operating activities); the money that has been spent or earned on assets in the year, including acquisitions of physical assets or other businesses and the disposal of UK Gas Distribution (Investing activities); and the cash raised from debt, share issues or share buybacks, restructuring of borrowings for the disposal of UK Gas Distribution and other loan borrowings or repayments (Financing activities).

Reconciliation of cash flow to net debt

	2017 £m	2016 £m
Cash generated from continuing operations	**4,452**	4,522
Cash generated from discontinued operations	**987**	1,138
	5,439	5,660
Net capital investment – continuing operations	**(3,638)**	(3,163)
Net capital investment – discontinued operations	**(605)**	(577)
	(4,243)	(3,740)
Business net cash flow	**1,196**	1,920
Net interest paid – continuing operations	**(788)**	(688)
Net interest paid – discontinued operations	**(1,167)**	(123)
	(1,955)	(811)
Tax paid – continuing operations	**(132)**	(230)
Tax paid – discontinued operations	**(78)**	(62)
	(210)	(292)
Dividends paid	**(1,463)**	(1,337)
Disposal of UK Gas Distribution	**11,344**	–
Other cash movements	**(79)**	(185)
Non-cash movements	**(2,782)**	(705)
Decrease/(increase) in net debt	**6,051**	(1,410)
Opening net debt	**(25,325)**	(23,915)
Closing net debt	**(19,274)**	(25,325)

Cash generated from operations (Total)

Cash generated from operations (£m)



Cash flows from our operations are largely stable when viewed over the longer term. Our electricity and gas transmission operations in the UK are subject to multi-year rate agreements with regulators. In the UK, we have largely stable cash flows. However, in the US our short-term cash flows are dependent on the price of gas and electricity and the timing of customer payments. The regulatory mechanisms for recovering costs from customers can result in significant cash flow swings from year to year. Changes in volumes in the US, for example as a consequence of abnormally mild or extreme weather can affect revenues, and hence cash flows, particularly in the winter months.

For the year ended 31 March 2017, cash flow from continuing operations decreased by £70 million to £4,452 million. Cash inflows due to changes in working capital decreased by £265 million over the prior year, principally in the US due to the collection of high winter 2015 billings last year. The outflow of £768 million from changes in pensions and other post-retirement obligations was £475 million higher than 2015/16 due to higher levels of contributions into the UK and US schemes.

Cash flow from discontinued operations decreased by £151 million to £987 million mainly due to £139 million of exceptional transaction costs incurred in relation to the disposal of the UK Gas Distribution business.

Net capital investment

Net capital investment for continuing operations in the year of £3,638 million was £475 million higher than the prior year. This was a result of higher spend in our US Regulated business and favourable exchange rates of £280 million, partially offset by lower spend in UK Electricity Transmission. Further details of our capital investment can be seen on page 22. Net capital investment for discontinued operations of £605 million was £28 million higher than 2015/16.

Net interest paid (including exceptional interest)

Net interest paid for continuing operations was £788 million, £100 million higher than 2015/16 primarily due to the impact of exchange rates on our US dollar denominated finance costs. Net interest paid and exceptional finance costs for discontinued operations in 2016/17 were £1,167 million, £1,044 million higher than 2015/16 primarily due to £1,052 million of debt buyback costs incurred as part of the Group's liability management programme in relation to the disposal of the UK Gas Distribution business.

Tax paid

Tax paid for continuing operations in the year to 31 March 2017 was £132 million, £98 million lower than the prior year. This was primarily due to lower taxable profits as a result of costs incurred in relation to the disposal of the UK Gas Distribution business.

Dividends paid

Dividends paid in the year ended 31 March 2017 amounted to £1,463 million. This was £126 million higher than 2015/16, reflecting the increase in the final dividend paid in August 2016, together with a lower average scrip dividend take-up in the year.

Disposal of UK Gas Distribution

This reflects the cash proceeds received of £5,454 million and the £5,890 million of net debt deconsolidated on disposal of UK Gas Distribution (see note 27).

Other cash movements

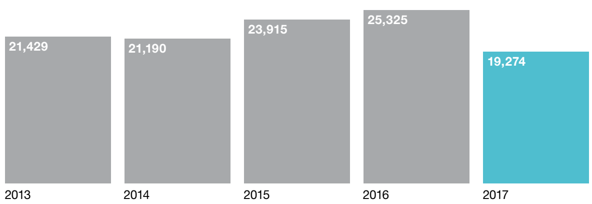
Other cash flows principally arise from movements in treasury shares, including the cost of repurchasing shares as part of the scrip buyback programme of £189 million (2015/16: £267 million), partly offset by dividends from joint ventures and associates of £99 million, £27 million higher than 2015/16.

Non-cash movements

The non-cash movements are predominantly due to the strengthening of the US dollar against sterling, resulting in movements in foreign exchange arising on net debt held in US dollars. In the year, the dollar strengthened from $1.44 at 31 March 2016 to $1.25 at 31 March 2017. Other non-cash movements primarily arise from changes in fair values of financial assets and liabilities and interest accretions and accruals.

Net debt

Net debt at 31 March (£m)



Notes to the consolidated financial statements
– analysis of items in the primary statements

1. Basis of preparation and recent accounting developments

Accounting policies describe our approach to recognising and measuring transactions and balances in the year. Accounting policies applicable across the financial statements are shown below. Accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

This section also shows areas of judgement and key sources of estimation uncertainty in these financial statements. In addition, we summarise new EU endorsed accounting standards, amendments and interpretations and whether these are effective in 2018 or later years, explaining how significant changes are expected to affect our reported results.

National Grid's principal activities involve the transmission and distribution of electricity and gas in Great Britain and northeastern US. The Company is a public limited liability company incorporated and domiciled in England and Wales, with its registered office at 1–3 Strand, London WC2N 5EH.

The Company has its primary listing on the London Stock Exchange and is also quoted on the New York Stock Exchange.

These consolidated financial statements were approved for issue by the Board on 17 May 2017.

These consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations as issued by the IASB and IFRS as adopted by the EU. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ended 31 March 2017 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the EU IAS Regulation. The comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on a historical cost basis, except for the recording of pension assets and liabilities, the revaluation of derivative financial instruments and certain commodity contracts and investments classified as available-for-sale.

These consolidated financial statements are presented in pounds sterling, which is also the functional currency of the Company.

The financial information relating to prior years has been re-presented as a result of the disposal of the UK Gas Distribution business, as described in C below. The notes to the financial statements have been prepared on a continuing basis unless otherwise stated.

The preparation of financial statements requires management to make 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 (see accounting policy E).

A. Going concern
The Directors considered it appropriate to prepare the financial statements on a going concern basis. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed.

B. Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, together with a share of the results, assets and liabilities of jointly controlled entities (joint ventures) and associates using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the share of net assets of the joint venture or associate, less any provision for impairment.

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to affect the returns of an entity to which it is exposed or to which it has rights.

Losses in excess of the consolidated interest in joint ventures and associates are not recognised, except where the Company or its subsidiaries have made a commitment to make good those losses.

Where necessary, adjustments are made to bring the accounting policies used in the individual financial statements of the Company, subsidiaries, joint ventures and associates into line with those used by the Company in its consolidated financial statements under IFRS. Intercompany transactions are eliminated.

The results of subsidiaries (other than relating to UK Gas Distribution as described in C below), joint ventures and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

C. Disposal of UK Gas Distribution
As described further in note 9, on 8 December 2016, the Group entered into a sale and purchase agreement to dispose of a 61% controlling stake in the UK Gas Distribution business. The disposal completed on 31 March 2017 and the Group has retained a 39% interest in the business. As a result all assets and liabilities of UK Gas Distribution were deemed to be disposed and a 39% interest reacquired. The 39% retained interest is classified as an associate on the basis that the Group retains significant influence over the business through its retained stake. The Group has the ability to appoint 4 of the 12 directors to the Board of Quadgas HoldCo Limited.

In addition, the Group entered into a 'Further Acquisition Agreement' over a further 14% interest. Refer to note 9 for further details.

The Group classified UK Gas Distribution as held for sale as of 8 December 2016, when it became highly probable that the value of the business to the Group would be recovered through sale rather than continuing ownership. As UK Gas Distribution represents a separate major line of business, the business is classified as a discontinued operation in the consolidated income statement. This has resulted in the re-presentation of comparative financial information in the consolidated income statement and the consolidated statement of comprehensive income, as well as earnings per share (EPS) split between continuing and discontinued operations.

1. Basis of preparation and recent accounting developments continued

D. Foreign currencies
Transactions in currencies other than the functional currency of the Company or subsidiary concerned are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Non-monetary assets are not retranslated unless they are carried at fair value.

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the adoption of hedge accounting requires inclusion in other comprehensive income – note 16.

On consolidation, the assets and liabilities of operations that have a functional currency different from the Company's functional currency of pounds sterling, principally our US operations that have a functional currency of US dollars, are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period where these do not differ materially from rates at the date of the transaction. Exchange differences arising are classified as equity and transferred to the consolidated translation reserve within other equity reserves – note 26.

E. Areas of judgement and key sources of estimation uncertainty
The preparation of financial statements requires management to make 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. Information about such judgements and estimations is contained in the notes to the financial statements, and the key areas are summarised below.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- Concerning the sale of UK Gas Distribution – note 9:
  - the date from which the business was classified as held for sale;
  - the classification of the retained interest in the business, and the fair value attributable to it;
  - the accounting implications of the Further Acquisition Agreement (FAA) and the embedded put/call options;
  - the allocation of financing costs between the continuing Group and discontinued operations; and
  - the identification and classification of costs associated with the disposal.
- Categorisation of certain items as exceptional items and the definition of adjusted earnings – notes 4 and 7;
- Energy purchase contracts as being for normal purchase, sale or usage – note 28; and
- Recognition of surpluses in respect of defined benefit pension schemes – note 23.

IFRS provides certain options available within accounting standards. Choices we have made, and continue to make, include the following:

- Presentational formats: we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented separately on the face of the income statement.
- Customer contributions: contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.
- Financial instruments: we normally opt to apply hedge accounting in most circumstances where this is permitted. For net investment hedges, we have chosen to use the spot rate method, rather than the alternative forward rate method.

Key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – notes 11 and 12;
- estimation of liabilities for pensions and other post-retirement benefits – note 23;
- valuation of financial instruments and derivatives – notes 16 and 30; and
- environmental and decommissioning provisions – note 24.

Concerning the sale of UK Gas Distribution, the principal estimate concerns the fair value of the retained interest, which is described further in note 9.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analyses in note 33.

New IFRS accounting standards effective for the year ended 31 March 2017
The Group has adopted the following amendments to standards:

- Annual improvements to IFRSs 2012-2014 Cycle;
- Amendments to IFRS 11 'Joint Arrangements';
- Amendments to IAS 1 'Presentation of Financial Statements';
- Amendments to IAS 16 'Property, Plant and Equipment'; and
- Amendments to IAS 38 'Intangible Assets'.

The adoption of these amendments has had no material impact on the Group's results or financial statement disclosures.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

1. Basis of preparation and recent accounting developments continued

New IFRS accounting standards and interpretations not yet adopted
The Group enters into a significant number of transactions that fall within the scope of IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. We are assessing the likely impact of these standards on the Group's financial statements.

i) IFRS 9 'Financial Instruments'
IFRS 9 'Financial Instruments' (IFRS 9) is effective for National Grid in the year ending 31 March 2019. The changes to IFRS 9 principally impact the accounting for the classification of financial instruments, impairment of financial instruments and hedge accounting. The key change influences the future assessment of impairments using an 'expected loss' method rather than the current 'incurred loss' method; this will result in impairments typically being recorded earlier.

To date we have not identified any significant changes to the accounting for financial liabilities, the impact on accounting for financial assets and derivatives is anticipated to be limited.

We are currently evaluating the impact of the hedge accounting guidance in the new standard. It is possible that changes in requirements will allow the opportunity to apply hedge accounting in a wider range of scenarios.

ii) IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) is effective for National Grid in the year ending 31 March 2019. The new standard provides enhanced detail and a five step revenue recognition approach to reflect the transfer of goods and services to customers.

The core principle of IFRS 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to customers. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services.

This differs from the principle under the current revenue standard that requires an assessment of when risks and rewards of goods and services are transferred rather than control of those goods or services.

Detailed reviews of revenue arrangements in the UK and US are under way and will continue into 2017/18 as we finalise our assessment of the impact of the new standard. Based on work to date we have identified four key areas that require further analysis to determine the impact on the Group:

- whether we act as principal or as agent for revenues collected on behalf of the Scottish and Offshore transmission operators. This is a gross versus net presentational issue that does not have an impact on earnings;
- the timing of recognition of customer contributions for connections in the UK and US. In our electricity business in the UK we currently recognise customer contributions over time as we have an ongoing licence condition to maintain that connection over its life. In our gas business in the UK, we recognise customer contributions when the connection is completed (the licence conditions do not require connections to be maintained over the life of the connection and therefore do not have deferred revenue for connections). In the US, revenue for customer contributions is recognised once work on connections is completed. IFRS 15 requires revenue to be recognised as control over the distinct and separable service is transferred to our customers. We are assessing whether this has an impact on the timing of our revenue recognition;
- the timing of recognition of revenue in our metering business; and
- accounting for certain trade receivables in the US where there is historical evidence of irrecoverability.

We plan to apply IFRS 15 using the modified retrospective approach, whereby comparatives will not be restated on adoption of the new standard but instead a cumulative adjustment will be reflected in retained earnings.

iii) IFRS 16 'Leases'
IFRS 16 'Leases' (IFRS 16) is effective for National Grid in the year ending 31 March 2020, subject to EU endorsement. The Group enters into a significant number of operating lease transactions as well as certain power purchase arrangements. Under IFRS 16, our operating leases will be accounted for on the balance sheet as 'right-of-use' assets. This treatment will increase both our assets and liabilities and subsequently, an increase to finance costs and depreciation and a reduction in rental costs. The outcome of our conclusions will have an impact on how we account for our operating leases and power purchase arrangements. We are also performing an assessment of our revenue and service contracts to determine whether we have the right to use assets under those contracts and whether they fall within the scope of IFRS 16. We plan to apply IFRS 16 using the modified retrospective approach, whereby comparatives will not be restated on adoption of the new standard but instead a cumulative adjustment will be reflected in retained earnings.

iv) Other
In addition, the following new accounting standards and amendments to existing standards have been issued but are not yet effective or have not yet been endorsed by the EU:

- Amendments to IAS 12 'Income Taxes';
- Amendments to IFRS 2 'Share Based Payments';
- Amendments to IAS 7 'Statement of Cash Flows';
- Annual Improvements to IFRS Standards 2014-2016 Cycle;
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration';
- Amendments to IAS 40 'Investment Property'.

Effective dates remain subject to the EU endorsement process.

The Group is currently assessing the impact of the above standards, but they are not expected to have a material impact. The Group has not early adopted any other standard, amendment or interpretation that was issued but is not yet effective.

2. Segmental analysis

This note sets out the financial performance for the year split into the different parts of the business (operating segments). We monitor and manage the performance of these operating segments on a day-to-day basis.

Our strategy in action
We own a portfolio of businesses that range from businesses with high levels of investment and growth (such as UK Electricity Transmission) to cash generative developed assets with lower investment requirements (such as National Grid Metering, included within Other activities).

We generate the majority of our revenue from our regulated operating segments in the UK and US. We work with our regulators to obtain agreements that balance the risks we face with the opportunity to deliver reasonable returns for our investors. When investing in Other activities we aim to leverage our core capabilities to deliver higher returns for investors.

Our regulated businesses earn revenue for the transmission, distribution and generation services they have provided during the year. In any one year, the revenue recognised may differ from that allowed under our regulatory agreements and any such timing differences are adjusted through future prices. Our Other activities earn revenue in line with their contractual terms.

Revenue primarily represents the sales value derived from the generation, transmission and distribution of energy, together with the sales value derived from the provision of other services to customers. It excludes value added (sales) tax and intra-group sales.

Revenue includes an assessment of unbilled energy and transportation services supplied to customers between the date of the last meter reading and the year-end. This is estimated based on historical consumption and weather patterns.

Where revenue exceeds the maximum amount permitted by a regulatory agreement, adjustments will be made to future prices to reflect this over-recovery. No liability is recognised, as such an adjustment relates to the provision of future services. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. As part of our regulatory agreements we are entitled to recover certain costs directly from customers (pass-through costs). These amounts are included in the overall calculation of revenue as stipulated by regulatory agreements and explained further on pages 174 to 179.

We present revenue and the results of the business analysed by operating segment, based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between operating segments. The Board of Directors is National Grid's chief operating decision-making body (as defined by IFRS 8 'Operating Segments') and assesses the earnings performance of operations on the basis of operating profit before exceptional items and remeasurements (see note 4).

There has been no change to the way in which our businesses have reported internally during the year. However, for the purposes of this note, the reporting structure for the year ended 31 March 2017 has been updated to show the UK Gas Distribution segment within discontinued operations together with the results of our interest in Xoserve Limited, which was previously included within Other activities. Discontinued operations are solely within the UK geographical area. National Grid Ventures formed on 1 April 2017 and the impact of this change will be reflected in 2017/18.

The following table describes the main activities for each operating segment:

UK Electricity Transmission	High voltage electricity transmission networks in Great Britain.
UK Gas Transmission	The gas transmission network in Great Britain and UK LNG storage activities.
US Regulated	Gas distribution networks, electricity distribution networks and high voltage electricity transmission networks in New York and New England and electricity generation facilities in New York.

Other activities primarily relate to non-regulated businesses and other commercial operations not included within the above segments, including: UK gas metering activities; the Great Britain-France Interconnector; UK property management; a UK LNG import terminal; US LNG operations; US unregulated transmission pipelines; together with corporate activities.

Sales between operating segments are priced considering the regulatory and legal requirements to which the businesses are subject. The analysis of revenue by geographical area is on the basis of destination. There are no material sales between the UK and US geographical areas.

(a) Revenue

	2017			2016 Re-presented[1]			2015 Re-presented[1]		
	Total sales £m	**Sales between segments £m**	**Sales to third parties £m**	Total sales £m	Sales between segments £m	Sales to third parties £m	Total sales £m	Sales between segments £m	Sales to third parties £m
Operating segments:									
UK Electricity Transmission	**4,439**	**(29)**	**4,410**	3,977	(20)	3,957	3,754	(12)	3,742
UK Gas Transmission	**1,080**	**(99)**	**981**	1,047	(109)	938	1,022	(107)	915
US Regulated	**8,931**	**–**	**8,931**	7,493	–	7,493	7,986	–	7,986
Other activities	**713**	**–**	**713**	824	–	824	714	–	714
Total from continuing operations	**15,163**	**(128)**	**15,035**	13,341	(129)	13,212	13,476	(119)	13,357
Discontinued operations – UK geographical area (note 9)	**1,902**	**(15)**	**1,887**	1,949	(46)	1,903	1,886	(42)	1,844
	17,065	**(143)**	**16,922**	15,290	(175)	15,115	15,362	(161)	15,201
Split by geographical areas – continuing operations:									
UK			**6,064**			5,619			5,347
US			**8,971**			7,593			8,010
			15,035			13,212			13,357

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

2. Segmental analysis continued

(b) Operating profit
A reconciliation of the operating segments' measure of profit to total profit before tax is provided below. Further details of the exceptional items and remeasurements are provided in note 4.

	Before exceptional items and remeasurements			After exceptional items and remeasurements		
	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m	**2017 £m**	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Operating segments – continuing operations:						
UK Electricity Transmission	**1,372**	1,173	1,237	**1,361**	1,173	1,237
UK Gas Transmission	**511**	486	437	**507**	486	437
US Regulated	**1,713**	1,185	1,164	**1,278**	1,196	1,081
Other activities	**177**	370	196	**62**	370	196
Total from continuing operations	**3,773**	3,214	3,034	**3,208**	3,225	2,951
Discontinued operations – UK geographical area (note 9)	**894**	882	829	**894**	860	829
Segment result	**4,667**	4,096	3,863	**4,102**	4,085	3,780
Split by geographical area – continuing operations:						
UK	**2,118**	2,007	1,991	**1,988**	2,007	1,991
US	**1,655**	1,207	1,043	**1,220**	1,218	960
	3,773	3,214	3,034	**3,208**	3,225	2,951
Reconciliation to profit before tax:						
Operating profit from continuing operations	**3,773**	3,214	3,034	**3,208**	3,225	2,951
Finance income	**53**	22	36	**53**	22	36
Finance costs	**(1,082)**	(878)	(908)	**(1,140)**	(977)	(1,073)
Share of post-tax results of joint ventures and associates	**63**	59	46	**63**	59	46
Profit before tax from continuing operations	**2,807**	2,417	2,208	**2,184**	2,329	1,960
Profit before tax from discontinued operations (note 9)	**748**	725	668	**742**	703	668
	3,555	3,142	2,876	**2,926**	3,032	2,628

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

(c) Capital expenditure

	Net book value of property, plant and equipment and other intangible assets			Capital expenditure			Depreciation and amortisation		
	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m	**2017 £m**	2016 Re-presented[1] £m	2015 Re-presented[1] £m	**2017 £m**	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Operating segments:									
UK Electricity Transmission	**12,515**	11,907	11,276	**1,027**	1,084	1,074	**(421)**	(390)	(376)
UK Gas Transmission	**4,165**	4,140	4,132	**214**	186	184	**(186)**	(178)	(172)
US Regulated	**21,638**	17,490	15,664	**2,247**	1,856	1,501	**(642)**	(535)	(452)
Other activities	**2,430**	2,291	2,290	**247**	201	199	**(232)**	(208)	(190)
Total from continuing operations	**40,748**	35,828	33,362	**3,735**	3,327	2,958	**(1,481)**	(1,311)	(1,190)
Discontinued operations – UK geographical area	**–**	8,423	8,163	**588**	566	512	**(217)**	(303)	(292)
	40,748	44,251	41,525	**4,323**	3,893	3,470	**(1,698)**	(1,614)	(1,482)
Split by geographical area – continuing operations:									
UK	**18,102**	17,491	16,910	**1,357**	1,386	1,352	**(753)**	(715)	(691)
US	**22,646**	18,337	16,452	**2,378**	1,941	1,606	**(728)**	(596)	(499)
	40,748	35,828	33,362	**3,735**	3,327	2,958	**(1,481)**	(1,311)	(1,190)
Asset type:									
Property, plant and equipment	**39,825**	35,074	32,713	**3,507**	3,130	2,786	**(1,348)**	(1,207)	(1,115)
Non-current intangible assets	**923**	754	649	**228**	197	172	**(133)**	(104)	(75)
Total from continuing operations	**40,748**	35,828	33,362	**3,735**	3,327	2,958	**(1,481)**	(1,311)	(1,190)
Discontinued operations	**–**	8,423	8,163	**588**	566	512	**(217)**	(303)	(292)
	40,748	44,251	41,525	**4,323**	3,893	3,470	**(1,698)**	(1,614)	(1,482)

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Total non-current assets other than financial instruments and pension assets located in the UK and US were £20,045 million and £29,003 million respectively as at 31 March 2017 (31 March 2016: UK £26,261 million, US £23,784 million; 31 March 2015: UK £25,278 million, US £21,790 million).

Unaudited commentary on the results of our principal operations by segment – continuing operations

As a business, we have three measures of operating profit (from continuing operations) that are used on a regular basis and disclosed in this Annual Report. The disposal of UK Gas Distribution is analysed separately in note 9.

Statutory operating profit: This is operating profit as calculated under International Financial Reporting Standards (IFRS). Statutory operating profit by segment is shown in note 2 on page 96.

Adjusted operating profit: Adjusted operating profit (business performance) excludes items that if included could distort understanding of our performance for the year and the comparability between periods. Further details of items that are excluded in adjusted operating profit are shown in note 4 on page 101.

Regulated financial performance: This is particularly relevant for our UK operations and is a measure of operating profit that reflects the impact of the businesses' regulatory arrangements when presenting financial performance.

Reconciliations between statutory and adjusted operating profit can be found on page 194. Reconciliations between adjusted operating profit and regulated financial performance for UK Electricity Transmission and UK Gas Transmission can be found on page 98.

Commentary on segmental adjusted operating profit results – continuing operations

We have summarised the results of our principal operating segments here by segment to provide direct reference to the results as disclosed in note 2. This analysis has been prepared based on adjusted operating profit (operating profit before exceptional items and remeasurements) as set out in note 2(b).

UK Electricity Transmission

For the year ended 31 March 2017, revenue in the UK Electricity Transmission segment increased by £462 million to £4,439 million and adjusted operating profit increased by £199 million to £1,372 million.

The revenue growth of £462 million principally reflected the recovery of higher pass-through costs such as system balancing costs, increased regulated revenue allowances and the impact of higher volumes. Net revenue after deducting pass-through costs was £199 million higher. Regulated controllable costs were £25 million lower reflecting reduced environmental costs. Depreciation and amortisation was £31 million higher, reflecting the continued capital investment programme. Other costs were £6 million lower than prior year including lower asset disposal costs.

Capital expenditure decreased by £57 million compared with last year to £1,027 million.

UK Gas Transmission

Revenue in the UK Gas Transmission segment increased by £33 million to £1,080 million and adjusted operating profit increased by £25 million to £511 million.

After deducting pass-through costs, net revenue was £31 million higher than prior year, including increased regulated revenue allowances in the year and higher volumes than expected, partly offset by lower LNG storage revenues following a site closure. Regulated controllable costs were £2 million higher than last year, with lower LNG storage costs offset by costs resulting from an increase in the number of employees to support higher levels of asset health investment. Depreciation and amortisation costs were £8 million higher, reflecting ongoing investment. Other operating costs were £4 million lower than last year.

Capital expenditure increased to £214 million, £28 million higher than last year.

US Regulated

Revenue in our US Regulated business increased by £1,438 million to £8,931 million and adjusted operating profit increased by £528 million to £1,713 million.

The stronger US dollar increased revenue and operating profit in the year by £1,160 million and £184 million respectively. Excluding the impact of foreign exchange rate movements, revenue increased by £278 million. Increased revenue allowances under new rate cases, the benefit of capex trackers and over-recovery of allowed revenues due to cold weather were partly offset by lower commodity cost recoveries. Overall pass-through costs reduced by £231 million (excluding the impact of foreign exchange) resulting in an increase in net regulated revenue of £509 million at constant currency. Regulated controllable costs increased by £152 million at constant currency, partly as a result of increased information systems costs, write-offs of prior years' capital costs and higher costs of health care and other benefits. These were partly offset by a £32 million decrease in bad debt costs. Depreciation and amortisation was £24 million higher this year at constant currency as a result of ongoing investment in our networks. Other operating costs were £21 million higher at constant currency, reflecting increased operating taxes and cost of removal of existing assets.

Our capital expenditure in the US continued to increase with £2,247 million of expenditure in the year, £391 million more than in 2015/16. At constant currency, this represented a £104 million increase in investment driven by higher investment in new and replacement gas mains.

Other activities

Revenue in Other activities decreased by £111 million to £713 million and adjusted operating profit decreased by £193 million to £177 million.

In the US, adjusted operating profit was £80 million lower (including £3 million of foreign exchange benefit) partly reflecting higher US project development costs. In addition, 2015/16 included a £49 million gain on disposal of the Iroquois pipeline. In the UK, adjusted operating profit was £113 million lower including lower auction revenues from the French Interconnector and increased business change costs. Capital expenditure in our Other activities was £46 million higher than last year at £247 million.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

Unaudited commentary on the results of our principal operations by segment – continuing operations continued

Commentary on UK regulated financial performance

The regulated financial performance calculation provides a measure of the performance of the regulated operations before the impacts of interest and taxation. It adjusts reported operating profit under IFRS to reflect the impact of the businesses' regulatory arrangements when presenting financial performance.

Adjustments in calculating regulatory financial performance

The principal adjustments from reported operating profit to UK regulated financial performance are:

Movement in regulatory 'IOUs': Revenue related to performance in one year may be recovered in later years. Revenue may be recovered in one year but may be required to be returned to customers in future years. IFRS recognises these revenues when they flow through invoices to customers and not in the period to which they relate.

Performance RAV: UK performance efficiencies are in part remunerated by the creation of additional RAV which is expected to result in future earnings under regulatory arrangements.

Pension adjustment: Cash payments against pension deficits in the UK are recoverable under regulatory contracts.

3% RAV indexation: Future UK revenue allowances are expected to be set using an asset base adjusted for inflation. These will be billed in future periods and recognised under IFRS at that time. A 3% RPI inflation assumption is used, reflecting the long-run expectation.

Deferred taxation adjustment: Future UK revenues are expected to recover cash taxation costs, including the unwinding of deferred taxation balances created in the current year.

Regulatory depreciation: UK regulated revenues include an allowance for a return of regulatory capital in accordance with regulatory assumed asset lives. This return does not form part of regulatory profit.

Fast/slow money adjustment: The regulatory remuneration of costs incurred is split between in-year revenue allowances and the creation of additional RAV. This does not align with the classification of costs as operating costs and fixed asset additions under IFRS accounting principles.

UK Electricity Transmission

Regulated financial performance for UK Electricity Transmission decreased by 1% to £1,184 million from £1,195 million, principally reflecting the lower achieved operational return, driven by lower totex outperformance.

Reconciliation of regulated financial performance to operating profit	2017 £m	2016 £m	% change
Reported operating profit	**1,372**	1,173	17
Movement in regulatory 'IOUs'	**(288)**	(147)	
Deferred taxation adjustment	**62**	80	
RAV indexation (average 3% long-run inflation)	**356**	339	
Regulatory vs IFRS depreciation difference	**(379)**	(368)	
Fast/slow money adjustment	**34**	92	
Pensions	**(47)**	(54)	
Performance RAV created	**74**	80	
Regulated financial performance	**1,184**	1,195	(1)

UK Gas Transmission

Regulated financial performance for UK Gas Transmission decreased to £499 million from £535 million, down 7%. This reflected a lower operational return on equity, mainly as a result of the reduction in legacy incentives income.

Reconciliation of regulated financial performance to operating profit	2017 £m	2016 £m	% change
Reported operating profit	**511**	486	5
Movement in regulatory 'IOUs'	**(120)**	(80)	
Deferred taxation adjustment	**39**	45	
RAV indexation (average 3% long-run inflation)	**168**	166	
Regulatory vs IFRS depreciation difference	**(21)**	(18)	
Fast/slow money adjustment	**(14)**	18	
Pensions	**(53)**	(77)	
Performance RAV created	**(11)**	(5)	
Regulated financial performance	**499**	535	(7)

3. Operating costs

Below we have presented separately certain items included in our operating costs from continuing operations. These include a breakdown of payroll costs (including disclosure of amounts paid to key management personnel) and fees paid to our auditors.

Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

	Before exceptional items and remeasurements			Exceptional items and remeasurements			Total		
	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m	**2017 £m**	2016 Re-presented[1] £m	2015 Re-presented[1] £m	**2017 £m**	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Depreciation and amortisation	**1,481**	1,311	1,190	**–**	–	–	**1,481**	1,311	1,190
Payroll costs	**1,578**	1,337	1,292	**–**	–	–	**1,578**	1,337	1,292
Purchases of electricity	**1,143**	1,304	1,615	**46**	8	70	**1,189**	1,312	1,685
Purchases of gas	**1,241**	986	1,379	**22**	(19)	13	**1,263**	967	1,392
Rates and property taxes	**1,042**	899	856	**–**	–	–	**1,042**	899	856
Balancing Services Incentive Scheme	**1,120**	907	874	**–**	–	–	**1,120**	907	874
Payments to other UK network owners	**1,008**	971	801	**–**	–	–	**1,008**	971	801
Other	**2,649**	2,283	2,316	**497**	–	–	**3,146**	2,283	2,316
	11,262	9,998	10,323	**565**	(11)	83	**11,827**	9,987	10,406
Operating costs include:									
Inventory consumed							**296**	274	339
Operating leases							**98**	91	89
Research and development expenditure							**14**	19	16

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

(a) Payroll costs

	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Wages and salaries[2]	**1,852**	1,553	1,436
Social security costs	**145**	120	112
Other pension costs (note 23)	**209**	201	190
Share-based payments	**32**	21	18
Severance costs (excluding pension costs)	**5**	4	3
	2,243	1,899	1,759
Less: payroll costs capitalised	**(665)**	(562)	(467)
Total payroll costs	**1,578**	1,337	1,292

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Included within wages and salaries are US other post-retirement benefit costs of £53 million (2016: £52 million; 2015: £39 million). For further information refer to note 23.

(b) Number of employees

	31 March 2017	**Monthly average 2017**	31 March 2016 Re-presented[1]	Monthly average 2016 Re-presented[1]	31 March 2015 Re-presented[1]	Monthly average 2015 Re-presented[1]
UK	**6,265**	**6,291**	6,224	6,067	5,882	5,830
US	**15,867**	**15,752**	14,830	14,775	14,573	14,434
Total number of employees	**22,132**	**22,043**	21,054	20,842	20,455	20,264

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

The vast majority of employees in the US are either directly or indirectly employed in the transmission, distribution and generation of electricity or the distribution of gas, while those in the UK are either directly or indirectly employed in the transmission of gas or the transmission of electricity. At 31 March 2017, there were 1,858 (2016: 1,865; 2015: 1,766) employees in other operations, excluding shared services.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

3. Operating costs continued

(c) Key management compensation

	2017 £m	2016 £m	2015 £m
Short-term employee benefits	**8**	9	10
Post-employment benefits	**1**	1	9
Share-based payments	**6**	4	4
Total key management compensation	**15**	14	23

Key management compensation relates to the Board, including the Executive Directors and Non-executive Directors for the years presented.

(d) Directors' emoluments
Details of Executive Directors' emoluments are contained in the audited part of the Remuneration Report on page 63 and those of Non-executive Directors on page 67.

(e) Auditors' remuneration
Auditors' remuneration is presented below in accordance with the requirements of the Companies Act 2006 and the principal accountant fees and services disclosure requirements of Item 16C of Form 20-F:

	2017 £m	2016 £m	2015 £m
Audit fees payable to the parent Company's auditors and their associates in respect of:			
Audit of the parent Company's individual and consolidated financial statements[1]	**1.5**	1.3	1.3
The auditing of accounts of any associate of the Company	**13.7**	9.2	8.1
Other services supplied[2]	**4.6**	3.6	3.3
	19.8	14.1	12.7
Total other services[3]			
Tax fees[4]:			
Tax compliance services	**0.4**	0.5	0.4
Tax advisory services	**0.1**	–	0.1
All other fees:			
Other assurance services[5]	**4.6**	4.3	0.1
Services relating to corporate finance transactions not covered above[6]	**5.9**	1.6	–
Other non-audit services not covered above[7]	**6.3**	2.5	0.3
	17.3	8.9	0.9
Total auditors' remuneration	**37.1**	23.0	13.6

1. Audit fees in each year represent fees for the audit of the Company's financial statements and regulatory reporting for the years ended 31 March 2017, 2016 and 2015, and the review of interim financial statements for the six month periods ended 30 September 2016, 2015 and 2014 respectively.
2. Other services supplied represent fees payable for services in relation to other statutory filings or engagements that are required to be carried out by the auditors. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley) and audit reports on regulatory returns.
3. There were no audit related fees as described in Item 16C(b) of Form 20-F.
4. Tax fees include amounts charged for tax compliance and tax advice.
5. Principally amounts relating to assurance services provided in relation to the sale of UK Gas Distribution and data assurance work in respect of financial information included in US rate filings.
6. Vendor due diligence and other transaction services in relation to the sale of UK Gas Distribution.
7. Fees for other non-audit services – principally assisting the Company with separation activities in relation to the sale of UK Gas Distribution.

PwC has contracted with Ofgem to assess the UK gas industry's readiness for the introduction of new settlement processes and systems. Fees for these services are paid by Xoserve Limited, a subsidiary of National Grid (until 31 March 2017), on behalf of the industry, under instruction from Ofgem. As PwC has no contract with or duty of care to Xoserve Limited, these amounts are not included above.

In addition, fees of £0.4 million were incurred in 2017 in relation to the audits of the pension schemes of the Company (2016: £0.1 million; 2015: £0.2 million).

The Audit Committee considers and makes recommendations to the Board, to be put to shareholders for approval at each AGM, in relation to the appointment, re-appointment, removal and oversight of the Company's independent auditors. The Board of Directors, in accordance with a resolution approved at the 2016 AGM, is authorised to agree the auditors' remuneration. The Audit Committee considers and approves the audit fees on behalf of the Board in accordance with the Competition and Market Authority Audit Order 2014. The Board of Directors will seek to renew this authority at the 2017 AGM. Details of our policies and procedures in relation to non-audit services to be provided by the independent auditors are set out within page 44 of the Corporate Governance Report.

Certain services are prohibited from being performed by the external auditors under the Sarbanes-Oxley Act. Of the above services, none were prohibited.

4. Exceptional items and remeasurements

To monitor our financial performance, we use a profit measure that excludes certain income and expenses. We call that measure 'business performance' or 'adjusted profit'. We exclude items from business performance because, if included, these items could distort understanding of our performance for the year and the comparability between periods. This note analyses these items, which are included in our results for the year but are excluded from business performance.

Our financial performance is analysed into two components: business performance, which excludes exceptional items and remeasurements; and exceptional items and remeasurements. Business performance is used by management to monitor financial performance as it is considered that it improves the comparability of our reported financial performance from year to year. Business performance subtotals are presented on the face of the income statement or in the notes to the financial statements.

Management utilises an exceptional items framework that has been discussed and approved by the Group Audit Committee. This follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the Group's control and how frequently such an event typically occurs. In determining the facts and circumstances management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, precedent for similar items, number of periods over which costs will be spread or gains earned and the commercial context for the particular transaction.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and significant debt redemption costs as a consequence of transactions such as significant disposals or issues of equity.

Costs arising from restructuring programmes include redundancy costs. Redundancy costs are charged to the income statement in the year in which a commitment is made to incur the costs and the main features of the restructuring plan have been announced to affected employees.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective. These fair values increase or decrease because of changes in commodity and financial indices and prices over which we have no control.

Exceptional items and remeasurements from continuing operations

	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Included within operating profit			
Exceptional items:			
Environmental charges	**(526)**	–	–
Gas holder demolition costs	**(107)**	–	–
	(633)	–	–
Remeasurements – commodity contracts	**68**	11	(83)
	(565)	11	(83)
Included within finance costs			
Exceptional items:			
Debt redemption costs	**–**	–	(131)
Remeasurements – net losses on derivative financial instruments	**(58)**	(99)	(34)
	(58)	(99)	(165)
Total included within profit before tax	**(623)**	(88)	(248)
Included within tax			
Exceptional credits arising on items not included in profit before tax:			
Deferred tax credit arising on the reduction in the UK corporation tax rate	**94**	162	4
Tax on exceptional items	**227**	–	28
Tax on remeasurements	**(29)**	15	44
	292	177	76
Total exceptional items and remeasurements after tax	**(331)**	89	(172)
Analysis of total exceptional items and remeasurements after tax			
Exceptional items after tax	**(312)**	162	(99)
Remeasurements after tax	**(19)**	(73)	(73)
Total exceptional items and remeasurements after tax	**(331)**	89	(172)

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

4. Exceptional items and remeasurements continued

Further detail of operating exceptional items specific to 2016/17
In the US, the Group's most significant environmental liabilities relate to former manufacturing gas plant (MGP) facilities formerly owned or operated by the Company. The sites are subject to both state and federal law in the US. Environmental reserves are re-evaluated at each reporting period. The expenditure is expected to be largely recoverable from rate payers but under IFRS, no asset can be recorded for this. During the second half of 2016/17, the Group updated its assessment of the gross remediation costs at three key sites in New York, resulting in an increase of £481 million on an undiscounted basis.

The charge booked reflects the Group's best estimate of future cash outflow, based on notices received from state and federal authorities, and plans developed in response, supported by external consultants where appropriate. In some cases, judgement is also required regarding the Group's share of the estimated cost, principally at sites where other parties are also potentially liable but where no cost sharing agreement exists.

A provision of £107 million has been made for the demolition of certain non-operational gas holders in the UK. Following the disposal of UK Gas Distribution, the land on which the gas holders are sited was transferred to the Group's UK property division. The Group's property division maximises our return from our land portfolio and therefore a constructive obligation exists to demolish the gas holders.

Also included within the above are charges relating to the impact of a change in the real discount rate from 2% to 1% on our provisions.

Remeasurements
Commodity contracts represent mark-to-market movements on certain physical and financial commodity contract obligations in the US. These contracts primarily relate to the forward purchase of energy for supply to customers, or to the economic hedging thereof, that are required to be measured at fair value and that do not qualify for hedge accounting. Under the existing rate plans in the US, commodity costs are recoverable from customers although the timing of recovery may differ from the pattern of costs incurred.

Net losses or gains on derivative financial instruments comprise losses or gains arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt.

Items included within tax
The Finance Act 2016 which was enacted on 15 September 2016 reduced the main rate of UK corporation tax to 17% with effect from 1 April 2020. Deferred tax balances have been calculated at this rate.

Deferred taxes at the reporting date have been measured using these enacted tax rates and reflected in these financial statements, resulting in a deferred tax credit. This credit is presented as exceptional, reflecting its nature.

5. Finance income and costs

This note details the interest income generated by our financial assets and interest expense incurred on our financial liabilities. It also includes the expected return on our pensions and other post-retirement assets, which is offset by the interest payable on pensions and other post-retirement obligations and presented on a net basis. In reporting business performance, we adjust net financing costs to exclude any net gains or losses on derivative financial instruments included in remeasurements. In addition, significant debt redemption costs are typically treated as exceptional (note 4).

	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Finance income			
Interest income on financial instruments:			
Bank deposits and other financial assets	**28**	22	28
Gains on disposal of available-for-sale investments	**25**	–	8
	53	22	36
Finance costs			
Net interest on pensions and other post-retirement benefit obligations	**(107)**	(111)	(98)
Interest expense on financial liabilities held at amortised cost:			
Bank loans and overdrafts	**(59)**	(28)	(35)
Other borrowings	**(927)**	(792)	(836)
Derivatives	**(8)**	37	51
Unwinding of discount on provisions	**(73)**	(69)	(67)
Other interest	**(17)**	(27)	(7)
Less: interest capitalised[2]	**109**	112	84
	(1,082)	(878)	(908)
Exceptional items			
Debt redemption costs	**–**	–	(131)
Remeasurements			
Net gains/(losses) on derivative financial instruments included in remeasurements[3]:			
Ineffectiveness on derivatives designated as:			
Fair value hedges[4]	**33**	39	36
Cash flow hedges	**(12)**	(15)	(13)
Net investment hedges	**–**	–	2
Net investment hedges – undesignated forward rate risk	**60**	(34)	33
Derivatives not designated as hedges or ineligible for hedge accounting	**(139)**	(89)	(92)
	(58)	(99)	(165)
	(1,140)	(977)	(1,073)
Net finance costs from continuing operations	**(1,087)**	(955)	(1,037)

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Interest on funding attributable to assets in the course of construction in the current year was capitalised at a rate of 3.4% (2016: 3.3%; 2015: 3.8%). In the UK, capitalised interest qualifies for a current year tax deduction with tax relief claimed of £18 million (2016: £19 million; 2015: £24 million). In the US, capitalised interest is added to the cost of plant and qualifies for tax depreciation allowances.
3. Includes a net foreign exchange loss on financing activities of £264 million (2016: £407 million loss; 2015: £636 million gain) offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.
4. Includes a net loss on instruments designated as fair value hedges of £27 million (2016: £34 million gain; 2015: £219 million gain) and a net gain of £60 million (2016: £5 million gain; 2015: £162 million loss) arising from fair value adjustments to the carrying value of debt.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

6. Tax

Tax is payable in the territories where we operate, mainly the UK and the US. This note gives further details of the total tax charge and tax liabilities, including current and deferred tax. The current tax charge is the tax payable on this year's taxable profits. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in the accounting and tax bases of profit.

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

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

The calculation of the Group's total tax charge involves a degree of estimation and judgement, and management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Company and its subsidiaries intend to settle their current tax assets and liabilities on a net basis.

Tax charged/(credited) to the income statement – continuing operations

	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Tax before exceptional items and remeasurements	**666**	604	543
Exceptional tax on items not included in profit before tax (note 4)	**(94)**	(162)	(4)
Tax on other exceptional items and remeasurements	**(198)**	(15)	(72)
Tax on total exceptional items and remeasurements (note 4)	**(292)**	(177)	(76)
Total tax charge from continuing operations	**374**	427	467

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Tax as a percentage of profit before tax

	2017 %	2016 Re-presented[1] %	2015 Re-presented[1] %
Before exceptional items and remeasurements – continuing operations	**23.7**	25.0	24.6
After exceptional items and remeasurements – continuing operations	**17.1**	18.3	23.8

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

6. Tax continued

The tax charge for the year can be analysed as follows:

	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Current tax			
UK corporation tax at 20% (2016: 20%; 2015: 21%)	**225**	239	218
UK corporation tax adjustment in respect of prior years	**(47)**	(5)	(7)
	178	234	211
Overseas corporation tax	**–**	38	51
Overseas corporation tax adjustment in respect of prior years	**1**	(19)	(62)
	1	19	(11)
Total current tax from continuing operations	**179**	253	200
Deferred tax			
UK deferred tax	**(9)**	(80)	69
UK deferred tax adjustment in respect of prior years	**(18)**	24	7
	(27)	(56)	76
Overseas deferred tax	**224**	229	138
Overseas deferred tax adjustment in respect of prior years	**(2)**	1	53
	222	230	191
Total deferred tax from continuing operations	**195**	174	267
Total tax charge from continuing operations	**374**	427	467

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Tax charged/(credited) to other comprehensive income and equity

	2017 £m	2016 Re-presented[1] £m	2015 Re-presented[1] £m
Current tax			
Share-based payments	**(4)**	(1)	(6)
Available-for-sale investments	**6**	5	5
Deferred tax			
Available-for-sale investments	**8**	12	2
Cash flow hedges	**20**	22	(10)
Share-based payments	**1**	–	1
Remeasurements of net retirement benefit obligations	**277**	95	(296)
	308	133	(304)
Total tax recognised in the statement of comprehensive income from continuing operations	**311**	134	(299)
Total tax recognised in the statement of comprehensive income from discontinued operations	**10**	23	(11)
Total tax relating to share-based payments recognised directly in equity from continuing operations	**(3)**	(1)	(5)
Total tax relating to share-based payments recognised directly in equity from discontinued operations	**–**	(1)	1
	318	155	(314)

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

6. Tax continued

The tax charge for the year after exceptional items and remeasurements, for the continuing business, is lower (2016: lower; 2015: higher) than the standard rate of corporation tax in the UK of 20% (2016: 20%; 2015: 21%):

	Before exceptional items and remeasurements 2017 £m	**After exceptional items and remeasurements 2017 £m**	Before exceptional items and remeasurements 2016 Re-presented[1] £m	After exceptional items and remeasurements 2016 Re-presented[1] £m	Before exceptional items and remeasurements 2015 Re-presented[1] £m	After exceptional items and remeasurements 2015 Re-presented[1] £m
Profit before tax from continuing operations						
Before exceptional items and remeasurements	**2,807**	**2,807**	2,417	2,417	2,208	2,208
Exceptional items and remeasurements	**–**	**(623)**	–	(88)	–	(248)
Profit before tax from continuing operations	**2,807**	**2,184**	2,417	2,329	2,208	1,960
Profit before tax from continuing operations multiplied by UK corporation tax rate of 20% (2016: 20%; 2015: 21%)	**561**	**437**	483	465	464	412
Effect of:						
Adjustments in respect of prior years[2]	**(67)**	**(67)**	2	1	(8)	(9)
Expenses not deductible for tax purposes[3]	**35**	**442**	25	114	26	322
Non-taxable income[3]	**(24)**	**(425)**	(25)	(112)	(20)	(320)
Adjustment in respect of foreign tax rates	**180**	**104**	124	129	91	77
Impact of share-based payments	**1**	**1**	(1)	(1)	(4)	(4)
Deferred tax impact of change in UK and US tax rates	**–**	**(94)**	–	(162)	–	(4)
Other[4]	**(20)**	**(24)**	(4)	(7)	(6)	(7)
Total tax charge from continuing operations	**666**	**374**	604	427	543	467

	%	**%**	Re-presented[1] %	Re-presented[1] %	Re-presented[1] %	Re-presented[1] %
Effective tax rate – continuing operations	**23.7**	**17.1**	25.0	18.3	24.6	23.8

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Prior year adjustment is primarily due to agreement of prior period tax returns.
3. The post exceptional adjustments primarily represent the impact of the Group's net investment hedging following significant currency fluctuations in the dollar.
4. Other primarily comprises of the benefit due to enhanced deduction available for land remediation expenditure and the presentation of the tax on joint ventures and associates.

Factors that may affect future tax charges

The Finance Act 2016 which was enacted on 15 September 2016 reduced the main rate of UK corporation tax to 17% with effect from 1 April 2020. Deferred tax balances have been calculated at this rate.

Continuing focus on tax reform during 2016/17, specifically the Organisation for Economic Co-operation and Development's (OECD's) Base Erosion and Profit Shifting (BEPS) project to address mismatches in international rules resulted in draft legislation on areas such as interest deductibility being issued during the year. We will continue to monitor developments and assess the potential impact for National Grid of these and any further initiatives.

While the UK remains part of the EU, the evolution of the application of EU tax competition regulations continues to create uncertainty over tax legislation and at this stage it is not possible to quantify any potential impact on the financial statements.

As the Group's presence is mainly in the UK and US, we do not envisage a significant impact on the Group following the UK government's decision to invoke Article 50 to leave the EU.

In the US, there is a possibility of 'Tax Reform' which, if enacted, will likely include substantial changes to the federal taxation system. The changes under consideration include a significant reduction in the statutory corporate tax rate, deductibility of capital expenditures and elimination of many established business tax deductions. The Company continues to monitor various legislative proposals and developments impacting corporate taxation.

6. Tax continued

Tax included within the statement of financial position

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current and prior reporting periods:

	Accelerated tax depreciation £m	Share-based payments £m	Pensions and other post-retirement benefits £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax (assets)/liabilities						
Deferred tax assets at 31 March 2015	(1)	(18)	(1,337)	(64)	(1,186)	(2,606)
Deferred tax liabilities at 31 March 2015	6,657	–	160	5	81	6,903
At 1 April 2015	6,656	(18)	(1,177)	(59)	(1,105)	4,297
Exchange adjustments	141	1	(33)	(1)	(30)	78
Charged/(credited) to income statement	266	3	47	(6)	(203)	107
Charged to other comprehensive income and equity	–	–	125	13	14	152
At 31 March 2016	7,063	(14)	(1,038)	(53)	(1,324)	4,634
Deferred tax assets at 31 March 2016	(1)	(14)	(1,201)	(66)	(1,408)	(2,690)
Deferred tax liabilities at 31 March 2016	7,064	–	163	13	84	7,324
At 1 April 2016	7,063	(14)	(1,038)	(53)	(1,324)	4,634
Exchange adjustments and other[1]	681	1	(144)	(7)	(50)	481
Charged/(credited) to income statement	402	–	177	23	(481)	121
Charged to other comprehensive income and equity	–	1	264	46	5	316
Disposal of UK Gas Distribution	(1,072)	–	(6)	–	5	(1,073)
At 31 March 2017	**7,074**	**(12)**	**(747)**	**9**	**(1,845)**	**4,479**
Deferred tax assets at 31 March 2017	(1,093)	(12)	(1,036)	(10)	(1,943)	(4,094)
Deferred tax liabilities at 31 March 2017	8,167	–	289	19	98	8,573
	7,074	(12)	(747)	9	(1,845)	4,479

1. Exchange adjustments and other comprises of foreign exchange arising on translation of the US dollar deferred tax balances together with a reclassification of £143 million being the opening deferred tax balance in respect of US net operating losses to offset against US current tax liabilities.

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. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £4,479 million (2016: £4,634 million). Deferred tax asset of £798 million (2016: £667 million) has been recognised in respect of net operating losses.

Deferred tax assets in respect of capital losses, trading losses and non-trade deficits have not been recognised as their future recovery is uncertain or not currently anticipated. The deferred tax assets not recognised are as follows:

	2017 £m	2016 Re-presented[1] £m
Capital losses	**362**	232
Non-trade deficits	**4**	5
Trading losses	**9**	–

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

The capital losses and non-trade deficits that arise in the UK are available to carry forward indefinitely. However, the capital losses can only be offset against specific types of future capital gains and non-trade deficits against specific future non-trade profits. The trading losses arising in the US can be carried forward for up to 20 years.

The aggregate amount of temporary differences associated with the unremitted earnings of overseas subsidiaries, joint ventures and associates for which deferred tax liabilities have not been recognised at the reporting date is approximately £1,101 million (2016: £502 million). No liability is recognised in respect of the differences because the Company and its subsidiaries are in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. In addition, as a result of UK tax legislation, which largely exempts overseas dividends received, the temporary differences are unlikely to lead to additional tax.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

Unaudited commentary on tax

Tax strategy

National Grid manages its tax affairs in a proactive and responsible way in order to comply with all relevant legislation and minimise reputational risk. As a regulated public utility we are very conscious of the need to manage our tax affairs responsibly in the eyes of our stakeholders. We have a good working relationship with all relevant tax authorities and actively engage with them in order to ensure that they are fully aware of our view of the tax implications of our business initiatives. Management responsibility and oversight for our tax strategy, which is approved by the Finance Committee, rests with the Finance Director and the Group Tax and Treasury Director who monitor our tax activities and report to the Finance Committee.

Total UK tax contribution (continuing and discontinued operations combined)

This year we have again disclosed additional information in respect of our total UK tax contribution for consistency and to aid transparency in an area in which there remains significant public interest. As was the case in prior years, the total amount of taxes we pay and collect in the UK year-on-year is significantly more than just the corporation tax which we pay on our UK profits. Within the total, we again include other taxes paid such as business rates and taxes on employment together with employee taxes and other indirect taxes.

The most significant amounts making up the 2016/17 total tax contribution are shown in the charts below:

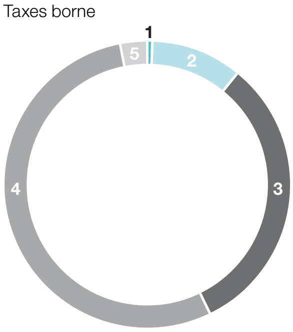
For 2016/17 our total tax contribution to the UK Exchequer was £1.5 billion (2015/16: £1.6 billion). Taxes borne in 2016/17 were £644 million, a decrease of 8.4% on taxes borne in 2015/16 of £703 million primarily due to lower corporation tax payments in the current year. The main reason for this is the impact of our debt redemption costs during the year ended 31 March 2017, which reduced corporation tax instalment payments due for that year. Our taxes collected were £887 million, a reduction of 1.3% on 2015/16 of £899 million. We anticipate our total tax contribution to fall next year following the sale of the UK Gas Distribution business on 31 March 2017.

Our 2015/16 total tax contribution of £1.6 billion resulted in National Grid being the 15th highest contributor of UK taxes based on the results of the Hundred Group's 2016 Total Tax Contribution Survey, a position commensurate with the size of our business and capitalisation relative to other contributors to the Survey. In 2015, we were in 13th position. In 2016 we ranked 9th in respect of taxes borne; in 2015, we were in 7th position.

National Grid's contribution to the UK economy is again broader than just the taxes it pays over to and collects on behalf of HMRC. The Hundred Group's 2016 Total Tax Contribution Survey ranks National Grid in 3rd place in respect of UK capital expenditure on fixed assets, up from 5th place in 2015. National Grid's economic contribution also supports a significant number of UK jobs in our supply chain.

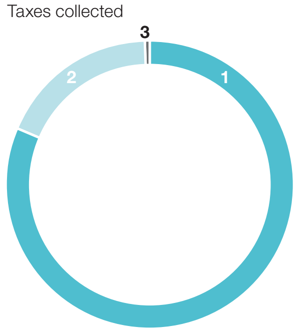
UK total tax contribution 2016/17 (continuing and discontinued operations combined)

Taxes borne



	£m
1. VAT	1
2. PAYE and NIC	67
3. UK corporation tax	207
4. Business rates	351
5. Other	18
Total	**644**

Taxes collected



	£m
1. VAT	725
2. PAYE and NIC	161
3. Other	1
Total	**887**

Unaudited commentary on tax continued

Tax transparency

The UK tax charge for the year disclosed in the financial statements in accordance with accounting standards and the UK corporation tax paid during the year will differ. For transparency we have included a reconciliation below of the tax charge per the income statement to the UK corporation tax paid in 2016/17.

The tax charge for the Group from continuing operations as reported in the income statement is £374 million (2015/16: £427 million[1]). The UK tax charge is £151 million (2015/16: £178 million[1]) and UK corporation tax paid was £129 million (2015/16: £223 million[1]), with the principal differences between these two measures as follows:

Reconciliation on continuing operations of UK total tax charge to UK corporation tax paid	Year ended 31 March 2017 £m	2016 Re-presented[1] £m
Total UK tax charge (current tax £178m (2016: £234m[1]) and deferred tax credit £27m (2016: credit £56m[1]))	**151**	178
Adjustment for non-cash deferred tax credit	**27**	56
Adjustments for current tax credit in respect of prior years	**47**	5
UK current tax charge	**225**	239
UK corporation tax instalment payments not payable until the following year	**(216)**	(95)
UK corporation tax instalment payments in respect of prior years paid in current year	**120**	79
UK corporation tax paid	**129**	223

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Tax losses

We have total unrecognised deferred tax assets in respect of losses of £375 million (2015/16: £237 million) of which £362 million (2015/16: £232 million) are capital losses in the UK as set out on page 107. These losses arose as a result of the disposal of certain businesses or assets and may be available to offset against future capital gains in the UK.

Development of future tax policy

We believe that the continued development of a coherent and transparent tax policy in the UK is critical to help drive growth in the economy.

We continue to contribute to research into the structure of business tax and its economic impact by contributing to the funding of the Oxford University Centre for Business Tax at the Saïd Business School.

We are a member of a number of industry groups which participate in the development of future tax policy, including the Hundred Group, which represents the views of Finance Directors of FTSE 100 companies and several other large UK companies. Our Finance Director is Chairman of the Hundred Group. This helps to ensure that we are engaged at the earliest opportunity on tax issues which affect our business. In the current year we have reviewed and responded to a number of HMRC consultations, the subject matter of which directly impacts taxes borne or collected by our business, with the aim of openly contributing to the debate and development of UK tax legislation. We undertake similar activities in the US, where the Company is an active member in the Edison Electric Institute, the American Gas Association and the Organization for International Investment.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

7. Earnings per share (EPS)

EPS is the amount of post-tax profit attributable to each ordinary share. Basic EPS is calculated on profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS shows what the impact would be if all outstanding share options were exercised and treated as ordinary shares at year end. The weighted average number of shares is increased by additional shares issued as scrip dividends and reduced by shares repurchased by the Company during the year.

Adjusted earnings and EPS, which exclude exceptional items and remeasurements, are provided to reflect the business performance subtotals used by the Company. We have included reconciliations from this additional EPS measure to earnings for both basic and diluted EPS to provide additional detail for these items. For further details of exceptional items and remeasurements, see note 4.

(a) Basic earnings per share

	Earnings 2017 £m	**Earnings per share 2017 pence**	Earnings 2016[1] £m	Earnings per share 2016 (restated)[1,2] pence	Earnings 2015[1] £m	Earnings per share 2015 (restated)[1,2] pence
Adjusted earnings from continuing operations	**2,141**	**56.9**	1,812	48.0	1,675	43.9
Exceptional items after tax from continuing operations	**(312)**	**(8.3)**	162	4.3	(99)	(2.6)
Remeasurements after tax from continuing operations	**(19)**	**(0.5)**	(73)	(1.9)	(73)	(1.9)
Earnings from continuing operations	**1,810**	**48.1**	1,901	50.4	1,503	39.4
Adjusted earnings from discontinued operations	**607**	**16.1**	574	15.2	514	13.4
Exceptional items after tax from discontinued operations	**62**	**1.6**	116	3.1	2	0.1
Remeasurements after tax from discontinued operations	**(5)**	**(0.1)**	–	–	–	–
Gain on disposal of UK Gas Distribution	**5,321**	**141.4**	–	–	–	–
Earnings from discontinued operations	**5,985**	**159.0**	690	18.3	516	13.5
Total adjusted earnings	**2,748**	**73.0**	2,386	63.2	2,189	57.3
Total exceptional items after tax	**(250)**	**(6.7)**	278	7.4	(97)	(2.5)
Total remeasurements after tax	**(24)**	**(0.6)**	(73)	(1.9)	(73)	(1.9)
Gain on disposal of UK Gas Distribution	**5,321**	**141.4**	–	–	–	–
Total earnings	**7,795**	**207.1**	2,591	68.7	2,019	52.9

	2017 millions	2016 millions	2015 millions
Weighted average number of shares – basic[2]	**3,763**	3,774	3,817

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

(b) Diluted earnings per share

	Earnings 2017 £m	**Earnings per share 2017 pence**	Earnings 2016[1] £m	Earnings per share 2016 (restated)[1,2] pence	Earnings 2015[1] £m	Earnings per share 2015 (restated)[1,2] pence
Adjusted earnings from continuing operations	**2,141**	**56.7**	1,812	47.8	1,675	43.7
Exceptional items after tax from continuing operations	**(312)**	**(8.3)**	162	4.3	(99)	(2.6)
Remeasurements after tax from continuing operations	**(19)**	**(0.5)**	(73)	(1.9)	(73)	(1.9)
Earnings from continuing operations	**1,810**	**47.9**	1,901	50.2	1,503	39.2
Adjusted earnings from discontinued operations	**607**	**16.0**	574	15.1	514	13.4
Exceptional items after tax from discontinued operations	**62**	**1.6**	116	3.1	2	0.1
Remeasurements after tax from discontinued operations	**(5)**	**(0.1)**	–	–	–	–
Gain on disposal of UK Gas Distribution	**5,321**	**140.8**	–	–	–	–
Earnings from discontinued operations	**5,985**	**158.3**	690	18.2	516	13.5
Total adjusted earnings	**2,748**	**72.7**	2,386	63.0	2,189	57.1
Total exceptional items after tax	**(250)**	**(6.7)**	278	7.3	(97)	(2.5)
Total remeasurements after tax	**(24)**	**(0.6)**	(73)	(1.9)	(73)	(1.9)
Gain on disposal of UK Gas Distribution	**5,321**	**140.8**	–	–	–	–
Total earnings	**7,795**	**206.2**	2,591	68.4	2,019	52.7

	2017 millions	2016 millions	2015 millions
Weighted average number of shares – diluted[2]	**3,780**	3,790	3,834

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

(c) Reconciliation of basic to diluted average number of shares

	2017 millions	2016 (restated)[1] millions	2015 (restated)[1] millions
Weighted average number of ordinary shares – basic	**3,763**	3,774	3,817
Effect of dilutive potential ordinary shares – employee share plans	**17**	16	17
Weighted average number of ordinary shares – diluted	**3,780**	3,790	3,834

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

8. Dividends

Dividends represent the return of profits to shareholders. Dividends are paid as an amount per ordinary share held. We retain part of the profits generated in the year to meet future growth plans and pay out the remainder in accordance with our dividend policy.

Interim dividends are recognised when they become payable to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

	2017			2016			2015		
	Pence per share	**Cash dividend paid £m**	**Scrip dividend £m**	Pence per share	Cash dividend paid £m	Scrip dividend £m	Pence per share	Cash dividend paid £m	Scrip dividend £m
Interim dividend in respect of the current year	**15.17**	**540**	**32**	15.00	532	31	14.71	531	26
Final dividend in respect of the prior year	**28.34**	**923**	**151**	28.16	805	248	27.54	740	289
	43.51	**1,463**	**183**	43.16	1,337	279	42.25	1,271	315

Following completion of the sale of the majority interest in UK Gas Distribution, on 19 April 2017, the Directors declared that an aggregate of approximately £3.2 billion would be returned to shareholders through a special dividend of 84.375p per existing ordinary share ($5.4224 per existing American Depositary Share). The special dividend is to be paid to those shareholders on the register of members at 19 May 2017.

The Directors are proposing a final dividend for the year ended 31 March 2017 of 29.10p per share that will absorb approximately £1 billion of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 16 August 2017 to shareholders who are on the register of members at 2 June 2017 (subject to Shareholders' approval at the AGM). A scrip dividend will be offered as an alternative.

Unaudited commentary on dividends

Following the announcement of our dividend policy in March 2013, the Board remains confident that National Grid is able to support a dividend per share growing at least in line with RPI inflation for the foreseeable future, while continuing to invest as required in our regulated assets.

In August 2014 we began a share buyback programme that will allow us to offer the scrip dividend option for both the full-year and interim dividend. The buyback programme is designed to balance shareholders' appetite for the scrip dividend option with our desire to operate an efficient balance sheet with appropriate leverage.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

9. Discontinued operations

As a result of the sale of a 61% controlling interest in UK Gas Distribution, we are required to report our earnings for the Group excluding UK Gas Distribution ('continuing operations') separately from the results of that business, which we report within 'discontinued operations'.

The gain recognised by the Group on sale is analysed in the detail of the note below. All costs associated with the transaction, including those associated with separation and setting up UK Gas Distribution are shown as a deduction from the proceeds received.

Our results and cash flows of significant assets or businesses sold during the year are shown separately from our continuing operations. Assets and businesses are classified as held for sale when their carrying amounts are recovered through sale rather than through continuing use. It only meets the held for sale condition when the assets are ready for immediate sale in their present condition, management is committed to the sale and it is highly probable that the sale will complete within one year. Depreciation ceases on assets and businesses when they are classified as held for sale and the assets and businesses are impaired if the proceeds less sale costs fall short of the carrying value.

Disposal of UK Gas Distribution
On 8 December 2016 the Group entered into a sale agreement with a consortium of long term infrastructure investors, to dispose of a 61% equity interest in the UK Gas Distribution business, principally comprising the Group's equity and debt interests in National Grid Gas Distribution Limited together with certain other assets (principally property and a 45% interest in Xoserve Limited). The Consortium comprises Macquarie Infrastructure and Real Assets (MIRA), Allianz Capital Partners, Hermes Investment Management, CIC Capital Corporation, Qatar Investment Authority, Dalmore Capital and Amber Infrastructure Limited/International Public Partnerships.

The transaction was contingent on merger clearance from the European Commission, which was received on 16 March 2017, and the transaction completed on 31 March 2017. The Group sold its 100% equity interest in UK Gas Distribution to Quadgas HoldCo Limited, a newly incorporated UK limited company 61% owned by Quadgas Investments Bidco Limited and 39% by the Group's subsidiary National Grid Holdings One plc. In exchange, the Group received cash consideration of £3,679 million and has recognised a shareholder loan receivable of £429 million and a 39% equity interest in Quadgas HoldCo Limited.

In addition, as part of the disposal process, a newly incorporated financing subsidiary of Quadgas HoldCo Limited raised £1,775 million of long term debt, secured against the shares in National Grid Gas Distribution Limited, and remitted cash received from this transaction to the Group. This amount has been treated as part of the net cash proceeds from the transaction totalling £5,454 million.

The final amount of consideration remains subject to completion adjustments which may result in a further gain/loss on disposal within discontinued operations to be reported in 2017/18.

On 31 March 2017, the Group also entered into a Further Acquisition Agreement (FAA) with the Consortium over a 14% interest (relating to both our equity and the shareholder loan interests), which includes the pricing mechanism, based on the price paid for the initial 61% interest, and an annualised escalation factor. The FAA contains put and call options for both the Group and the Consortium that can be exercised in the period between 1 March 2019 and 31 October 2019.

The FAA is a derivative, and the assumptions which will be used to determine fair value are specific to the contract and not readily observable in active markets. Accordingly, it is classified under IFRS 7 'Financial Instruments: Disclosures' as a level 3 financial instrument. As the FAA was entered into on an arm's length basis at the balance sheet date its fair value is nil because the exercise price reflects fair value on 31 March 2017. At future reporting dates, this derivative financial instrument may either be in an asset or a liability position, depending principally on business performance against the Consortium's expectations and movements in interest rates that could impact the annualised escalation factor.

The UK Gas Distribution business met the criteria to be classified as held for sale at 8 December 2016, and depreciation and amortisation (circa £25 million per month) on tangible and intangible fixed assets ceased from this date. The disposal of UK Gas Distribution resulted in a £5.3 billion gain on disposal.

The business represents a reportable segment and a separate major line of business and accordingly has been presented as a discontinued operation in the consolidated income statement, consolidated statement of comprehensive income and the consolidated cash flow statement. The segmental analysis in note 2 has also been re-presented.

In anticipation of the disposal, a process to separate the business from the other UK operations was undertaken. This involved separation activities in relation to finance, pensions, human resources, IT, treasury and operational management. These processes took place in the year leading up to the sale announcement and physical separation of the businesses occurred in early 2017. The UK Gas Distribution business was hived out from National Grid Gas plc into a newly incorporated statutory entity on 1 October 2016.

With respect to treasury activities, a Group-wide financing exercise was undertaken in order to: a) ensure that the proportion of debt to equity financing in National Grid Gas Distribution Limited was in line with the requirements of its regulatory licence and the financing structure of the business more generally; and b) to optimise the mix of debt in the continuing businesses. The financing exercise involved the buyback of debt and derivatives in both of the Group's UK regulated subsidiaries (National Grid Gas plc and National Grid Electricity Transmission plc) as well as the novation of certain instruments to National Grid Gas Distribution Limited, and the issue of new debt by National Grid Gas Distribution Limited whilst under the Group's control prior to the sale completion. Since all these activities formed part of a single exercise, which would not have been undertaken in the absence of the sale, all costs have been allocated to discontinued operations.

9. Discontinued operations continued

The presentation of the 2016/17 income statement is required to be split between continuing and discontinued operations and to re-present results for previous periods in a comparable manner:

- Revenues, operating expenses and operating profits: Discontinued results are closely aligned to the previously disclosed UK Gas Distribution segment, with the results of Xoserve Limited re-allocated from within Other activities.
- Interest costs: Since UK Gas Distribution was not independently financed prior to its sale it is necessary to allocate the Group's overall financing cost between continuing and discontinued operations. In doing so, the Group has presented the results of the continuing business on a basis consistent with how it expects to finance the Group in future periods, to aid comparability in future periods. Interest costs associated with debt and derivatives which remain in the Group as at 31 March 2017 have been attributed to the continuing Group in full. Interest cost relating to instruments bought back in the period since the disposal process started, debt novated across, and debt and derivatives issued by UK Gas Distribution as part of the financing exercise have been included within discontinued operations. The interest costs in the comparative periods for discontinued operations only includes interest that relates to the debt bought back in 2016/17 and the debt novated into UK Gas Distribution in 2016/17.
- Tax: Tax follows the amount of revenues, operating costs and interest allocated to discontinued operations. Tax on exceptional items and remeasurements includes an allocation of tax credits arising from the change in tax rates.

Income statement – discontinued operations
for the years ended 31 March

	2017 £m	**2017 £m**	2016 £m	2016 £m	2015 £m	2015 £m
Revenue		**1,887**		1,903		1,844
Operating costs		**(993)**		(1,043)		(1,015)
Operating profit						
Before exceptional items and remeasurements	**894**		882		829	
Exceptional items and remeasurements[1]	**–**		(22)		–	
Total operating profit from discontinued operations		**894**		860		829
Finance costs						
Before exceptional items and remeasurements	**(146)**		(157)		(161)	
Exceptional items and remeasurements[2]	**(6)**		–		–	
Total finance costs		**(152)**		(157)		(161)
Profit before tax from discontinued operations						
Before exceptional items and remeasurements	**748**		725		668	
Exceptional items and remeasurements	**(6)**		(22)		–	
Total profit before tax from discontinued operations		**742**		703		668
Tax from discontinued operations						
Before exceptional items and remeasurements	**(142)**		(149)		(152)	
Exceptional items and remeasurements	**63**		138		2	
Total tax from discontinued operations		**(79)**		(11)		(150)
Profit after tax from discontinued operations						
Before exceptional items and remeasurements	**606**		576		516	
Exceptional items and remeasurements	**57**		116		2	
Profit after tax from discontinued operations		**663**		692		518
Gain on disposal of UK Gas Distribution	**5,009**		–		–	
Tax on gain on disposal of UK Gas Distribution	**312**		–		–	
Gain on disposal of UK Gas Distribution after tax		**5,321**		–		–
Total profit after tax from discontinued operations		**5,984**		692		518

1. 2016 includes sale preparation costs of £22 million in respect of the disposal of the UK Gas Distribution business. Current year costs have been included as part of transaction costs in determining the gain on disposal.
2. 2017 includes losses in respect of remeasurements of derivative financial instruments.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

9. Discontinued operations continued

Statement of comprehensive income – discontinued operations
for the years ended 31 March

	Notes	2017 £m	2016 £m	2015 £m
Profit after tax from discontinued operations		**5,984**	692	518
Other comprehensive (loss)/income				
Items that will never be reclassified to profit or loss:				
Remeasurement (losses)/gains of pension assets and post-retirement benefit obligations	23	**(75)**	129	(13)
Tax on items that will never be reclassified to profit or loss	6	**13**	(30)	3
Total items from discontinued operations that will never be reclassified to profit or loss		**(62)**	99	(10)
Items that may be reclassified subsequently to profit or loss:				
Net losses in respect of cash flow hedges		**(106)**	(38)	(68)
Transferred to profit or loss in respect of cash flow hedges		**233**	3	2
Tax on items that may be reclassified subsequently to profit or loss	6	**(23)**	7	8
Total items from discontinued operations that may be reclassified subsequently to profit or loss		**104**	(28)	(58)
Other comprehensive income/(loss) for the year, net of tax from discontinued operations		**42**	71	(68)
Total comprehensive income for the year from discontinued operations		**6,026**	763	450

Details of the cash flows relating to discontinued operations are set out on page 90.

Gain on disposal of UK Gas Distribution

	2017 £m
Assets	
Intangible assets	**89**
Property, plant and equipment	**8,700**
Cash and cash equivalents	**5**
Trade and other receivables	**274**
Defined benefit pension asset	**37**
Other assets[1]	**83**
Total assets	**9,188**
Liabilities	
Borrowings[1]	**(5,961)**
Trade and other payables	**(488)**
Provisions	**(94)**
Deferred tax liabilities	**(1,073)**
Defined benefit pension liability	**(3)**
Deferred income	**(915)**
Other liabilities	**(6)**
Total liabilities	**(8,540)**
Net assets on disposal	**648**
Satisfied by:	
Cash proceeds	**3,679**
Loan proceeds	**1,775**
Shareholder loan (note 14)	**429**
Associate at fair value[2]	**1,611**
Total consideration	**7,494**
Less:	
Financing costs	**(1,334)**
Transaction costs	**(305)**
Business restructuring costs	**(198)**
Pre-tax gain on disposal	**5,009**
Tax	**312**
Post-tax gain on disposal	**5,321**

1. Net debt disposal of £5,890 million principally comprises £5,961 million of borrowings net of £71 million of other financial assets.
2. Details of the basis on which the fair value of the retained interest in the business has been determined are in note 15.

9. Discontinued operations continued

Costs included in the gain on disposal total £1,837 million. These include the direct costs of selling UK Gas Distribution ('transaction costs'), the costs for activities undertaken to prepare and structure the disposal ('business set-up costs') and business restructuring costs:

- £1,334 million of these costs relate to the financing exercise undertaken to ensure an appropriate amount of debt was placed in UK Gas Distribution. This includes the costs associated with buybacks of debt from the continuing Group, losses on loans novated at fair value from the continuing Group to UK Gas Distribution as well as losses from closing out derivatives previously designated as cash flow hedges.
- On 8 December 2016, we announced that a voluntary distribution of £150 million would be made for the benefit of energy consumers on the successful sale of UK Gas Distribution. This is a constructive obligation that was triggered on sale of UK Gas Distribution and is included within transaction costs.
- Transaction costs also include professional services fees for the various accounting, legal and consulting work associated with the activities to prepare and structure the disposal of UK Gas Distribution.
- Business restructuring costs principally includes severance costs and costs associated with onerous contracts as a result of the disposal of UK Gas Distribution.

The gain on sale is subject to the substantial shareholder exemption. A tax credit on the gain on disposal arises principally from costs associated with the financing exercise.

Unaudited commentary on the results of discontinued operations

Discontinued operations
Discontinued operations comprise primarily the UK Gas Distribution and Xoserve businesses. Adjusted operating profit for discontinued operations increased by £12 million to £894 million. Operating profit from Xoserve decreased by £8 million, reflecting system implementation costs. In UK Gas Distribution, adjusted operating profit was £20 million higher. Revenue was £36 million lower. This primarily reflects the non-recurrence of last year's revenue over-recovery compared to allowance. Pass-through costs were £2 million lower and regulated controllable costs were £13 million higher including costs resulting from an increase in the number of employees. Depreciation and amortisation costs were £84 million lower reflecting the cessation of depreciation from 8 December 2016, being the point at which the business was determined to be held for sale. Other costs were £17 million higher this year.

UK Gas Distribution
Regulated financial performance for UK Gas Distribution increased to £864 million from £819 million, up 5%. This reflects an increase in achieved operational return on equity year-on-year, driven by improved totex performance.

Reconciliation of regulated financial performance to operating profit	2017 £m	2016 £m	% change
Reported operating profit	**898**	878	2
Movement in regulatory 'IOUs'	**16**	(35)	
Deferred taxation adjustment	**(24)**	(34)	
RAV indexation (average 3% long-run inflation)	**260**	255	
Regulatory vs IFRS depreciation difference	**(199)**	(104)	
Fast/slow money adjustment	**(121)**	(168)	
Pensions	**(13)**	(13)	
Performance RAV created	**47**	40	
Regulated financial performance	**864**	819	5

10. Goodwill

Goodwill represents the excess of what we paid to acquire businesses over the fair value of their net assets at the acquisition date. We assess whether goodwill is recoverable each year by performing an impairment review.

Goodwill is recognised as an asset and is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

Impairment
Goodwill is allocated to cash-generating units and this allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Impairments of goodwill are calculated as the difference between the carrying value of the goodwill and the estimated recoverable amount of the cash-generating unit to which that goodwill has been allocated. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value-in-use at the date the impairment review is undertaken.

Value-in-use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairments are recognised in the income statement and are disclosed separately.

	Total £m
Net book value at 1 April 2015	5,145
Exchange adjustments	170
Net book value at 31 March 2016	5,315
Exchange adjustments	781
Net book value at 31 March 2017	**6,096**

The cost of goodwill at 31 March 2017 was £6,112 million (2016: £5,327 million) with an accumulated impairment charge of £16 million (2016: £12 million).

The amounts disclosed above as at 31 March 2017 include balances relating to the following cash-generating units: New York £3,512 million (2016: £3,061 million); Massachusetts £1,313 million (2016: £1,145 million); Rhode Island £488 million (2016: £426 million); and Federal £783 million (2016: £683 million).

Goodwill is reviewed annually for impairment and the recoverability of goodwill has been assessed by comparing the carrying amount of our operations described above (our cash-generating units) with the expected recoverable amount on a value-in-use basis. In each assessment, the value-in-use has been calculated based on five-year plan projections that incorporate our best estimates of future cash flows, customer rates, costs (including changes in commodity prices), future prices and growth. Such projections reflect our current regulatory rate plans taking into account regulatory arrangements to allow for future rate plan filings and recovery of investment. Our plans have proved to be reliable guides in the past and the Directors believe the estimates are appropriate.

The future economic growth rate used to extrapolate projections beyond five years has been maintained at 2% (2016: 2%). The growth rate has been determined having regard to data on projected growth in US real gross domestic product (GDP). Based on our business' place in the underlying US economy, it is appropriate for the terminal growth rate to be based upon the overall growth in real GDP and, given the nature of our operations, to extend over a long period of time. Cash flow projections have been discounted to reflect the time value of money, using a pre-tax discount rate of 9% (2016: 8%). The discount rate represents the estimated weighted average cost of capital of these operations.

While it is possible that a key assumption in the calculation could change, the Directors believe that no reasonably foreseeable change would result in an impairment of goodwill, in view of the long-term nature of the key assumptions and the margin by which the estimated fair value exceeds the carrying amount.

11. Other intangible assets

Other intangible assets include software which is written down (amortised) over the length of period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Other intangible assets are tested for impairment only if there is an indication that the carrying value of the assets may have been impaired. Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets, such as software, are recognised only if: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

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

	Years
Software	3 to 10

	Software £m
Cost at 1 April 2015	1,504
Exchange adjustments	22
Additions	220
Disposals	(3)
Reclassifications[1]	1
Cost at 31 March 2016	1,744
Exchange adjustments	105
Additions	234
Disposals	(43)
Disposal of UK Gas Distribution	(304)
Reclassifications[1]	(4)
Cost at 31 March 2017	1,732
Accumulated amortisation at 1 April 2015	(702)
Exchange adjustments	(8)
Amortisation charge for the year	(147)
Reclassifications[1]	–
Accumulated amortisation at 31 March 2016	(857)
Exchange adjustments	(43)
Amortisation charge for the year	(164)
Reclassifications[1]	–
Accumulated amortisation of disposals	40
Disposal of UK Gas Distribution	215
Accumulated amortisation at 31 March 2017	(809)
Net book value at 31 March 2017	**923**
Net book value at 31 March 2016	887

1. Reclassifications includes amounts transferred (to)/from property, plant and equipment (see note 12), reclasses between cost and accumulated amortisation of £nil (2016: £nil).

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

12. Property, plant and equipment

The following note shows the physical assets controlled by us. The cost of these assets primarily represents the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and the reduced value of the asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economic life) and charging the cost of the asset to the income statement equally over this period.

Our strategy in action
We operate an energy networks business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment is recorded at cost, less accumulated depreciation and any impairment losses.

Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment as well as the cost of any associated asset retirement obligations.

Property, plant and equipment includes assets in which the Company's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets.

Contributions received prior to 1 July 2009 towards the cost of property, plant and equipment are included in trade and other payables as deferred income and credited on a straight-line basis to the income statement over the estimated useful economic lives of the assets to which they relate.

Contributions received post 1 July 2009 are recognised in revenue immediately, except where the contributions are consideration for a future service, in which case they are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided.

No depreciation is provided on freehold land or assets in the course of construction.

Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessments of estimated useful economic lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

	Years
Freehold and leasehold buildings	up to 65
Plant and machinery:	
Electricity transmission plant	15 to 60
Electricity distribution plant	15 to 60
Electricity generation plant	20 to 40
Interconnector plant	15 to 60
Gas plant – mains, services and regulating equipment	30 to 100
Gas plant – storage	15 to 21
Gas plant – meters	10 to 33
Motor vehicles and office equipment	up to 10

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within operating profit in the income statement.

Items within property, plant and equipment are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

Impairments are recognised in the income statement and if material are disclosed separately.

Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

12. Property, plant and equipment continued

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2015	2,510	50,635	4,515	984	58,644
Exchange adjustments	41	669	20	23	753
Additions	60	801	2,686	126	3,673
Disposals	(26)	(393)	(78)	(62)	(559)
Reclassifications[1]	173	3,060	(3,269)	100	64
Cost at 31 March 2016	2,758	54,772	3,874	1,171	62,575
Exchange adjustments	196	3,157	93	76	3,522
Additions	55	822	3,080	132	4,089
Disposals[2]	(22)	(572)	(70)	(204)	(868)
Disposal of UK Gas Distribution	(112)	(11,861)	(88)	(300)	(12,361)
Reclassifications[1]	104	2,913	(2,938)	(41)	38
Cost at 31 March 2017	2,979	49,231	3,951	834	56,995
Accumulated depreciation at 1 April 2015	(530)	(16,713)	–	(678)	(17,921)
Exchange adjustments	(32)	(168)	–	(10)	(210)
Depreciation charge for the year[3]	(79)	(1,273)	–	(116)	(1,468)
Disposals	6	386	–	61	453
Reclassifications[1]	(5)	(60)	–	–	(65)
Accumulated depreciation at 31 March 2016	(640)	(17,828)	–	(743)	(19,211)
Exchange adjustments	(29)	(780)	–	(44)	(853)
Depreciation charge for the year[3]	(84)	(1,338)	–	(113)	(1,535)
Disposals[2]	42	545	–	203	790
Disposal of UK Gas Distribution	29	3,425	–	207	3,661
Reclassifications[1]	(2)	(20)	–	–	(22)
Accumulated depreciation at 31 March 2017	(684)	(15,996)	–	(490)	(17,170)
Net book value at 31 March 2017	**2,295**	**33,235**	**3,951**	**344**	**39,825**
Net book value at 31 March 2016	2,118	36,944	3,874	428	43,364

1. Represents amounts transferred between categories, (to)/from other intangible assets (see note 11), reclasses from inventories and reclasses between cost and accumulated depreciation of £21 million (2016: £64 million).
2. Includes the reversal of assets with cost of £107 million and accumulated depreciation of £107 million disposed in previous years that remain in use in the Group.
3. Includes amounts in respect of capitalised depreciation of £1 million (2016: £1 million).

	2017 £m	2016 £m
Information in relation to property, plant and equipment		
Capitalised interest included within cost	**1,749**	1,622
Net book value of assets held under finance leases (all relating to motor vehicles and office equipment)	**289**	226
Additions to assets held under finance leases (all relating to motor vehicles and office equipment)	**98**	87
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	**89**	47
Non-current liabilities	**839**	1,649

13. Other non-current assets

Other non-current assets include assets that do not fall into any other non-current asset category (such as goodwill or property, plant and equipment) and the benefit to be received from the asset is not due to be received until after 31 March 2018.

	2017 £m	2016 £m
Commodity contract assets	**52**	10
Other receivables	**45**	37
Prepayments and accrued income	**24**	35
	121	82

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

14. Financial and other investments

Financial and other investments include three main categories. Assets classified as available-for-sale typically represent investments in short-term money funds and quoted investments in equities or bonds of other companies. The second category comprises long-term loans to our associates and joint ventures. The third category is other loans and receivables which includes bank deposits with a maturity of greater than three months, and cash balances that cannot be readily used in operations, principally collateral pledged for certain borrowings.

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

Available-for-sale financial investments are recognised at fair value plus directly related incremental transaction costs, and are subsequently carried at fair value in the statement of financial position. Changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Investment income is recognised using the effective interest method and taken through interest income in the income statement.

Loans receivable and other receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, are recognised in the income statement.

Subsequent to initial recognition, the fair values of financial assets measured at fair value that are quoted in active markets are based on bid prices. When independent prices are not available, fair values are determined by using valuation techniques that are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

	2017 £m	2016 £m
Non-current		
Available-for-sale investments	**605**	482
Loans to associates and joint ventures[1]	**495**	–
	1,100	482
Current		
Available-for-sale investments	**7,432**	1,951
Other loans and receivables	**1,309**	1,047
	8,741	2,998
	9,841	3,480
Financial and other investments include the following:		
Investments in short-term money funds[2]	**6,899**	1,516
Managed investments in equity and bonds[3]	**939**	615
Cash surrender value of life insurance policies	**202**	160
Other loans and receivables	**495**	–
Restricted balances:		
Collateral[4]	**1,262**	999
Other	**44**	190
	9,841	3,480

1. Comprises £434 million relating to shareholder loans to Quadgas HoldCo Limited, and amounts loaned to joint ventures.
2. Includes £14 million (2016: £8 million) held by insurance captives and therefore restricted.
3. Includes restricted amounts of £434 million (2016: £434 million) held by insurance captives and £225 million (2016: £181 million) relating to US non-qualified plan investments.
4. Refers to collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA (International Swaps and Derivatives Association) Master Agreement.

Available-for-sale investments are recorded at fair value. The carrying value of loans and receivables is approximate to their fair value, due to short-dated maturities or transactions entered into on 31 March 2017 at market terms. The maximum exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our credit risk, refer to note 30(a). None of the financial investments are past due or impaired.

Unaudited commentary on financial and other investments
Current available-for-sale investments at 31 March 2017 were £5,481 million higher than at 31 March 2016, primarily reflecting the proceeds received on 31 March 2017 relating to the sale of the UK Gas Distribution business.

15. Investments in joint ventures and associates

Investments in joint ventures and associates represent businesses we do not control, but instead exercise joint control or significant influence.

A joint venture is an arrangement established to engage in economic activity, which the Company jointly controls with other parties and has rights to the net assets of the arrangement. An associate is an entity which is neither a subsidiary nor a joint venture, but over which the Company has significant influence.

	2017			2016		
	Associates £m	Joint ventures £m	Total £m	Associates £m	Joint ventures £m	Total £m
Share of net assets at 1 April	84	313	397	128	190	318
Exchange adjustments	16	19	35	4	17	21
Additions	74	63	137	9	107	116
Acquisition of stake in Quadgas HoldCo Limited	1,611	–	1,611	–	–	–
Disposals	–	–	–	(52)	–	(52)
Share of post-tax results for the year	15	48	63	13	46	59
Dividends received	(24)	(75)	(99)	(24)	(48)	(72)
Other movements	–	(61)	(61)	6	1	7
Share of net assets at 31 March	1,776	307	2,083	84	313	397

A list of joint ventures and associates including the name and proportion of ownership is provided in note 32.

Further information on the Group's acquisition of a minority stake in Quadgas HoldCo Limited is provided in note 9 and overleaf.

On 10 January 2017 the Group announced it had entered into an arrangement with San Francisco-based Sunrun Neptune Investor 2016 LLC, a leading US provider of residential solar energy systems to provide investment capital. In the period to 31 March 2017, the Group invested £41 million alongside Sunrun into a newly incorporated partnership vehicle. The investment is classified as an associate as the Group has significant influence over the activities of the partnership vehicle.

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed, and the Group has no significant contingent liabilities in relation to its interest in the joint ventures and associates. The Group has capital commitments of £235 million (2016: £305 million) in relation to joint ventures.

Outstanding balances with joint ventures and associates are shown in note 29.

At 31 March 2017, the Group had one material joint venture, in respect of its 50% equity stake in BritNed Development Limited, and one material associate in respect of its 39% equity stake in Quadgas HoldCo Limited.

BritNed Development Limited (joint venture)

BritNed Development Limited is a joint venture with transmission system operator TenneT and operates the subsea electricity link between Great Britain and the Netherlands, commissioned in 2011.

BritNed Development Limited has a reporting period end of 31 December with monthly management reporting information provided to National Grid. Summarised financial information of this joint venture, as at 31 March, together with the carrying amount of the investment in the consolidated financial statements is as follows:

	2017 £m	2016 £m
Statement of financial position – BritNed Development Limited		
Non-current assets	392	376
Cash and cash equivalents	45	77
All other current assets	1	3
Non-current liabilities	(10)	(8)
Current liabilities	(20)	(30)
Equity	408	418
Carrying amount of the Group's investment (National Grid ownership 50%)	204	209

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

15. Investments in joint ventures and associates continued

	2017 £m	2016 £m
Income statement – BritNed Development Limited		
Revenue	**399**	198
Depreciation and amortisation	**(13)**	(11)
Other costs	**(257)**	(56)
Operating profit	**129**	131
Income tax expense	**(23)**	(32)
Profit for the year	**106**	99
Group's share in profit (National Grid ownership 50%)	**53**	50

Quadgas HoldCo Limited (associate)
As set out in note 9, on disposal of the Group's interest in the UK Gas Distribution business, the Group retains an equity interest in UK Gas Distribution through its parent, Quadgas HoldCo Limited and a shareholder loan asset of £0.4 billion (see note 14).

The Group has the power to appoint 4 of the 12 members of the board of Quadgas HoldCo Limited, which confers significant influence, but not joint control. In general, the key strategic, operational and financial decisions can be effected by a simple majority of votes. However, in certain limited circumstances, certain decisions require the consent of both parties. While these circumstances are not expected to occur regularly, given the rights conferred, and in view of the Group's equity stake, the investment has been accounted for as an equity investment in an associate.

The Group is required to recognise its 39% interest in Quadgas HoldCo Limited initially at fair value, being the market price of the investment as at 31 March 2017. As described in note 9, a Further Acquisition Agreement (FAA) was signed concerning a 14% interest in Quadgas HoldCo Limited structured as a put/call option. National Grid can deliver a sell notice to sell the shares in Quadgas HoldCo Limited with at least six months' notice, for closing between 1 March 2019 and 30 June 2019. The Consortium can deliver, a purchase notice to acquire the shares in Quadgas HoldCo Limited from 1 July 2019 to 31 October 2019. Since the FAA contains derivative features in the form of put/call options, it is required to be accounted for at fair value through profit and loss. On the basis that no premium was paid or received for entering into this arrangement, and further that, for the reasons set out in note 9, the arrangement was on market terms at 31 March 2017, the fair value of the contract is considered to be zero at year end.

Quadgas HoldCo Limited is an unlisted entity, and so no quoted price exists. The fair value has been determined with reference to the equity value of the business implicit in the sale transaction, adjusted to reflect a deduction for the estimated premium paid for control by the Consortium. In assigning value to the retained interests, the Group has valued 14% of its 39% interest based on the price implied by the FAA. The deduction for control premium has been applied to the residual 25% interest.

The Group is required to complete a purchase price allocation exercise for its interest in Quadgas HoldCo Limited. However, this is not required to be finalised until 31 March 2018. In view of the limited time elapsed since 31 March 2017, amounts disclosed below remain provisional.

Summarised financial information of this associate (reflecting provisional fair values) together with the carrying amount of the investment in the consolidated financial statements is as follows:

	2017 £m
Statement of financial position – Quadgas HoldCo Limited	
Non-current assets	**15,559**
All other current assets	**299**
Non-current liabilities	**(10,408)**
Current liabilities	**(519)**
Equity	**4,931**
Proportion of the Group's ownership interest in associate	**1,923**
Discount for non-controlling interest	**(312)**
Carrying amount of the Group's interest in associate (National Grid ownership 39%)	**1,611**

The sale of the previously owned subsidiary and subsequent acquisition of 39% equity interest occurred (note 9) on 31 March 2017. As such, no profit or loss impact noted for the current financial year outside of the amounts disclosed as discontinued operations.

16. Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange rates, credit spreads, commodities, equity or other indices. In accordance with Board approved policies, derivatives are transacted to manage our exposure to fluctuations in interest rate and foreign exchange rate on borrowings and other contractual cash flows. Specifically, we use derivatives to manage these risks from our financing portfolio to optimise the overall cost of accessing the debt capital markets. These derivatives are analysed below. We also use derivatives to manage our operational market risks from commodities. The commodity derivative contracts are detailed in note 30(e).

Derivative financial instruments are initially recognised at fair value and subsequently remeasured at fair value at each reporting date. Changes in fair values are recorded in the period they arise, in either the income statement or other comprehensive income depending on the applicable accounting standards. Where the fair value of a derivative is positive it is carried as a derivative asset, and where negative as a derivative liability.

We calculate fair value of the financial derivatives by discounting all future cash flows using the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. Analysis of these derivatives and the various methods used to calculate their respective fair values is detailed below and in note 30.

For each class of derivative instrument type the total fair value amounts are as follows:

	2017			2016		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Interest rate swaps	**849**	**(657)**	**192**	1,095	(908)	187
Cross-currency interest rate swaps	**676**	**(909)**	**(233)**	690	(589)	101
Foreign exchange forward contracts	**160**	**(113)**	**47**	159	(135)	24
Inflation linked swaps	**7**	**(529)**	**(522)**	1	(420)	(419)
Equity options	**15**	**(15)**	**–**	18	(17)	1
	1,707	**(2,223)**	**(516)**	1,963	(2,069)	(106)

The maturity profile of derivative financial instruments is as follows:

	2017			2016		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Current						
Less than 1 year	**192**	**(1,054)**	**(862)**	278	(337)	(59)
	192	**(1,054)**	**(862)**	278	(337)	(59)
Non-current						
In 1 to 2 years	**199**	**(305)**	**(106)**	31	(213)	(182)
In 2 to 3 years	**122**	**(160)**	**(38)**	159	(221)	(62)
In 3 to 4 years	**39**	**(83)**	**(44)**	139	(159)	(20)
In 4 to 5 years	**419**	**(36)**	**383**	32	(155)	(123)
More than 5 years	**736**	**(585)**	**151**	1,324	(984)	340
	1,515	**(1,169)**	**346**	1,685	(1,732)	(47)
	1,707	**(2,223)**	**(516)**	1,963	(2,069)	(106)

For each class of derivative the notional contract[1] amounts are as follows:

	2017 £m	2016 £m
Interest rate swaps	**(9,469)**	(10,552)
Cross-currency interest rate swaps	**(8,631)**	(8,316)
Foreign exchange forward contracts	**(8,253)**	(6,903)
Inflation linked swaps	**(1,423)**	(1,394)
Equity options	**(1,490)**	(800)
	(29,266)	(27,965)

1. The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the reporting date.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

16. Derivative financial instruments continued

Where possible, derivatives held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, cash flow hedges or net investment hedges. Our use of derivatives may entail a derivative transaction qualifying for one or more hedge type designations under IAS 39.

Hedge accounting allows derivatives to be designated as a hedge of another non-derivative financial instrument, to mitigate the impact of potential volatility in the income statement of changes in the fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. National Grid uses three hedge accounting methods, which are described as follows:

Fair value hedges
Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the item in relation to the risk being hedged are offset in the income statement to the extent the fair value hedge is effective. Adjustments made to the carrying amount of the hedged item for fair value hedges will be amortised over the remaining life, in line with the hedged item.

	2017 £m	2016 £m
Cross-currency interest rate/interest rate swaps	**548**	482

Cash flow hedges
Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates or are in a foreign currency. Interest rate and cross-currency swaps are maintained, and designated as cash flow hedges, where they qualify, to manage this exposure. Fair value changes on designated cash flow hedges are initially recognised directly in the cash flow hedge reserve, as gains or losses recognised in equity, and any ineffective portion is recognised immediately in the income statement. Amounts are transferred from equity and recognised in the income statement as the income or expense is recognised on the hedged item.

Forward foreign currency contracts are used to hedge anticipated and committed future currency cash flows. Where these contracts qualify for hedge accounting they are designated as cash flow hedges. On recognition of the underlying transaction in the financial statements, the associated hedge gains and losses, deferred in equity, are transferred and included with the recognition of the underlying transaction.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously reported in equity is transferred to the income statement.

Where a non-financial asset or a non-financial liability results from a forecast transaction or firm commitment being hedged, the amounts deferred in equity are included in the initial measurement of that non-monetary asset or liability.

	2017 £m	2016 £m
Cross-currency interest rate/interest rate swaps	**(180)**	(46)
Foreign exchange forward contracts	**69**	47
Inflation linked swaps	**–**	(151)
	(111)	(150)

Net investment hedges
Borrowings, cross-currency swaps and forward currency contracts are used in the management of the foreign exchange exposure arising from the investment in non-sterling denominated subsidiaries. Where these contracts qualify for hedge accounting they are designated as net investment hedges.

	2017 £m	2016 £m
Cross-currency interest rate swaps	**(544)**	(199)
Foreign exchange forward contracts	**(56)**	(100)
	(600)	(299)

The cross-currency swaps and forward foreign currency contracts are hedge accounted using the spot to spot method. The foreign exchange gain or loss on retranslation of the borrowings and the spot to spot movements on the cross-currency swaps and forward currency contracts are transferred to equity to offset gains or losses on translation of the net investment in the non-sterling denominated subsidiaries, with any ineffective portion recognised immediately in the income statement.

16. Derivative financial instruments continued

Derivatives not in a formal hedge relationship

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting under IAS 39 some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised in remeasurements within the income statement.

	2017 £m	2016 £m
Cross-currency interest rate/interest rate swaps	**135**	51
Foreign exchange forward contracts	**34**	77
Inflation linked swaps	**(522)**	(268)
Equity options	**–**	1
	(353)	(139)

Discontinuation of hedge accounting

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement in the same periods in which the previously hedged item affects profit or loss, unless the hedged item is no longer expected to occur and then the amounts would be recognised immediately. Amounts deferred in equity with respect to net investment hedges are subsequently recognised in the income statement in the event of the disposal of the overseas operations concerned. For fair value hedges, the cumulative adjustment recorded to the carrying value of the hedged item at the date hedge accounting is discontinued is amortised to the income statement using the effective interest method.

Embedded derivatives

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are defined as closely related to those instruments or contracts. Consequently these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument.

17. Inventories and current intangible assets

Inventories represent assets that we intend to use in order to generate revenue in the short term, either by selling the asset itself (for example fuel stocks) or by using it to fulfil a service to a customer or to maintain our network (consumables).

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

Emission allowances, principally relating to the emissions of carbon dioxide in the UK and sulphur and nitrous oxides in the US, are recorded as intangible assets within current assets and are initially recorded at cost and subsequently at the lower of cost and net realisable value. Where emission allowances are granted by relevant authorities, cost is deemed to be equal to the fair value at the date of allocation. Receipts of such grants are treated as deferred income, which is recognised in the income statement as the related charges for emissions are recognised or on impairment of the related intangible asset. A provision is recorded in respect of the obligation to deliver emission allowances and emission charges are recognised in the income statement in the period in which emissions are made.

	2017 £m	2016 £m
Fuel stocks	**101**	120
Raw materials and consumables	**191**	203
Work in progress	**8**	13
Current intangible assets – emission allowances	**103**	101
	403	437

There is a provision for obsolescence of £26 million against inventories as at 31 March 2017 (2016: £28 million).

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

18. Trade and other receivables

Trade and other receivables are amounts which are due from our customers for services (and commodities in the US) we have provided. Other receivables also include prepayments made by us, for example, property lease rentals paid in advance.

Trade and other receivables are initially recognised at fair value and other than in respect of commodity contract assets, subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts. Commodity contract assets are recorded at fair value. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected.

	2017 £m	2016 £m
Trade receivables	**1,591**	1,276
Accrued income	**811**	796
Prepayments	**228**	212
Commodity contract assets	**54**	22
Other receivables	**98**	89
	2,782	2,395

Trade receivables are non interest-bearing and generally have a 30 to 90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their book value.

Provision for impairment of receivables

	2017 £m	2016 £m
At 1 April	**349**	294
Exchange adjustments	**51**	11
Charge for the year, net of recoveries	**147**	158
Uncollectible amounts written off against receivables	**(121)**	(114)
Disposal of UK Gas Distribution	**(2)**	–
At 31 March	**424**	349

Trade receivables past due but not impaired

	2017 £m	2016 £m
Up to 3 months past due	**238**	214
3 to 6 months past due	**67**	48
Over 6 months past due	**143**	142
	448	404

For further information on our wholesale and retail credit risk, refer to note 30(a). For further information on our commodity risk, refer to note 30(e).

19. Cash and cash equivalents

Cash and cash equivalents include cash balances, together with short-term investments with an original maturity of less than three months that are readily convertible to cash.

Net cash and cash equivalents reflected in the cash flow statement are net of bank overdrafts, which are reported in borrowings. The carrying amounts of cash and cash equivalents and bank overdrafts approximate their fair values.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for periods varying between one day and three months, depending on the immediate cash requirements, and earn interest at the respective short-term deposit rates.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 30(d).

	2017 £m	2016 £m
Cash at bank	**199**	126
Short-term deposits	**940**	1
Cash and cash equivalents excluding bank overdrafts	**1,139**	127
Bank overdrafts	**–**	(3)
Net cash and cash equivalents	**1,139**	124

At 31 March 2017, £2 million (2016: £2 million) of cash and cash equivalents were restricted. This primarily relates to cash held in captive insurance companies. £940 million (2016: £1 million) comprises short-term money fund deposits.

20. Borrowings

We borrow money primarily in the form of bonds and bank loans. These are for a fixed term and may have fixed or floating interest rates or are linked to RPI. As indicated in note 16, we use derivatives to manage risks associated with interest rates and foreign exchange.

Our strategy in action
Our price controls and rate plans require us to fund our networks within a certain ratio of debt to equity and, as a result, we have issued a significant amount of debt. As we continue to invest in our networks, the value of debt is expected to increase over time. To maintain a strong balance sheet and to allow us to access capital markets at commercially acceptable interest rates, we balance the amount of debt we issue with the value of our assets, and take account of certain other metrics used by credit rating agencies.

Borrowings, which include interest-bearing and inflation linked debt and overdrafts, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

	2017 £m	2016 £m
Current		
Bank loans	**1,339**	1,179
Bonds	**2,209**	1,282
Commercial paper	**1,881**	1,092
Finance leases	**66**	53
Other loans	**1**	2
Bank overdrafts	**–**	3
	5,496	3,611
Non-current		
Bank loans	**2,343**	1,816
Bonds	**20,368**	22,556
Finance leases	**242**	190
Other loans	**189**	171
	23,142	24,733
Total borrowings	**28,638**	28,344

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

20. Borrowings continued

Total borrowings are repayable as follows:

	2017 £m	2016 £m
Less than 1 year	**5,496**	3,611
In 1 to 2 years	**1,941**	1,835
In 2 to 3 years	**1,821**	1,816
In 3 to 4 years	**2,453**	1,775
In 4 to 5 years	**1,921**	2,276
More than 5 years:		
by instalments	**1,043**	742
other than by instalments	**13,963**	16,289
	28,638	28,344

The fair value of borrowings at 31 March 2017 was £32,239 million (2016: £31,463 million). Where market values were available, fair value of borrowings (Level 1) was £12,547 million (2016: £13,283 million). Where market values were not available, fair value of borrowings (Level 2) was £19,692 million (2016: £18,180 million), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2017 was £28,310 million (2016: £27,836 million).

The assets of the Colonial Gas Company and the Niagara Mohawk Power Corporation and certain gas distribution assets of the Narragansett Electric Company are subject to liens and other charges and are provided as collateral over borrowings totalling £440 million at 31 March 2017 (2016: £385 million).

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £709 million (2016: £610 million) in respect of cash received under collateral agreements. For further details of our borrowing facilities, refer to note 31. For further details of our bonds in issue, please refer to the debt investor section of our website.

Assets held under finance leases are recognised at their fair value or, if lower, the present value of the minimum lease payments on inception. The corresponding liability is recognised as a finance lease obligation within borrowings. Rental payments are apportioned between finance costs and reduction in the finance lease obligation, so as to achieve a constant rate of interest.

Assets held under finance leases are depreciated over the shorter of their useful life and the lease term.

Finance lease obligations

	2017 £m	2016 £m
Gross finance lease liabilities are repayable as follows:		
Less than 1 year	**66**	53
1 to 5 years	**213**	156
More than 5 years	**89**	75
	368	284
Less: finance charges allocated to future periods	**(60)**	(41)
	308	243
The present value of finance lease liabilities is as follows:		
Less than 1 year	**66**	53
1 to 5 years	**174**	137
More than 5 years	**68**	53
	308	243

Unaudited commentary on borrowings

As at 31 March 2017, total borrowings of £28,638 million (2016: £28,344 million) including bonds, bank loans, commercial paper, collateral, finance leases and other debt had increased by £294 million. We expect to repay £5,496 million of our total borrowings in the next 12 months including commercial paper, collateral and interest, and to fund this repayment through the capital and money markets and surplus cash. The average long-term debt maturity of the portfolio is 11 years (2016: 12 years). Further information on our bonds can be found in the debt investor section of our website.

21. Trade and other payables

Trade and other payables include amounts owed to suppliers, tax authorities and other parties which are due to be settled within 12 months. The total also includes deferred income, which represents monies received from customers but for which we have not yet delivered the associated service. These amounts are recognised as revenue when the service is provided.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

	2017 £m	2016 £m
Trade payables	**2,135**	2,038
Deferred income	**298**	275
Commodity contract liabilities	**93**	96
Social security and other taxes	**136**	159
Other payables	**776**	717
	3,438	3,285

Due to their short maturities, the fair value of trade payables approximates their book value. Commodity contract liabilities are recorded at fair value. All other trade and other payables are recorded at amortised cost.

22. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2018. It also includes payables that are not due until after that date.

Commodity contract liabilities are recorded at fair value. All other non-current liabilities are recorded at amortised cost.

	2017 £m	2016 £m
Deferred income	**1,032**	1,802
Commodity contract liabilities	**77**	39
Other payables	**338**	230
	1,447	2,071

There is no material difference between the fair value and the carrying value of other non-current liabilities.

23. Pensions and other post-retirement benefits

Substantially all our employees are members of either DB (defined benefit) or DC (defined contribution) pension plans. The principal UK plans are the National Grid UK Pension Scheme, the National Grid Electricity Group of the Electricity Supply Pension Scheme and the National Grid YouPlan. In the US, we have a number of plans and also provide healthcare and life insurance benefits to eligible retired US employees.

The fair value of associated plan assets and present value of DB obligations are updated annually in accordance with IAS 19 (revised).

We separately present our UK and US pension plans to show geographical split. Below we provide a more detailed analysis of the amounts recorded in the primary financial statements and the actuarial assumptions used to value the obligations.

When deciding on these assumptions we take independent actuarial advice. Comparatively small changes in the assumptions applied may have a significant effect on the overall deficit or surplus of a DB pension plan.

For DC pension plans, National Grid pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For DB pension plans, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. National Grid underwrites both financial and demographic risks associated with this type of plan.

The cost of providing benefits in a DB plan is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

23. Pensions and other post-retirement benefits continued

National Grid's obligation in respect of DB pension plans is calculated separately for each plan by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds.

National Grid takes advice from independent actuaries relating to the appropriateness of any key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. Comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net liability recognised in the statement of financial position.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

Risks
The DB pension obligations and other post-retirement benefit liabilities are exposed to the primary risks outlined below.

Liabilities are calculated using discount rates set with reference to yields on high-quality corporate bonds prevailing in the US and UK debt markets and will fluctuate as yields change. Plan funds are invested in a variety of asset classes, principally: equities, government securities, corporate bonds and property. Consequently, actual returns will differ from the underlying discount rate adopted and therefore have an impact on the net balance sheet liability.

Changes in inflation will affect both current and future pension payments and are partially mitigated through investment in inflation matching assets and hedging instruments.

Longevity is also a key driver of liabilities and changes in expected mortality will have a direct impact on liabilities. The liabilities are, in aggregate, relatively mature which serves to mitigate this risk to some extent.

Each plan's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made both to the maturity of the liabilities and the funding level of that plan. A number of further strategies are employed to manage underlying risks, including liability matching asset strategies, diversification of asset portfolios, interest rate hedging and management of foreign exchange exposure.

UK pension plans
National Grid's DB pension arrangements are funded with assets held in separate trustee administered funds. The arrangements are managed by trustee companies with boards consisting of company and member appointed directors. The directors are required to manage the arrangements in accordance with local regulations and the arrangements' governing documents, acting on behalf of their beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with us, the qualified actuary certifies the employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the plans' assets, are expected to be sufficient to fund the benefits payable.

The results of the most recent actuarial valuations are shown below:

	NG UKPS[1]	NGEG of ESPS[2]
Latest full actuarial valuation	30 September 2015[3]	31 March 2016
Actuary	Willis Towers Watson	Aon Hewitt
Market value of plan assets at latest valuation	£16,551m	£2,553m
Actuarial value of benefits due to members	£18,176m	£3,053m
Market value as percentage of benefits	91%	84%
Funding deficit	£1,625m	£500m
Funding deficit (net of tax)	£1,349m	£415m

1. National Grid UK Pension Scheme.
2. National Grid Electricity Group of the Electricity Supply Pension Scheme.
3. NG UKPS valuation at 30 September 2015 occurred prior to sectionalisation and so the figures above represent the entire scheme (including what is now Section C).

23. Pensions and other post-retirement benefits continued

National Grid UK Pension Scheme
Following the actuarial valuation at 31 March 2013, deficit contributions were paid to the National Grid UK Pension Scheme of £99 million in 2014/15, £100 million in 2015/16 and £101 million in 2016/17.

The last full actuarial valuation for the National Grid UK Pension Scheme was carried out at 30 September 2015. Based on long-term financial assumptions, the contribution rate agreed to meet future benefit accrual was 36% of pensionable earnings (currently 31% by employers and 5% by employees). In addition, National Grid makes payments to the scheme to cover administration costs and the Pension Protection Fund levy.

With effect from 1 January 2017, sectionalisation of the National Grid UK Pension Scheme was carried out in anticipation of the disposal of UK Gas Distribution. The National Grid UK Pension Scheme was split into three sections, each of which are legally and actuarially separate. Section A and Section B are supported by companies within the National Grid Group and Section C is supported by Cadent Gas Limited (previously National Grid Gas Distribution Limited). The disposal of UK Gas Distribution completed on 31 March 2017 and the figures shown in these financial statements cover all three sections for amounts recognised in the income statement and the statement of other comprehensive income. At the reporting date the fair value of plan assets of £6,993 million and fair value of plan obligations of £6,957 million, as calculated on an IAS 19 basis, had been transferred as they form part of the net assets of UK Gas Distribution sold in the gain on sale calculation in note 9. The first actuarial valuation for Section A and Section B will be carried out at 31 March 2017 and these valuation processes have commenced.

Section A
National Grid and the Trustees have agreed on a schedule of contributions, under which payments of £212 million were made in 2016/17 after sectionalisation with effect from 1 January 2017. National Grid has established a security arrangement with a charge in favour of the Trustees. This amount may change over time or following changes to National Grid plc's credit rating. At 31 March 2017 the value of this was required to be £315 million. This was provided via £227 million in letters of credit with the remainder in surety bonds. The assets held as security will be paid to Section A in the event that National Grid plc or National Grid UK Limited is subject to an insolvency event, if National Grid fails to make the required contributions in relation to Section A, or if National Grid's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days. The assets held as security will be released back to National Grid if the scheme moves into surplus. In addition, National Grid will make a payment of £72 million (increased in line with RPI) into Section A if National Grid plc's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

Section B
National Grid and the Trustees have agreed on a schedule of contributions, under which payments of £30 million plus an adjustment for RPI will be made in 2017/18 and will thereafter rise in line with RPI. National Grid has established a security arrangement with a charge in favour of the Trustees. This amount may change over time or following changes to National Grid Gas plc's credit rating. At 31 March 2017 the value of this was required to be £192 million. This was provided via £200 million in letters of credit. The assets held as security will be paid to Section B in the event that National Grid Gas plc (NGG) is subject to an insolvency event, if NGG is given notice of less than 12 months that Ofgem intends to revoke its licence under the Gas Act 1986, if National Grid fails to make the required contributions in relation to Section B, if NGG's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days, or if NGG grants any charges over its assets other than where agreed with the Trustees. The assets held as security will be released back to National Grid if the scheme moves into surplus. In addition, National Grid will make a payment of £65 million (increased in line with RPI) into Section B if NGG's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

The scheme ceased to allow new hires to join from 1 April 2002. A DC section of the scheme was offered for employees joining after this date, which has since been replaced by The National Grid YouPlan (YouPlan) (see below).

National Grid Electricity Group of the Electricity Supply Pension Scheme
The last full actuarial valuation for the NGEG was carried out at 31 March 2016. This showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 40.7% of pensionable earnings (currently an average of 33.7% by employers and an average of 7% by employees). The next actuarial valuation is required with an effective date no later than 31 March 2019.

Following the 2016 valuation, National Grid and the Trustees agreed on a recovery plan that would see the funding deficit repaid by 31 March 2027. Under the schedule of contributions, payments of £48 million were made in 2016/17, and will rise in line with RPI until 2026/27. As part of the agreement, National Grid has established security arrangements with a charge in favour of the Trustees. At 31 March 2017 the value of this was required to be £212 million. This was provided via £212 million in letters of credit. The assets held as security will be paid to the scheme in the event that National Grid Electricity Transmission plc (NGET) is subject to an insolvency event, if NGET fails to make the required contributions in relation to the scheme, or if NGET ceases to hold a licence granted under the Electricity Act 1989. The assets held as security will be released back to National Grid if the scheme moves into surplus. National Grid has also agreed to make a payment in respect of the deficit up to a maximum of £500 million should certain triggers be breached; namely if NGET ceases to hold the licence granted under the Electricity Act 1989 or NGET's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

The scheme closed to new members from 1 April 2006.

The National Grid YouPlan
The YouPlan is a DC scheme that was launched in 2013 and under the rules of the plan, National Grid double matches contributions to YouPlan up to a maximum of 6% of employee salary. YouPlan is the qualifying scheme used for automatic enrolment and new hires are enrolled into YouPlan.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

23. Pensions and other post-retirement benefits continued

US pension plans
National Grid sponsors numerous non-contributory DB pension plans. The DB plans provide retirement benefits to vested union employees, as well as vested non-union employees hired before 1 January 2011. Benefits under these plans generally reflect age, years of service and compensation and are paid in the form of an annuity or lump sum. An independent actuary performs valuations annually. The Company funds the DB plans by contributing no less than the minimum amount required, but no more than the maximum tax deductible amount allowed under US Internal Revenue Service regulations. The range of contributions determined under these regulations can vary significantly depending upon the funded status of the plans. At present, there is some flexibility in the amount that is contributed on an annual basis. In general, the Company's policy for funding the US pension plans is to contribute the amounts collected in rates and capitalised in the rate base during the year, to the extent that the funding is no less than the minimum amount required. The assets of the plans are held in trusts and administered by fiduciary committees comprised of appointed employees of the Company.

National Grid also has multiple DC pension plans, primarily comprised of employee savings and Company matching contributions. Non-union employees hired after 1 January 2011, as well as new hires in the majority of represented union employees, receive a core contribution into the DC plan, irrespective of the employee's contribution into the plan.

US retiree healthcare and life insurance plans
National Grid provides healthcare and life insurance benefits to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in most cases retirees contribute to the cost of their healthcare coverage. In the US, there is no governmental requirement to pre-fund post-retirement healthcare and life insurance plans. However, in general, the Company's policy for funding the US retiree healthcare and life insurance plans is to contribute amounts collected in rates and capitalised in the rate base during the year.

Amounts recognised in the statement of financial position

	2017 £m	2016 £m	2015 £m
Present value of funded obligations[1]	**(25,890)**	(28,648)	(29,292)
Fair value of plan assets	**24,375**	26,434	26,408
	(1,515)	(2,214)	(2,884)
Present value of unfunded obligations	**(340)**	(304)	(300)
Other post-employment liabilities	**(78)**	(67)	(74)
Net defined benefit liability	**(1,933)**	(2,585)	(3,258)
Represented by:			
Liabilities	**(2,536)**	(2,995)	(3,379)
Assets	**603**	410	121
	(1,933)	(2,585)	(3,258)

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2017 £m	2016 £m	2015 £m	**2017 £m**	2016 £m	2015 £m	**2017 £m**	2016 £m	2015 £m
Present value of funded obligations[1]	**(15,565)**	(19,341)	(20,053)	**(6,790)**	(5,916)	(5,827)	**(3,535)**	(3,391)	(3,412)
Fair value of plan assets	**15,489**	19,401	19,453	**6,322**	5,136	5,052	**2,564**	1,897	1,903
	(76)	60	(600)	**(468)**	(780)	(775)	**(971)**	(1,494)	(1,509)
Present value of unfunded obligations	**(80)**	(75)	(72)	**(260)**	(229)	(228)	**–**	–	–
Other post-employment liabilities	**–**	–	–	**–**	–	–	**(78)**	(67)	(74)
Net defined benefit liability	**(156)**	(15)	(672)	**(728)**	(1,009)	(1,003)	**(1,049)**	(1,561)	(1,583)
Represented by:									
Liabilities	**(536)**	(300)	(672)	**(951)**	(1,134)	(1,124)	**(1,049)**	(1,561)	(1,583)
Assets	**380**	285	–	**223**	125	121	**–**	–	–
	(156)	(15)	(672)	**(728)**	(1,009)	(1,003)	**(1,049)**	(1,561)	(1,583)

1. Present value of funded obligations split approximately as follows:
   - UK pensions at 31 March 2017: 12% active members (2016: 12%; 2015: 12%); 19% deferred members (2016: 18%; 2015: 18%); 69% pensioner members (2016: 70%; 2015: 70%)
   - US pensions at 31 March 2017: 38% active members (2016: 39%; 2015: 38%); 9% deferred members (2016: 9%; 2015: 9%); 53% pensioner members (2016: 52%; 2015: 53%)
   - US other post-retirement benefits at 31 March 2017: 39% active members (2016: 41%; 2015: 38%); 0% deferred members (2016: 0%; 2015: 0%); 61% pensioner members (2016: 59%; 2015: 62%)

These figures reflect legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14 in both the UK and US.

23. Pensions and other post-retirement benefits continued

Amounts recognised in the income statement and statement of other comprehensive income

	2017 £m	2016 £m	2015 £m
Included within operating costs			
Administration costs	**16**	16	14
Included within payroll costs			
Defined contribution scheme costs	**69**	56	48
Defined benefit scheme costs:			
Current service cost	**232**	221	186
Past service cost – augmentations	**1**	3	7
Past service (credit)/cost – redundancies	**(1)**	(1)	1
Past service cost – plan amendments	**–**	–	1
Special termination benefit cost – redundancies	**7**	11	20
	308	290	263
Included within finance income and costs			
Net interest cost	**105**	112	101
Included within gain on disposal of discontinued operations			
Administration costs	**5**	2	–
Disposal of UK Gas Distribution	**34**	–	–
	39	2	–
Total included in income statement[1]	**468**	420	378
Remeasurement gains/(losses) of pension assets and post-retirement benefit obligations	**348**	539	(771)
Exchange adjustments	**(345)**	(81)	(236)
Total included in the statement of other comprehensive income[2]	**3**	458	(1,007)

1. Amounts recognised in the income statement include operating costs of £1 million (2016: £1 million; 2015: £1 million); payroll costs of £46 million (2016: £37 million; 2015: £34 million); and net interest income of £2 million (2016: £1 million cost; 2015: £3 million cost) presented within profit from discontinued operations. These amounts all relate to UK pensions.
2. Amounts recognised in the statement of other comprehensive income include remeasurements of pension assets and post-retirement benefit obligations of £75 million loss (2016: £129 million gain; 2015: £13 million loss) presented within discontinued operations. These amounts all relate to UK pensions.

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m
Included within operating costs									
Administration costs	**6**	9	6	**9**	6	7	**1**	1	1
Included within payroll costs									
Defined contribution scheme costs	**37**	31	26	**32**	25	22	**–**	–	–
Defined benefit scheme costs:									
Current service cost	**76**	74	70	**103**	95	77	**53**	52	39
Past service cost – augmentations	**1**	3	7	**–**	–	–	**–**	–	–
Past service (credit)/cost – redundancies	**(1)**	(1)	1	**–**	–	–	**–**	–	–
Past service cost – plan amendments	**–**	–	–	**–**	–	1	**–**	–	–
Special termination benefit cost – redundancies	**7**	11	20	**–**	–	–	**–**	–	–
	120	118	124	**135**	120	100	**53**	52	39
Included within finance income and costs									
Net interest cost	**–**	18	27	**43**	36	25	**62**	58	49
Included within gain on disposal of discontinued operations									
Administration costs	**5**	2	–	**–**	–	–	**–**	–	–
Disposal of UK Gas Distribution	**34**	–	–	**–**	–	–	**–**	–	–
	39	2	–	**–**	–	–	**–**	–	–
Total included in income statement	**165**	147	157	**187**	162	132	**116**	111	89
Remeasurement (losses)/gains of pension assets and post-retirement benefit obligations	**(541)**	534	(46)	**319**	(67)	(408)	**570**	72	(317)
Exchange adjustments	**–**	–	–	**(140)**	(33)	(88)	**(205)**	(48)	(148)
Total included in the statement of other comprehensive income	**(541)**	534	(46)	**179**	(100)	(496)	**365**	24	(465)

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

23. Pensions and other post-retirement benefits continued

Reconciliation of the net defined benefit liability

	2017 £m	2016 £m	2015 £m
Opening net defined benefit liability	**(2,585)**	(3,258)	(2,411)
Cost recognised in the income statement	**(399)**	(364)	(330)
Remeasurement and foreign exchange effects recognised in the statement of other comprehensive income	**3**	458	(1,007)
Employer contributions	**1,073**	587	508
Other movements	**(25)**	(8)	(18)
Closing net defined benefit liability	**(1,933)**	(2,585)	(3,258)

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2017 £m	2016 £m	2015 £m	**2017 £m**	2016 £m	2015 £m	**2017 £m**	2016 £m	2015 £m
Opening net defined benefit liability	**(15)**	(672)	(753)	**(1,009)**	(1,003)	(523)	**(1,561)**	(1,583)	(1,135)
Cost recognised in the income statement	**(128)**	(116)	(131)	**(155)**	(137)	(110)	**(116)**	(111)	(89)
Remeasurement and foreign exchange effects recognised in the statement of other comprehensive income	**(541)**	534	(46)	**179**	(100)	(496)	**365**	24	(465)
Employer contributions	**528**	239	258	**257**	231	126	**288**	117	124
Other movements	**–**	–	–	**–**	–	–	**(25)**	(8)	(18)
Closing net defined benefit liability	**(156)**	(15)	(672)	**(728)**	(1,009)	(1,003)	**(1,049)**	(1,561)	(1,583)

Changes in the present value of defined benefit obligations (including unfunded obligations)

	2017 £m	2016 £m	2015 £m
Opening defined benefit obligations	**(28,952)**	(29,592)	(25,594)
Current service cost	**(232)**	(221)	(186)
Interest cost	**(1,057)**	(1,026)	(1,127)
Actuarial gains – experience	**166**	659	163
Actuarial gains/(losses) – demographic assumptions	**225**	–	(342)
Actuarial (losses)/gains – financial assumptions	**(3,377)**	218	(2,746)
Past service credit/(cost) – redundancies	**1**	1	(1)
Special termination benefit cost – redundancies	**(7)**	(11)	(20)
Past service cost – augmentations	**(1)**	(3)	(7)
Past service cost – plan amendments	**–**	–	(1)
Medicare subsidy received	**(14)**	(15)	(19)
Obligations transferred on disposal of UK Gas Distribution	**6,970**	–	–
Employee contributions	**(1)**	(2)	(2)
Benefits paid	**1,443**	1,348	1,268
Exchange adjustments	**(1,394)**	(308)	(978)
Closing defined benefit obligations	**(26,230)**	(28,952)	(29,592)

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2017 £m	2016 £m	2015 £m	**2017 £m**	2016 £m	2015 £m	**2017 £m**	2016 £m	2015 £m
Opening defined benefit obligations	**(19,416)**	(20,125)	(18,162)	**(6,145)**	(6,055)	(4,752)	**(3,391)**	(3,412)	(2,680)
Current service cost	**(76)**	(74)	(70)	**(103)**	(95)	(77)	**(53)**	(52)	(39)
Interest cost	**(615)**	(649)	(762)	**(285)**	(242)	(235)	**(157)**	(135)	(130)
Actuarial gains/(losses) – experience	**106**	552	100	**(2)**	15	(22)	**62**	92	85
Actuarial gains/(losses) – demographic assumptions	**214**	–	(95)	**2**	–	(125)	**9**	–	(122)
Actuarial (losses)/gains – financial assumptions	**(3,751)**	–	(1,980)	**37**	120	(486)	**337**	98	(280)
Past service credit/(cost) – redundancies	**1**	1	(1)	**–**	–	–	**–**	–	–
Special termination benefit cost – redundancies	**(7)**	(11)	(20)	**–**	–	–	**–**	–	–
Past service cost – augmentations	**(1)**	(3)	(7)	**–**	–	–	**–**	–	–
Past service cost – plan amendments	**–**	–	–	**–**	–	(1)	**–**	–	–
Medicare subsidy received	**–**	–	–	**–**	–	–	**(14)**	(15)	(19)
Obligations transferred on disposal of UK Gas Distribution	**6,970**	–	–	**–**	–	–	**–**	–	–
Employee contributions	**(1)**	(2)	(2)	**–**	–	–	**–**	–	–
Benefits paid	**931**	895	874	**349**	310	269	**163**	143	125
Exchange adjustments	**–**	–	–	**(903)**	(198)	(626)	**(491)**	(110)	(352)
Closing defined benefit obligations	**(15,645)**	(19,416)	(20,125)	**(7,050)**	(6,145)	(6,055)	**(3,535)**	(3,391)	(3,412)

23. Pensions and other post-retirement benefits continued

Changes in the fair value of plan assets

	2017 £m	2016 £m	2015 £m
Opening fair value of plan assets	**26,434**	26,408	23,258
Interest income	**952**	914	1,026
Return on assets greater/(less) than assumed	**3,334**	(338)	2,154
Administration costs	**(21)**	(18)	(14)
Employer contributions	**1,073**	587	508
Employee contributions	**1**	2	2
Benefits paid	**(1,443)**	(1,348)	(1,268)
Exchange adjustments	**1,049**	227	742
Assets transferred on disposal of UK Gas Distribution	**(7,004)**	–	–
Closing fair value of plan assets	**24,375**	26,434	26,408
Actual return on plan assets	**4,286**	576	3,180
Expected contributions to plans in the following year	**491**	686	533

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m	2017 £m	2016 £m	2015 £m
Opening fair value of plan assets	**19,401**	19,453	17,409	**5,136**	5,052	4,229	**1,897**	1,903	1,620
Interest income	**615**	631	735	**242**	206	210	**95**	77	81
Return on assets greater/(less) than assumed	**2,890**	(18)	1,929	**282**	(202)	225	**162**	(118)	–
Administration costs	**(11)**	(11)	(6)	**(9)**	(6)	(7)	**(1)**	(1)	(1)
Employer contributions	**528**	239	258	**257**	231	126	**288**	117	124
Employee contributions	**1**	2	2	**–**	–	–	**–**	–	–
Benefits paid	**(931)**	(895)	(874)	**(349)**	(310)	(269)	**(163)**	(143)	(125)
Exchange adjustments	**–**	–	–	**763**	165	538	**286**	62	204
Assets transferred on disposal of UK Gas Distribution	**(7,004)**	–	–	**–**	–	–	**–**	–	–
Closing fair value of plan assets	**15,489**	19,401	19,453	**6,322**	5,136	5,052	**2,564**	1,897	1,903
Actual return on plan assets	**3,505**	613	2,664	**524**	4	435	**257**	(41)	81
Expected contributions to plans in the following year	**128**	228	225	**229**	220	204	**134**	238	104

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

23. Pensions and other post-retirement benefits continued

Asset allocations
Within the asset allocations below there is significant diversification across regions, asset managers, currencies and bond categories.

UK pensions

	2017			2016			2015		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities[1]	**2,624**	**596**	**3,220**	3,272	962	4,234	3,848	761	4,609
Corporate bonds[2]	**3,526**	**–**	**3,526**	5,601	–	5,601	6,494	–	6,494
Government securities	**5,406**	**–**	**5,406**	6,059	–	6,059	4,637	–	4,637
Property	**90**	**708**	**798**	90	1,081	1,171	86	1,082	1,168
Diversified alternatives[3]	**250**	**628**	**878**	159	505	664	–	716	716
Liability matching assets[4]	**1,162**	**–**	**1,162**	1,020	–	1,020	878	–	878
Other[5]	**63**	**436**	**499**	649	3	652	936	15	951
	13,121	**2,368**	**15,489**	16,850	2,551	19,401	16,879	2,574	19,453

1. Included within equities at 31 March 2017 were ordinary shares of National Grid plc with a value of £2 million (2016: £7 million; 2015: £14 million).
2. Included within corporate bonds at 31 March 2017 was an investment in a number of bonds issued by subsidiary undertakings with a value of £nil (2016: £70 million; 2015: £80 million).
3. Includes return seeking non-conventional asset classes.
4. Includes liability-driven investment vehicles.
5. Includes cash and cash type instruments.

US pensions

	2017			2016			2015		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	**698**	**1,915**	**2,613**	625	1,508	2,133	617	1,455	2,072
Corporate bonds	**1,130**	**537**	**1,667**	954	483	1,437	969	473	1,442
Government securities	**872**	**71**	**943**	711	–	711	727	–	727
Property	**–**	**335**	**335**	–	276	276	–	249	249
Diversified alternatives[1]	**209**	**433**	**642**	163	334	497	164	334	498
Other	**31**	**91**	**122**	–	82	82	–	64	64
	2,940	**3,382**	**6,322**	2,453	2,683	5,136	2,477	2,575	5,052

1. Includes return seeking non-conventional asset classes.

US other post-retirement benefits

	2017			2016			2015		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	**405**	**1,162**	**1,567**	281	853	1,134	289	872	1,161
Corporate bonds	**19**	**–**	**19**	37	1	38	34	–	34
Government securities	**520**	**1**	**521**	390	–	390	382	–	382
Diversified alternatives[1]	**166**	**149**	**315**	122	104	226	114	100	214
Other	**–**	**142**	**142**	–	109	109	–	112	112
	1,110	**1,454**	**2,564**	830	1,067	1,897	819	1,084	1,903

1. Includes return seeking non-conventional asset classes.

23. Pensions and other post-retirement benefits continued

Target asset allocations

Each plan's investment strategy is formulated specifically in order to manage risk, through investment in diversified asset classes, including the use of liability matching assets and where appropriate through the employment of interest rate and inflation hedging instruments. The target asset allocation of the plans as at 31 March 2017 is as follows:

	UK pensions %	US pensions %	US other post-retirement benefits %
Equities	22	40	65
Other	78	60	35
	100	100	100

Actuarial assumptions

The Company has applied the following financial assumptions in assessing DB liabilities.

	UK pensions			US pensions			US other post-retirement benefits		
	2017 %	2016 %	2015 %	**2017 %**	2016 %	2015 %	**2017 %**	2016 %	2015 %
Discount rate[1]	**2.4**	3.3	3.3	**4.3**	4.3	4.1	**4.3**	4.3	4.1
Rate of increase in salaries[2]	**3.5**	3.2	3.2	**3.5**	3.5	3.5	**3.5**	3.5	3.5
Rate of increase in RPI[3]	**3.2**	2.9	2.9	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Initial healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**7.0**	7.5	8.0
Ultimate healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**4.5**	4.5	5.0

1. The discount rates for pension liabilities have been determined by reference to appropriate yields on high-quality corporate bonds prevailing in the UK and US debt markets at the reporting date.
2. A promotional scale has also been used where appropriate. The UK assumption stated is that relating to service prior to 1 April 2014. The UK assumption for the rate of increase in salaries for service after this date is 2.2% (2016: 2.1%).
3. This is the key assumption that determines assumed increases in pensions in payment and deferment in the UK only. The assumptions for the UK were 3.2% (2016: 2.9%; 2015: 2.9%) for increases in pensions in payment and 3.2% (2016: 2.9%; 2015: 2.9%) for increases in pensions in deferment.

For sensitivity analysis see note 33.

	2017		2016		2015	
	UK years	**US years**	UK years	US years	UK years	US years
Assumed life expectancies for a retiree age 65						
Today:						
Males	**22.9**	**21.9**	22.8	21.8	22.7	21.7
Females	**24.7**	**24.1**	25.2	24.0	25.1	23.9
In 20 years:						
Males	**25.1**	**23.6**	25.1	23.5	24.9	23.4
Females	**27.1**	**25.7**	27.6	25.6	27.4	25.6

Maturity profile of DB obligations

The weighted average duration of the DB obligation for each category of scheme is 16 years for UK pension schemes; 13 years for US pension schemes and 15 years for US other post-retirement benefits.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

24. Provisions

We make provisions when an obligation exists, resulting from a past event and it is probable that cash will be paid to settle it, but the exact amount of cash required can only be estimated.

The main estimates relate to environmental remediation and decommissioning costs for various sites we own or have owned and other provisions, including restructuring plans and lease contracts we have entered into that are now loss making. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, the likelihood could alter.

Our strategy in action
We are committed to the protection and enhancement of the environment. However, we have acquired, owned and operated a number of businesses which have, during the course of their operations, created an environmental impact. Therefore we have a provision that reflects the expected cost to remediate these sites. Current operations will seldom result in new sites with significant expected costs being added to the provision.

Provisions are recognised where a legal or constructive obligation exists at the reporting date, as a result of a past event, where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Provision is made for decommissioning and environmental costs, based on future estimated expenditures, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

The unwinding of the discount is included within the income statement as a financing charge.

	Environmental £m	Decommissioning £m	Restructuring £m	Emissions £m	Other £m	Total provisions £m
At 1 April 2015	1,164	137	39	23	372	1,735
Exchange adjustments	29	3	–	1	9	42
Additions	30	22	10	1	33	96
Unused amounts reversed	(15)	(8)	(1)	–	(3)	(27)
Unwinding of discount	58	4	1	–	10	73
Utilised	(97)	(17)	(19)	(7)	(60)	(200)
At 31 March 2016	1,169	141	30	18	361	1,719
Exchange adjustments	137	13	–	2	36	188
Additions	572	107	16	12	308	1,015
Unused amounts reversed	(75)	–	(5)	–	(6)	(86)
Unwinding of discount	60	–	1	–	12	73
Utilised	(110)	(19)	(25)	–	(73)	(227)
Disposal of UK Gas Distribution	(32)	(21)	–	–	(41)	(94)
At 31 March 2017	**1,721**	**221**	**17**	**32**	**597**	**2,588**

	2017 £m	2016 £m
Current	**416**	236
Non-current	**2,172**	1,483
	2,588	1,719

24. Provisions continued

Environmental provision
The environmental provision represents the estimated restoration and remediation costs relating to a number of sites owned and managed by subsidiary undertakings, together with certain US sites that National Grid no longer owns. The environmental provision is as follows:

	2017			2016		
	Discounted £m	**Undiscounted £m**	**Real discount rate**	Discounted £m	Undiscounted £m	Real discount rate
UK sites	**242**	**270**	**1%**	280	348	2%
US sites	**1,479**	**1,619**	**1%**	889	1,031	2%
	1,721	**1,889**		1,169	1,379	

The remediation expenditure in the UK relates to old gas manufacturing sites and also to electricity transmission sites. Cash flows are expected to be incurred between 2017 and 2077. A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the real discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

The remediation expenditure in the US is expected to be incurred between 2017 and 2071. The increase in the US provision principally relates to the reduction in real discount rate and expected expenditure in relation to three industrial sites located on or near waterways in New York that are subject to both state and federal law in the US. Refer to note 4 for further details. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK sites. This expenditure is expected to be largely recoverable from ratepayers under the terms of various rate agreements in the US.

Decommissioning provision
The decommissioning provision represents £78 million (2016: £66 million) of expenditure relating to asset retirement obligations estimated to be incurred until 2095, and £107 million (2016: £nil) of expenditure relating to the demolition of gas holders estimated to be incurred until 2026. It also includes the net present value of the estimated expenditure (discounted at a real rate of 1%) expected to be incurred until 2033 in respect of the decommissioning of certain US nuclear generating units that National Grid no longer owns. A pre-existing decommissioning provision formed part of the net assets sold as part of the UK Gas Distribution transaction.

Restructuring provision
The restructuring provision principally relates to business reorganisation costs in the UK and is expected to be incurred until 2023.

Other provisions
Included within other provisions at 31 March 2017 are the following amounts in respect of the disposal of UK Gas Distribution:

- £150 million voluntary distribution to be made for the benefit of energy customers on the successful sale of UK Gas Distribution. We anticipate this expenditure being incurred over three years; and
- £143 million in respect of business set up costs and business restructuring costs (as disclosed in note 9). We expect the majority of this provision to be utilised within one year.

Other provisions also include:

- Amounts provided in respect of onerous lease commitments and rates payable on surplus properties of £84 million (2016: £100 million) with expenditure expected to be incurred until 2039;
- £166 million (2016: £190 million) of estimated liabilities in respect of past events insured by insurance subsidiary undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date; and
- £13 million (2016: £13 million) in respect of obligations associated with investments in joint ventures and associates.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

25. Share capital

Ordinary share capital represents the total number of shares issued which are publicly traded. We also disclose the number of treasury shares the Company holds, which are shares that the Company has bought itself, predominantly to actively manage share issuances under the scrip dividend scheme and to satisfy employee share option plan liabilities.

Share capital is accounted for as an equity instrument. An equity instrument is any contract that includes a residual interest in the consolidated assets of the Company after deducting all its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

	Allotted, called up and fully paid	
	million	£m
At 1 April 2015	3,892	443
Issued during the year in lieu of dividends[1]	32	4
At 31 March 2016	3,924	447
Issued during the year in lieu of dividends[1]	19	2
At 31 March 2017	**3,943**	**449**

1. The issue of shares under the scrip dividend scheme is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

The share capital of the Company consists of ordinary shares of $11\frac{17}{43}$ pence nominal value each including ADSs. The ordinary shares and ADSs allow holders to receive dividends and vote at general meetings of the Company. The Company holds treasury shares but may not exercise any rights over these shares including the entitlement to vote or receive dividends. There are no restrictions on the transfer or sale of ordinary shares.

On 19 April 2017, the Company announced that its Board had approved a special interim dividend of 84.375 pence per existing ordinary share ($5.4224 per existing ADS) following completion of the sale of the majority interest in UK Gas Distribution. In order to maintain the comparability of the Company's share price before and after the special dividend, the Company plans to undertake a share consolidation. The share consolidation will replace every 12 existing ordinary shares with 11 new ordinary shares. The Company has published a notice of general meeting and explanatory circular to shareholders regarding the share consolidation and related resolutions which will be subject to shareholder approval at the General Meeting of the Company being held on 19 May 2017.

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

Treasury shares
At 31 March 2017, the Company held 193 million (2016: 179 million) of its own shares. The market value of these shares as at 31 March 2017 was £1,958 million (2016: £1,767 million).

The Company made the following transactions in respect of its own shares during the year ended 31 March 2017:

1. During the year, the Company, as part of management of the dilutive effect of share issuances under the scrip dividend scheme, repurchased 20 million (2016: 31 million) ordinary shares for aggregate consideration of £189 million (2016: £267 million), including transaction costs. The shares repurchased have a nominal value of £2 million (2016: £4 million) and represented approximately 1% (2016: 1%) of the ordinary shares in issue as at 31 March 2017.

2. During the year, 3 million (2016: 2 million) treasury shares were gifted to National Grid Employee Share Trusts and 3 million (2016: 3 million) treasury shares were re-issued in relation to employee share schemes, in total representing approximately 0.2% (2016: 0.1%) of the ordinary shares in issue as at 31 March 2017. The nominal value of these shares was £1 million (2016: £1 million) and the total proceeds received were £18 million (2016: £16 million).

3. During the year the Company made payments totalling £6 million (2016: £6 million) to National Grid Employee Share Trusts, outside of its share repurchase programme, to enable the trustees to make purchases of National Grid plc shares in order to satisfy the requirements of employee share option and reward plans.

The maximum number of shares held during the year was 194 million ordinary shares (2016: 179 million) representing approximately 4.9% (2016: 4.6%) of the ordinary shares in issue as at 31 March 2017 and having a nominal value of £22 million (2016: £20 million).

26. Other equity reserves

Other equity reserves are different categories of equity as required by accounting standards and represent the impact of a number of our historical transactions.

Other equity reserves comprise the translation reserve (see accounting policy D in note 1), cash flow hedge reserve (see note 16), available-for-sale reserve (see note 14), the capital redemption reserve and the merger reserve. The merger reserve arose as a result of the application of merger accounting principles under the then prevailing UK GAAP, which under IFRS 1 was retained for mergers that occurred prior to the IFRS transition date. Under merger accounting principles, the difference between the carrying amount of the capital structure of the acquiring vehicle and that of the acquired business was treated as a merger difference and included within reserves.

As the amounts included in other equity reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

	Translation £m	Cash flow hedge £m	Available-for-sale £m	Capital redemption £m	Merger £m	Total £m
At 1 April 2014	305	14	68	19	(5,165)	(4,759)
Exchange adjustments	174	–	–	–	–	174
Net (losses)/gains taken to equity	–	(154)	41	–	–	(113)
Transferred to/(from) profit or loss	–	13	(8)	–	–	5
Tax	–	18	(7)	–	–	11
At 31 March 2015	479	(109)	94	19	(5,165)	(4,682)
Exchange adjustments	69	–	–	–	–	69
Net gains taken to equity	–	50	43	–	–	93
Transferred to profit or loss	–	29	–	–	–	29
Tax	–	(15)	(17)	–	–	(32)
At 31 March 2016	548	(45)	120	19	(5,165)	(4,523)
Exchange adjustments	346	–	–	–	–	346
Net (losses)/gains taken to equity	–	(36)	81	–	–	45
Transferred to/(from) profit or loss	–	227	(25)	–	–	202
Tax	–	(43)	(14)	–	–	(57)
At 31 March 2017	**894**	**103**	**162**	**19**	**(5,165)**	**(3,987)**

The merger reserve represents the difference between the carrying value of subsidiary undertaking investments and their respective capital structures following the Lattice demerger from BG Group plc and the 1999 Lattice refinancing.

The cash flow hedge reserve will be transferred to the income statement until the committed future cash flows from borrowings and capital projects (as described in note 16) are paid. The amount due to be released from reserves to the income statement next year is a gain of £22 million (pre-tax). The remainder will be released based on the maturity profile of borrowings due after more than one year and on the stage of completion of existing capital projects.

Notes to the consolidated financial statements
– analysis of items in the primary statements continued

27. Net debt

Net debt represents the amount of borrowings and overdrafts less cash, financial investments and related derivatives.

Funding and liquidity risk management is carried out by the treasury function under policies and guidelines approved by the Finance Committee of the Board. The Finance Committee is responsible for the regular review and monitoring of treasury activity and for the approval of specific transactions, the authority for which fall outside the delegation of authority to management.

The primary objective of the treasury function is to manage our funding and liquidity requirements. A secondary objective is to manage the associated financial risks, in the form of interest rate risk and foreign exchange risk, to within pre-authorised parameters. Details of the main risks arising from our financing and commodity hedging activities can be found in the risk factors discussion starting on page 180 and in note 30 to the consolidated financial statements on pages 145 to 152.

Investment of surplus funds, usually in short-term fixed deposits or placements with money market funds that invest in highly liquid instruments of high credit quality, is subject to our counterparty risk management policy.

The movement in cash and cash equivalents is reconciled to movements in net debt.

(a) Reconciliation of net cash flow to movement in net debt

	2017 £m	2016 £m	2015 £m
Increase/(decrease) in cash and cash equivalents	**984**	4	(247)
Increase/(decrease) in financial investments	**5,675**	391	(1,157)
(Increase)/decrease in borrowings and related derivatives	**(3,715)**	(1,100)	682
Net interest paid on the components of net debt[1]	**1,955**	810	925
Change in debt resulting from cash flows	**4,899**	105	203
Changes in fair value of financial assets and liabilities and exchange movements	**(2,273)**	(515)	(1,777)
Net interest charge on the components of net debt[1]	**(2,401)**	(913)	(1,068)
Disposal of UK Gas Distribution	**5,890**	–	–
Other non-cash movements	**(64)**	(87)	(83)
Movement in net debt (net of related derivative financial instruments) in the year	**6,051**	(1,410)	(2,725)
Net debt (net of related derivative financial instruments) at start of year	**(25,325)**	(23,915)	(21,190)
Net debt (net of related derivative financial instruments) at end of year	**(19,274)**	(25,325)	(23,915)

Composition of net debt
Net debt is made up as follows:

	2017 £m	2016 £m	2015 £m
Cash, cash equivalents and financial investments	**9,880**	3,125	2,678
Borrowings and bank overdrafts	**(28,638)**	(28,344)	(25,910)
Derivatives	**(516)**	(106)	(683)
	(19,274)	(25,325)	(23,915)

1. An exceptional charge of £1,313 million (2016: £nil; 2015: £131 million) is included in net interest charge on the components of net debt and an exceptional cash outflow of £1,052 million (2016: £nil; 2015: £152 million) is included in net interest paid on the components of net debt.

27. Net debt continued

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Total[1] £m
At 1 April 2014	354	(15)	339	3,599	(25,935)	807	(21,190)
Cash flow	(259)	12	(247)	(1,194)	1,721	(77)	203
Fair value gains and losses and exchange movements	24	–	24	118	(451)	(1,468)	(1,777)
Interest income/(charges)	–	–	–	36	(1,160)	56	(1,068)
Other non-cash movements	–	–	–	–	(82)	(1)	(83)
At 31 March 2015	119	(3)	116	2,559	(25,907)	(683)	(23,915)
Cash flow	4	–	4	368	(631)	364	105
Fair value gains and losses and exchange movements	4	–	4	49	(739)	171	(515)
Interest income/(charges)[2]	–	–	–	22	(978)	43	(913)
Other non-cash movements	–	–	–	–	(86)	(1)	(87)
At 31 March 2016	127	(3)	124	2,998	(28,341)	(106)	(25,325)
Cash flow	1,001	(17)	984	5,624	(2,196)	487	4,899
Fair value gains and losses and exchange movements	16	–	16	141	(1,527)	(903)	(2,273)
Interest income/(charges)[2]	–	–	–	53	(2,221)	(233)	(2,401)
Other non-cash movements	–	–	–	–	(294)	230	(64)
Disposal	(5)	20	15	(75)	5,941	9	5,890
At 31 March 2017	**1,139**	**–**	**1,139**	**8,741**	**(28,638)**	**(516)**	**(19,274)**
Balances at 31 March 2017 comprise:							
Non-current assets	–	–	–	–	–	1,515	1,515
Current assets	1,139	–	1,139	8,741	–	192	10,072
Current liabilities	–	–	–	–	(5,496)	(1,054)	(6,550)
Non-current liabilities	–	–	–	–	(23,142)	(1,169)	(24,311)
	1,139	**–**	**1,139**	**8,741**	**(28,638)**	**(516)**	**(19,274)**

1. Includes accrued interest at 31 March 2017 of £210 million (2016: £243 million; 2015: £230 million).
2. An exceptional expense of £1,313 million (2016: £nil; 2015: £131 million) is included in net interest charge on the components of net debt and an exceptional cash outflow of £1,052 million (2016: £nil; 2015: £152 million) is included in net interest paid on the components of net debt.

Notes to the consolidated financial statements
– supplementary information

This section includes information that is important to enable a full understanding of our financial position, particularly areas of potential uncertainty that could affect us in the future.

We also include specific disclosures for British Transco Finance Inc., Niagara Mohawk Power Corporation and National Grid Gas plc in accordance with various rules including Rule 3-10 of Regulation S-X (a US SEC requirement), as they have issued public debt securities which have been guaranteed by National Grid plc and one of its subsidiary companies, National Grid Gas plc. Additional disclosures have also been included in respect of the two guarantor companies. These disclosures are in lieu of publishing separate financial statements for these companies. See note 34 for further information.

28. Commitments and contingencies

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets its obligations. These commitments primarily relate to operating lease rentals, energy purchase agreements and contracts for the repurchase of network assets which, in many cases, extend over a long period of time. We also disclose any contingencies, which include guarantees that companies have given, where we pledge assets against current obligations that will remain for a specific period.

	2017 £m	2016 £m
Future capital expenditure		
Contracted for but not provided	**2,571**	2,616
Operating lease commitments		
Less than 1 year	**95**	92
In 1 to 2 years	**82**	86
In 2 to 3 years	**58**	72
In 3 to 4 years	**56**	54
In 4 to 5 years	**54**	52
More than 5 years	**274**	286
	619	642
Energy purchase commitments[1]		
Less than 1 year	**1,325**	1,096
In 1 to 2 years	**744**	598
In 2 to 3 years	**587**	454
In 3 to 4 years	**507**	362
In 4 to 5 years	**436**	315
More than 5 years	**2,100**	1,477
	5,699	4,302
Guarantees and letters of credit		
Guarantee of sublease for US property (expires 2040)	**225**	219
Guarantees of certain obligations of Grain LNG Import Terminal (expire up to 2028)	**100**	113
Guarantees of certain obligations for construction of HVDC West Coast Link (expected expiry 2017)	**281**	415
Guarantees of certain obligations of Nemo Link Limited (various expiry dates)	**140**	166
Guarantees of certain obligations of National Grid North Sea Link Limited (various expiry dates)	**1,059**	1,038
Guarantees of certain obligations of St William Homes LLP (various expiry dates)	**147**	96
Guarantees of certain obligations for construction of IFA 2 SAS (expected expiry 2021)	**354**	–
Other guarantees and letters of credit (various expiry dates)	**474**	344
	2,780	2,391

1. Energy purchase commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves (i.e. normal purchase, sale or usage) and hence are accounted for as ordinary purchase contracts. Details of commodity contracts that do not meet the normal purchase, sale or usage criteria, and hence are accounted for as derivative contracts, are shown in note 30(e).

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £15 million (2016: £21 million).

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

29. Related party transactions

Related parties include joint ventures, associates, investments and key management personnel.

The following significant transactions with related parties were in the normal course of business. Amounts receivable from and payable to related parties are due on normal commercial terms:

	2017 £m	2016 £m	2015 £m
Sales: Goods and services supplied to a pension plan	**3**	3	3
Sales: Goods and services supplied to joint ventures[1]	**78**	9	9
Sales: Goods and services supplied to associates	**–**	4	40
Purchases: Goods and services received from joint ventures[2]	**168**	183	68
Purchases: Goods and services received from associates[2]	**169**	83	52
Receivable from joint ventures[3]	**64**	7	4
Receivable from associates[3]	**457**	–	–
Payable to joint ventures[4]	**84**	96	2
Payable to associates	**27**	7	4
Dividends received from joint ventures[5]	**75**	48	49
Dividends received from associates	**24**	24	30

1. During the year the Company sold property sites to joint venture St William Homes LLP.
2. During the year the Company received goods and services from a number of US associates, both for the transportation of gas and for pipeline services in the US. Additionally, goods and services were received from UK joint ventures for the construction of a transmission link in the UK.
3. Amounts receivable from associates includes a loan receivable balance from Quadgas HoldCo Limited of £434 million as a result of the sale of the UK Gas Distribution business (see note 9 for additional information) and a loan receivable balance of £61 million from Nemo Link Limited.
4. Amounts payable to joint ventures include deposits received for National Grid property sites from St William Homes LLP.
5. Dividends in respect of joint ventures were received from BritNed Development Limited.

Details of investments in principal subsidiary undertakings, joint ventures and associates are disclosed in note 32 and information relating to pension fund arrangements is disclosed in note 23. For details of Directors' and key management remuneration, refer to the audited section of the Remuneration Report and note 3(c). Information regarding the disposal of UK Gas Distribution is included in note 9.

30. Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate risk, commodity price risk, credit risk, capital risk and liquidity risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage risks of this type.

This note describes our approach to managing risk, including an analysis of assets and liabilities by currency type and an analysis of interest rate category for our net debt. We are required by accounting standards to also include a number of specific disclosures (such as a maturity analysis of contractual undiscounted cash flows) and have included these requirements below.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

We have exposure to the following risks, which are described in more detail below:

- credit risk;
- liquidity risk;
- interest rate risk;
- currency risk;
- commodity risk; and
- capital risk.

Notes to the consolidated financial statements
– supplementary information continued

30. Financial risk management continued

(a) Credit risk
We are exposed to the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in our commercial business activities. We are exposed to credit risk on our cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Treasury credit risk
Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. As at 31 March 2017, the following limits were in place for investments held with banks and financial institutions:

	Maximum limit £m	Long-term limit £m
Triple 'A' G8 sovereign entities (AAA)	Unlimited	Unlimited
Triple 'A' vehicles (AAA)	326	277
Triple 'A' range institutions and non G8 sovereign entities (AAA)	1,113 to 1,680	560 to 878
Double 'A+' G8 sovereign entities (AA+)	1,680	878
Double 'A' range institutions (AA)	665 to 837	338 to 418
Single 'A' range institutions (A)	229 to 326	116 to 167

As at 31 March 2016 and 2017, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Management does not expect any significant losses from non performance by these counterparties.

Commodity credit risk
The credit policy for US-based commodity transactions is owned by the Finance Committee to the Board, which establishes controls and procedures to determine, monitor and minimise the credit exposure to counterparties. Authority to administer the policy has been delegated to the Energy Procurement Risk Management Committee by the Board and the Executive Committee.

Wholesale and retail credit risk
Our principal commercial exposure in the UK is governed by the credit rules within the regulated codes: Uniform Network Code and Connection and Use of System Code. These set out the level of credit relative to the RAV for each credit rating. In the US, we are required to supply electricity and gas under state regulations. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash, cheques, electronic bank payments or by using major credit cards. We are committed to measuring, monitoring, minimising and recording counterparty credit risk in our wholesale business. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 18.

30. Financial risk management continued

(a) Credit risk continued

Offsetting financial assets and liabilities

The following tables set out our financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present National Grid's net exposure.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis.

Amounts which do not meet the criteria for offsetting on the statement of financial position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Commodity contracts that have not been offset on the balance sheet may be settled net in certain circumstances under ISDA or NAESB (North American Energy Standards Board) agreements.

National Grid has similar arrangements in relation to bank account balances and bank overdrafts; and trade payables and trade receivables which are subject to general terms and conditions. However, these balances are immaterial.

At 31 March 2017	Gross carrying amounts £m	Gross amounts offset[1] £m	Net amount presented in statement of financial position £m	Related amounts available to be offset but not offset in statement of financial position: Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	**1,707**	**–**	**1,707**	**(718)**	**(692)**	**297**
Commodity contracts	**106**	**–**	**106**	**(25)**	**–**	**81**
	1,813	**–**	**1,813**	**(743)**	**(692)**	**378**
Liabilities						
Derivative financial instruments	**(2,223)**	**–**	**(2,223)**	**718**	**1,230**	**(275)**
Commodity contracts	**(170)**	**–**	**(170)**	**25**	**18**	**(127)**
	(2,393)	**–**	**(2,393)**	**743**	**1,248**	**(402)**
	(580)	**–**	**(580)**	**–**	**556**	**(24)**

At 31 March 2016	Gross carrying amounts £m	Gross amounts offset[1] £m	Net amount presented in statement of financial position £m	Related amounts available to be offset but not offset in statement of financial position: Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	1,963	–	1,963	(997)	(597)	369
Commodity contracts	33	(1)	32	(4)	–	28
	1,996	(1)	1,995	(1,001)	(597)	397
Liabilities						
Derivative financial instruments	(2,069)	–	(2,069)	997	932	(140)
Commodity contracts	(145)	10	(135)	4	20	(111)
	(2,214)	10	(2,204)	1,001	952	(251)
	(218)	9	(209)	–	355	146

1. The gross financial assets and liabilities offset in the statement of financial position primarily relate to commodity contracts. Offsets relate to margin payments for NYMEX gas futures which are traded on a recognised exchange.

Notes to the consolidated financial statements
– supplementary information continued

30. Financial risk management continued

(b) Liquidity risk
Our policy is to determine our liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding requirements for at least a 24 month period and maintain adequate liquidity for a continuous 12 month period.

We believe our contractual obligations, including those shown in commitments and contingencies in note 28 can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of subsidiary indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt and may restrict our ability to draw upon our facilities or access the capital markets.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the reporting date:

At 31 March 2017	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	More than 3 years £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(5,142)	(1,864)	(1,750)	(19,245)	(28,001)
Interest payments on borrowings[1]	(767)	(707)	(670)	(12,975)	(15,119)
Finance lease liabilities	(66)	(58)	(61)	(183)	(368)
Other non-interest bearing liabilities	(2,989)	(260)	–	–	(3,249)
Derivative financial liabilities					
Derivative contracts – receipts	571	961	572	234	2,338
Derivative contracts – payments	(1,551)	(959)	(304)	(610)	(3,424)
Commodity contracts	(15)	(18)	(8)	–	(41)
	(9,959)	(2,905)	(2,221)	(32,779)	(47,864)

At 31 March 2016	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	More than 3 years £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(3,225)	(1,777)	(1,760)	(20,831)	(27,593)
Interest payments on borrowings[1]	(839)	(806)	(746)	(13,549)	(15,940)
Finance lease liabilities	(53)	(58)	(43)	(130)	(284)
Other non-interest bearing liabilities	(2,755)	(230)	–	–	(2,985)
Derivative financial liabilities					
Derivative contracts – receipts	314	487	846	811	2,458
Derivative contracts – payments	(389)	(964)	(855)	(914)	(3,122)
Commodity contracts	(104)	(32)	(9)	1	(144)
	(7,051)	(3,380)	(2,567)	(34,612)	(47,610)

1. The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle.

(c) Interest rate risk
National Grid's interest rate risk arises from our long-term borrowings. Borrowings issued at variable rates expose National Grid to cash flow interest rate risk, partially offset by cash held at variable rates. Borrowings issued at fixed rates expose National Grid to fair value interest rate risk.

Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints. We do this by using fixed and floating rate debt and derivative financial instruments including interest rate swaps, swaptions and forward rate agreements.

We hold some borrowings on issue that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

The table in note 20 sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

30. Financial risk management continued

(c) Interest rate risk continued
During 2017 and 2016, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2017					2016				
	Fixed rate £m	Floating rate £m	Inflation linked £m	Other[1] £m	Total £m	Fixed rate £m	Floating rate £m	Inflation linked £m	Other[1] £m	Total £m
Cash and cash equivalents	940	199	–	–	1,139	1	126	–	–	127
Financial investments	44	8,691	–	6	8,741	54	2,939	–	5	2,998
Borrowings[2]	(17,681)	(3,917)	(7,040)	–	(28,638)	(17,706)	(3,008)	(7,629)	(1)	(28,344)
Pre-derivative position	(16,697)	4,973	(7,040)	6	(18,758)	(17,651)	57	(7,629)	4	(25,219)
Derivative effect[3]	1,424	(1,785)	(155)	–	(516)	1,788	(2,481)	587	–	(106)
Net debt position	(15,273)	3,188	(7,195)	6	(19,274)	(15,863)	(2,424)	(7,042)	4	(25,325)

1. Represents financial instruments which are not directly affected by interest rate risk, such as investments in equity or other similar financial instruments.
2. Includes bank overdrafts.
3. The impact of 2017/18 (2016: 2016/17) maturing short-dated interest rate derivatives is included.

(d) Currency risk
National Grid operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and investments in foreign operations.

Our policy for managing foreign exchange transaction risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where foreign currency cash flow forecasts are less certain, our policy is to hedge a proportion of such cash flows based on the probability of those cash flows occurring. Instruments used to manage foreign exchange transaction risk include foreign exchange forward contracts and foreign exchange swaps.

Our policy for managing foreign exchange translation risk relating to our net investment in foreign operations is to maintain a percentage of net debt and foreign exchange forwards so as to provide an economic offset. The primary managed foreign exchange exposure arises from the dollar denominated assets and liabilities held by our US operations, with a further small euro exposure in respect of a joint venture investment.

During 2017 and 2016, derivative financial instruments were used to manage foreign currency risk as follows:

	2017					2016				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Cash and cash equivalents	1,110	–	29	–	1,139	3	1	123	–	127
Financial investments	6,824	98	1,753	66	8,741	1,201	105	1,622	70	2,998
Borrowings[1]	(11,099)	(5,373)	(10,729)	(1,437)	(28,638)	(13,131)	(5,061)	(8,806)	(1,346)	(28,344)
Pre-derivative position	(3,165)	(5,275)	(8,947)	(1,371)	(18,758)	(11,927)	(4,955)	(7,061)	(1,276)	(25,219)
Derivative effect	2,310	6,241	(10,708)	1,641	(516)	2,374	4,971	(8,989)	1,538	(106)
Net debt position	(855)	966	(19,655)	270	(19,274)	(9,553)	16	(16,050)	262	(25,325)

1. Includes bank overdrafts.

The exposure to dollars largely relates to our net investment hedge activities; exposure to euros largely relates to hedges for our future non-sterling capital expenditure as described in note 16.

The currency exposure on other financial instruments is as follows:

	2017					2016				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Trade and other receivables	83	–	1,660	–	1,743	220	8	1,236	–	1,464
Trade and other payables	(1,209)	–	(1,795)	–	(3,004)	(1,380)	–	(1,471)	–	(2,851)
Other non-current assets	(100)	–	(315)	–	(415)	(17)	–	(252)	–	(269)

The carrying amounts of other financial instruments are denominated in the above currencies, which in most instances are the functional currency of the respective subsidiaries. Our exposure to dollars is due to activities in our US subsidiaries. We do not have any other significant exposure to currency risk on these balances.

Notes to the consolidated financial statements
– supplementary information continued

30. Financial risk management continued

(e) Commodity risk
We purchase electricity and gas to supply our customers in the US and to meet our own energy needs. Substantially all our costs of purchasing electricity and gas for supply to customers are recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular year that can lead to large fluctuations in the income statement. We follow approved policies to manage price and supply risks for our commodity activities.

Our energy procurement risk management policy and delegations of authority govern our US commodity trading activities for energy transactions. The purpose of this policy is to ensure we transact within pre-defined risk parameters and only in the physical and financial markets where we or our customers have a physical market requirement. In addition, state regulators require National Grid to manage commodity risk and cost volatility prudently through diversified pricing strategies. In some jurisdictions we are required to file a plan outlining our strategy to be approved by regulators. In certain cases we might receive guidance with regard to specific hedging limits.

Energy purchase contracts for the forward purchase of electricity or gas that are used to satisfy physical delivery requirements to customers or for energy that the Company uses itself meet the normal purchase, sale or usage exemption of IAS 39. They are, therefore, not recognised in the financial statements until they are realised. Disclosure of commitments under such contracts is made in note 28.

We enter into forward contracts for the purchase of commodities, some of which do not meet the own use exemption for accounting purposes and hence are accounted for as derivatives. We also enter into derivative financial instruments linked to commodity prices, including index-linked futures, swaps and options contracts. These derivative financial instruments are used to manage market price volatility and are carried at fair value on the statement of financial position, with the mark-to-market changes reflected through earnings.

The fair value of our commodity contracts by type can be analysed as follows:

	2017			2016		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Commodity purchase contracts accounted for as derivative contracts						
Forward purchases of electricity	**–**	**(10)**	**(10)**	–	(26)	(26)
Forward purchases of gas	**82**	**(97)**	**(15)**	25	(27)	(2)
Derivative financial instruments linked to commodity prices						
Electricity capacity	**2**	**–**	**2**	2	–	2
Electricity swaps	**11**	**(61)**	**(50)**	2	(69)	(67)
Electricity options	**–**	**–**	**–**	–	(1)	(1)
Gas swaps	**11**	**(2)**	**9**	3	(12)	(9)
	106	**(170)**	**(64)**	32	(135)	(103)

The maturity profile of commodity contracts is as follows:

	2017			2016		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Current						
Less than one year	**54**	**(93)**	**(39)**	22	(96)	(74)
	54	**(93)**	**(39)**	22	(96)	(74)
Non-current						
In 1 to 2 years	**8**	**(36)**	**(28)**	8	(30)	(22)
In 2 to 3 years	**7**	**(9)**	**(2)**	1	(9)	(8)
In 3 to 4 years	**6**	**(7)**	**(1)**	–	–	–
In 4 to 5 years	**6**	**(5)**	**1**	–	–	–
More than 5 years	**25**	**(20)**	**5**	1	–	1
	52	**(77)**	**(25)**	10	(39)	(29)
	106	**(170)**	**(64)**	32	(135)	(103)

For each class of commodity contract, our exposure based on the notional quantities is as follows:

	2017	2016
Forward purchases of electricity[1]	**159 GWh**	481 GWh
Forward purchases/sales of gas[2]	**54m Dth**	44m Dth
Electricity swaps	**12,776 GWh**	11,786 GWh
Electricity options	**17,793 GWh**	22,375 GWh
Electricity capacity	**1 kWm**	1 kWm
Gas swaps	**83m Dth**	76m Dth
Gas options	**9m Dth**	16m Dth
NYMEX gas futures[3]	**3m Dth**	14m Dth

1. Forward electricity purchases have terms up to six years. The contractual obligations under these contracts are £15 million (2016: £40 million).
2. Forward gas purchases have terms up to four years. The contractual obligations under these contracts are £131 million (2016: £20 million).
3. NYMEX gas futures have been offset with related margin accounts (see note 30(a)).

30. Financial risk management continued

(f) Capital risk management

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 27). National Grid's objectives when managing capital are: to safeguard our ability to continue as a going concern; to remain within regulatory constraints of our regulated operating companies; and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated companies is an important aspect of our capital risk management strategy and balance sheet efficiency. As noted on page 22, we monitor our balance sheet efficiency using several metrics including our retained cash flow/net debt and interest cover. Interest cover for the year ended 31 March 2017 was 5.0 (2016: 5.5). Our long-term target range for interest cover is greater than 3.0, which we believe is consistent with single A range long-term senior unsecured debt credit ratings within our main UK operating companies, NGET and NGG, based on guidance from the rating agencies.

In addition, we monitor the RAV gearing within each of NGET and the regulated transmission businesses within NGG. This is calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our UK regulated businesses. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for these businesses, at around 60 to 65%.

The majority of our regulated operating companies in the US and the UK (and one intermediate UK holding company), are subject to certain restrictions on the payment of dividends by administrative order, contract and/or licence. The types of restrictions that a company may have that would prevent a dividend being declared or paid unless they are met include:

- dividends must be approved in advance by the relevant US state regulatory commission;
- the subsidiary must have at least two recognised rating agency credit ratings of at least investment grade;
- dividends must be limited to cumulative retained earnings, including pre-acquisition retained earnings;
- National Grid plc must maintain an investment grade credit rating and if that rating is the lowest investment grade bond rating it cannot have a negative watch/review for downgrade notice by a credit rating agency;
- the subsidiary must not carry on any activities other than those permitted by the licences;
- the subsidiary must not create any cross-default obligations or give or receive any intra-group cross-subsidies; and
- the percentage of equity compared with total capital of the subsidiary must remain above certain levels.

There is a further restriction relating only to the Narragansett Electric Company, which is required to maintain its consolidated net worth above certain levels.

These restrictions are subject to alteration in the US as and when a new rate case or rate plan is agreed with the relevant regulatory bodies for each operating company and in the UK through the normal licence review process.

As most of our business is regulated, at 31 March 2017 the majority of our net assets are subject to some of the restrictions noted above. These restrictions are not considered to be significantly onerous, nor do we currently expect they will prevent the planned payment of dividends in future in line with our dividend policy.

Some of our regulatory and bank loan agreements additionally impose lower limits for the long-term credit ratings that certain companies within the Group must hold. All the above requirements are monitored on a regular basis in order to ensure compliance. The Company has complied with all externally imposed capital requirements to which it is subject.

(g) Fair value analysis

Included in the statement of financial position are financial instruments which have been measured at fair value. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

	2017				2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Investments – available-for-sale	7,717	315	5	8,037	2,040	393	–	2,433
Investments – joint ventures and associates	–	–	41	41	–	–	–	–
Derivative financial instruments	–	1,692	15	1,707	–	1,945	18	1,963
Commodity contracts	–	22	84	106	–	5	27	32
	7,717	2,029	145	9,891	2,040	2,343	45	4,428
Liabilities								
Derivative financial instruments	–	(1,743)	(480)	(2,223)	–	(1,855)	(214)	(2,069)
Commodity contracts	–	(70)	(100)	(170)	–	(81)	(54)	(135)
	–	(1,813)	(580)	(2,393)	–	(1,936)	(268)	(2,204)
	7,717	216	(435)	7,498	2,040	407	(223)	2,224

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

30. Financial risk management continued

(g) Fair value analysis continued

Our level 3 derivative financial instruments include cross-currency swaps, inflation linked swaps and equity options, all of which are traded on illiquid markets. In valuing these instruments an external valuation is obtained to support each reported fair value. We have reclassified sterling RPI swaps from level 2 into level 3 due to the long-dated and increased illiquid nature of these instruments, which has been driven by the lack of market participants for trades with this particular risk profile.

Our level 3 commodity contracts primarily consist of our forward purchases of electricity and gas where pricing inputs are unobservable, as well as other complex transactions. Complex transactions can introduce the need for internally developed models based on reasonable assumptions. Industry standard valuation techniques such as the Black-Scholes pricing model and Monte Carlo simulation are used for valuing such instruments. Level 3 is also applied in cases when optionality is present or where an extrapolated forward curve is considered unobservable. All published forward curves are verified to market data; if forward curves differ from market data by 5% or more they are considered unobservable.

During the year to 31 March 2017, the Group made level 3 investments worth £46 million, consisting of a £41 million joint venture arrangement with Sunrun Neptune Investor 2016 LLC, accounted at fair value (note 15), and £5 million Series B preferred stocks in Enbala Holdings, Inc., accounted as available-for-sale. The Group is also party to the Further Acquisition Agreement which contains put/call options over 14% of the loan and equity it holds in Quadgas HoldCo Limited. The fair value of the options is considered to be zero at year end (notes 9 and 15).

The changes in value of our level 3 derivative financial instruments are as follows:

	Derivative financial instruments		Commodity contracts		Investments		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
At 1 April	**(196)**	(166)	**(27)**	(42)	**–**	–	**(223)**	(208)
Net losses for the year[1,2]	**(35)**	(20)	**(2)**	(27)	**–**	–	**(37)**	(47)
Purchases[3]	**–**	1	**15**	13	**46**	–	**61**	14
Settlements	**–**	(11)	**(2)**	29	**–**	–	**(2)**	18
Reclassification into level 3[4]	**(234)**	–	**–**	–	**–**	–	**(234)**	–
At 31 March	**(465)**	(196)	**(16)**	(27)	**46**	–	**(435)**	(223)

1. Loss of £35 million (2016: £17 million loss) is attributable to derivative financial instruments held at the end of the reporting period and has been recognised in finance costs in the income statement.
2. Loss of £21 million (2016: £28 million loss) is attributable to commodity contract financial instruments held at the end of the reporting period.
3. Purchases in the year relating to investments consist of £41 million in joint ventures and associates (Sunrun Neptune Investor 2016 LLC) and £5 million attributable to an available-for-sale investment in Enbala Holdings, Inc.
4. Sterling RPI swaps reclassified from level 2 into level 3.

The impacts on a post-tax basis of reasonably possible changes in significant level 3 assumptions are as follows:

	Derivative financial instruments		Commodity contracts		Investments	
	2017 Income statement £m	2016 Income statement £m	**2017 Income statement £m**	2016 Income statement £m	**2017 Income statement £m**	2016 Income statement £m
10% increase in commodity prices[1]	**–**	–	**1**	4	**–**	–
10% decrease in commodity prices[1]	**–**	–	**–**	–	**–**	–
Volume forecast uplift[2]	**–**	–	**(1)**	(1)	**–**	–
Volume forecast reduction[2]	**–**	–	**1**	1	**–**	–
+10% market area price change	**–**	–	**(13)**	(2)	**–**	–
–10% market area price change	**–**	–	**9**	2	**–**	–
+20 basis points change in Limited Price Inflation (LPI) market curve[3]	**(93)**	(83)	**–**	–	**–**	–
–20 basis points change in LPI market curve[3]	**88**	80	**–**	–	**–**	–
+50 basis points change in interest rates[4]	**–**	–	**–**	–	**8**	–
–50 basis points change in interest rates[4]	**–**	–	**–**	–	**(8)**	–

1. Level 3 commodity price sensitivity is included within the sensitivity analysis disclosed in note 33.
2. Volumes were flexed using maximum and minimum historical averages, or by >10% where historical averages were not available.
3. A reasonably possible change in assumption of other level 3 derivative financial instruments is unlikely to result in a material change in fair values.
4. The risk free rate and cost of debt were flexed in assessing the cost of carry for the Further Acquisition Agreement valuation sensitivity.

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified. The level 3 investments were acquired in a recent period on market terms and sensitivity is considered insignificant at 31 March 2017.

31. Borrowing facilities

To support our long-term liquidity requirements and provide backup to commercial paper and other borrowings, we agree loan facilities with financial institutions over and above the value of borrowings that may be required. These facilities have never been drawn, and our undrawn amounts are listed below.

At 31 March 2017, we had bilateral committed credit facilities of £4,938 million (2016: £2,808 million). In addition, we had committed credit facilities from syndicates of banks of £338 million at 31 March 2017 (2016: £295 million). All committed credit facilities were undrawn in 2017 and 2016. An analysis of the maturity of these undrawn committed facilities is shown below:

	2017 £m	2016 £m
Undrawn committed borrowing facilities expiring:		
Less than 1 year	**–**	–
In 1 to 2 years	**1,115**	–
In 2 to 3 years	**2,388**	1,115
In 3 to 4 years	**–**	295
In 4 to 5 years	**1,773**	–
More than 5 years	**–**	1,693
	5,276	3,103

Of the unused facilities at 31 March 2017, £4,938 million (2016: £2,808 million) was held as backup to commercial paper and similar borrowings, while £338 million (2016: £295 million) is available as backup to specific US borrowings.

In addition to the above, the Group has Export Credit Agreements (ECAs) totalling £600 million, of which £562 million is undrawn.

Further information on our bonds can be found on the debt investor section of our website.

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– supplementary information continued

32. Subsidiary undertakings, joint ventures and associates

While we present consolidated results in these financial statements as if we were one company, our legal structure is such that there are a number of different operating and holding companies that contribute to the overall result. This structure has evolved through acquisitions as well as regulatory requirements to have certain activities within separate legal entities.

Subsidiary undertakings
A list of the Group's subsidiaries as at 31 March 2017 is given below. The entire share capital of subsidiaries is held within the Group except where the Group's ownership percentages are shown. These percentages give the Group's ultimate interest and therefore allow for the situation where subsidiaries are owned by partly-owned intermediate subsidiaries. Where subsidiaries have different classes of shares, this is largely for historical reasons and the effective percentage holdings given represent both the Group's voting rights and equity holding. Shares in National Grid (US) Holdings Limited, National Grid Holdings One plc and NGG Finance plc are held directly by National Grid plc. All other holdings in subsidiaries are owned by other subsidiaries within the Group. All subsidiaries are consolidated in the Group's financial statements.

Principal Group companies are identified in **bold**. These companies are incorporated and principally operate in the countries under which they are shown.

Incorporated in England and Wales
Registered office: 1–3 Strand, London WC2N 5EH, UK (unless stated otherwise in footnotes).

Beegas Nominees Limited
Birch Sites Limited
Carbon Sentinel Limited
Droylsden Metering Services Limited
Gridcom Limited
Icelink Interconnector Limited
Landranch Limited
Lattice Group Employee Benefit Trust Limited
Lattice Group Limited
Lattice Group Trustees Limited
Natgrid Limited
NatGrid One Limited
NatgridTW1 Limited
National Grid Belgium Limited
National Grid Blue Power Limited
National Grid Carbon Limited
National Grid Commercial Holdings Limited
National Grid Distributed Energy Limited
National Grid Electricity Group Trustee Limited
National Grid Electricity Transmission plc
National Grid Energy Metering Limited
National Grid Four Limited
National Grid Fourteen Limited
National Grid Gas Holdings Limited
National Grid Gas plc
National Grid Grain LNG Limited
National Grid Holdings Limited
National Grid Holdings One plc
National Grid IFA 2 Limited
National Grid Interconnector Holdings Limited
National Grid Interconnectors Limited
National Grid International Limited
National Grid Metering Limited
National Grid North Sea Link Limited
National Grid Offshore Limited (previously Cadent Services Limited)*
National Grid Property Holdings Limited
National Grid Property (Northfleet) Limited[1]**
National Grid Seventeen Limited
National Grid Smart Limited
National Grid Ten
National Grid Thirty Five Limited
National Grid Thirty Four Limited (previously Cadent Gas Limited)*
National Grid Thirty Six Limited (previously Cadent Finance Limited)*
National Grid Twelve Limited
National Grid Twenty Eight Limited
National Grid Twenty-Five Limited
National Grid Twenty Seven Limited
National Grid Twenty Three Limited
National Grid UK Limited
National Grid UK Pension Services Limited
National Grid (US) Holdings Limited
National Grid (US) Investments 2 Limited
National Grid (US) Investments 4 Limited
National Grid (US) Partner 1 Limited
National Grid Ventures Limited
National Grid Viking Link Limited
National Grid William Limited
NG Nominees Limited
NGC Employee Shares Trustee Limited
NGG Finance plc
Ngrid Intellectual Property Limited
NGT Telecom No. 1 Limited
NGT Two Limited
Port Greenwich Limited
Stargas Nominees Limited
Supergrid Electricity Limited
Supergrid Energy Transmission Limited
Supergrid Limited
Thamesport Interchange Limited
The National Grid Group Quest Trustee Company Limited
The National Grid YouPlan Trustee Limited
Transco Limited

1. Registered office: 15 Canada Square, London E14 5GL, UK
* Change of name effective from 2 May 2017
** In liquidation

32. Subsidiary undertakings, joint ventures and associates continued

Incorporated in the US
Registered office: Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, New Castle County, USA (unless stated otherwise in footnotes).

Boston Gas Company (including Essex Gas Company)[1]
British Transco Capital Inc.
British Transco Finance, Inc.
Broken Bridge Corp.[2]
Colonial Gas Company[1]
EUA Energy Investment Corporation[1]
GridAmerica Holdings Inc.
Grid NY LLC[3]
KeySpan CI Midstream Limited
KeySpan Corporation[3]
KeySpan Energy Corporation[3]
KeySpan Energy Services Inc.
KeySpan Gas East Corporation[3]
KeySpan International Corporation
KeySpan MHK, Inc.
KeySpan Midstream Inc.
KeySpan Plumbing Solutions, Inc.[3]
KSI Contracting, LLC
KSI Electrical, LLC
KSI Mechanical, LLC
Land Management & Development, Inc.[3]
Landwest, Inc.[3]
Massachusetts Electric Company[1]
Metro Energy, LLC[3]
Metrowest Realty LLC
Mystic Steamship Corporation
Nantucket Electric Company[1]
National Grid Algonquin LLC
National Grid Connect Inc.[1]
National Grid Development Holdings Corp.
National Grid Electric Services, LLC[3]
National Grid Energy Management, LLC
National Grid Energy Services LLC
National Grid Energy Trading Services LLC[3]
National Grid Engineering & Survey Inc.[3]
National Grid Generation LLC[3]
National Grid Generation Ventures LLC[3]
National Grid Glenwood Energy Center, LLC
National Grid Green Homes Inc.[3]
National Grid IGTS Corp.[3]
National Grid Insurance USA Ltd[3]
National Grid Islander East Pipeline LLC
National Grid LNG GP LLC
National Grid LNG LLC
National Grid LNG LP LLC
National Grid Millennium LLC
National Grid NE Holdings 2 LLC[1]
National Grid North America Inc.
National Grid North East Ventures Inc.
National Grid Port Jefferson Energy Center LLC
National Grid Services Inc.
National Grid Technologies Inc.[3]
National Grid Transmission Services Corporation[1]
National Grid US 6 LLC
National Grid US LLC
National Grid USA
National Grid USA Service Company, Inc.[1]
Nees Energy, Inc.[1]
New England Electric Transmission Corporation[2]
New England Energy Incorporated[1]
New England Hydro Finance Company, Inc. (53.704%)[1]
New England Hydro-Transmission Corporation (53.704%)[2]
New England Hydro-Transmission Electric Company Inc. (53.704%)[1]
New England Power Company[1]
Newport America Corporation[4]
NGNE LLC
Niagara Mohawk Energy, Inc.
Niagara Mohawk Holdings, Inc.[3]
Niagara Mohawk Power Corporation[3]
NM Properties, Inc.[3]
North East Transmission Co., Inc.
Opinac North America, Inc.
Philadelphia Coke Co., Inc.
Port of the Islands North, LLC[3]
The Brooklyn Union Gas Company[3]
The Narragansett Electric Company[4]
Transgas, Inc.[1]
Upper Hudson Development Inc.[3]
Valley Appliance and Merchandising Company[4]
Vermont Green Line Devco, LLC (90%)
Wayfinder Group, Inc.[1]

Incorporated in Australia
National Grid Australia Pty Limited
Registered office: Level 7, 330 Collins Street, Melbourne VIC 3000, Australia

Incorporated in Canada
Keyspan Energy Development Co.
Registered office: 1959 Upper Water St, Ste 800, Halifax NS, Canada B3J 2X2

Incorporated in the Cayman Islands
Registered office: c/o KPMG, PO Box 493, 2nd Floor, Century Yard, Cricket Square, Grand Cayman KY1-1106, Cayman Islands (unless stated otherwise in footnotes).

British Transco Finance (No 1) Limited*
British Transco Finance (No 2) Limited*

Incorporated in the Isle of Man
Registered office: Third Floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man, UK (unless stated otherwise in footnotes).

Lattice Telecom Finance (No 1) Limited[5]*
National Grid Insurance Company (Isle of Man) Limited
NGT Holding Company (Isle of Man) Limited

Incorporated in Jersey
Registered office: 44 Esplanade, St Helier, Jersey JE4 9WG, UK (unless stated otherwise in footnotes).

National Grid Jersey Investments Limited
NG Jersey Limited

Incorporated in the Netherlands
British Transco International Finance B.V.
Registered office: Westblaak 89, 3012 KG Rotterdam, P.O. Box 21153, 3001 AD, Rotterdam, Netherlands

National Grid Holdings B.V.
Registered office: Prins Bernhardplein 200, Amsterdam, 1097 JB, Netherlands

Incorporated in the Republic of Ireland
National Grid Insurance Company (Ireland) Designated Activity Company
Registered office: Third Floor, The Metropolitan Building, James Joyce Street, Dublin 1, Ireland

1. Registered office: Corporation Service Company, 84 State Street, Boston MA 02109, Suffolk County, USA
2. Registered office: Corporation Service Company, 10 Ferry Street, Suite 313, Concord NH 03301, Merrimack County, USA
3. Registered office: Corporation Service Company, 80 State Street, Albany NY 12207-2543, Albany County, USA
4. Registered office: Corporation Service Company, 222 Jefferson Boulevard, Suite 200, Warwick RI 02888, Kent County, USA
5. Registered office: Heritage Court, 41 Athol Street, Douglas, IM99 1HN, Isle of Man, UK
* In liquidation

Notes to the consolidated financial statements
– supplementary information continued

32. Subsidiary undertakings, joint ventures and associates continued

Joint ventures
A list of the Group's joint ventures as at 31 March 2017 is given below. All joint ventures are included in the Group's financial statements using the equity method of accounting. Principal joint ventures are identified in **bold**.

Incorporated in England and Wales
Registered office: 1–3 Strand, London WC2N 5EH, UK (unless stated otherwise in footnotes).

BritNed Development Limited (50%)*
Joint Radio Company Limited (50%)[1]**
Nemo Link Limited (50%)
NGET/SPT Upgrades Limited (50%)†
St William Homes LLP (50%)[2]

Incorporated in the US
Registered office: Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, New Castle County, USA (unless stated otherwise in footnotes).

Clean Energy Generation, LLC (50%)
East Hampton Energy Storage Center, LLC (50%)
Island Park Energy Center, LLC (50%)
Islander East Pipeline Company, LLC (50%)
LI Energy Storage System, LLC (50%)
LI Solar Generation, LLC (50%)
Montauk Energy Storage Center, LLC (50%)
Swan Lake North Holdings LLC (50%)

Incorporated in France
IFA2 SAS (50%)
Registered office: 1 Terrasse Bellini, Tour Initiale, TSA 41000 – 9291, Paris La Defense, CEDEX, France

Associates
A list of the Group's associates as at 31 March 2017 is given below. All associates are included in the Group's financial statements using the equity method of accounting. Principal associates are identified in **bold**.

Incorporated in England and Wales
Quadgas HoldCo Limited (39%)
Registered office: Ashbrook Court, Prologis Park, Central Boulevard, Coventry CV7 8PE, UK

Incorporated in the US
Registered office: Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, New Castle County, USA (unless stated otherwise in footnotes).

Algonquin Gas Transmission, LLC (20%)[3]
Clean Line Energy Partners LLC (32%)
Connecticut Yankee Atomic Power Company (19.5%)[4]
Direct Global Power, Inc. (26%)[5]
Energy Impact Fund LP (33%)[6]
Maine Yankee Atomic Power Company (24%)[7]
Millennium Pipeline Company, LLC (26.25%)
New York Transco LLC (28.3%)[5]
Nysearch RMLD, LLC (22.63%)
Sunrun Neptune Investor 2016 LLC[8]***
Yankee Atomic Electric Company (34.5%)[9]

Incorporated in Belgium
Coreso SA (16.67%)
Registered office: Avenue de Cortenbergh 71, 1000 Brussels, Belgium

Other investments
A list of the Group's other investments as at 31 March 2017 is given below.

Incorporated in England and Wales
Energis PLC (33.06%)‡
Registered office: 1 More London Place, London SE1 2AF, UK

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1. Registered office: Dean Bradley House, 52 Horseferry Road, London SW1P 2AF, UK
2. Registered office: Berkeley House, 19 Portsmouth Road, Cobham, Surrey, KT11 1JG, UK
3. Registered office: Corporation Trust Company, 1209 Orange, Wilmington DE 19808, New Castle County, USA
4. Registered office: Robert K. Darden, Main Street, Salisbury CT 06068, USA
5. Registered office: Corporation Service Company, 80 State Street, Albany NY 12207-2543, Albany County, USA
6. Registered office: Harvard Business Services, Inc., 16192 Coastal Highway, Lewes DE 19958, Sussex County, USA
7. Registered office: R. Scott Mahoney, 83 Edison Drive, Augusta ME 04336, USA
8. Registered office: 595 Market Street, 29th Floor, San Francisco, CA 94105, USA
9. Registered office: Corporation Service Company, 84 State Street, Boston MA 02109, Suffolk County, USA

* National Grid Interconnector Holdings Limited owns 284,500,000 €0.20 C Ordinary shares and one £1.00 Ordinary A share
** National Grid Gas plc owns all £1.00 A Ordinary shares
*** National Grid Green Homes Inc owns 1,000 Class A Membership Interests
† National Grid Electricity Transmission plc owns 50 £1.00 A Ordinary shares
‡ In administration

Our interests and activities are held or operated through the subsidiaries, joint arrangements or associates as disclosed above. These interests and activities (and their branches) are established in – and subject to the laws and regulations of – these jurisdictions.

33. Sensitivities on areas of estimation and uncertainty

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are hypothetical, as they are based on assumptions and conditions prevailing at the year end, and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing.

The sensitivities in the tables below show the potential impact in the income statement (and consequential impact on net assets) for a range of different variables each of which have been considered in isolation (i.e. with all other variables remaining constant). There are a number of these sensitivities which are mutually exclusive and therefore if one were to happen, another would not, meaning a total showing how sensitive our results are to these external factors is not meaningful.

We are further required to show additional sensitivity analysis for changes in interest and exchange rates and these are shown separately in the subsequent table due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

The sensitivities included in the tables below all have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated. For example, a 10% increase in unbilled revenue at 31 March 2017 would result in an increase in the income statement of £58 million and a 10% decrease in unbilled revenue would have the equal but opposite effect.

	2017		2016	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
One year average change in useful economic lives (pre-tax):				
Depreciation charge on property, plant and equipment	**70**	**70**	79	79
Amortisation charge on intangible assets	**18**	**18**	20	20
Estimated future cash flows in respect of provisions, change of 10% (pre-tax)	**259**	**259**	172	172
Assets and liabilities carried at fair value change of 10% (pre-tax):				
Derivative financial instruments[1]	**(52)**	**(52)**	(11)	(11)
Commodity contract liabilities	**(6)**	**(6)**	(10)	(10)
Pensions and other post-retirement benefits[2] (pre-tax):				
UK discount rate change of 0.5%[3]	**9**	**1,305**	11	1,482
US discount rate change of 0.5%[3]	**17**	**669**	16	640
UK RPI rate change of 0.5%[4]	**8**	**1,114**	9	1,268
UK long-term rate of increase in salaries change of 0.5%[5]	**2**	**80**	2	87
US long-term rate of increase in salaries change of 0.5%	**3**	**51**	3	45
UK change of one year to life expectancy at age 65	**2**	**673**	2	703
US change of one year to life expectancy at age 65	**4**	**365**	3	295
Assumed US healthcare cost trend rates change of 1%	**37**	**510**	35	514
Unbilled revenue at 31 March change of 10% (post-tax)	**58**	**58**	58	58
No hedge accounting for our derivative financial instruments (post-tax)	**(862)**	**158**	(123)	36
Commodity risk[6] (post-tax):				
10% increase in commodity prices	**28**	**28**	22	22
10% decrease in commodity prices	**(29)**	**(29)**	(22)	(22)

1. The effect of a 10% change in fair value assumes no hedge accounting.
2. The changes shown are a change in the annual pension or other post-retirement benefit service charge and change in the defined benefit obligations.
3. A change in the discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans.
4. The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.
5. This change has been applied to both the pre 1 April 2014 and post 1 April 2014 rate of increase in salary assumption.
6. Represents potential impact on fair values of commodity contracts only.

Notes to the consolidated financial statements
– supplementary information continued

33. Sensitivities on areas of estimation and uncertainty continued

	2017		2016	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
Financial risk (post-tax):				
UK RPI change of 0.5%[1]	**28**	**–**	31	–
UK interest rates change of 0.5%	**64**	**35**	76	85
US interest rates change of 0.5%	**61**	**22**	66	17
US dollar exchange rate change of 10%[2]	**46**	**604**	57	553

1. Excludes sensitivities to LPI curve. Further details on sensitivities are provided in note 30(g).
2. The other equity reserves impact does not reflect the exchange translation in our US subsidiaries' net assets. It is estimated this would change by £988 million (2016: £788 million) in the opposite direction if the dollar exchange rate changed by 10%.

Pensions and other post-retirement benefits assumptions
Sensitivities have been prepared to show how the DB obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 2017. In preparing sensitivities the potential impact has been calculated by applying the change to each assumption in isolation and assuming all other assumptions remain unchanged. This is with the exception of RPI in the UK where the corresponding change to increases to pensions in payment, increases to pensions in deferment and increases in salary is recognised.

Financial instruments assumptions
Our financial instruments are sensitive to changes in market variables, being UK and US interest rates, the UK RPI and the dollar to sterling exchange rate. The changes in market variables impact the valuation of our borrowings, deposits, derivative financial instruments and commodity contracts. The analysis illustrates the sensitivity of our financial instruments to the changes in market variables.

The following main assumptions were made in calculating the sensitivity analysis for continuing operations:

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2017 and 2016 respectively;
- the statement of financial position sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity; and
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in interest rates are recorded in the income statement as they are designated using the spot rather than the forward translation method. The impact of movements in the dollar to sterling exchange rate are recorded directly in equity.

34. Additional disclosures in respect of guaranteed securities

We have three debt issuances (including preferred shares) that are listed on a US national securities exchange and are guaranteed by other companies in the Group. These guarantors commit to honour any liabilities should the company issuing the debt have any financial difficulties. In order to provide debt holders with information on the financial stability of the companies providing the guarantees, we are required to disclose individual financial information for these companies. We have chosen to include this information in the Group financial statements rather than submitting separate stand-alone financial statements.

The following condensed consolidating financial information, comprising statements of comprehensive income, statements of financial position and cash flow statements, is given in respect of National Grid Gas plc (subsidiary guarantor), which became joint full and unconditional guarantor on 11 May 2004 with National Grid plc (parent guarantor) of the 6.625% Guaranteed Notes due 2018 issued in June 1998 by British Transco Finance Inc., then known as British Gas Finance Inc. (issuer of notes). Condensed consolidating financial information is also provided in respect of Niagara Mohawk Power Corporation as a result of National Grid plc's guarantee, dated 29 October 2007, of Niagara Mohawk's 3.6% and 3.9% issued preferred shares. National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation are 100% owned and National Grid plc's guarantee of Niagara Mohawk Power Corporation's preferred shares is full and unconditional pursuant to Rule 3-10(i)(8)(i) and (ii) of Regulation S-X. The guarantees of National Grid Gas plc and National Grid plc are joint and several.

The following financial information for National Grid plc, National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation on a condensed consolidating basis is intended to provide investors with meaningful and comparable financial information and is provided pursuant to various rules including Rule 3-10 of Regulation S-X in lieu of the separate financial statements of each subsidiary issuer of public debt securities.

This financial information should be read in conjunction with the other disclosures in these financial statements.

Summary statements of comprehensive income are presented, on a consolidated basis, for the three years ended 31 March 2017. Summary statements of comprehensive income of National Grid plc and National Grid Gas plc are presented under IFRS measurement principles, as modified by the inclusion of the results of subsidiary undertakings on the basis of equity accounting principles.

The summary statements of financial position of National Grid plc and National Grid Gas plc include the investments in subsidiaries recorded on the basis of equity accounting principles for the purposes of presenting condensed consolidating financial information under IFRS. The summary statements of financial position present these investments within non-current financial and other investments.

The consolidation adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between National Grid plc, National Grid Gas plc, British Transco Finance Inc., Niagara Mohawk Power Corporation and other subsidiaries.

Notes to the consolidated financial statements
– supplementary information continued

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income for the year ended 31 March 2017 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Continuing operations							
Revenue	–	2,388	–	1,376	11,435	(164)	15,035
Operating costs:							
Depreciation and amortisation	–	(193)	–	(256)	(1,032)	–	(1,481)
Payroll costs	–	(326)	–	(114)	(1,138)	–	(1,578)
Purchases of electricity	–	(511)	–	–	(678)	–	(1,189)
Purchases of gas	–	(140)	–	(67)	(1,056)	–	(1,263)
Rates and property tax	–	(188)	–	(101)	(753)	–	(1,042)
Balancing Service Incentive Scheme	–	–	–	–	(1,120)	–	(1,120)
Payments to other UK network owners	–	–	–	–	(1,008)	–	(1,008)
Other operating costs	–	(435)	–	(394)	(2,481)	164	(3,146)
	–	(1,793)	–	(932)	(9,266)	164	(11,827)
Total operating profit	–	595	–	444	2,169	–	3,208
Net finance income/(costs)	8,177	(101)	–	(253)	(8,910)	–	(1,087)
Dividends receivable	–	–	–	–	8,100	(8,100)	–
Interest in equity accounted affiliates	(401)	–	–	–	63	401	63
Profit before tax	7,776	494	–	191	1,422	(7,699)	2,184
Tax	19	(181)	–	16	(228)	–	(374)
Profit after tax from discontinued operations	–	–	–	4,633	1,351	–	5,984
Profit for the year	7,795	313	–[1]	4,840	2,545	(7,699)	7,794
Amounts recognised in other comprehensive income from continuing operations[2]	578	–	–	114	177	(291)	578
Amounts recognised in other comprehensive income from discontinued operations[2]	42	–	–	51	(62)	11	42
Total comprehensive income for the year	**8,415**	**313**	**–**	**5,005**	**2,660**	**(7,979)**	**8,414**
Attributable to:							
Equity shareholders	8,415	313	–	5,005	2,661	(7,979)	8,415
Non-controlling interests	–	–	–	–	(1)	–	(1)
	8,415	**313**	**–**	**5,005**	**2,660**	**(7,979)**	**8,414**

1. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.
2. Includes other comprehensive income relating to interest in equity accounted affiliates.

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income for the year ended 31 March 2016 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc Re-presented[1] £m	Other subsidiaries Re-presented[1] £m	Consolidation adjustments[1] £m	National Grid consolidated £m
Continuing operations							
Revenue	–	2,027	–	1,244	10,069	(128)	13,212
Operating costs:							
Depreciation and amortisation	–	(162)	–	(255)	(894)	–	(1,311)
Payroll costs	–	(260)	–	(115)	(962)	–	(1,337)
Purchases of electricity	–	(484)	–	–	(828)	–	(1,312)
Purchases of gas	–	(86)	–	(75)	(806)	–	(967)
Rates and property tax	–	(155)	–	(101)	(643)	–	(899)
Balancing Service Incentive Scheme	–	–	–	–	(907)	–	(907)
Payments to other UK network owners	–	–	–	–	(971)	–	(971)
Other operating costs	–	(433)	–	(173)	(1,805)	128	(2,283)
	–	(1,580)	–	(719)	(7,816)	128	(9,987)
Total operating profit	–	447	–	525	2,253	–	3,225
Net finance income/(costs)	701	(87)	–	(132)	(1,437)	–	(955)
Dividends receivable	–	–	–	–	620	(620)	–
Interest in equity accounted affiliates	1,843	–	–	33	59	(1,876)	59
Profit before tax	2,544	360	–	426	1,495	(2,496)	2,329
Tax	47	(141)	–	(56)	(277)	–	(427)
Profit after tax from discontinued operations	–	–	–	735	(43)	–	692
Profit for the year	2,591	219	–[2]	1,105	1,175	(2,496)	2,594
Amounts recognised in other comprehensive income from continuing operations[3]	502	(1)	–	8	426	(433)	502
Amounts recognised in other comprehensive income from discontinued operations[3]	71	–	–	(13)	153	(140)	71
Total comprehensive income for the year	**3,164**	**218**	**–**	**1,100**	**1,754**	**(3,069)**	**3,167**
Attributable to:							
Equity shareholders	3,164	218	–	1,100	1,751	(3,069)	3,164
Non-controlling interests	–	–	–	–	3	–	3
	3,164	**218**	**–**	**1,100**	**1,754**	**(3,069)**	**3,167**

1. Amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.
3. Includes other comprehensive income relating to interest in equity accounted affiliates.

Notes to the consolidated financial statements
– supplementary information continued

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income for the year ended 31 March 2015 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc Re-presented[1] £m	Other subsidiaries Re-presented[1] £m	Consolidation adjustments[1] £m	National Grid consolidated £m
Continuing operations							
Revenue	–	2,109	–	1,270	10,097	(119)	13,357
Operating costs:							
Depreciation and amortisation	–	(146)	–	(254)	(790)	–	(1,190)
Payroll costs	–	(256)	–	(101)	(935)	–	(1,292)
Purchases of electricity	–	(604)	–	–	(1,081)	–	(1,685)
Purchases of gas	–	(147)	–	(74)	(1,171)	–	(1,392)
Rates and property tax	–	(146)	–	(99)	(611)	–	(856)
Balancing Service Incentive Scheme	–	–	–	–	(874)	–	(874)
Payments to other UK network owners	–	–	–	–	(801)	–	(801)
Other operating costs	–	(501)	–	(254)	(1,680)	119	(2,316)
	–	(1,800)	–	(782)	(7,943)	119	(10,406)
Total operating profit	–	309	–	488	2,154	–	2,951
Net finance costs	(223)	(76)	–	(246)	(492)	–	(1,037)
Dividends receivable	–	–	–	–	700	(700)	–
Interest in equity accounted affiliates	2,192	–	–	8	46	(2,200)	46
Profit before tax	1,969	233	–	250	2,408	(2,900)	1,960
Tax	50	(98)	–	(65)	(354)	–	(467)
Profit after tax from discontinued operations	–	–	–	584	(66)	–	518
Profit for the year	2,019	135	–[2]	769	1,988	(2,900)	2,011
Amounts recognised in other comprehensive income from continuing operations[3]	(327)	1	–	(4)	(497)	501	(326)
Amounts recognised in other comprehensive income from discontinued operations[3]	(68)	–	–	26	81	(107)	(68)
Total comprehensive income for the year	**1,624**	**136**	**–**	**791**	**1,572**	**(2,506)**	**1,617**
Attributable to:							
Equity shareholders	1,624	136	–	791	1,579	(2,506)	1,624
Non-controlling interests	–	–	–	–	(7)	–	(7)
	1,624	**136**	**–**	**791**	**1,572**	**(2,506)**	**1,617**

1. Amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.
3. Includes other comprehensive income relating to interest in equity accounted affiliates.

34. Additional disclosures in respect of guaranteed securities continued

Statements of financial position as at 31 March 2017 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	763	–	–	5,333	–	6,096
Other intangible assets	–	–	–	125	798	–	923
Property, plant and equipment	–	6,553	–	4,358	28,914	–	39,825
Other non-current assets	–	7	–	9	105	–	121
Amounts owed by subsidiary undertakings	342	–	239	3,426	2,576	(6,583)	–
Pension assets	–	223	–	45	335	–	603
Financial and other investments	17,689	31	–	95	12,429	(27,061)	3,183
Derivative financial assets	149	–	–	813	553	–	1,515
Total non-current assets	18,180	7,577	239	8,871	51,043	(33,644)	52,266
Current assets							
Inventories and current intangible assets	–	38	–	20	345	–	403
Trade and other receivables	–	507	–	360	2,232	–	3,099
Amounts owed by subsidiary undertakings	12,734	505	6	1,965	12,083	(27,293)	–
Financial and other investments	5,471	29	–	1,835	1,406	–	8,741
Derivative financial assets	202	–	–	51	133	(194)	192
Cash and cash equivalents	1,090	4	–	(9)	54	–	1,139
Total current assets	19,497	1,083	6	4,222	16,253	(27,487)	13,574
Total assets	**37,677**	**8,660**	**245**	**13,093**	**67,296**	**(61,131)**	**65,840**
Current liabilities							
Borrowings	(1,120)	(55)	(5)	(833)	(3,483)	–	(5,496)
Derivative financial liabilities	(533)	–	–	(185)	(530)	194	(1,054)
Trade and other payables	(46)	(353)	–	(342)	(2,697)	–	(3,438)
Amounts owed to subsidiary undertakings	(12,012)	–	–	(2,151)	(13,130)	27,293	–
Current tax liabilities	(3)	(156)	–	(9)	61	–	(107)
Provisions	–	–	–	(184)	(232)	–	(416)
Total current liabilities	(13,714)	(564)	(5)	(3,704)	(20,011)	27,487	(10,511)
Non-current liabilities							
Borrowings	(1,262)	(2,345)	(239)	(3,879)	(15,417)	–	(23,142)
Derivative financial liabilities	(272)	–	–	(234)	(663)	–	(1,169)
Other non-current liabilities	–	(350)	–	(204)	(893)	–	(1,447)
Amounts owed to subsidiary undertakings	(2,058)	–	–	(756)	(3,769)	6,583	–
Deferred tax liabilities	(3)	(1,178)	–	(369)	(2,929)	–	(4,479)
Pensions and other post-retirement benefit obligations	–	(889)	–	–	(1,647)	–	(2,536)
Provisions	–	(298)	–	(104)	(1,770)	–	(2,172)
Total non-current liabilities	(3,595)	(5,060)	(239)	(5,546)	(27,088)	6,583	(34,945)
Total liabilities	**(17,309)**	**(5,624)**	**(244)**	**(9,250)**	**(47,099)**	**34,070**	**(45,456)**
Net assets	**20,368**	**3,036**	**1**	**3,843**	**20,197**	**(27,061)**	**20,384**
Equity							
Share capital	449	149	–	45	182	(376)	449
Share premium account	1,324	2,431	–	204	8,033	(10,668)	1,324
Retained earnings	22,582	456	1	2,268	11,914	(14,639)	22,582
Other equity reserves	(3,987)	–	–	1,326	52	(1,378)	(3,987)
Shareholders' equity	**20,368**	**3,036**	**1**	**3,843**	**20,181**	**(27,061)**	**20,368**
Non-controlling interests	–	–	–	–	16	–	16
Total equity	**20,368**	**3,036**	**1**	**3,843**	**20,197**	**(27,061)**	**20,384**

Notes to the consolidated financial statements
– supplementary information continued

34. Additional disclosures in respect of guaranteed securities continued

Statements of financial position as at 31 March 2016 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	664	–	–	4,651	–	5,315
Other intangible assets	–	–	–	239	648	–	887
Property, plant and equipment	–	5,466	–	12,628	25,270	–	43,364
Other non-current assets	–	7	–	41	34	–	82
Amounts owed by subsidiary undertakings	318	–	209	5,609	2,630	(8,766)	–
Pension assets	–	125	–	–	285	–	410
Financial and other investments	17,428	26	–	86	10,131	(26,792)	879
Derivative financial assets	157	–	–	1,014	514	–	1,685
Total non-current assets	17,903	6,288	209	19,617	44,163	(35,558)	52,622
Current assets							
Inventories and current intangible assets	–	42	–	26	369	–	437
Trade and other receivables	1	413	–	432	1,626	–	2,472
Amounts owed by subsidiary undertakings	11,516	300	6	57	12,785	(24,664)	–
Financial and other investments	1,244	28	–	116	1,610	–	2,998
Derivative financial assets	279	–	–	66	131	(198)	278
Cash and cash equivalents	1	4	–	–	126	(4)	127
Total current assets	13,041	787	6	697	16,647	(24,866)	6,312
Total assets	**30,944**	**7,075**	**215**	**20,314**	**60,810**	**(60,424)**	**58,934**
Current liabilities							
Borrowings	(933)	(47)	(5)	(602)	(2,028)	4	(3,611)
Derivative financial liabilities	(239)	–	–	(39)	(257)	198	(337)
Trade and other payables	(43)	(248)	–	(661)	(2,333)	–	(3,285)
Amounts owed to subsidiary undertakings	(12,633)	–	–	(1,518)	(10,513)	24,664	–
Current tax liabilities	(3)	(61)	–	(34)	(154)	–	(252)
Provisions	–	–	–	(55)	(181)	–	(236)
Total current liabilities	(13,851)	(356)	(5)	(2,909)	(15,466)	24,866	(7,721)
Non-current liabilities							
Borrowings	(1,194)	(2,043)	(209)	(6,078)	(15,209)	–	(24,733)
Derivative financial liabilities	(358)	–	–	(527)	(847)	–	(1,732)
Other non-current liabilities	–	(297)	–	(1,031)	(743)	–	(2,071)
Amounts owed to subsidiary undertakings	(1,982)	–	–	(1,174)	(5,610)	8,766	–
Deferred tax liabilities	(4)	(939)	–	(1,548)	(2,143)	–	(4,634)
Pensions and other post-retirement benefit obligations	–	(761)	–	–	(2,234)	–	(2,995)
Provisions	–	(250)	–	(126)	(1,107)	–	(1,483)
Total non-current liabilities	(3,538)	(4,290)	(209)	(10,484)	(27,893)	8,766	(37,648)
Total liabilities	**(17,389)**	**(4,646)**	**(214)**	**(13,393)**	**(43,359)**	**33,632**	**(45,369)**
Net assets	**13,555**	**2,429**	**1**	**6,921**	**17,451**	**(26,792)**	**13,565**
Equity							
Share capital	447	130	–	45	182	(357)	447
Share premium account	1,326	2,119	–	204	8,033	(10,356)	1,326
Retained earnings	16,305	180	1	5,400	9,316	(14,897)	16,305
Other equity reserves	(4,523)	–	–	1,272	(90)	(1,182)	(4,523)
Shareholders' equity	**13,555**	**2,429**	**1**	**6,921**	**17,441**	**(26,792)**	**13,555**
Non-controlling interests	–	–	–	–	10	–	10
Total equity	**13,555**	**2,429**	**1**	**6,921**	**17,451**	**(26,792)**	**13,565**

34. Additional disclosures in respect of guaranteed securities continued

Cash flow statements

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Year ended 31 March 2017							
Net cash flow from operating activities – continuing operations	53	757	–	918	2,592	–	4,320
Net cash flow from operating activities – discontinued operations	–	–	–	450	459	–	909
Net cash flow from/(used in) investing activities – continuing operations	4,181	(469)	15	215	(1,118)	(6,458)	(3,634)
Net cash flow from/(used in) investing activities – discontinued operations	–	–	–	5,618	(6,298)	–	(680)
Net cash flow (used in)/from financing activities – continuing operations	(3,146)	(288)	(15)	(8,322)	3,771	6,458	(1,542)
Net cash flow (used in)/from financing activities – discontinued operations	–	–	–	1,120	491	–	1,611
Net increase/(decrease) in cash and cash equivalents in the year	**1,088**	**–**	**–**	**(1)**	**(103)**	**–**	**984**
Year ended 31 March 2016							
Net cash flow from operating activities – continuing operations	57	580	–	599	3,056	–	4,292
Net cash flow from operating activities – discontinued operations	–	–	–	1,144	(68)	–	1,076
Net cash flow from/(used in) investing activities – continuing operations	502	(440)	13	56	(1,721)	(1,869)	(3,459)
Net cash flow from/(used in) investing activities – discontinued operations	–	–	–	(562)	(15)	–	(577)
Net cash flow (used in)/from financing activities – continuing operations	(555)	(148)	(13)	(1,185)	(1,173)	1,869	(1,205)
Net cash flow (used in)/from financing activities – discontinued operations	–	–	–	(63)	(60)	–	(123)
Net increase/(decrease) in cash and cash equivalents in the year	4	(8)	–	(11)	19	–	4
Year ended 31 March 2015							
Net cash flow from operating activities – continuing operations	38	531	–	489	2,963	–	4,021
Net cash flow from operating activities – discontinued operations	–	–	–	1,086	(100)	–	986
Net cash flow from/(used in) investing activities – continuing operations	2,103	(393)	–	(130)	(990)	(2,057)	(1,467)
Net cash flow from/(used in) investing activities – discontinued operations	–	–	–	(473)	(61)	–	(534)
Net cash flow (used in)/from financing activities – continuing operations	(2,169)	(145)	–	(889)	(1,981)	2,057	(3,127)
Net cash flow (used in)/from financing activities – discontinued operations	–	–	–	(70)	(56)	–	(126)
Net (decrease)/increase in cash and cash equivalents in the year	(28)	(7)	–	13	(225)	–	(247)

Cash dividends were received by National Grid plc from subsidiary undertakings amounting to £6,006 million during the year ended 31 March 2017 (2016: £930 million; 2015: £1,355 million).

Maturity analysis of parent Company borrowings

	2017 £m	2016 £m
Total borrowings are repayable as follows:		
Less than 1 year	**1,120**	933
In 1 to 2 years	**515**	–
In 2 to 3 years	**425**	482
In 3 to 4 years	**–**	395
In 4 to 5 years	**322**	–
More than 5 years	**–**	317
	2,382	2,127

Company accounting policies

We are required to include the stand-alone balance sheet of our ultimate parent Company, National Grid plc, under the Companies Act 2006. This is because the publicly traded shares are actually those of National Grid plc (the Company) and the following disclosures provide additional information to shareholders.

A. Basis of preparation

National Grid plc is the parent company of the National Grid Group which is engaged in the transmission and distribution of electricity and gas in Great Britain and northeastern US. The Company is a public limited company, limited by shares. The Company is incorporated and domiciled in England, with its registered office at 1–3 Strand, London, WC2N 5EH.

The financial statements of National Grid plc for the year ended 31 March 2017 were approved by the Board of Directors on 17 May 2017. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly these individual financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the EU, but makes amendments where necessary in order to comply with the provisions of the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken.

These individual financial statements of the Company have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006. They have been prepared on an historical cost basis, except for the revaluation of financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The 2016 comparative financial information has also been prepared on this basis.

These individual financial statements have been prepared on a going concern basis, which presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. As the Company is part of a larger group it participates in the Group's centralised treasury arrangements and so shares banking arrangements with its subsidiaries. The Company is expected to continue to generate positive cash flows or be in a position to obtain finance via intercompany loans to continue to operate for the foreseeable future.

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.

The Company has not presented its own profit and loss account or statement of comprehensive income as permitted by section 408 of the Companies Act 2006.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements of the Company in accordance with FRS 101:

- a cash flow statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management; and
- the effects of new but not yet effective IFRSs.

As the consolidated financial statements of National Grid plc, which are available from the registered office, include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 in respect of certain disclosures required by IFRS 13 'Fair value measurement' and the disclosures required by IFRS 7 'Financial instruments: Disclosures'. The Company intends to apply the above exemptions in the financial statements for the year ending 31 March 2018.

There are no critical areas of judgement that are considered to have a significant effect on the amounts recognised in the financial statements. Key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the valuation of financial instruments and derivatives.

The balance sheet has been prepared in accordance with the Company's accounting policies approved by the Board and described below:

B. Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value-in-use.

C. Tax

Current tax for the current and prior periods is provided at the amount expected to be paid or recovered using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on temporary differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the temporary differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet 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 assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

D. 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 currencies are retranslated at closing exchange rates. Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

E. Financial instruments
The Company's accounting policies are the same as the Group's accounting policies under IFRS, namely IAS 32 'Financial Instruments: Presentation', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures'. The Company applies these policies only in respect of the financial instruments that it has, namely investments, derivative financial instruments, debtors, cash at bank and in hand, borrowings and creditors.

The policies are set out in notes 14, 16, 18, 19, 20 and 21 to the consolidated financial statements. The Company is taking the exemption for financial instruments disclosures, because IFRS 7 disclosures are given in notes 30 and 33 to the consolidated financial statements.

F. Hedge accounting
The Company applies the same accounting policy as the Group in respect of fair value hedges and cash flow hedges. This policy is set out in note 16 to the consolidated financial statements.

G. Parent Company guarantees
The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due by certain subsidiary undertakings primarily to third parties. In the event of default or non performance by the subsidiary, the Company recognises such guarantees as insurance contracts, at fair value with a corresponding increase in the carrying value of the investment.

H. Share awards to employees of subsidiary undertakings
The issuance by the Company to employees of its subsidiaries of a grant over the Company's options represents additional capital contributions by the Company to its subsidiaries. An additional investment in subsidiaries results in a corresponding increase in shareholders' equity. The additional capital contribution is based on the fair value of the option at the date of grant, allocated over the underlying grant's vesting period. Where payments are subsequently received from subsidiaries, these are accounted for as a return of a capital contribution and credited against the Company's investments in subsidiaries. The Company has no employees.

I. Dividends
Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

J. Directors' remuneration
Full details of Directors' remuneration are disclosed on pages 54 to 71.

Company balance sheet
as at 31 March

	Notes	2017 £m	2016 £m
Fixed assets			
Investments	1	**8,880**	8,845
Current assets			
Debtors (amounts falling due within one year)	2	**12,936**	11,796
Debtors (amounts falling due after more than one year)	2	**491**	475
Investments	5	**5,471**	1,244
Cash at bank and in hand		**1,090**	1
Total current assets		**19,988**	13,516
Creditors (amounts falling due within one year)	3	**(13,714)**	(13,851)
Net current assets/(liabilities)		**6,274**	(335)
Total assets less current liabilities		**15,154**	8,510
Creditors (amounts falling due after more than one year)	3	**(3,595)**	(3,538)
Net assets		**11,559**	4,972
Equity			
Share capital	7	**449**	447
Share premium account		**1,324**	1,326
Cash flow hedge reserve		**11**	17
Other equity reserves		**337**	302
Profit and loss account	8	**9,438**	2,880
Total shareholders' equity		**11,559**	4,972

The Company's profit after tax for the year was £8,197 million (2015/16: £748 million). The financial statements of the Company on pages 168 to 171 were approved by the Board of Directors on 17 May 2017 and were signed on its behalf by:

Sir Peter Gershon Chairman
Andrew Bonfield Finance Director

National Grid plc
Registered number: 4031152

Company statement of changes in equity
for the years ended 31 March

	Share capital £m	Share premium account £m	Cash flow hedge reserve £m	Other equity reserves £m	Profit and loss account £m	Total shareholders' equity £m
At 1 April 2015	443	1,331	17	280	3,726	5,797
Profit for the year	–	–	–	–	748	748
Other equity movements						
Scrip dividend related share issue[1]	4	(5)	–	–	–	(1)
Purchase of treasury shares	–	–	–	–	(267)	(267)
Issue of treasury shares	–	–	–	–	16	16
Purchase of own shares	–	–	–	–	(6)	(6)
Share awards to employees of subsidiary undertakings	–	–	–	22	–	22
Dividends paid to equity shareholders	–	–	–	–	(1,337)	(1,337)
At 31 March 2016	447	1,326	17	302	2,880	4,972
Profit for the year	–	–	–	–	8,197	8,197
Other comprehensive loss for the year						
Transferred from equity in respect of cash flow hedges (net of tax)	–	–	(6)	–	–	(6)
Total comprehensive (loss)/income for the year	–	–	(6)	–	8,197	8,191
Other equity movements						
Scrip dividend related share issue[1]	2	(2)	–	–	–	–
Purchase of treasury shares	–	–	–	–	(189)	(189)
Issue of treasury shares	–	–	–	–	18	18
Purchase of own shares	–	–	–	–	(5)	(5)
Share awards to employees of subsidiary undertakings	–	–	–	35	–	35
Dividends paid to equity shareholders	–	–	–	–	(1,463)	(1,463)
At 31 March 2017	**449**	**1,324**	**11**	**337**	**9,438**	**11,559**

1. Included within share premium account are costs associated with scrip dividends.

Notes to the Company financial statements

1. Fixed asset investments

	Shares in subsidiary undertakings £m
At 1 April 2015	8,823
Additions	22
At 31 March 2016	8,845
Additions	35
At 31 March 2017	**8,880**

During the year there was a capital contribution of £35 million (2016: £22 million) which represents the fair value of equity instruments granted to subsidiaries' employees arising from equity-settled employee share schemes.

The Company's direct subsidiary undertakings as at 31 March 2017 were as follows:
- National Grid Holdings One plc
- National Grid (US) Holdings Limited
- NGG Finance plc.

The names of indirect subsidiary undertakings, joint ventures and associates are included in note 32 to the consolidated financial statements.

The Directors believe that the carrying value of the investments is supported by the fair value of their underlying net assets.

2. Debtors

	2017 £m	2016 £m
Amounts falling due within one year		
Derivative financial instruments (note 4)	**202**	279
Amounts owed by subsidiary undertakings	**12,734**	11,516
Prepayments and accrued income	**–**	1
	12,936	11,796
Amounts falling due after more than one year		
Derivative financial instruments (note 4)	**149**	157
Amounts owed by subsidiary undertakings	**342**	318
	491	475

The carrying values stated above are considered to represent the fair values of the assets.

3. Creditors

	2017 £m	2016 £m
Amounts falling due within one year		
Borrowings (note 6)	**1,120**	933
Derivative financial instruments (note 4)	**533**	239
Amounts owed to subsidiary undertakings	**12,012**	12,633
Corporation tax payable	**3**	3
Other creditors	**46**	43
	13,714	13,851
Amounts falling due after more than one year		
Borrowings (note 6)	**1,262**	1,194
Derivative financial instruments (note 4)	**272**	358
Amounts owed to subsidiary undertakings[1]	**2,058**	1,982
Deferred tax	**3**	4
	3,595	3,538

1. All amounts owed to subsidiary undertakings in 2017 and 2016 are repayable after five years.

The carrying values stated above are considered to represent the fair values of the liabilities. A reconciliation of the movement in deferred tax in the year is shown below:

	Deferred tax £m
At 1 April 2015	3
Charged to the profit and loss account	1
At 31 March 2016	4
Credited to equity	(1)
At 31 March 2017	**3**

4. Derivative financial instruments

The fair values of derivative financial instruments are:

	2017			2016		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	**202**	**(533)**	**(331)**	279	(239)	40
Amounts falling due after more than one year	**149**	**(272)**	**(123)**	157	(358)	(201)
	351	**(805)**	**(454)**	436	(597)	(161)

For each class of derivative the notional contract[1] amounts are as follows:

	2017 £m	2016 £m
Interest rate swaps	**(2,801)**	(2,442)
Cross-currency interest rate swaps	**(3,995)**	(3,537)
Foreign exchange forward contracts	**(17,134)**	(14,361)
	(23,930)	(20,340)

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

5. Investments

The following table sets out the Company's current asset investments:

	2017 £m	2016 £m
Investments in short-term money funds	**4,981**	1,007
Managed investments in bonds	**100**	–
Restricted balances – collateral	**390**	237
	5,471	1,244

6. Borrowings

The following table analyses the Company's total borrowings:

	2017 £m	2016 £m
Amounts falling due within one year		
Bank overdrafts	**1**	–
Bank loans	**–**	28
Bonds	**22**	21
Commercial paper	**1,097**	884
	1,120	933
Amounts falling due after more than one year		
Bonds	**1,262**	1,194
	2,382	2,127

The maturity of total borrowings is disclosed in note 34 to the consolidated financial statements. There are no differences in the maturities as calculated under IFRS or FRS 101 'Reduced Disclosure Framework'.

The notional amount of borrowings outstanding as at 31 March 2017 was £2,357 million (2016: £2,101 million). Further information on significant borrowings can be found on the debt investors section of our website.

7. Share capital

The called-up share capital amounting to £449 million (2016: £447 million) consists of 3,942,983,447 (2016: 3,924,038,086) ordinary shares. For further information on share capital, refer to note 25 to the consolidated financial statements.

8. Shareholders' equity and reserves

At 31 March 2017 the profit and loss account reserve stood at £9,438 million (2016: £2,880 million) of which £86 million (2016: £86 million) related to gains on intra-group transactions which was not distributable to shareholders. The company had no employees in either the current or prior year and accordingly bore no employee costs.

For further details of dividends paid and payable to shareholders, refer to note 8 to the consolidated financial statements.

9. Parent Company guarantees

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due by certain subsidiary undertakings primarily to third parties. At 31 March 2017, the sterling equivalent amounted to £2,404 million (2016: £2,674 million). The guarantees are for varying terms from less than one year to open-ended.

In addition, as part of the sectionalisation of the National Grid UK Pension Scheme, a guarantee of £1 billion has been provided to Section A. This payment is contingent on insolvency or on failure to pay pensions obligations to Section A and can be claimed against National Grid plc, National Grid Holdings One plc or Lattice Group Limited (up to £1 billion in total).

10. Audit fees

The audit fee in respect of the parent Company was £29,230 (2016: £28,380). Fees payable to PricewaterhouseCoopers LLP for non-audit services to the Company are not required to be disclosed as they are included within note 3 to the consolidated financial statements.

Additional Information contents

The business in detail

Key milestones

Some of the key dates and actions in the corporate history of National Grid are listed below. The full history goes back much further.

1986
British Gas (BG) privatisation

1990
Electricity transmission network in England and Wales transferred to National Grid on electricity privatisation

1995
National Grid listed on the London Stock Exchange

1997
Centrica demerged from BG

Energis demerged from National Grid

2000
Lattice Group demerged from BG and listed separately

New England Electric System and Eastern Utilities Associates acquired

2002
Niagara Mohawk Power Corporation merged with National Grid in US

National Grid and Lattice Group merged to form National Grid Transco

2004
UK wireless infrastructure network acquired from Crown Castle International Corp

2005
Four UK regional gas distribution networks sold and National Grid adopted as our name

2006
Rhode Island gas distribution network acquired

2007
UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia sold

KeySpan Corporation acquired

2008
Ravenswood generation station sold

2010
Rights issue raised £3.2 billion

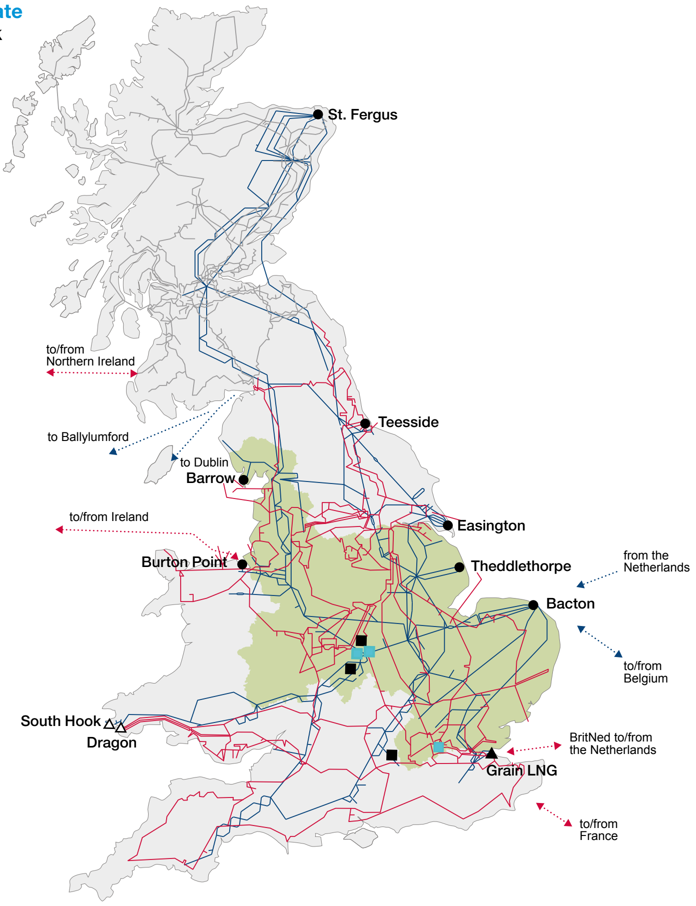
2012
New Hampshire electricity and gas distribution businesses sold

2016
National Grid separated the UK Gas Distribution business

2017
National Grid sold a 61% equity interest in its UK Gas Distribution business

Where we operate

Our UK network



UK Transmission[1]

- Scottish electricity transmission system
- English and Welsh electricity transmission system

Approximately 7,200 kilometres (4,474 miles) of overhead line, 1,500 kilometres (932 miles) of underground cable and 342 substations.

- Gas transmission system

Approximately 7,660 kilometres (4,760 miles) of high pressure pipe and 24 compressor stations connecting to 8 distribution networks and also other third-party independent systems.

- Terminal
- LNG terminal owned by National Grid
- LNG terminal
- Electricity interconnector
- Gas interconnector

UK Gas Distribution[1]

- Gas distribution operating area

Approximately 131,000 kilometres (81,400 miles) of gas distribution pipeline owned and operated by National Grid.[2]

Following completion of the sale of a 61% stake in the UK Gas Distribution business on 31 March 2017, the Group has ceased to consolidate UK Gas Distribution with effect from this date. Accordingly, the operating area relating to the UK Gas Distribution business will not be included in the map in 2017/18.

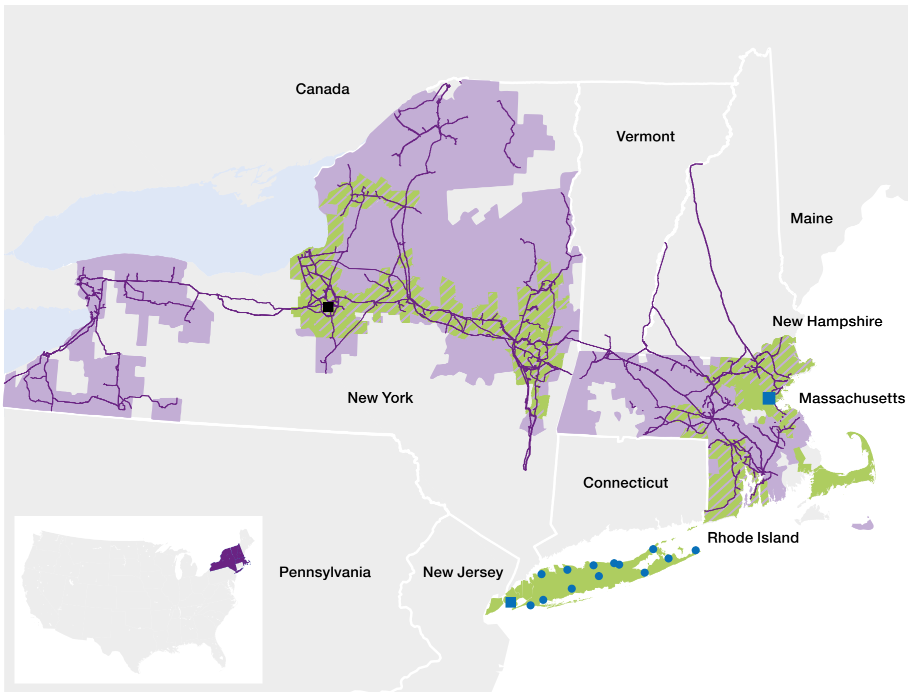
Principal offices

- Owned office space: Hinckley, Warwick and Wokingham
- Leased office space: Solihull, Coventry and London

Leased office space totalling 13,714 square metres (147,616 square feet) with remaining terms of six to nine years.

The Hinckley and Coventry offices shown on the map relate to the UK Gas Distribution business. Therefore these will not be included in the map in 2017/18.

Our US network



US Regulated[1]

- Electricity transmission network
- Gas distribution operating area
- Electricity distribution area
- Gas and electricity distribution area overlap

An electricity transmission network of approximately 14,219 kilometres (8,835 miles) of overhead line, 166 kilometres (103 miles) of underground cable and 377 transmission substations.

An electricity distribution network of approximately 116,658 circuit kilometres (72,488 miles) and 763 distribution substations in New England and upstate New York.

A network of approximately 56,753 kilometres (35,265 miles) of gas pipeline serving an area of approximately 25,625 square kilometres (9,894 square miles).
Our network also consists of approximately 790 kilometres (491 miles) of gas transmission pipe, as defined by the US Department of Transportation.

- Generation

Principal offices

- Owned office space: Syracuse, New York
- Leased office space: Brooklyn, New York and Waltham, Massachusetts

Leased office space totalling approximately 52,676 square metres (567,000 square feet) with remaining terms of 8 to 12 years.

At present, environmental issues are not preventing our UK and US businesses from utilising any material operating assets in the course of their operations.

[1] Access to electricity and gas transmission and distribution assets on property owned by others is controlled through various agreements.
[2] As submitted by the Company in its 2015/16 Gas Distribution Regulatory Reporting Pack.

UK Regulation

Our licences are established under the Gas Act 1986 and Electricity Act 1989, as amended (the Acts). They require us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas and electricity in Great Britain (GB). They also give us statutory powers. These include the right to bury our pipes or cables under public highways and the ability to use compulsory powers to purchase land so we can conduct our business.

Our networks are regulated by Ofgem, which has established price control mechanisms that set the amount of revenue our regulated businesses can earn. Price control regulation is designed to make sure our interests, as a monopoly, are balanced with those of our customers. Ofgem allows us to charge reasonable, but not excessive, prices. This gives us a future level of revenue that is sufficient to meet our statutory duties and licence obligations, and make a reasonable return on our investment.

The price control includes a number of mechanisms designed to help achieve its objectives. These include financial incentives that encourage us to:

- efficiently deliver by investment and maintenance the network outputs that customers and stakeholders require, including reliable supplies, new connections and infrastructure capacity;
- innovate in order to continuously improve the services we give our customers, stakeholders and communities; and
- efficiently balance the transmission networks to support the wholesale markets.

As announced on 31 March 2017, a majority interest in the UK Gas Distribution business was sold to a consortium of investors. The Consortium comprises Macquarie Infrastructure and Real Assets, Allianz Capital Partners, Hermes Investment Management, CIC Capital Corporation, Qatar Investment Authority, Dalmore Capital and Amber Infrastructure Limited/International Public Partnerships. National Grid has retained a 39% equity interest in the new separate Gas Distribution business and will account for the interest as an equity investment in an associate going forward.

The UK Electricity Transmission (UK ET), UK Gas Transmission (UK GT) and UK Gas Distribution (UK GD)† businesses operate under eight separate price controls in the UK. These comprise two for our UK ET operations, one covering our role as transmission owner (TO) and the other for our role as system operator (SO); two for our UK GT operations, again one as TO and one as SO; and one for each of our four regional gas distribution networks. While each of the eight price controls may have differing terms, they are based on a consistent regulatory framework.

There is no impact on the price controls following the sale of a majority interest of the UK Gas Distribution business. The eight price controls, as mentioned above, remain in force. National Grid will carry on operating within four of the price controls (National Grid Electricity Transmission plc and National Grid Gas plc), and the UK Gas Distribution business has responsibility for operating within the price controls relating to its four gas distribution networks.

In addition to the eight price controls, there is also a tariff cap price control applied to certain elements of domestic metering and daily meter reading activities carried out by National Grid Metering.

Interconnectors derive their revenues from sales of capacity to users who wish to move power between market areas with different prices. These sales revenues are called congestion revenues because market price differences result from the congestion on the finite interconnector capacity, which limits full price convergence. European legislation governs how congestion revenues may be used and how interconnection capacity is allocated. It requires all interconnection capacity to be allocated to the market through auctions.

There is a range of different regulatory models available for interconnector projects. These involve various levels of regulatory intervention ranging from fully merchant (the project is fully reliant on sales of interconnector capacity) to cap and floor (where sales revenues above the cap are returned to transmission system users and revenues below the floor are topped up by transmission system users, thus reducing the overall project risk).

The cap and floor regime is now the regulated route for interconnector investment in GB, which sits alongside the exemption route (whereby project developers apply for exemptions from aspects of European legislation).

RIIO price controls

Our regulatory framework is called RIIO (revenue = incentives + innovation + outputs) and lasts for eight years. The building blocks of the RIIO price control are broadly similar to the historical price controls used in the UK. However, there are some significant differences in the mechanics of the calculations.

How is revenue calculated?

Under RIIO the outputs we deliver are clearly articulated and are integrally linked to the calculation of our allowed revenue. These outputs have been determined through an extensive consultation process, which has given stakeholders a greater opportunity to influence the decisions.

There are six output categories:

Safety: ensuring the provision of a safe energy network.

Reliability (and availability): promoting networks capable of delivering long-term reliability, as well as minimising the number and duration of interruptions experienced over the price control period, and ensuring adaptation to climate change.

Environmental impact: encouraging companies to play their role in achieving broader environmental objectives – specifically, facilitating the reduction of carbon emissions – as well as minimising their own carbon footprint.

Customer and stakeholder satisfaction: maintaining high levels of customer satisfaction and stakeholder engagement, and improving service levels.

Customer connections: encouraging networks to connect customers quickly and efficiently.

Social obligations (UK GD only): extending the gas network to communities that are fuel poor where it is efficient to do so, and introducing measures to address carbon monoxide poisoning.

Within each of these output categories are a number of primary and secondary deliverables, reflecting what our stakeholders want us to deliver over the remaining price control period. The nature and number of these deliverables varies according to the output category, with some being linked directly to our allowed revenue, some linked to legislation, and others having only a reputational impact.

Ofgem, using information we have submitted, along with independent assessments, determines the efficient level of expected costs necessary to deliver them. Under RIIO this is known as totex, which is a component of total allowable expenditure, and is the sum of what was defined in previous price controls as operating expenditure (opex), capital expenditure (capex) and, in UK GD price controls, mains replacement expenditure (repex).

A number of assumptions are necessary in setting these outputs, such as certain prices or the volumes of work that will be needed. Consequently, there are a number of uncertainty mechanisms within the RIIO framework that can result in adjustments to totex if actual prices or volumes differ from the assumptions. These mechanisms protect us and our customers from windfall gains and losses.

Where we under- or over-spend the allowed totex for reasons that are not covered by uncertainty mechanisms, there is a sharing factor. This means the under- or over-spend is shared between us and customers through an adjustment to allowed revenues in future years. This sharing factor provides an incentive for us to provide the outputs efficiently, as we are able to keep a portion of savings we make, with the remainder benefiting our customers.

† This was a National Grid business until 31 March 2017.

This sharing factor is one of the ways that RIIO has given innovation more prominence. Innovation includes traditional areas such as new technologies, as well as the broader challenge of finding new ways of working to deliver outputs more efficiently. This broader challenge has an impact on everyone in our business.

Allowed revenue to fund totex costs is split between fast and slow money – a concept under RIIO, based on a specified percentage that is fixed for the duration of the price control (except for UK GD's repex which changes on a linear scale across the price control). Fast money represents the amount of totex we are able to recover in the next available year. Slow money is added to our RAV – effectively the regulatory IOU. For more details on the sharing factors under RIIO, please see the table below.

In addition to fast money, in each year we are allowed to recover a portion of the RAV (regulatory depreciation) and a return on the outstanding RAV balance.

The asset life for regulatory depreciation in electricity transmission spans 45 years across the RIIO period. This is also the case for the asset life depreciation for UK GD. We are also allowed to collect additional revenues related to non-controllable costs and incentives.

The incentive mechanisms can increase or decrease our allowed revenue and result from our performance against various measures related to our outputs. RIIO has incentive mechanisms that encourage us to align our objectives with those of our customers and other stakeholders. For example, performance against our customer satisfaction targets can have a positive or negative effect of up to 1% of allowed annual revenues. Most of our incentives affect our revenues two years after the year of performance.

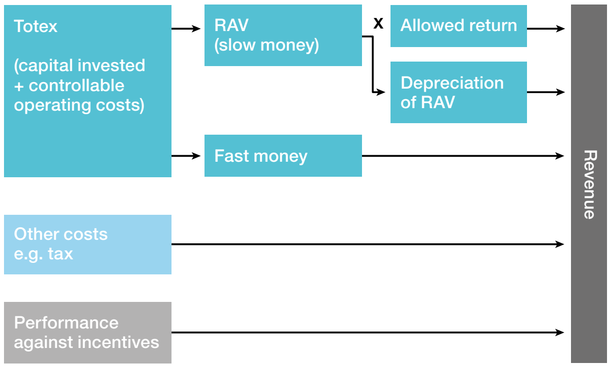
During the eight year period of the price control our regulator included a provision for a potential mid-period review, with scope driven by:

- changes to outputs that can be justified by clear changes in government policy; and
- the introduction of new outputs that are needed to meet the needs of consumers and other network users.

The mid-period review focused on three specific areas, all of which relate to National Grid's transmission outputs (both gas and electricity).

Under the RIIO controls, we are required to deliver agreed outputs for consumers and are funded to cover the costs of delivering these. The eight year price control includes a number of uncertainty mechanisms to take account of the fact that some outputs and funding cannot be set with certainty at the start of the period. One of these uncertainty mechanisms is the review of outputs. In May 2016, Ofgem decided to launch a mid-period review focusing on the transmission outputs.

RIIO regulatory building blocks



Allowed returns

The cost of capital allowed under RIIO is as follows:

	Transmission Gas	Transmission Electricity	Gas Distribution[2]
Cost of equity (post-tax real)	6.8%	7.0%	6.7%
Cost of debt (pre-tax real)	iBoxx 10-year simple trailing average index (2.38% for 2016/17)		
Notional gearing	62.5%	60.0%	65.0%
Vanilla WACC[1]	4.03%	4.22%	3.89%

1. Vanilla WACC = cost of debt x gearing + cost of equity x (1-gearing).
2. This was a National Grid business until 31 March 2017.

The sharing factor means that any over- and under-spend is shared between the businesses and consumers. The shared figures displayed in the table below are the sharing factors that apply to UK ET, UK GT and UK GD.

For more information on RIIO, including incentive mechanisms, please see the relevant investor fact sheets on the Investor Relations section of our website.

Sharing factors under RIIO are as follows:

	Gas Transmission		Electricity Transmission		Gas Distribution[4]			
	Transmission Operator	System Operator	Transmission Operator	System Operator	North West	East of England	West Midlands	London
					Repex: Stepped decline from 50% in 2013/14 to 0% in 2020/21 in seven equal instalments of 7.14% per annum			
Fast[1]	Baseline[3] 35.6% Uncertainty 10%	62.60%	15.00%	72.10%	73.90%	73.37%	75.05%	76.53%
					Repex: Stepped increase from 50% in 2013/14 to 100% in 2020/21 in seven equal instalments of 7.14% per annum			
Slow[2]	Baseline[3] 64.4% Uncertainty 90%	37.40%	85.00%	27.90%	26.10%	26.63%	24.95%	23.47%
Sharing	44.36%		46.89%		63.04%			

1. Fast money allows network companies to recover a percentage of total expenditure within a one-year period.
2. Slow money is where costs are added to RAV and, therefore, revenues are recovered slowly (e.g. over 20 years) from both current and future consumers.
3. The baseline is the expenditure that is funded through ex-ante allowances, whereas the uncertainty adjusts the allowed expenditure automatically where the level outputs delivered differ from the baseline level, or if triggered by an event.
4. This was a National Grid business until 31 March 2017.

The business in detail continued

US Regulation

Regulators

In the US, public utilities' retail transactions are regulated by state utility commissions. The commissions serve as economic regulators, approving cost recovery and authorised rates of return. The state commissions establish the retail rates to recover the cost of transmission and distribution services, and focus on services and costs within their jurisdictions. They also serve the public interest by making sure utilities provide safe and reliable service at just and reasonable prices. The commissions establish service standards and approve public utility mergers and acquisitions.

Utilities are regulated at the federal level (FERC) for wholesale transactions, such as interstate transmission and wholesale electricity sales, including rates for these services. FERC also regulates public utility holding companies and centralised service companies, including those of our US businesses.

Regulatory process

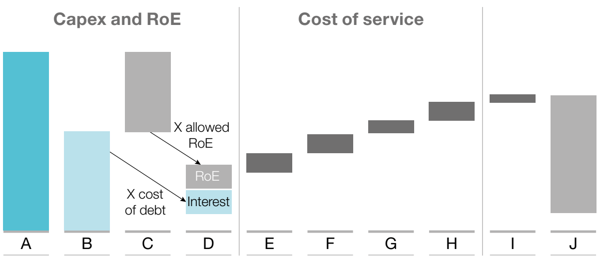
The US regulatory regime is premised on allowing the utility the opportunity to recover its cost of service and earn a reasonable return on its investments as determined by the commission. Utilities submit formal rate filings ('rate cases') to the relevant state regulator when additional revenues are necessary to provide safe, reliable service to customers. Utilities can be compelled to file a rate case due to complaints filed with the commission or at the commission's own discretion.

The rate case is typically litigated with parties representing customers and other interests. In the states in which we operate, it can take nine to thirteen months for the commission to render a final decision. The utility is required to prove that the requested rate change is prudent and reasonable, and the requested rate plan can span multiple years. Unlike the state processes, the federal regulator has no specified timeline for adjudicating a rate case, but typically makes a final decision retroactive when the case is completed.

Gas and electricity rates are established from a revenue requirement, or cost of service, equal to the utility's total cost of providing distribution or delivery service to its customers, as approved by the commission in the rate case. This revenue requirement includes operating expenses, depreciation, taxes and a fair and reasonable return on shareholder capital invested in certain components of the utility's regulated asset base, typically referred to as its rate base.

The final revenue requirement and rates for service are approved in the rate case decision. The revenue requirement is derived from a comprehensive study of the utility's total costs during a recent 12 month period of operations, referred to as a test year. Each commission has its own rules and standards for adjustments to the test year and may include forecasted capital investments and operating costs.

US regulatory revenue requirement



A Rate base
B Debt
C Equity
D Return
E Controllable costs
F Non-controllable costs
G Depreciation
H Taxes
I Lagged recoveries
J Allowed revenue

Our rate plans

Each operating company has a set of rates for service. We have three electric distribution operations (upstate New York, Massachusetts and Rhode Island) and six gas distribution networks (upstate New York, New York City, Long Island, Massachusetts (two) and Rhode Island).

Our operating companies have revenue decoupling mechanisms that de-link the companies' revenues from the quantity of energy delivered and billed to customers. These mechanisms remove the natural disincentive utility companies have for promoting and encouraging customer participation in energy efficiency programmes that lower energy end use and thus distribution volumes.

Our rate plans are designed to a specific allowed RoE, by reference to an allowed operating expense level and rate base. Some rate plans include earnings sharing mechanisms that allow us to retain a proportion of the earnings above our allowed RoE, achieved through improving efficiency, with the balance benefiting customers.

In addition, our performance under certain rate plans is subject to service performance targets. We may be subject to monetary penalties in cases where we do not meet those targets.

One measure used to monitor the performance of our regulated businesses is a comparison of achieved RoE to allowed RoE. However, this measure cannot be used in isolation, as there are a number of factors that may prevent us from achieving the allowed RoE. These factors include financial market conditions, regulatory lag and decisions by the regulator preventing cost recovery in rates from customers.

We work to increase achieved RoE through: productivity improvements; positive performance against incentives or earned savings mechanisms such as energy efficiency programmes, where available; and filing a new rate case when achieved returns are lower than the Company could reasonably expect to attain through a new rate case.

Features of our rate plans

We bill our customers for their use of electricity and gas services. Customer bills typically comprise a commodity charge, covering the cost of the electricity or gas delivered, and charges covering our delivery service. With the exception of residential gas customers in Rhode Island, our customers are allowed to select an unregulated competitive supplier for the commodity component of electricity and gas utility services.

A substantial proportion of our costs, in particular electricity and gas commodity purchases, are pass-through costs, meaning they are fully recoverable from our customers. These pass-through costs are recovered through separate charges to customers that are designed to recover those costs with no profit. Rates are adjusted from time to time to make sure that any over- or under-recovery of these costs is returned to, or recovered from, our customers.

Our FERC-regulated transmission companies use formula rates (instead of rate cases) to set rates annually to recover their cost of service. Through the use of annual true-ups, formula rates recover our actual costs incurred and the allowed RoE based on the actual transmission rate base each year. The Company must make annual formula rate filings documenting the revenue requirement, which customers can review and challenge.

Revenue for our wholesale transmission businesses in New England and New York is collected from wholesale transmission customers, who are typically other utilities and include our own New England electricity distribution businesses. With the exception of upstate New York, which continues to combine retail transmission and distribution rates to end-use customers, these wholesale transmission costs are incurred by distribution utilities on behalf of their customers and are fully recovered as a pass-through from end-use customers as approved by each state commission.

Our Long Island generation plants sell capacity to LIPA under 15-year and 25-year power supply agreements, and within wholesale tariffs approved by FERC. Through the use of cost based formula rates, these long-term contracts provide a similar economic effect to cost of service rate regulation.

US regulatory filings

The objectives of our rate case filings are to make sure we have the right cost of service, with the ability to earn a fair and reasonable rate of return while providing safe, reliable and economical service to our customers. In order to achieve these objectives and to reduce regulatory lag, we have been requesting structural changes, such as revenue decoupling mechanisms, capital trackers, commodity-related bad debt true-ups and pension and other post-employment benefit true-ups, separately from base rates. These terms are explained below the table on page 179.

Below, we summarise significant developments in rate filings and the regulatory environment during the year. Following the final stabilisation upgrade to our new financial systems and the availability of 12 months of historical 'test year' data from those financial systems, we concluded a first round of full rate case filings in fiscal year 2017, with a final rate case decision for Massachusetts Electric in September 2016, and followed by approval of three-year rate plans for KEDNY and KEDLI in December 2016. We expect to make a number of additional such filings over the next two years to update the capital investment allowances and rate bases across many of our other businesses, including for upstate New York, Rhode Island and the Massachusetts gas companies in 2017–2018. These filings are expected to capture the benefit of recent increased investments in asset replacement and network reliability, and reflect long-term growth in costs, including property tax and healthcare costs. Along with a clear focus on productivity, the filings are key to improving achieved returns in the Company's US distribution activities.

Massachusetts

Massachusetts electric rate case

Subsequent to the Company's November 2015 general rate case filing, on 30 September 2016, MADPU issued a final order approving an overall increase in distribution revenue of approximately $101 million based upon an authorised return on equity of 9.9% and an authorised equity ratio of 50.70%. The order also allows for amortisation and recovery over five years of the $40.6 million of protected customer accounts receivable outstanding for more than 360 days. Storm recovery allowed in base rates increased from $4.3 million to $10.5 million. The order allows for an increase in annual capital investment recovery from $170 million to $249 million and the inclusion of property taxes related to these incremental capital additions.

Boston and Colonial rate cases

The Company plans to file a rate case for Boston Gas and Colonial Gas with MADPU in 2017 with new rates expected to come into effect in 2018. The Massachusetts Gas rate case, the first rate case for Boston Gas and Colonial Gas since 2010, will update the gas companies' allowed revenues to more closely reflect their cost of service and bring their earned RoEs closer to the allowed RoE.

Gas system enhancement programmes

On the gas side, on 5 May 2017, MADPU approved our recovery of approximately $50.6 million, related to $241 million of anticipated investments in 2017 under this accelerated pipe replacement program, through rates effective May 2016 through April 2018. However, due to the application of the GSEP revenue cap, we are required to defer from recovery an additional $5.5 million of the 2017 revenue requirement until such time that we have room under the GSEP revenue cap to recover the deferred amount or in the next rate case that covers the period of investment.

Grid modernisation and smart energy solutions

In response to a 2014 regulatory requirement, the Company filed a Massachusetts electricity grid modernisation plan on 19 August 2015 that proposed multiple investment options that would further MADPU's goals of reducing the effect of outages, optimising demand, integrating distributed resources, and improving workforce and asset management. The Company presented a range of investment options for MADPU to consider, with investment levels over five years ranging from $238.6 million to $792.9 million. MADPU established criteria that, if met, would allow the capital costs from the plan to be recovered through a separate capital recovery mechanism. MADPU initiated its review of the Company's plan in April 2016 and hearings are scheduled for May 2017. The Company also has been operating a Smart Energy Solutions Pilot with approximately 15,000 customers in Worcester, Massachusetts, since 1 January 2015. The Pilot has allowed the Company to deploy, test and learn from technologies similar to those proposed in the grid modernisation plan, including smart meters, demand response, an integrated communication system, and advanced distribution automation. The Pilot was scheduled to end on 31 December 2016, but the Company has received preliminary approval to continue operating the Pilot, and has proposed to continue the Pilot until 31 December 2018. This proposal is under review by MADPU.

Omnibus energy and solar legislation

In April 2016, Massachusetts solar legislation increased the amount of solar generation that a distribution company can own from 25 MWs to 35 MWs, subject to receipt of MADPU prior approval by 31 December 2016 and provided projects are constructed prior to 31 December 2017. MADPU approved the Company's proposal to own an additional 14 MWs on 30 December 2016. The solar legislation also increased the cap on net metered solar installations and allows electricity distribution companies to submit proposals for a monthly minimum reliability contribution to be included on electric bills for accounts that receive net metering credits subject to MADPU review and approval. The purpose of the monthly minimum reliability contribution is to ensure that customers contribute to the fixed costs of ensuring the reliability, proper maintenance and safety of the electric distribution system.

In August 2016, Massachusetts omnibus energy legislation, among other new policies, allowed for state mandated energy storage deployment targets (to be adopted by 1 July 2017) and established requirements for electricity distribution companies to jointly and competitively solicit long-term contracting proposals for clean energy generation equal to approximately 9,450,000 MWh per year by 31 December 2022 and proposals for offshore wind projects equal to approximately 1,600 MW of aggregate nameplate capacity by 30 June 2027. The first solicitations must be no later than 1 April 2017 and 30 June 2017, respectively, and any contracts must be approved by MADPU. Electricity distributors are entitled to cost recovery of payments under the contracts and may seek approval for annual remuneration equal to as much as 2.75% of the annual payments made under those contracts. The Act also directs MADPU to open an investigation to establish specific criteria to identify Grade 3 gas leaks on the gas distribution system that have a significant environmental impact, to establish a plan to have gas companies repair these leaks and to provide for recovery of leak repair expenses as part of the gas system enhancement programmes.

New York

Upstate New York 2017 Rate Filing

On 28 April 2017, the Company filed a one-year rate plan (but submitted two additional years of data to facilitate a multi-year settlement) for our upstate New York electricity and gas businesses, to increase electricity and gas delivery revenue by $326 million and $81 million, respectively, in the 12 months ending 31 March 2019 (fiscal year 2019). Additionally, the Company included a proposal to amortise a portion of its deferred liabilities to offset the Company's need for rate relief. The filing is based on an RoE of 9.79% for the one-year rate filing, and includes annual reconciliation mechanisms for certain non-controllable costs.

The filing, which is expected to take 11 months to review and to conclude in March 2018, includes investments of $652 million and $171 million of core investment in the electricity and gas businesses, respectively, in fiscal year 2019 to modernise our infrastructure and improve safety and reliability of our networks. New York rate cases often led to multi-year rate plan settlements, which the Company will pursue through negotiations in this case.

Reforming the Energy Vision (REV)

In April 2014, NYPSC instituted the REV proceeding, which envisions a new role for utilities as distributed system platform (DSP) providers who create markets for distributed energy resources (DER) and more fully integrate DER in distribution system operations and planning. The REV proceeding's objectives include: enhanced customer energy choices and control; improved electricity system efficiency, reliability, and resiliency; and cleaner, more diverse electricity generation.

NYPSC issued an order on 19 May 2016 addressing ratemaking and utility revenue model policy framework issues under REV, including ratemaking reform, earnings opportunities (platform service revenues and earning adjustment mechanisms or EAMs), competitive market-based earnings, customer data access, non-wires alternative solutions to displace traditional capital investment, standby service tariff enhancements, opt-in rate design (time-of-use rates, Smart Home rate pilots), enhancements to large customer demand charges, scorecard metrics, and mass market rate design. The Company's initial Distributed

System Implementation Plan (DSIP) was filed with NYPSC on 30 June 2016 and identified incremental investments in utility infrastructure necessary for developing DSP capabilities, market enablement and operations, advanced metering functionality, grid modernisation, and cyber security and privacy measures within the first five years. The DSIP is required to be updated and filed with NYPSC every two years. The Company rate plan filed in April 2017 incorporated investments related to advanced metering infrastructure (AMI), grid modernisation, cyber security, and new electricity and gas products and services. This rate plan also includes a proposal of outcome-based EAM to target energy and system efficiency, carbon reductions, and customer engagement.

Clean Energy Standard (CES)
NYPSC issued an order on 1 August 2016 adopting a CES, consistent with the State Energy Plan, that 50% of New York's electricity is to be generated by renewable sources by 2030 as part of a strategy to reduce greenhouse gas emissions by 40% by 2030. In particular, the CES established: obligations on load serving entities (LSEs) to financially support new renewable generation resources to serve their retail customers through Renewable Energy Credits (RECs) and to financially support existing at-risk nuclear generators through the purchase of zero emissions credits (ZECs). The first REC and ZEC compliance years under the CES begin 1 January 2017 and 1 April 2017, respectively.

KEDNY and KEDLI rate cases
On 29 January 2016, KEDNY and KEDLI filed base rate cases with NYPSC. On 16 December 2016, NYPSC issued an order adopting the terms of a Joint Proposal, establishing a three-year rate plan negotiated for KEDNY and KEDLI (calendar years 2017–2019). KEDNY's revenues under the Joint Proposal will increase by $272 million in 2017. For 2018 and 2019, incremental revenue increases will be $41 million and $49 million, respectively. KEDLI's revenues under the Joint Proposal will increase by $112 million in 2017. For 2018 and 2019, incremental revenue increases will be $20 million and $27 million, respectively. The revenue increases are based on a RoE of 9.0% and a 48% equity ratio. In addition to the revenue increases, the rate plans include funding for 380 new positions and maintain tracker and true-up mechanisms for property taxes, commodity-related bad debt, and pension/OPEBs, reconciling mechanisms for city/state construction-related costs and Site Investigation Remediation (SIR) recovery surcharge/tracker mechanisms, a gas safety and reliability surcharge to recover the costs of incremental leak-prone pipe replacement and leak repairs, and incentive opportunities.

Rhode Island

Rhode Island electricity and gas infrastructure, safety and reliability (ISR) plans
State law provides our Rhode Island electricity and gas operating divisions with rate mechanisms that allow for the recovery of capital investment, including a return, and certain expenses outside base rate proceedings through the submission of annual electricity and gas ISR plans.

RIPUC approved the fiscal year 2018 gas and electric ISR plans on 17 February 2017 and 9 March 2017, respectively. The electric ISR plan encompasses a $100.6 million spending programme for capital investment, $9.6 million for cost of removal, and $10.5 million for operating and maintenance expenses for vegetation management and inspection and maintenance. The gas ISR plan encompasses $101.8 million for capital investment and incremental operation and maintenance expense.

Rhode Island combined gas and electricity rate case
The Company anticipates filing a combined Rhode Island electricity and gas rate case in late 2017/early 2018, with new rates effective in 2018. The rate case provides an opportunity to recalibrate base rates to reflect changes in costs since the last rate case which was effective in February 2013. Rhode Island regulation also allows for proforma and normalising adjustments to test year data that include forecasts for costs expected in a future rate year.

Changing distribution system and modernisation of rates
Numerous grid modernisation efforts are on-going in Rhode Island, including Docket 4600, Systems Integration Rhode Island (SIRI) and the Power Sector Transformation Initiative. In March 2016, RIPUC opened Docket 4600 to explore and understand the changing distribution system and related rate-setting processes through a stakeholder process. National Grid has been a participant in the Docket 4600 stakeholder process which will conclude in Spring 2017 with a set of recommendations. In December 2016, the National Governors Association selected Rhode Island as one of four states to participate in a 16-month collaborative effort with state agencies and key stakeholders, including the Company, to develop a state action plan for modernising the electric power sector and integrating clean energy. This effort, referred to as the Power Sector Transformation Initiative, builds off of the SIRI collaborative effort that began in 2014 and resulted in a vision document released in January 2016.

FERC

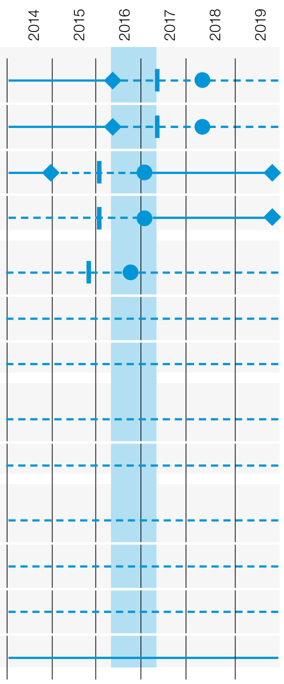
Complaints on New England transmission allowed RoE
In September 2011, December 2012, July 2014, and April 2016, a series of four complaints were filed with FERC against certain transmission owners, including our New England electricity transmission business, to lower the base RoE, which FERC had authorised at 11.14% prior to the first complaint. FERC issued orders resolving only the first complaint, with the last order in March 2015, lowering the base RoE to 10.57%. A number of parties, including the Company, appealed FERC's order on the first complaint to US federal court. On 14 April 2017, the court vacated FERC's order and remanded the first complaint back to FERC, requiring FERC to reconsider the methodology it adopted in its order. It is too early to determine when or how FERC will decide the four pending RoE complaints against the Company in light of the court's decision.

National Grid LNG LLC
On 1 April 2016, the Company filed an application seeking FERC approval of a planned $180 million liquefaction facility at the Providence, Rhode Island, LNG plant. We are currently awaiting a FERC order on our application. The target in-service date is December 2018. Rates for the new liquefaction service will be cost-based formula rates charged to customers who opt to take the liquefaction service.

New England gas and electricity interdependency
New England's gas and electricity systems have become increasingly interdependent as the region's reliance on gas-fired electricity generation has grown without commensurate pipeline infrastructure expansion, driving significant increases in the region's wholesale and retail electricity costs and electricity reliability concerns. To address this challenge, New England's governors are pursuing strategic infrastructure investments focused on expanding the region's energy portfolio.

In January and June 2016, our Massachusetts and Rhode Island electric utilities, respectively, filed long-term contracts with the Access Northeast gas pipeline for state regulatory approvals. The Company has an equity stake in the pipeline. The Company subsequently withdrew its Massachusetts filing after an August 2016 Massachusetts Supreme Judicial Court decision that prohibited MADPU from approving such contracts, and on 13 January 2017, the Company withdrew its application before RIPUC for approval of a contract with the pipeline.

Summary of US price controls and rate plans



Commission	Rate plan	Rate base (31 Mar 2017)	Equity-to-debt ratio	Allowed return on equity	Achieved return on equity (31 Mar 2017)	Revenue decoupling†	Capital tracker‡	Commodity-related bad debt true-up§	Pension/ OPEB true-up◊
New York Public Service Commission	Niagara Mohawk[1, 4] (upstate, electricity)	**$4,737m**	**48 : 52**	**9.3%**	**8.5%**	✓	**P**	**P**	✓
	Niagara Mohawk[4] (upstate, gas)	**$1,052m**	**48 : 52**	**9.3%**	**6.6%**	✓	**P**	**P**	✓
	KEDNY (downstate)[2]	**$2,722m**	**48 : 52**	**9.0%**	**8.2%**	**P**	**P**	**P**	✓
	KEDLI (downstate)[3]	**$2,256m**	**48 : 52**	**9.0%**	**9.5%**	**P**	**P**	**P**	✓
Massachusetts Department of Public Utilities	Massachusetts Electric/ Nantucket Electric	**$2,281m**	**51 : 49**	**9.9%**	**4.3%**	✓	**P**	✓	✓
	Boston Gas[5]	**$1,830m**	**50 : 50**	**9.75%**	**7.7%**	✓	**P**	✓	✓
	Colonial Gas[5]	**$421m**	**50 : 50**	**9.75%**	**7.4%**	✓	**P**	✓	✓
Rhode Island Public Utilities Commission	Narragansett Electric[6]	**$665m**	**49 : 51**	**9.5%**	**6.2%**	✓	✓	**P**	✓
	Narragansett Gas[6]	**$640m**	**49 : 51**	**9.5%**	**9.4%**	✓	✓	**P**	✓
Federal Energy Regulatory Commission	Narragansett	**$697m**	**50 : 50**	**10.57%**	**11.4%**	**n/a**	✓	**n/a**	✓
	Canadian Interconnector	**$31m**	**49 : 51**	**13.0%**	**13.0%**	**n/a**	✓	**n/a**	✓
	New England Power	**$1,543m**	**66 : 34**	**10.57%**	**11.1%**	**n/a**	✓	**n/a**	✓
	Long Island Generation	**$422m**	**46 : 54**	**9.9%**	**12.0%**	**n/a**	✓	**n/a**	✓

1. Both transmission and distribution, excluding stranded costs.
2. KeySpan Energy Delivery New York (The Brooklyn Union Gas Company).
3. KeySpan Energy Delivery Long Island (KeySpan Gas East Corporation).
4. The chart shows the anticipated date when new rates take effect; the rate filing may result in a multi-year rate plan settlement.
5. Boston Gas and Colonial Gas anticipate filing a rate case with the MADPU in 2017 with new rates expected to come into effect in 2018.
6. Narragansett anticipates electric and gas rate case filings in late 2017/early 2018, with new rates effective in 2018.

Rate filing made
New rates effective
Rate plan ends
Rates continue indefinitely
Multi-year rate plan

✓ Feature in place
P Feature partially in place
F Feature requested in pending filing

†Revenue decoupling
A mechanism that removes the link between a utility's revenue and sales volume so that the utility is indifferent to changes in usage. Revenues are reconciled to a revenue target, with differences billed or credited to customers. Allows the utility to support energy efficiency.

‡Capital tracker
A mechanism that allows for the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.

§Commodity-related bad debt true-up
A mechanism that allows a utility to reconcile commodity-related bad debt to either actual commodity-related bad debt or to a specified commodity-related bad debt write-off percentage. For electricity utilities, this mechanism also includes working capital.

◊Pension/OPEB true-up
A mechanism that reconciles the actual non-capitalised costs of pension and OPEB and the actual amount recovered in base rates. The difference may be amortised and recovered over a period or deferred for a future rate case.

Internal control and risk factors

Disclosure controls

Working with management, including the Chief Executive and Finance Director, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as at 31 March 2017. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. However, the effectiveness of any system of disclosure controls and procedures has limitations, including the possibility of human error and the circumvention or overriding of the controls and procedures.

Even effective disclosure controls and procedures provide only reasonable assurance of achieving their objectives. Based on the evaluation, the Chief Executive and Finance Director concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file and submit under the Exchange Act is recorded, processed, summarised and reported as and when required and that such information is accumulated and communicated to our management, including the Chief Executive and Finance Director, as appropriate, to allow timely decisions regarding disclosure.

Internal control over financial reporting

Our management, including the Chief Executive and Finance Director, has carried out an evaluation of our internal control over financial reporting pursuant to the Disclosure Guidance and Transparency Rules sourcebook and Section 404 of the Sarbanes-Oxley Act 2002. As required by Section 404, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as defined in Rules 13a–15(f) and 15d–15(f) under the Exchange Act).

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluation of the effectiveness of the Company's internal control over financial reporting was based on the revised Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as at 31 March 2017.

PricewaterhouseCoopers LLP, which has audited our consolidated financial statements for the year ended 31 March 2017, has also audited the effectiveness of our internal control over financial reporting. Their attestation report can be found on page 83.

During the year, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect it.

Risk factors

Management of our risks is an important part of our internal control environment, as we describe on pages 15 to 18. In addition to the principal risks listed we face a number of inherent risks that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities.

Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on the inside back cover. An overview of the key inherent risks we face is provided below.

Risk factors

Potentially harmful activities

Aspects of the work we do could potentially harm employees, contractors, members of the public or the environment.

Potentially hazardous activities that arise in connection with our business include the generation, transmission and distribution of electricity and the storage, transmission and distribution of gas.

Electricity and gas utilities also typically use and generate hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields.

A significant safety or environmental incident, or the failure of our safety processes or of our occupational health plans, as well as the breach of our regulatory or contractual obligations or our climate change targets, could materially adversely affect our results of operations and our reputation.

Safety is a fundamental priority for us and we commit significant resources and expenditure to process safety and to monitoring personal safety, occupational health and environmental performance, and to meeting our obligations under negotiated settlements.

We are subject to laws and regulations in the UK and US governing health and safety matters to protect the public and our employees and contractors, who could potentially be harmed by these activities as well as laws and regulations relating to pollution, the protection of the environment, and the use and disposal of hazardous substances and waste materials.

These expose us to costs and liabilities relating to our operations and properties, including those inherited from predecessor bodies, whether currently or formerly owned by us, and sites used for the disposal of our waste.

The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and our share of the liability. We are increasingly subject to regulation in relation to climate change and are affected by requirements to reduce our own carbon emissions as well as to enable reduction in energy use by our customers.

If more onerous requirements are imposed or our ability to recover these costs under regulatory frameworks changes, this could have a material adverse impact on our business, reputation, results of operations and financial position.

Infrastructure and IT systems

We may suffer a major network failure or interruption, or may not be able to carry out critical operations due to the failure of infrastructure, data or technology or a lack of supply.
Operational performance could be materially adversely affected by a failure to maintain the health of our assets or networks, inadequate forecasting of demand, inadequate record keeping or control of data or failure of information systems and supporting technology.

This in turn could cause us to fail to meet agreed standards of service, incentive and reliability targets, or be in breach of a licence, approval, regulatory requirement or contractual obligation. Even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation.

Where demand for electricity or gas exceeds supply and our balancing mechanisms are not able to mitigate this fully, a lack of supply to consumers may damage our reputation.

In addition to these risks, we may be affected by other potential events that are largely outside our control, such as the impact of weather (including as a result of climate change and major storms), unlawful or unintentional acts of third parties, insufficient or unreliable supply or force majeure.

Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure together with our actual or perceived response could materially adversely affect operational and potentially business performance and our reputation.

Malicious attack, sabotage or other intentional acts, including breaches of our cyber security, may also damage our assets (which include critical national infrastructure) or otherwise significantly affect corporate activities and, as a consequence, have a material adverse impact on our reputation, business, results of operations and financial condition.

Unauthorised access to, or deliberate breaches of, our IT systems may also lead to manipulation of our proprietary business data or customer information.

Unauthorised access to private customer information may make us liable for a violation of data privacy regulations. Even where we establish business continuity controls and security against threats against our systems, these may not be sufficient.

Law and regulation

Changes in law or regulation or decisions by governmental bodies or regulators could materially adversely affect us.
Most of our businesses are utilities or networks subject to regulation by governments and other authorities. Changes in law or regulation or regulatory policy and precedent, (including any changes arising as a result of the UK's exit from the European Union), including decisions of governmental bodies or regulators, in the countries or states in which we operate could materially adversely affect us.

If we fail to engage in the energy policy debate, we may not be able to influence future energy policy and deliver our strategy.

Decisions or rulings concerning, for example:

(i) whether licences, approvals or agreements to operate or supply are granted, amended or renewed, whether consents for construction projects are granted in a timely manner or whether there has been any breach of the terms of a licence, approval or regulatory requirement; and

(ii) timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, a decoupling of energy usage and revenue, and other decisions relating to the impact of general economic conditions on us, our markets and customers, implications of climate change and of advancing energy technologies, whether aspects of our activities are contestable, the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities,

could have a material adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future.

The remediation plans in place or being implemented to address control weaknesses in our US business may not operate as expected, as a result of which we may be unable to provide timely regulatory reporting, which may include the provision of financial statements. This could result in the imposition of regulatory fines, penalties and other sanctions, which could impact our operations, our reputation and our relationship with our regulators and other stakeholders.

For further information see pages 174 to 179, which explain our regulatory environment in detail.

Business performance

Current and future business performance may not meet our expectations or those of our regulators and shareholders.
Earnings maintenance and growth from our regulated gas and electricity businesses will be affected by our ability to meet or exceed efficiency targets and service quality standards set by, or agreed with, our regulators.

If we do not meet these targets and standards, or if we are not able to deliver the US rate plans strategy successfully, we may not achieve the expected benefits, our business may be materially adversely affected and our performance, results of operations and reputation may be materially harmed and we may be in breach of regulatory or contractual obligations.

Internal control and risk factors continued

Growth and business development activity

Failure to respond to external market developments and execute our growth strategy may negatively affect our performance. Conversely, new businesses or activities that we undertake alone or with partners may not deliver target outcomes and may expose us to additional operational and financial risk.

Failure to grow our core business sufficiently and have viable options for new future business over the longer term or failure to respond to the threats and opportunities presented by emerging technology (including for the purposes of adapting our networks to meet the challenges of increasing distributed energy resources) could negatively affect the Group's credibility and reputation and jeopardise the achievement of intended financial returns.

Our business development activities and the delivery of our growth ambition, include acquisitions, disposals, joint ventures, partnering and organic investment opportunities such as development activities relating to changes to the energy mix and the integration of distributed energy resources and other advanced technologies. These are subject to a wide range of both external uncertainties (including the availability of potential investment targets and attractive financing and the impact of competition for onshore transmission in both the UK and US) and internal uncertainties (including actual performance of our existing operating companies and our business planning model assumptions and ability to integrate acquired businesses effectively). As a result, we may suffer unanticipated costs and liabilities and other unanticipated effects.

We may also be liable for the past acts, omissions or liabilities of companies or businesses we have acquired, which may be unforeseen or greater than anticipated. In the case of joint ventures, we may have limited control over operations and our joint venture partners may have interests that diverge from our own.

The occurrence of any of these events could have a material adverse impact on our results of operations or financial condition, and could also impact our ability to enter into other transactions.

Cost escalation

Changes in foreign currency rates, interest rates or commodity prices could materially impact earnings or our financial condition.

We have significant operations in the US and so are subject to the exchange rate risks normally associated with non UK operations, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency.

In addition, our results of operations and net debt position may be affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are affected by changes in interest rates, commodity price indices and exchange rates, in particular the dollar to sterling exchange rate.

Furthermore, our cash flow may be materially affected as a result of settling hedging arrangements entered into to manage our exchange rate, interest rate and commodity price exposure, or by cash collateral movements relating to derivative market values, which also depend on the sterling exchange rate into euro and other currencies.

We may be required to make significant contributions to fund pension and other post-retirement benefits.

We participate in a number of pension schemes that together cover substantially all our employees. In both the UK and US, the principal schemes are DB schemes where the scheme assets are held independently of our own financial resources.

In the US, we also have other post-retirement benefit schemes. Estimates of the amount and timing of future funding for the UK and US schemes are based on actuarial assumptions and other factors, including: the actual and projected market performance of the scheme assets; future long-term bond yields; average life expectancies; and relevant legal requirements.

Actual performance of scheme assets may be affected by volatility in debt and equity markets.

Changes in these assumptions or other factors may require us to make additional contributions to these pension schemes which, to the extent they are not recoverable under our price controls or state rate plans, could materially adversely affect the results of our operations and financial condition.

Financing and liquidity

An inability to access capital markets at commercially acceptable interest rates could affect how we maintain and grow our businesses.
Our businesses are financed through cash generated from our ongoing operations, bank lending facilities and the capital markets, particularly the long-term debt capital markets.

Some of the debt we issue is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and borrowing costs. In addition, restrictions imposed by regulators may also limit how we service the financial requirements of our current businesses or the financing of newly acquired or developing businesses.

Financial markets can be subject to periods of volatility and shortages of liquidity, for example as a result of unexpected political or economic events. If we were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, our cost of financing may increase, the discretionary and uncommitted elements of our proposed capital investment programme may need to be reconsidered and the manner in which we implement our strategy may need to be reassessed.

Such events could have a material adverse impact on our business, results of operations and prospects.

Some of our regulatory agreements impose lower limits for the long-term senior unsecured debt credit ratings that certain companies within the Group must hold or the amount of equity within their capital structures.

One of the principal limits requires National Grid plc to hold an investment grade long-term senior unsecured debt credit rating. In addition, some of our regulatory arrangements impose restrictions on the way we can operate.

These include regulatory requirements for us to maintain adequate financial resources within certain parts of our operating businesses and may restrict the ability of National Grid plc and some of our subsidiaries to engage in certain transactions, including paying dividends, lending cash and levying charges.

The inability to meet such requirements or the occurrence of any such restrictions may have a material adverse impact on our business and financial condition.

The remediation plans in place or being implemented to address control weaknesses in our US business may not operate as expected, as a result of which we may be unable to provide accurate financial information to our debt investors in a timely manner.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants, such as restrictions on the level of subsidiary indebtedness.

Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt and may restrict our ability to draw upon our facilities or access the capital markets.

Customers and counterparties

Customers and counterparties may not perform their obligations.
Our operations are exposed to the risk that customers, suppliers, banks and other financial institutions and others with whom we do business will not satisfy their obligations, which could materially adversely affect our financial position.

This risk is significant where our subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates, such as from our current PSEG-LI transition services agreement, as well as industrial customers and other purchasers, and may also arise where customers are unable to pay us as a result of increasing commodity prices or adverse economic conditions.

To the extent that counterparties are contracted with for physical commodities (gas and electricity) and they experience events that impact their own ability to deliver, we may suffer supply interruption as described in Infrastructure and IT systems on page 181.

There is also a risk to us where we invest excess cash or enter into derivatives and other financial contracts with banks or other financial institutions. Banks who provide us with credit facilities may also fail to perform under those contracts.

Employees and others

We may fail to attract, develop and retain employees with the competencies, including leadership and business capabilities, values and behaviours required to deliver our strategy and vision and ensure they are engaged to act in our best interests.
Our ability to implement our strategy depends on the capabilities and performance of our employees and leadership at all levels of the business. Our ability to implement our strategy and vision may be negatively affected by the loss of key personnel or an inability to attract, integrate, engage and retain appropriately qualified personnel, or if significant disputes arise with our employees.

As a result, there may be a material adverse effect on our business, financial condition, results of operations and prospects.

There is a risk that an employee or someone acting on our behalf may breach our internal controls or internal governance framework or may contravene applicable laws and regulations. This could have an impact on the results of our operations, our reputation and our relationship with our regulators and other stakeholders.

Shareholder information

Articles of Association

The following description is a summary of the material terms of our Articles and applicable English law. It is a summary only and is qualified in its entirety by reference to the Articles.

Summary

The Articles set out the Company's internal regulations. Copies are available on our website and upon request. Amendments to the Articles have to be approved by at least 75% of those voting at a general meeting of the Company. Subject to company law and the Articles, the Directors may exercise all the powers of the Company. They may delegate authorities to committees and day-to-day management and decision-making to individual Executive Directors. The committee structure is set out on page 36.

General

The Company is incorporated under the name National Grid plc and is registered in England and Wales with registered number 4031152. Under the Companies Act 2006, the Company's objects are unrestricted.

Directors

Under the Articles, a Director must disclose any personal interest in a matter and may not vote in respect of that matter, subject to certain limited exceptions. As permitted under the Companies Act 2006, the Articles allow non conflicted Directors to authorise a conflict or potential conflict for a particular matter. In doing so, the non conflicted Directors must act in a way they consider, in good faith, will be most likely to promote the success of the Company for the benefit of the shareholders as a whole.

The Directors (other than a Director acting in an executive capacity) are paid fees for their services. In total, these fees must not exceed £2,000,000 per year or any higher sum decided by an ordinary resolution at a general meeting of shareholders. In addition, special pay may be awarded to a Director who acts in an executive capacity, serves on a committee, performs services which the Directors consider to extend beyond the ordinary duties of a director, devotes special attention to the business of National Grid, or goes or lives abroad on the Company's behalf. Directors may also receive reimbursement for expenses properly incurred, and may be awarded pensions and other benefits. The compensation awarded to the Executive Directors is determined by the Remuneration Committee. Further details of Directors' remuneration are set out in the Directors' Remuneration Report (see pages 54 to 71).

The Directors may exercise all the powers of National Grid to borrow money. However, the aggregate principal amount of all the Group's borrowings outstanding at any time must not exceed £35 billion or any other amount approved by shareholders by an ordinary resolution at a general meeting.

Directors can be appointed or removed by the Board or shareholders at a general meeting. Directors must stand for election at the first AGM following their appointment to the Board. Each Director must retire at least every three years, although they will be eligible for re-election. In accordance with best practice introduced by the UK Corporate Governance Code, all Directors wishing to continue in office currently offer themselves for re-election annually. No person is disqualified from being a Director or is required to vacate that office by reason of attaining a maximum age.

A Director is not required to hold shares in National Grid in order to qualify as a Director.

Rights, preferences and restrictions

(i) Dividend rights

National Grid may not pay any dividend otherwise than out of profits available for distribution under the Companies Act 2006 and other applicable provisions of English law. In addition, as a public company, National Grid may only make a distribution if, at the time of the distribution, the amount of its net assets is not less than the aggregate of its called up share capital and undistributable reserves (as defined in the Companies Act 2006) and to the extent that the distribution does not reduce the amount of those assets to less than that aggregate. Ordinary shareholders and ADS holders receive dividends.

Subject to these points, shareholders may, by ordinary resolution, declare dividends in accordance with the respective rights of the shareholders, but not exceeding the amount recommended by the Board. The Board may pay interim dividends if it considers that National Grid's financial position justifies the payment. Any dividend or interest unclaimed for 12 years from the date when it was declared or became due for payment will be forfeited and revert to National Grid.

(ii) Voting rights

Subject to any rights or restrictions attached to any shares and to any other provisions of the Articles, at any general meeting on a show of hands, every shareholder who is present in person will have one vote and on a poll, every shareholder will have one vote for every share they hold. On a show of hands or poll, shareholders may cast votes either personally or by proxy. A proxy need not be a shareholder. Under the Articles, all substantive resolutions at a general meeting must be decided on a poll. Ordinary shareholders and ADS holders can vote at general meetings.

(iii) Liquidation rights

In a winding up, a liquidator may (in each case with the sanction of a special resolution passed by the shareholders and any other sanction required under English law): (a) divide among the shareholders the whole or any part of National Grid's assets (whether the assets are of the same kind or not); the liquidator may, for this purpose, value any assets and determine how the division should be carried out as between shareholders or different classes of shareholders, or (b) transfer any part of the assets to trustees on trust for the benefit of the shareholders as the liquidator determines. In neither case will a shareholder be compelled to accept assets upon which there is a liability.

(iv) Restrictions

There are no restrictions on the transfer or sale of ordinary shares. Some of the Company's employee share plans, details of which are contained in the Directors' Remuneration Report, include restrictions on the transfer of shares while the shares are subject to the plan. Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owner, the voting rights may be exercised by the registered owner at the direction of the participant. Treasury shares do not attract a vote or dividends.

Variation of rights

Subject to applicable provisions of English law, the rights attached to any class of shares of National Grid may be varied or cancelled. This must be with the written consent of the holders of three quarters in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

General meetings

AGMs must be convened each year within six months of the Company's accounting reference date upon 21 clear days' advance written notice. Under the Articles, any other general meeting may be convened provided at least 14 clear days' written notice is given, subject to annual approval of shareholders. In certain limited circumstances, the Company can convene a general meeting by shorter notice. The notice must specify, among other things, the nature of the business to be transacted, the place, the date and the time of the meeting.

Rights of non residents

There are no restrictions under the Articles that would limit the rights of persons not resident in the UK to vote in relation to ordinary shares.

Disclosure of interests

Under the Companies Act 2006, National Grid may, by written notice, require a person whom it has reasonable cause to believe to be or to have been, in the last three years, interested in its shares to provide additional information relating to that interest. Under the Articles, failure to provide such information may result in a shareholder losing their rights to attend, vote or exercise any other right in relation to shareholders' meetings.

Under the UK Disclosure Guidance and Transparency Rules sourcebook, there is also an obligation on a person who acquires or ceases to have a notifiable interest in shares in National Grid to notify the Company of that fact. The disclosure threshold is 3% and disclosure is required each time the person's direct and indirect holdings reach, exceed or fall below each 1% threshold thereafter.

The UK City Code on Takeovers and Mergers imposes strict disclosure requirements with regard to dealings in the securities of an offeror or offeree company, and also on their respective associates, during the course of an offer period. Other regulators in the UK, US and elsewhere may have, or assert, notification or approval rights over acquisitions or transfers of shares.

Depositary payments to the Company

The Depositary reimburses the Company for certain expenses it incurs in relation to the ADS programme. The Depositary also pays the standard out-of-pocket maintenance costs for the ADSs, which consist of the expenses for the mailing of annual and interim financial reports, printing and distributing dividend cheques, electronic filing of US federal tax information, mailing required tax forms, stationery, postage, facsimile and telephone calls. It also reimburses the Company for certain investor relationship programmes or special investor relations promotional activities. There are limits on the amount of expenses for which the Depositary will reimburse the Company, but the amount of reimbursement is not necessarily tied to the amount of fees the Depositary collects from investors.

For the period 19 May 2016 to 17 May 2017, the Company received a total of $2,126,791.80 in reimbursements from the Depositary consisting of $1,420,248.93 and $706,542.87 received in November 2016 and March 2017 respectively. Fees that are charged on cash dividends will be apportioned between the Depositary and the Company, see below.

Any questions from ADS holders should be directed to The Bank of New York Mellon at the contact details on page 207.

Description of securities other than equity securities: depositary fees and charges

The Bank of New York Mellon, as the Depositary, collects fees, by deducting those fees from the amounts distributed or by selling a portion of distributable property, for:

- delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them; and
- making distributions to investors (including, it is expected, cash dividends).

The Depositary may generally refuse to provide fee attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:	For
$5.00 per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property; cancellation of ADSs for the purpose of withdrawal, including if the Deposit Agreement terminates; and distribution of securities distributed to holders of deposited securities that are distributed by the Depositary to ADS holders.
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the Depositary or its agent when they deposit or withdraw shares.
Expenses of the Depositary	Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement); and converting foreign currency to dollars.
Taxes and other governmental charges the Depositary or the Custodian has to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary.

The Company's Deposit Agreement under which the ADSs are issued allows a fee of up to $0.05 per ADS to be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2016/17 final dividend will be charged a fee of $0.02 per ADS by the Depositary prior to distribution of the cash dividend.

Documents on display

National Grid is subject to the filing requirements of the Exchange Act, as amended. In accordance with these requirements, we file reports and other information with the SEC. These materials, including this document, may be inspected during normal business hours at our registered office 1–3 Strand, London WC2N 5EH or at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. For further information about the Public Reference Room, please call the SEC at 1-800-SEC-0330. Some of our filings are also available on the SEC's website at www.sec.gov.

Events after the reporting period

There have been no material events affecting the Company since the year end.

Exchange controls

There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange control restrictions, or that affect the remittance of dividends, interest or other payments to non UK resident holders of ordinary shares except as otherwise set out in Taxation on page 187 and except in respect of the governments of and/or certain citizens, residents or bodies of certain countries (described in applicable Bank of England Notices or European Union Council Regulations in force as at the date of this document).

Shareholder information continued

Exchange rates

The following table shows the history of the exchange rates of one pound sterling to US dollars for the periods indicated.

	Dollar equivalent of £1 sterling	
	High	Low
April 2017	1.2938	1.2392
March 2017	1.2570	1.2150
February 2017	1.2647	1.2429
January 2017	1.2605	1.2065
December 2016	1.2712	1.2226
		Average[1]
2016/17		1.31
2015/16		1.51
2014/15		1.61
2013/14		1.60
2012/13		1.57

1. The average for each period is calculated by using the average of the exchange rates on the last day of each month during the period. See weighted average exchange rate on page 85.

Material interests in shares

As at 31 March 2017, National Grid had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	Number of ordinary shares	% of voting rights[1]
Black Rock, Inc.	226,594,591	6.01
The Capital Group Companies, Inc.	145,094,617	3.88
Competrol International Investments Limited	137,164,285	3.65

1. This number is calculated in relation to the issued share capital at the time the holding was disclosed.

As at 17 May 2017, no further notifications have been received.

The rights attached to ordinary shares are detailed on page 184. All ordinary shares and all major shareholders have the same voting rights. The Company is not, to the best of its knowledge, directly or indirectly controlled.

Share capital

As at 17 May 2017, the share capital of the Company consists of ordinary shares of $11\frac{17}{43}$ pence nominal value each and ADSs, which represent five ordinary shares each. Subject to shareholder approval of the proposed share consolidation, at the General Meeting of the Company to be held on 19 May 2017, the nominal value of the Company's ordinary shares will be $12^{204}/_{473}$ pence with effect from 22 May 2017.

Authority to purchase shares

Shareholder approval was given at the 2016 AGM to purchase up to 10% of the Company's share capital (being 374,682,662 ordinary shares). The Directors intend to seek shareholder approval to renew this authority at the 2017 AGM.

In addition, the authority to purchase shares from the 2016 AGM is proposed for renewal at a General Meeting of the Company to be held on 19 May 2017 to cover the period between the date of the General Meeting and the 2017 AGM. The renewed authority is required due to the change to the nominal value of the ordinary shares that would result from the share consolidation proposed at the same General Meeting.

In some circumstances, the Company may find it advantageous to have the authority to purchase its own shares in the market, where the Directors believe this would be in the interests of shareholders generally. The Directors believe that it is an important part of the financial management of the Company to have the flexibility to repurchase issued shares in order to manage its capital base, including actively managing share issuances from the operation of the scrip dividend scheme. It is expected that repurchases to manage share issuances under the scrip dividend scheme will not exceed 2.5% of the issued share capital (excluding treasury shares) per annum.

As explained in the Notice of General Meeting issued on 19 April 2017, it is intended that part of the proceeds from the sale of a majority interest in the Company's UK Gas Distribution business will be returned to shareholders by way of purchase of the Company's shares. Subject to shareholder approval at the General Meeting to be held on 19 May 2017 and the 2017 AGM, the Company and the Directors therefore intend to use this authority in this context to return approximately £835 million to shareholders by way of on-market purchases of the Company's ordinary shares.

When purchasing shares, the Company has, and will continue to, take into account market conditions prevailing at the time, other investment and financing opportunities and the overall financial position of the Company.

During the year the Company purchased ordinary shares in the capital of the Company as part of the management of the dilutive effect of share issuances under the scrip dividend scheme.

	Number of shares	Total nominal value	Percentage of called up share capital[1]
Shares held in Treasury purchased in prior years	179,045,081	£20,402,811.56	4.54%
Shares purchased and held in Treasury during the year[2,3]	19,602,361	£2,233,757.42	0.50%
Shares transferred from Treasury during the year (to employees under employee share plans)	6,027,564	£686,861.94	0.15%
Maximum number of shares held in Treasury during the year	193,515,250	£22,051,737.79	4.91%

1. Called up share capital of 3,942,983,436 ordinary shares as at the date of this report.
2. From 7 April 2016 to 14 February 2017.
3. Shares purchased for a total cost of £188,922,589.

	Total number of shares purchased	Average price paid per share (£)	Of which, number of shares purchased as part of publicly announced plans	Maximum value that may yet be purchased as part of publicly announced plans (£m)
April[1] (7 April 2016)	657,000	9.978	657,000	–
May	–	–	–	–
June	–	–	–	–
July	–	–	–	–
August	–	–	–	–
September	–	–	–	–
October	–	–	–	–
November[2] (25–30 Nov 2016)	1,250,000	9.146	1,250,000	–
December[2] (5–22 Dec 2016)	8,200,000	9.139	8,200,000	–
January[2] (4–27 Jan 2017)	5,997,044	9.330	5,997,044	–
February[3] (6–14 Feb 2017)	3,498,317	9.526	3,498,317	–
March	–	–	–	–
Total	19,602,361	9.295	19,602,361	–

Shares were purchased as part of publicly announced plans, as detailed below, which have expired and under which the Company does not intend to make further purchases:
1. Announced: 23 February 2016 and Expired: 14 April 2016 (Authority for no. of shares: 3,357,000 of which 657,000 during the financial year ended 31 March 2017).
2. Announced: 24 November 2016 and Expired: 21 January 2017 (Authority for no. shares: 15,447,044 ordinary shares).
3. Announced: 6 February 2017 and Expired: 14 February 2017 (Authority for no. shares: 3,498,317 ordinary shares).

No purchases were made in the United States or in respect of the Company's ADSs.

As at the date of this report, the Company held 188,996,970 ordinary shares as treasury shares, representing 4.79% of the Company's called up share capital.

Authority to allot shares
Shareholder approval was given at the 2016 AGM to allot shares of up to one third of the Company's share capital. The Directors are seeking this same level of authority this year. The Directors consider that the Company will have sufficient flexibility with this level of authority to respond to market developments. This authority is in line with investor guidelines.

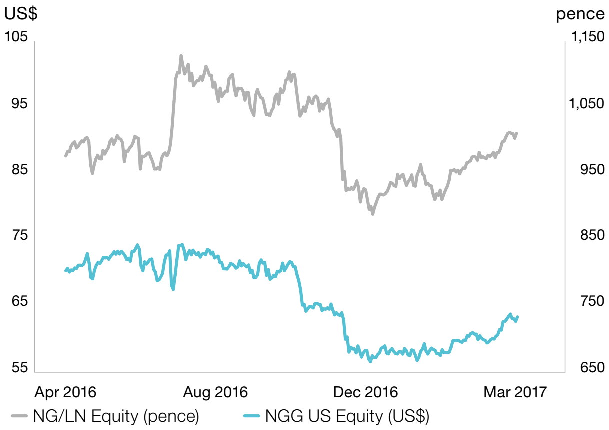
The Directors currently have no intention of issuing new shares, or of granting rights to subscribe for or convert any security into shares, except in relation to, or in connection with, the operation and management of the Company's scrip dividend scheme and the exercise of options under the Company's share plans. No issue of shares will be made which would effectively alter control of the Company without the sanction of shareholders in general meeting.

The Company expects to actively manage the dilutive effect of share issuance arising from the operation of the scrip dividend scheme. In some circumstances, additional shares may be allotted to the market for this purpose under the authority provided by this resolution. Under these unlikely circumstances, it is expected that the associated allotment of new shares (or rights to subscribe for or convert any security into shares) will not exceed 1% of the issued share capital (excluding treasury shares) per year.

Dividend waivers
The trustees of the National Grid Employees Share Trust, which are independent of the Company, waived the right to dividends paid during the year, and have agreed to waive the right to future dividends, in relation to the ordinary shares and ADSs held by the trust.

Under the Company's ADS programme, the right to dividends in relation to the ordinary shares underlying the ADSs was waived during the year by the Depositary, under an arrangement whereby the Company pays the monies to satisfy any dividends separately to the Depositary for distribution to ADS holders entitled to the dividend. This arrangement is expected to continue for future dividends.

Share price
National Grid ordinary shares are listed on the London Stock Exchange under the symbol NG and the ADSs are listed on the New York Stock Exchange under the symbol NGG.



Source: Bloomberg

Price history
The following table shows the highest and lowest intraday market prices for our ordinary shares and ADSs for the periods indicated.

	Ordinary share (pence) High	Low	ADS ($) High	Low
2016/17	1,148.00	888.90	74.97	56.50
2015/16	998.20	806.40	72.53	63.75
2014/15	965.00	806.22	77.21	62.25
2013/14	849.50	711.00	70.07	55.16
2012/13	770.00	627.00	58.33	49.55
2016/17 Q4	1,022.50	906.80	64.22	56.54
Q3	1,114.50	888.90	71.43	56.50
Q2	1,148.00	1,035.50	74.97	69.05
Q1	1,096.00	945.00	74.67	66.52
2015/16 Q4	998.20	906.10	72.47	64.76
Q3	968.57	890.60	72.53	67.31
Q2	918.90	806.40	69.71	63.75
Q1	940.90	817.20	72.14	64.37
April 2017	1,042.00	985.10	65.33	62.85
March 2017	1,022.50	909.31	64.22	59.24
February 2017	983.40	906.80	61.22	57.65
January 2017	969.30	912.30	59.54	56.54
December 2016	960.00	888.90	59.40	56.50

Shareholder analysis
The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2017.

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1–50	159,963	18.0110	4,561,644	0.1157
51–100	236,033	26.5760	16,694,761	0.4234
101–500	386,407	43.5073	81,585,725	2.0691
501–1,000	53,761	6.0532	37,453,393	0.9499
1,001–10,000	48,874	5.5029	121,025,841	3.0694
10,001–50,000	2,018	0.2272	35,655,682	0.9043
50,001–100,000	222	0.0250	16,330,876	0.4142
100,001–500,000	418	0.0471	102,792,008	2.607
500,001–1,000,000	125	0.0141	86,652,292	2.1976
1,000,001+	321	0.0361	3,440,231,225	87.2494
Total	888,142	100	3,942,983,447	100

Taxation
The discussion in this section provides information about certain US federal income tax and UK tax consequences for US Holders (defined below) of owning ADSs and ordinary shares. A US Holder is beneficial owner of ADSs or ordinary shares that:

- is for US federal income tax purposes (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, any State thereof, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for US federal income tax purposes;
- is not resident or ordinarily resident in the UK for UK tax purposes; and
- does not hold ADSs or ordinary shares in connection with the conduct of a business or the performance of services in the UK or otherwise in connection with a branch, agency or permanent establishment in the UK.

Shareholder information continued

This discussion is not a comprehensive description of all the US federal income tax and UK tax considerations that may be relevant to any particular investor (including consequences under the US alternative minimum tax or net investment income tax) and does not address state, local, or other tax laws. National Grid has assumed that shareholders, including US Holders, are familiar with the tax rules applicable to investments in securities generally and with any special rules to which they may be subject. This discussion deals only with US Holders who hold ADSs or ordinary shares as capital assets. It does not address the tax treatment of investors who are subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or currencies;
- investors who elect mark-to-market treatment;
- entities treated as partnerships or other pass-through entities and their partners;
- individual retirement accounts and other tax-deferred accounts;
- tax-exempt organisations;
- investors who own (directly or indirectly) 10% or more of our voting stock;
- investors who hold ADSs or ordinary shares as a position in a straddle, hedging transaction or conversion transaction;
- persons that have ceased to be US citizens or lawful permanent residents of the US; and
- investors whose functional currency is not the US dollar.

The statements regarding US and UK tax laws and administrative practices set forth below are based on laws, treaties, judicial decisions and regulatory interpretations in effect on the date of this document. These laws and practices are subject to change without notice, potentially with retroactive effect. In addition, the statements set forth below are based on the representations of the Depositary and assume that each party to the Deposit Agreement will perform its obligations thereunder in accordance with its terms.

US Holders of ADSs generally will be treated as the owners of the ordinary shares represented by those ADSs for US federal income tax purposes. For the purposes of the Tax Convention, the Estate Tax Convention and UK tax considerations, this discussion assumes that a US Holder of ADSs will be treated as the owner of the ordinary shares represented by those ADSs. HMRC has stated that it will continue to apply its long-standing practice of treating a holder of ADSs as holding the beneficial interest in the ordinary shares represented by the ADSs; however, we note that this is an area of some uncertainty and may be subject to change.

US Holders should consult their own advisors regarding the tax consequences of buying, owning and disposing of ADSs or ordinary shares in light of their particular circumstances, including the effect of any state, local, or other tax laws.

Taxation of dividends
The UK does not currently impose a withholding tax on dividends paid to US Holders.

US Holders should assume that any cash distribution paid by us with respect to ADSs or ordinary shares will be reported as dividend income. While dividend income received from non-US corporations is generally taxable to a non-corporate US Holder as ordinary income for US federal income tax purposes, dividend income received by a non-corporate US Holder from us generally will be taxable at the same favourable rates applicable to long-term capital gains provided (i) either (a) we are eligible for the benefits of the Tax Convention or (b) ADSs or ordinary shares are treated as 'readily tradable' on an established securities market in the United States and (ii) we are not, for our taxable year during which the dividend is paid or the prior year, a passive foreign investment company for US federal income tax purposes (a PFIC), and certain other requirements are met. We (1) expect that our shares will be treated as 'readily tradable' on an established securities market in the United States as a result of the trading of ADSs on the New York Stock Exchange and (2) believe we are eligible for the benefits of the Tax Convention.

Based on our audited financial statements and the nature of our business activities, we believe that we were not treated as a PFIC for US federal income tax purposes with respect to our taxable year ending 31 March 2017. In addition, based on our current expectations regarding the value and nature of our assets, the sources and nature of our income, and the nature of our business activities, we do not anticipate becoming a PFIC in the foreseeable future.

Dividends received by corporate US Holders with respect to ADSs or ordinary shares will not be eligible for the dividends received deduction generally allowed to corporations.

Taxation of capital gains
US Holders will not be subject to UK taxation on any capital gain realised on the sale or other disposition of ADSs or ordinary shares.

Provided that we are not a PFIC for any taxable year during which a US Holder holds their ADSs or ordinary shares, upon a sale or other disposition of ADSs or ordinary shares, a US Holder generally will recognise capital gain or loss equal to the difference between the US dollar value of the amount realised on the sale or other disposition and the US Holder's adjusted tax basis in the ADSs or ordinary shares. Such capital gain or loss generally will be long-term capital gain or loss if the ADSs or ordinary shares were held for more than one year. For non-corporate US Holders, long-term capital gain is generally taxed at a lower rate than ordinary income. A US Holder's ability to deduct capital losses is subject to significant limitations.

UK stamp duty and stamp duty reserve tax (SDRT)

Transfers of ordinary shares – SDRT at the rate of 0.5% of the amount or value of the consideration will generally be payable on any agreement to transfer ordinary shares that is not completed using a duly stamped instrument of transfer (such as a stock transfer form).

Where an instrument of transfer is executed and duly stamped before the expiry of the six year period beginning with the date on which the agreement is made, the SDRT liability will be cancelled. If a claim is made within the specified period, any SDRT which has been paid will be refunded. SDRT is due whether or not the agreement or transfer is made or carried out in the UK and whether or not any party to that agreement or transfer is a UK resident.

Purchases of ordinary shares completed using a stock transfer form will generally result in a UK stamp duty liability at the rate of 0.5% (rounded up to the nearest £5) of the amount or value of the consideration. Paperless transfers under the CREST paperless settlement system will generally be liable to SDRT at the rate of 0.5%, and not stamp duty. SDRT is generally the liability of the purchaser and UK stamp duty is usually paid by the purchaser or transferee.

Transfers of ADSs – No UK stamp duty will be payable on the acquisition or transfer of existing ADSs or beneficial ownership of ADSs, provided that any instrument of transfer or written agreement to transfer is executed outside the UK and remains at all times outside the UK.

An agreement for the transfer of ADSs in the form of ADRs will not result in a SDRT liability. A charge to stamp duty or SDRT may arise on the transfer of ordinary shares to the Depositary or The Bank of New York Mellon as agent of the Depositary (the Custodian).

The rate of stamp duty or SDRT will generally be 1.5% of the value of the consideration or, in some circumstances, the value of the ordinary shares concerned. However, there is no 1.5% SDRT charge on the issue of ordinary shares (or, where it is integral to the raising of new capital, the transfer of ordinary shares) to the Depositary or the Custodian.

The Depositary will generally be liable for the stamp duty or SDRT. Under the terms of the Deposit Agreement, the Depositary will charge any tax payable by the Depositary or the Custodian (or their nominees) on the deposit of ordinary shares to the party to whom the ADSs are delivered against such deposits. If the stamp duty is not a multiple of £5, the duty will be rounded up to the nearest multiple of £5.

US information reporting and backup withholding tax

Dividend payments made to US Holders and proceeds paid from the sale, exchange, redemption or disposal of ADSs or ordinary shares to US Holders may be subject to information reporting to the US Internal Revenue Service (IRS). Such payments may be subject to backup withholding taxes if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements.

US Holders should consult their tax advisors about these rules and any other reporting obligations that may apply to the ownership or disposition of ADSs or ordinary shares, including reporting requirements related to the holding of certain foreign financial assets.

UK inheritance tax

An individual who is domiciled in the US for the purposes of the Estate Tax Convention and who is not a UK national for the purposes of the Estate Tax Convention will generally not be subject to UK inheritance tax in respect of (i) the ADSs or ordinary shares on the individual's death or (ii) a gift of the ADSs or ordinary shares during the individual's lifetime. This is not the case where the ADSs or ordinary shares are part of the business property of the individual's permanent establishment in the UK or relate to a fixed base in the UK of an individual who performs independent personal services.

Special rules apply to ADSs or ordinary shares held in trust. In the exceptional case where the ADSs or shares are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Convention generally provides for the tax paid in the UK to be credited against tax paid in the US.

Capital gains tax (CGT) for UK resident shareholders

You can find CGT information relating to National Grid shares for UK resident shareholders on our website under: Investors, Shareholder centre, More information and help. Share prices on specific dates are also available on our website.

Other disclosures

All-employee share plans

The Company has a number of all-employee share plans as described below, which operated during the year. These allow UK- or US-based employees to participate in either HMRC (UK) or IRS (US) approved plans and to become shareholders in National Grid.

Sharesave

Employees resident in the UK are eligible to participate in the Sharesave plan. Under this plan, participants may contribute between £5 and £500 in total each month, for a fixed period of three years, five years or both. Contributions are taken from net salary.

SIP

Employees resident in the UK are eligible to participate in the SIP. Contributions up to £150 are deducted from participants' gross salary and used to purchase ordinary shares in National Grid each month. The shares are placed in trust.

US Incentive Thrift Plans

Employees of National Grid's US companies are eligible to participate in the Thrift Plans, which are tax-advantaged savings plans (commonly referred to as 401(k) plans). They are DC pension plans that give participants the opportunity to invest up to applicable federal salary limits. The federal limits for calendar year 2016 are: for pre-tax contributions, a maximum of 50% of salary limited to $18,000 for those under the age of 50 and $24,000 for those age 50 and above; for post-tax contributions, up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) may not exceed 50% of compensation, and are further subject to the combined federal annual contribution limit of $53,000. For calendar year 2017, participants may invest up to the applicable federal salary limits: for pre-tax contributions, a maximum of 50% of salary limited to $18,000 for those under the age of 50 and $24,000 for those age 50 and above; for post-tax contributions, up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) may not exceed 50% of compensation, and are further subject to the combined federal annual contribution limit of $54,000.

ESPP

Employees of National Grid's US companies are eligible to participate in the ESPP (commonly referred to as a 423(b) plan). Eligible employees have the opportunity to purchase ADSs on a monthly basis at a 15% discounted price. Under the plan, employees may contribute up to 20% of base pay each year, up to a maximum annual contribution of $18,888 to purchase ADSs in National Grid.

Change of control provisions

No compensation would be paid for loss of office of Directors on a change of control of the Company. As at 31 March 2017, the Company had undrawn borrowing facilities of £3.7 billion available to it with a number of banks and a further £2.1 billion of drawn bank loans which, on a change of control of the Company following a takeover bid, may alter or terminate. All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. In the event of a change of control of the Company, a number of governmental and regulatory consents or approvals are likely to be required, arising from laws or regulations of the UK, US or the EU. Such consents or approvals may also be required for acquisitions of equity securities that do not amount to a change of control.

No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

Code of Ethics

In accordance with US legal requirements, the Board has adopted a Code of Ethics for senior financial professionals. This code is available on our website (where any amendments or waivers will also be posted) under: About us, Corporate governance, Code of Ethics. There were no amendments to, or waivers of, our Code of Ethics during the year.

Conflicts of interest

In accordance with the Companies Act 2006, the Board has a policy and procedure in place for the disclosure and authorisation (if appropriate) of actual and potential conflicts of interest. The Board continues to monitor and note possible conflicts of interest that each Director may have. The Directors are regularly reminded of their continuing obligations in relation to conflicts, and are required annually to review and confirm their external interests. During the year ended 31 March 2017, no actual or potential conflicts of interest were identified, which required approval by the Board. The Board has also considered and noted a number of situations in relation to which no actual conflict of interest was identified.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards

The Company is listed on the NYSE and is therefore required to disclose differences in its corporate governance practices adopted as a UK listed company, compared with those of a US company.

The corporate governance practices of the Company are primarily based on the requirements of the Code but substantially conform to those required of US companies listed on the NYSE. The following is a summary of the significant ways in which the Company's corporate governance practices differ from those followed by US companies under Section 303A Corporate Governance Standards of the NYSE.

- The NYSE rules and the Code apply different tests for the independence of Board members.
- The NYSE rules require a separate nominating/corporate governance committee composed entirely of independent Directors. There is no requirement for a separate corporate governance committee in the UK. Under the Company's corporate governance policies, all Directors on the Board discuss and decide upon governance issues, and the Nominations Committee makes recommendations to the Board with regard to certain of the responsibilities of a corporate governance committee.
- The NYSE rules require listed companies to adopt and disclose corporate governance guidelines. While the Company reports compliance with the Code in each Annual Report and Accounts, the UK requirements do not require the Company to adopt and disclose separate corporate governance guidelines.
- The NYSE rules require a separate audit committee composed of at least three independent members. While the Company's Audit Committee exceeds the NYSE's minimum independent Non-executive Director membership requirements, it should be noted that the quorum for a meeting of the Audit Committee, of two independent Non-executive Directors, is less than the minimum membership requirements under the NYSE rules.
- The NYSE rules require a compensation committee composed entirely of independent Directors, and prescribe criteria to evaluate the independence of the committee's members and its ability to engage external compensation advisors. While the Code prescribes different independence criteria, the Non-executive Directors on the Remuneration Committee have each been deemed independent by the Board under the NYSE rules. Although the evaluation criteria for appointment of external advisors differ under the Code, the Remuneration Committee is solely responsible for appointment, retention and termination of such advisors.

Directors' indemnity

The Company has arranged, in accordance with the Companies Act 2006 and the Articles, qualifying third-party indemnities against financial exposure that Directors may incur in the course of their professional duties. Equivalent qualifying third-party indemnities were, and remain, in force for the benefit of those directors who stood down from the Board in prior financial years for matters arising when they were directors of the Company. Alongside these indemnities, the Company places Directors' and Officers' liability insurance cover for each director.

Employees

We negotiate with recognised unions. It is our policy to maintain well developed communications and consultation programmes and there have been no material disruptions to our operations from labour disputes during the past five years. National Grid believes that it can conduct its relationships with trade unions and employees in a satisfactory manner.

Human Rights

Respect for human rights is incorporated into our employment practices and our values, which are integral to our ethical business conduct guide – the way in which we conduct ourselves allows us to build trust with the people we work with. We earn this trust by doing things in the right way, building our reputation as an ethical company that our stakeholders want to do business with, and that our employees want to work for. Although we do not have specific policies relating to human rights, slavery or human trafficking, our procurement policies integrate sustainability into the way we do business throughout our supply chain, so that we create value, preserve natural resources and respect the interests of the communities we serve and from which we procure goods and services. Through our Global Supplier Code of Conduct (GSCoC), we expect our suppliers to keep to all laws relating to their business, as well as adhere to the principles of the United Nations Global Compact, the Ethical Trading Initiative Base Code, the UK Modern Slavery Act 2015 and for our UK suppliers, the requirements of the Living Wage Foundation.

Listing Rule 9.8.4 R cross reference table

Information required to be disclosed by LR 9.8.4 R (starting on page indicated):

Interest capitalised	Page 103
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Not applicable
Waiver of emoluments by a director	Not applicable
Waiver of future emoluments by a director	Not applicable
Non pre-emptive issues of equity for cash	Not applicable
Item (7) in relation to major subsidiary undertakings	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waivers of dividends	Page 187
Shareholder waivers of future dividends	Page 187
Agreements with controlling shareholders	Not applicable

Material contracts

On 8 December 2016, we agreed to sell a 61% equity interest in our UK Gas Distribution business to the Consortium pursuant to the terms of an acquisition agreement of that date. The sale of the 61% interest completed on 31 March 2017. National Grid and the Consortium have also entered into an agreement for the potential future sale and purchase of an additional 14% equity interest in the UK Gas Distribution business.

In addition, each of our Executive Directors has a Service Agreement and each Non-executive Director has a Letter of Appointment. Apart from these, no contract (other than contracts entered into in the ordinary course of business) has been entered into by the Group within the two years immediately preceding the date of this report which is, or may be material; or which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this report.

Political donations and expenditure

At this year's AGM the Directors will again seek authority from shareholders, on a precautionary basis, for the Company and its subsidiaries to make donations to registered political parties and other political organisations and/or incur political expenditure in the European Union (EU), in each case in amounts not exceeding £125,000 in aggregate. The definitions of these terms in the Companies Act 2006 are very wide and as a result this can cover bodies such as those concerned with policy review, law reform and the representation of the business community. It could include special interest groups, such as those involved with the environment, which the Company and its subsidiaries might wish to support, even though these activities are not designed to support or influence support for a particular party. The Companies Act 2006 states that all-party parliamentary groups are not political organisations for these purposes, meaning the authority to be sought from shareholders is not relevant to interactions with such groups. The Company has no intention of changing its current practice of not making political donations or incurring political expenditure within the ordinary meaning of those words. This authority is therefore being sought to ensure that none of the Company's activities inadvertently infringe these rules.

National Grid made no donations in the EU during the year, including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000. National Grid USA and its affiliated New York and federal political action committees (each, a PAC) made political donations in the US totalling $71,410 (£55,933) during the year. National Grid USA's affiliated New York PAC was funded partly by contributions from National Grid USA and certain of its subsidiaries and partly by voluntary employee contributions. National Grid USA's affiliated federal PAC was funded wholly by voluntary employee contributions.

Property, plant and equipment

This information can be found under the heading note 12 property, plant and equipment on pages 118 and 119, note 20 Borrowings on pages 127 and 128 and where we operate on page 173.

Research and development

Investment in research and development during the year for the Group, including discontinued operations, was £27 million (2015/16: £29 million; 2014/15: £23 million). Throughout 2016/17, innovation funding has sustained investment across all three of our UK Regulated business areas: UK ET, UK GT and UK GD. We have continued to challenge the way we work, collaborating across the industry in search of new technologies and techniques in our drive to deliver benefits for our stakeholders. Due to the way in which we work with a large number of partners on new ideas, our disclosed research and development expenditure is lower than the overall contribution we make to the industry. We only disclose directly incurred expenditure, and not those amounts our partners contribute to joint or collaborative projects.

The UK ET innovation investment continues to aim to advance our strategic ambitions to reduce the cost of providing a secure, reliable and sustainable electricity transmission system. Progress has been made on the design of our new 400kV research centre at Deeside.

We have successfully installed and pressurised the new insulating gas (Green Gas for Grid g^3), a potential replacement for SF_6 for new transmission assets, on two gas insulated busbar sections at our substation in Sellindge. The equipment passed its High Voltage test on site and was energised in April 2017.

Research has also progressed our understanding of and ability to predict and manage the impact of increased levels of distributed and renewable generation on the system.

Our control room and forecasting team have already been able to use the initial output from our solar PV monitoring and forecasting work, to help with balancing the system at times of high levels of solar generation.

NGET's Transmission & Distribution Interface 2.0 project is an £8 million Ofgem Network Innovation Competition award announced on Wednesday 30 November 2016. This is a new regional power market trial that will improve interaction between National Grid's System Operator (SO), UK Power Networks' role as regional electricity distributor and renewable energy generators connected to the distribution system.

Other disclosures continued

The market will help renewable energy generators to offer their services to National Grid's System Operator via a UK Power Networks' Distribution System Operator (DSO) platform. This approach will also provide additional services to UK Power Networks. Improving communication, coordination and developing new commercial frameworks will maximise network capacity by better managing system constraints, giving National Grid's System Operator access to previously unexploited power. It will also introduce new revenue streams for renewable energy generators. If successful, the regional power market model could be introduced to 59 other sites and potentially save up to £412 million for UK consumers by 2050.

We are also working in partnership with Scottish Power Electricity Networks on their £16 million Phoenix NIC project which aims to demonstrate how hybrid synchronous compensation could overcome technical limitations that currently limit the proportion of power generation from renewable sources and interconnectors that the Great Britain electricity system can handle. Our innovation portfolio has continued to develop throughout 2016/17, with a continued focus on new techniques for safety and risk reduction through projects such as 3D laser scanning for more accurate pipeline condition assessment and removable composite transition pieces to access pipelines more easily. Other projects have explored new techniques for valve sealant lines and improved techniques for compressor emissions monitoring. Demonstration of the value delivered to our customers has been a key priority in 2016/17 and continues to be going forward into 2017/18.

Innovation in UK GD continued to focus on six value areas which reflect both the RIIO outputs. We continued to develop and refine pipe-lining technologies to reduce the impact of our pipe replacement activities on our customers and the environment. In addition, we have made a new tool available for our engineers to help find underground pipes more quickly. We also explored how virtual reality technology can improve the way we train engineers.

Research, Development & Demonstration (RD&D) work in the US has focused on the advancement of products, processes, systems and work methods that may be new to National Grid. This is accomplished by working with internal departments to identify where strategic RD&D investment is needed and is likely to prove beneficial to National Grid. To achieve these goals, we work in collaboration with technical organisations, academia and vendors in the energy sector that align with our goals and objectives. This collaboration has also helped inform our strategic direction in response to jurisdictional requests for modernisation (Grid Modernization in Massachusetts and 'Reforming the Energy Vision' in New York).

In the year, we invested and participated in several significant pilot projects with the intent of obtaining operational knowledge and experience of technology-driven system impacts. Below are a few examples of our RD&D projects:

- We are pre-approved to construct up to 20 MW of photovoltaic (PV) facilities in Massachusetts as part of our 'Solar Phase II' programme. These PV sites are designed with advanced grid interactive control features, beyond what typical PV facilities are required to provide. Operating and analysing the performance of these grid interactive controls will help prepare and futureproof our system to enable a high penetration of the Distributed Energy Resources on the distribution system. We are also pre-approved to construct up to 14 MW of photovoltaic (PV) facilities in conjunction with 7 MW of battery storage in Massachusetts as part of our 'Solar Phase III' programme. The intent of this project is to demonstrate the value of energy storage in the system peak load shaving, solar ramp rate control and mitigation of power quality issues.
- We are engaged with Electric Power Research Institute (EPRI) on a number of programmes such as Distributed Energy Resources integration, energy storage and system planning. In February 2017, National Grid received two EPRI Technology Transfer awards for the RD&D work on Smart Inverters and distributed energy resources hosting capacity.
- We are progressing four New York REV pilot projects, which are 1) Fruit Belt Neighbourhood Solar, 2) Community Resilience, 3) Demand Reduction, and 4) Distribution System Platform to test new technologies and business models in which distributed energy resources are integrated for grid operations.
- We support several Department of Energy projects under the SunShot programme, aimed to further the integration and proliferation of solar PV.
- Lessons learned from the two-year Worcester Smart Energy Solutions pilot in Massachusetts and the Volt VAR Optimization and Conservation Voltage Reduction pilot in Rhode Island have helped shape larger scale grid modernisation proposals in each of our jurisdictions.
- We demonstrated electric robot and UAS (unmanned aircraft systems) technologies in our service area, and are working to integrate these technologies into our operations.
- We are preparing to demonstrate online monitoring technology at transmission substations in our New England service area in order to move towards enhanced condition-based asset management.
- We are building equipment test and training labs in order to support our initial upgrades of transmission substations across our service area to the IEC 61850 communications standard.

US expenditure for gas research, development and deployment of new technologies is largely funded through a special Regulatory Order and customer surcharge mechanism in New York State. Primary investments were in the areas of enhancements to improve overall customer safety; methane detection equipment is being deployed and tested both as mobile solutions to identify leakage in the field and in residential buildings. After completing extensive bench testing, we are continuing a pilot study in the use of existing and new technology for methane sensors within residential properties and working with standards organisations to enhance safety through the development of revised standards and specifications for improved detection levels and proper placement and use of detectors. We are evaluating best practices in automatic shut-off valves, excess flow valves and developing an integrated system to provide storm hardening (flood condition detection) with a methane detector in low pressure areas.

To further advance the safe operation of our systems, ongoing improvements for condition assessments of the most difficult to inspect pipelines are being enhanced through robotic inspection platforms with focus on crack detection sensors, Electromagnetic Acoustic Transducer, and developing tools to assess smaller diameter unpiggable steel pipelines. In addition, new tools and techniques are being developed to increase safety of the workforce, safely stop off mains and services with less excavation, improve welding practices and advance the inspection of polyethylene pipe construction, joint quality and the tracking and traceability of materials used in the construction of our transmission and distribution assets and to move toward more electronically and geospatially based records of field operations and construction.

Unresolved SEC staff comments

There are no unresolved SEC staff comments required to be reported.

Other unaudited financial information

Within the annual report a number of financial measures are presented. These measures have been categorised as either alternative performance measures (APMs), as per the European Securities and Markets Authority (ESMA) guidelines, or as other financial information.

An alternative performance measure is a financial measure of historic or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS. The Group uses a range of these metrics to provide a better understanding of the underlying performance of the Group. Where appropriate, reconciliations of alternative performance measures to IFRS measures and/or definitions are provided.

The Group has defined the following financial measures as APMs: net revenue (reconciliations below), adjusted operating profit including and excluding timing (reconciliations below), adjusted earnings per share including and excluding timing (reconciliations below), net debt (included in note 27), capital investment (reconciliation below) and value added (reconciliation and definition on page 21). Adjusted profit and earnings metrics this year relate to both the continuing business and the Group as a whole i.e. including discontinued operations.

Other financial information presented includes additional non-IFRS reconciliations and are identified as follows: funds from operations (FFO) (reconciliation below), FFO/interest cover (reconciliation below) and retained cash flow (RCF)/adjusted net debt (reconciliation below).

Other financial information also includes regulatory measures: Group, UK and US regulatory return on equity (RoE) (reconciliation below), regulatory asset based growth (reconciliation below), regulatory gearing (description on page 151) and annual asset growth (reconciliation below).

Alternative performance measures (APMs)

Net revenue

'Net revenue' is revenue less pass-through costs, such as payments to other UK network owners, system balancing costs, and gas and electricity commodity costs in the US. Pass-through costs are fully recoverable from our customers and are recovered through separate charges that are designed to recover those costs with no profit. Any over- or under-recovery of these costs is returned to, or recovered from, our customers.

	31 March 2017			31 March 2016 Re-presented[1]		
	Total sales	**Pass through costs**	**Net revenue**	Total sales	Pass through costs	Net revenue
UK Electricity Transmission	**4,439**	**(2,293)**	**2,146**	3,977	(2,030)	1,947
UK Gas Transmission	**1,080**	**(223)**	**857**	1,047	(221)	826
US Regulated	**8,931**	**(3,411)**	**5,520**	7,493	(3,154)	4,339
Other activities	**713**	**–**	**713**	824	–	824
Discontinued operations	**1,902**	**(350)**	**1,552**	1,949	(352)	1,597
Total	**17,065**	**(6,277)**	**10,788**	15,290	(5,757)	9,533

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Adjusted profit measures

In considering the financial performance of our businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax, profit for the year attributable to equity shareholders and EPS into two components.

The first of these components is referred to as an adjusted profit measure, also known as a business performance measure. This is the principal measure used by management to assess the performance of the underlying business.

Adjusted results exclude exceptional items and remeasurements. These items are reported collectively as the second component of the financial measures. Note 4 on page 101 explains in detail the items which are excluded from our adjusted profit measures.

Adjusted profit measures have limitations in their usefulness compared with the comparable total profit measures as they exclude important elements of our financial performance. However, we believe that by presenting our financial performance in two components it is easier to read and interpret financial performance between periods, as adjusted profit measures are more comparable having removed the distorting effect of the excluded items. Those items are more clearly understood if separately identified and analysed.

The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented.

Management uses adjusted profit measures as the basis for monitoring financial performance and in communicating financial performance to investors in external presentations and announcements of financial results.

Internal financial reports, budgets and forecasts are primarily prepared on the basis of adjusted profit measures, although planned exceptional items, such as significant restructurings, are also reflected in budgets and forecasts. We separately monitor and disclose the excluded items as a component of our overall financial performance.

Other unaudited financial information continued

Continuing, discontinued and total Group profits and earnings

The analysis below combines information from elsewhere in the Annual Report (primarily note 9) to reflect key metrics for the Group as if UK Gas Distribution was consolidated throughout the year.

	Including timing Year ended 31 March								
	2017			2016			2015		
	Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenue	**15,035**	**1,887**	**16,922**	13,212	1,903	15,115	13,357	1,844	15,201
Operating costs	**(11,262)**	**(993)**	**(12,255)**	(9,998)	(1,021)	(11,019)	(10,323)	(1,015)	(11,338)
Adjusted operating profit	**3,773**	**894**	**4,667**	3,214	882	4,096	3,034	829	3,863
Exceptional items and remeasurements	**(565)**	**–**	**(565)**	11	(22)	(11)	(83)	–	(83)
Statutory operating profit	**3,208**	**894**	**4,102**	3,225	860	4,085	2,951	829	3,780
Net finance costs (before exceptionals)	**(1,029)**	**(146)**	**(1,175)**	(856)	(157)	(1,013)	(872)	(161)	(1,033)
Finance exceptionals and remeasurements	**(58)**	**(6)**	**(64)**	(99)	–	(99)	(165)	–	(165)
Total net finance costs	**(1,087)**	**(152)**	**(1,239)**	(955)	(157)	(1,112)	(1,037)	(161)	(1,198)
Share of result of joint ventures and associates	**63**	**–**	**63**	59	–	59	46	–	46
Profit before tax	**2,184**	**742**	**2,926**	2,329	703	3,032	1,960	668	2,628
Tax	**(374)**	**(79)**	**(453)**	(427)	(11)	(438)	(467)	(150)	(617)
Profit after tax before gain on disposal	**1,810**	**663**	**2,473**	1,902	692	2,594	1,493	518	2,011
Gain on disposal of UK Gas Distribution	**–**	**5,321**	**5,321**	–	–	–	–	–	–
Profit after tax including gain on disposal	**1,810**	**5,984**	**7,794**	1,902	692	2,594	1,493	518	2,011

Reconciliation of adjusted operating profit to total operating profit

Adjusted operating profit is presented on the face of the income statement under the heading operating profit before exceptional items and remeasurements. Reconciliation of adjusted operating profit to statutory operating profit is included within note 2.

Reconciliation of adjusted operating profit excluding timing differences to total operating profit

Adjusted operating profit excluding timing differences is discussed on page 20.

	Year ended 31 March		
	2017 £m	2016 £m	2015 £m
Adjusted operating profit excluding timing differences	**4,291**	4,071	3,927
Timing differences from continuing operations	**398**	(1)	(77)
Timing differences from discontinued operations	**(22)**	26	13
Adjusted operating profit	**4,667**	4,096	3,863
Exceptional items and remeasurements	**(565)**	(11)	(83)
Total operating profit	**4,102**	4,085	3,780

Reconciliation of adjusted operating profit to adjusted earnings and earnings

Adjusted earnings is presented in note 7 to the consolidated financial statements on page 110.

	Including timing Year ended 31 March			Excluding timing Year ended 31 March		
Continuing operations	**2017 £m**	2016[1] £m	2015[1] £m	**2017 £m**	2016[1] £m	2015[1] £m
Adjusted operating profit	**3,773**	3,214	3,034	**3,375**	3,215	3,111
Adjusted net finance costs	**(1,029)**	(856)	(872)	**(1,029)**	(856)	(872)
Share of post-tax results of joint ventures and associates	**63**	59	46	**63**	59	46
Adjusted profit before tax	**2,807**	2,417	2,208	**2,409**	2,418	2,285
Adjusted tax	**(666)**	(604)	(543)	**(547)**	(619)	(553)
Adjusted profit after tax	**2,141**	1,813	1,665	**1,862**	1,799	1,732
Attributable to non-controlling interests	**–**	(1)	10	**–**	(1)	10
Adjusted earnings from continuing operations	**2,141**	1,812	1,675	**1,862**	1,798	1,742
Exceptional items after tax	**(312)**	162	(99)	**(312)**	162	(99)
Remeasurements after tax	**(19)**	(73)	(73)	**(19)**	(73)	(73)
Earnings from continuing operations	**1,810**	1,901	1,503	**1,531**	1,887	1,570
Discontinued operations						
Adjusted operating profit	**894**	882	829	**916**	856	816
Adjusted net finance costs	**(146)**	(157)	(161)	**(146)**	(157)	(161)
Adjusted profit before tax	**748**	725	668	**770**	699	655
Adjusted tax	**(142)**	(149)	(152)	**(146)**	(144)	(150)
Adjusted profit after tax	**606**	576	516	**624**	555	505
Attributable to non-controlling interests	**1**	(2)	(2)	**1**	(2)	(2)
Adjusted earnings from discontinued operations	**607**	574	514	**625**	553	503
Exceptional items after tax from discontinued operations	**62**	116	2	**62**	116	2
Remeasurements after tax from discontinued operations	**(5)**	–	–	**(5)**	–	–
Gain on disposal of UK Gas Distribution after tax	**5,321**	–	–	**5,321**	–	–
Earnings from discontinued operations	**5,985**	690	516	**6,003**	669	505

Reconciliation of adjusted operating profit to adjusted earnings and earnings continued

	Including timing Year ended 31 March			Excluding timing Year ended 31 March		
	2017 £m	2016[1] £m	2015[1] £m	**2017 £m**	2016[1] £m	2015[1] £m
Continuing and discontinued operations						
Adjusted operating profit	**4,667**	4,096	3,863	**4,291**	4,071	3,927
Adjusted net finance costs	**(1,175)**	(1,013)	(1,033)	**(1,175)**	(1,013)	(1,033)
Share of post-tax results of joint ventures and associates	**63**	59	46	**63**	59	46
Adjusted profit before tax	**3,555**	3,142	2,876	**3,179**	3,117	2,940
Adjusted tax	**(808)**	(753)	(695)	**(693)**	(763)	(703)
Adjusted profit after tax	**2,747**	2,389	2,181	**2,486**	2,354	2,237
Attributable to non-controlling interests	**1**	(3)	8	**1**	(3)	8
Total adjusted earnings	**2,748**	2,386	2,189	**2,487**	2,351	2,245
Total exceptional items after tax	**(250)**	278	(97)	**(250)**	278	(97)
Total remeasurements after tax	**(24)**	(73)	(73)	**(24)**	(73)	(73)
Gain on disposal of UK Gas Distribution after tax	**5,321**	–	–	**5,321**	–	–
Total earnings	**7,795**	2,591	2,019	**7,534**	2,556	2,075

1. Comparative amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

Reconciliation of adjusted EPS to statutory EPS (including and excluding timing)
Adjusted EPS is presented in note 7 to the consolidated financial statements.

	Including timing Year ended 31 March			Excluding timing Year ended 31 March		
	2017 pence	2016[1] pence	2015[1] pence	**2017 pence**	2016[1] pence	2015[1] pence
Adjusted EPS from continuing operations	**56.9**	48.0	43.9	**49.5**	47.6	45.6
Exceptional items after tax from continuing operations	**(8.3)**	4.3	(2.6)	**(8.3)**	4.3	(2.6)
Remeasurements after tax from continuing operations	**(0.5)**	(1.9)	(1.9)	**(0.5)**	(1.9)	(1.9)
EPS from continuing operations	**48.1**	50.4	39.4	**40.7**	50.0	41.1
Adjusted EPS from discontinued operations	**16.1**	15.2	13.4	**16.6**	14.7	13.1
Exceptional items after tax from discontinued operations	**1.6**	3.1	0.1	**1.6**	3.1	0.1
Remeasurements after tax from discontinued operations	**(0.1)**	–	–	**(0.1)**	–	–
Gain on disposal of UK Gas Distribution after tax	**141.4**	–	–	**141.4**	–	–
EPS from discontinued operations	**159.0**	18.3	13.5	**159.5**	17.8	13.2
Total adjusted EPS	**73.0**	63.2	57.3	**66.1**	62.3	58.7
Total exceptional items after tax	**(6.7)**	7.4	(2.5)	**(6.7)**	7.4	(2.5)
Total remeasurements after tax	**(0.6)**	(1.9)	(1.9)	**(0.6)**	(1.9)	(1.9)
Gain on disposal of UK Gas Distribution after tax	**141.4**	–	–	**141.4**	–	–
Total EPS	**207.1**	68.7	52.9	**200.2**	67.8	54.3

1. Comparative information has been restated to reflect the classification of the UK Gas Distribution business as a discontinued operation and the additional shares issued as scrip dividends.

Capital investment
'Capital investment' or 'investment' refer to additions to plant, property and equipment and intangible assets, and contributions to joint ventures and associates, other than the St William Property Limited joint venture during the period. St William Property Limited is excluded based on the nature of this joint venture arrangement.

	For the year ended 31 March		
£m	**2017**	2016	% change
UK Electricity Transmission	**1,027**	1,084	(5%)
UK Gas Transmission	**214**	186	15%
US Regulated	**2,247**	1,856	21%
Other activities[1]	**374**	254	47%
Discontinued operations	**588**	566	4%
Group capital investment	**4,450**	3,946	13%

1. Other activities capital investment includes investment in joint ventures, excluding equity contributions to St William Property Limited joint venture.

	For the year ended 31 March		
£m	**2017**	2016	% change
Capital expenditure	**3,735**	3,327	12%
Additions within discontinued operations	**588**	566	4%
Equity and funding contributions to joint ventures and associates	**127**	53	140%
Group capital investment	**4,450**	3,946	13%

Other unaudited financial information continued

Other financial information

Funds from operations and interest cover

Funds from operations (FFO) is the cash flows generated by the operations of the Group. Credit rating metrics including FFO are used as indicators of balance sheet strength.

For the years ended 31 March (£m)	2017	2016[1]	2015[1]
Interest expense (P&L)	**1,082**	1,035	1,069
Hybrid interest reclassified as dividend	**(51)**	(49)	(55)
Capitalised interest	**109**	112	86
Pensions interest adjustment	**(60)**	(60)	(48)
Interest on decommissioning liabilities adjustment	**1**	1	1
Interest on lease rentals adjustment	**18**	17	32
Unwinding of discount on provisions	**(73)**	(73)	(73)
Interest paid (discontinued operations)	**146**	–	–
Adjusted interest expense	**1,172**	983	1,012
Net cash inflow from operating activities	**4,320**	5,368	5,007
Interest income on financial instruments	**51**	23	37
Interest paid on financial instruments	**(839)**	(834)	(826)
Dividends received	**99**	72	79
Working capital adjustment	**(151)**	(456)	(301)
Excess employer pension contributions	**606**	301	237
Hybrid interest reclassified as dividend	**51**	49	55
Lease rentals	**86**	77	65
Difference in net interest expense in income statement to cash flow	**(170)**	(129)	(156)
Difference in current tax in income statement to cash flow	**(47)**	(42)	47
Current tax related to prior periods	**(46)**	(26)	(64)
Cash flow from discontinued operations	**909**	–	–
Interest paid (discontinued operations)	**(146)**	–	–
Adjusted funds from operations (FFO)	**4,723**	4,403	4,180
Interest cover (adjusted funds from operations + adjusted interest expense/adjusted interest expense)	**5.0x**	5.5x	5.1x

1. Numbers for 2016 and 2015 reflect the calculations for the total group as based on the published accounts for the respective years and have not been restated.

Retained cash flow (RCF)/adjusted net debt

For the years ended 31 March (£m)	2017	2016	2015
Adjusted funds from operations (FFO)	**4,723**	4,403	4,180
Hybrid interest reclassified as dividend	**(51)**	(49)	(55)
Dividends paid to shareholders	**(1,463)**	(1,337)	(1,271)
RCF (headline)	**3,209**	3,017	2,854
Purchase of treasury shares	**(189)**	(267)	(338)
RCF (net of share buybacks)	**3,020**	2,750	2,516
Bank overdrafts	**–**	3	3
Borrowings	**28,638**	28,341	25,907
Less:			
50% hybrid debt	**(1,033)**	(995)	(948)
Cash and cash equivalents	**(1,139)**	(127)	(119)
Restricted cash	**2**	2	1
Available-for-sale investments	**(7,432)**	(1,951)	(1,232)
Underfunded pension obligations	**1,487**	1,434	1,675
Operating leases adjustment	**526**	544	588
Derivative asset removed from debt	**52**	(183)	(89)
Currency swaps	**72**	55	453
Nuclear decommissioning liabilities reclassified as debt	**36**	38	22
Collateral – cash received under collateral agreements	**(709)**	(610)	(540)
Accrued interest removed from short term debt	**(210)**	(243)	(230)
Adjusted net debt (includes pension deficit)	**20,290**	26,308	25,491
FFO/adjusted net debt	**23.3%**	16.7%	16.4%
RCF (headline)/adjusted net debt	**15.8%**	11.5%	11.2%
RCF (net of share buybacks)/adjusted net debt	**14.9%**	10.5%	9.9%

Group return on equity (RoE)

The Group RoE calculation provides a measure of the performance of the whole Group compared with the amounts invested by the Group in assets attributable to equity shareholders.

Calculation: Regulatory financial performance including a long-run assumption of 3.0% RPI inflation, less adjusted interest and adjusted taxation divided by equity investment in assets.

- Adjusted interest removes interest on pensions, capitalised interest and release of provisions.
- Adjusted taxation adjusts the Group taxation charge for differences between IFRS profit before tax and regulated financial performance less adjusted interest.
- Equity investment in assets is calculated as the total opening UK regulatory asset value, the total opening US rate base plus goodwill plus opening net book value of Other activities and our share of joint ventures and associates; minus opening net debt as reported under IFRS restated to the weighted average £/$ exchange rate for the year.

Group RoE calculation For the year ended 31 March £m	2017	2016	2015
Regulated financial performance	**3,906**	3,663	3,741
Operating profit of other activities	**204**	374	199
Group financial performance	**4,110**	4,037	3,940
Share of post-tax results of joint ventures & associates	**63**	59	46
Non-controlling interests	**1**	(3)	8
Adjusted Group interest charge	**(1,075)**	(922)	(945)
Group tax charge	**(808)**	(753)	(695)
Tax on adjustments	**166**	4	(14)
Group financial performance after interest and tax	**2,457**	2,422	2,340
Opening rate base/RAV	**40,435**	36,998	35,237
Opening NBV of non-regulated businesses	**1,579**	1,213	1,341
Joint ventures & associates	**408**	319	358
Opening goodwill	**5,984**	5,182	4,856
Opening capital employed	**48,406**	43,712	41,792
Opening net debt	**(27,346)**	(24,024)	(21,974)
Opening equity	**21,060**	19,688	19,818
Return on Equity	**11.7%**	12.3%	11.8%

UK regulated return on equity (RoE)

UK RoEs are measures of how the businesses are performing operationally against the assumptions used by the regulator. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the cost of debt assumed by the regulator and that RPI inflation is equal to a long-run assumption of 3.0%.

Calculation: Base allowed RoE plus or minus the following items:

- Additional allowed revenues/profits earned in the year from incentive schemes, less associated corporation tax charge;
- Totex outperformance multiplied by the company sharing factor set by the regulator; and
- Revenues (net of associated depreciation and base allowed asset return) allowed in the year associated with incentive performance earned under previous price controls but not yet fully recovered, less associated corporation tax charge (excluding logging up or pensions recovery).

Divided by average equity RAV in line with regulatory assumed capital structure.

US regulated return on equity (RoE)

US regulated RoE is a measure of how a business is performing operationally against the assumptions used by the regulator. This US operational return measure is calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure. This is a post-tax US GAAP metric calculated annually.

Calculation: Regulated net income divided by equity rate base.

- Regulated net income calculated as US GAAP operating profit less interest on the adjudicated debt portion of the rate base (calculated at the actual rate on long term debt, adjusted where the proportion of long term debt in the capital structure is materially different from the assumed regulatory proportion) less tax at the adjudicated rate.
- Regulated net income is adjusted for earned savings as appropriate and for certain material specified items.
- Equity rate base is the average rate base for the relevant year as reported to the Group's regulators (or where a reported rate base is not available, an estimate based on rate base calculations used in previous rate filings) multiplied by the adjudicated equity portion in the regulatory capital structure.

Year ended 31 March	Regulatory Debt:Equity assumption	Achieved Return on equity		Base or Allowed Return on Equity	
%		2017	2016	2017	2016
UK Electricity Transmission	60/40	**13.6%**	13.9%	**10.2%**	10.2%
UK Gas Transmission	62.5/37.5	**10.8%**	12.5%	**10.0%**	10.0%
US Regulated[1]	Avg. 50/50	**8.2%**	8.0%	**9.5%**	9.7%

1. Comparative information for US Regulated segment was calculated for the 2015 calendar year.

Regulated asset base

As at 31 March (£bn, at constant currency)	Regulated asset value or rate base		Total regulated assets	
	2017	2016	2017	2016
UK Electricity Transmission	**12.5**	11.8	**12.0**	11.7
UK Gas Transmission	**5.8**	5.6	**5.7**	5.7
US Regulated	**15.4**	14.6	**17.1**	16.2
Total Group excluding UK Gas Distribution	**33.7**	32.0	**34.8**	33.6
UK Gas Distribution	**8.9**	8.7	**8.9**	8.6
Total Group	**42.6**	40.7	**43.7**	42.2

US rate base and total regulated assets for 31 March 2016 have been restated in the table above at constant currency. At actual currency the values were £12.7 billion and £14.1 billion respectively.

Invested capital at 31 March 2017 for Other activities was £2.2 billion (31 March 2016: £2.0 billion at constant currency).

Regulated asset base growth has been disclosed on page 13.

Commentary on consolidated financial statements
for the year ended 31 March 2016

In compliance with SEC rules, we present a summarised analysis of movements in the income statement, an analysis of movements in adjusted operating profit (for the continuing group) by operating segment and a summarised analysis of movements in the statement of financial position for the year ended 31 March 2016. This should be read in conjunction with the 31 March 2017 unaudited commentary included on pages 85, 89, 97 and 98.

Analysis of the income statement for the years ended 31 March 2016 and 31 March 2015

Revenue

Revenue for the year ended 31 March 2016 decreased by £145 million to £13,212 million. This decrease was driven by lower revenues in our US Regulated business, partly offset by revenue growth across all of our other businesses, in particular UK Electricity Transmission. US Regulated revenues were £493 million lower year on year due to lower commodity costs passed on to customers and unfavourable timing of recoveries. This was partly offset by higher increased revenue allowances under the Niagara Mohawk three year rate plan and the benefits of capex trackers and the stronger US dollar. UK Electricity Transmission revenue increased by £223 million, mostly reflecting the recovery of higher pass-through costs such as payments to other UK network owners and system balancing costs.

Revenue for the year ended 31 March 2015 increased by £416 million to £13,357 million. This increase was driven by higher revenues in our UK ET business, reflecting increases in allowed Transmission Owner revenues, and higher core allowances and pass-through costs in UK GT. Our US Regulated business revenues were lower, as a result of the end of the LIPA MSA in the prior year, partially offset by revenue increases from existing rate plans, including capex trackers, together with additional income from gas customer growth and the impact of the strengthening US dollar.

Operating costs

Operating costs for the year ended 31 March 2016 of £9,987 million were £419 million lower than the prior year. This decrease in costs included a £94 million impact in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £325 million lower, principally due to lower pass-through costs such as gas and electric commodity costs in the US and additional costs incurred the year before in the US to improve data quality and bring regulatory filings up to date, partially offset by higher depreciation as a result of newly commissioned assets and the impact of the stronger US dollar on sterling results.

Operating costs for the year ended 31 March 2015 of £10,406 million were £358 million higher than the prior year. This increase in costs included a £199 million year on year impact of changes in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £159 million higher, principally due to: increases in controllable costs, including the impact of inflation and additional costs incurred in the US to improve data quality and bring regulatory filings up to date; higher US bad debt costs following the previous year's exceptionally cold winter; and higher depreciation and amortisation as a result of continued investment programmes. These cost increases were partly offset by a reduction in spend on US financial systems implementation and stabilisation upgrades, with the project completing in the first half of the year.

Exceptional operating items and remeasurements

Operating costs for the year ended 31 March 2016 included an £11 million gain on remeasurement of commodity contracts.

Operating costs for the year ended 31 March 2015 included an £83 million loss (2013/14: £16 million gain) on remeasurement of commodity contracts. The year ended 31 March 2014 also included a net £100 million gain on exceptional items, including a net gain on the LIPA MSA transition in the US of £254 million and restructuring costs of £91 million, primarily in the UK as we reorganised certain parts of our business to deliver under the new RIIO price controls, and a £79 million provision for the demolition of UK gas holders that were no longer required.

Net finance costs

For the year ended 31 March 2016, net finance costs before exceptional items and remeasurements were £16 million lower than 2014/15 at £856 million, mainly as a result of lower UK RPI inflation, continued focus on management of cash balances and the benefit of the prior year's debt repurchases, partially offset by increased borrowings and the impact of the stronger US dollar.

For the year ended 31 March 2015, net finance costs before exceptional items and remeasurements were £66 million lower than 2013/14 at £872 million, mainly as a result of lower average gross debt through the year, lower RPI in the UK and refinancing debt at lower rates.

Exceptional finance costs for the year ended 31 March 2016 included a loss of £99 million on financial remeasurements, relating to net losses on derivative financial instruments. The year ended 31 March 2015 included exceptional debt redemption costs of £131 million and a loss of £34 million on financial remeasurements relating to net losses on derivative financial instruments. The year ended 31 March 2014 included a gain of £93 million on financial remeasurements.

Tax

The tax charge on profits before exceptional items and remeasurements for the year ended 31 March 2016 was £61 million higher than 2014/15. This was mainly a result of increased taxable profits in the year. The effective tax rate for the year was 25.0% (2014/15: 24.6%).

The tax charge on profit before exceptional items and remeasurements for the year ended 31 March 2015 was £126 million higher than 2013/14. This was mainly due to higher profits before tax and the non recurrence of one-off items that benefited the prior year.

Exceptional tax for 2015/16 was a credit of £177 million which represents tax credits on the exceptional items and remeasurements above, together with a deferred tax credit on the recalculation of deferred tax liabilities as a result of the reduction in the UK tax rate from 20% to 18%.

Exceptional tax for 2014/15 of £76 million primarily represents tax credits on the exceptional items and remeasurements described above.

Adjusted earnings and EPS

As a result of the variances described above, adjusted earnings for the year ended 31 March 2016 were £1,812 million. For the year ended 31 March 2015, adjusted earnings were £1,675 million.

The above earnings performance translated into adjusted EPS growth in 2015/16 of 4.1 pence (9%) and 5.5 pence (14%) in 2014/15.

In accordance with IAS 33, all EPS and adjusted EPS amounts for comparative periods have been restated for shares issued via scrip dividends and the bonus element of the 2010 rights issue.

Analysis of the adjusted operating profit by segment for the year ended 31 March 2016

UK Electricity Transmission

For the year ended 31 March 2016, revenue in the UK Electricity Transmission segment increased by £223 million to £3,977 million, and adjusted operating profit decreased by £64 million to £1,173 million. The revenue growth of £223 million was principally due to the recovery of higher pass-through costs such as payments to other UK network owners and system balancing costs, and under-recoveries of allowed revenues in the prior year. This was partly offset by reductions in allowed revenues in 2015/16 and a legal settlement received in 2014/15 that did not repeat in 2015/16. Net revenue (after deducting pass-through costs) was £14 million higher. Regulated controllable costs were £28 million higher due to inflation and salary growth, together with legal cost recoveries in the prior year, higher tower maintenance costs and transformation costs associated with our System Operator role. Depreciation and amortisation was £14 million higher reflecting the continued capital investment programme. Other costs were £36 million higher than prior year due to additional asset impairments this year and lower scrap and disposal proceeds.

UK Gas Transmission

Revenue in the UK Gas Transmission segment increased by £25 million in 2015/16 to £1,047 million and adjusted operating profit increased by £49 million to £486 million. Revenue was £25 million higher, principally due to over-recoveries of allowed revenues in the year. Regulated controllable costs were £10 million higher than the previous year, mainly as a result of inflation, higher gas system service charges and organisational change costs. Depreciation costs were £6 million higher due to ongoing investment. Other operating costs were £19 million lower than the previous year, mostly reflecting additional costs in 2014/15 relating to the closure of LNG facilities.

US Regulated

Revenue in our US Regulated businesses was £493 million lower at £7,493 million, while adjusted operating profit increased by £21 million to

£1,185 million. The stronger US dollar increased operating profit in the year by £81 million. Excluding the impact of foreign exchange rate movements, revenue decreased by £1,051 million, principally as a result of lower commodity costs passed on to customers and unfavourable timing of recoveries year over year, partly offset by higher revenue allowances under the Niagara Mohawk three year rate plan and the benefit of capex trackers. The reduction in revenue was mostly offset by a £1,027 million reduction in pass-through costs incurred (excluding the impact of foreign exchange). Regulated controllable costs reduced by £71 million at constant currency, partly as a result of lower gas leak and compliance work this year and additional costs incurred last year to improve data quality and bring regulatory filings up to date. Depreciation and amortisation costs were £51 million higher this year at constant currency as a result of ongoing investment in our networks. Pension costs were £15 million higher at constant currency due to changes in actuarial discount rates, while other operating costs were £41 million higher at constant currency including higher asset removal costs.

Other activities
Revenue in Other activities increased by £110 million to £824 million in the year ended 31 March 2016. Adjusted operating profit was £174 million higher at £370 million. In the US, adjusted operating profit was £143 million higher, reflecting lower spend on upgrades to our finance systems which completed last year. In addition, we benefited from a £49 million gain on disposal of our investment in the Iroquois pipeline, and the deconsolidation of our investment in Clean Line. In the UK, adjusted operating profit was £31 million higher as a result of strong auction revenues at the French interconnector and higher property sales.

Analysis of the statement of financial position for the year ended 31 March 2016

The consolidated statement of financial position shows all of the Group's assets and liabilities at the year end. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

Goodwill and other intangible assets
Goodwill and intangibles increased by £255 million to £6,202 million as at 31 March 2016. This increase primarily relates to foreign exchange movements of £184 million and software additions of £220 million, partially offset by software amortisation of £147 million.

Property, plant and equipment
Property, plant and equipment increased by £2,641 million to £43,364 million as at 31 March 2016. This was principally due to capital expenditure of £3,673 million on the renewal and extension of our regulated networks and foreign exchange movements of £543 million, offset by depreciation of £1,467 million in the year. See page 22 for further details of our capital expenditure.

Investments and other non-current assets
Investments in joint ventures and associates, financial and other investments and other non-current assets have increased by £233 million to £961 million. This is primarily due to an increase in investments in joint ventures of £79 million, together with an increase in available-for-sale investments of £152 million.

Inventories and current intangible assets, and trade and other receivables
Inventories and current intangible assets, and trade and other receivables have decreased by £284 million to £2,832 million as at 31 March 2016. This is due to an increase in inventories and current intangible assets of £97 million, more than offset by a net decrease in trade and other receivables of £381 million. The £381 million decrease consists of a foreign exchange impact of £57 million due to the stronger US dollar against sterling offset by a decrease in the underlying balances of £421 million, reflecting collection of high 2015 winter billings, coupled with the impact of the recent mild winter.

Trade and other payables
Trade and other payables have decreased by £7 million to £3,285 million, primarily due to a foreign exchange impact of £48 million more than offset by movements in the US related to warmer weather and energy billing settlements.

Current tax balances
Net current tax balances have increased by £51 million to £175 million as at 31 March 2016, which includes a £77 million current tax asset (£60 million current tax asset in 2014/15 included in trade and other receivables). This is primarily due to the tax payments made in 2015/16 being only partially offset by a smaller current year tax charge.

Deferred tax balances
Deferred tax balances have increased by £337 million to £4,634 million as at 31 March 2016. This was primarily due to the impact of the £125 million deferred tax charge on actuarial gains in reserves (£299 million tax credit in 2014/15) and foreign exchange movements being offset by the impact of the reduction in the UK statutory tax rate.

Provisions and other non-current liabilities
Provisions (both current and non-current) and other non-current liabilities increased by £136 million to £3,790 million as at 31 March 2016.

Total provisions decreased by £16 million in the year. The underlying movements include additions of £63 million, primarily relating to an increase to the provision for the estimated environmental restoration and remediation costs for a number of sites and other provision increases of £33 million, together with foreign exchange movements of £42 million, offset by utilisation of £200 million in relation to all classes of provisions.

Net debt
Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and derivative financial assets and liabilities. See further analysis with the consolidated cash flow statement on page 90.

Net pension and other post-retirement obligations
A summary of the total UK and US assets and liabilities and the overall net IAS 19 (revised) accounting deficit is shown below:

Net plan liability	UK £m	US £m	Total £m
As at 1 April 2015	(672)	(2,586)	(3,258)
Exchange movements	–	(81)	(81)
Current service cost	(74)	(147)	(221)
Net interest cost	(18)	(94)	(112)
Curtailments and other	(24)	(15)	(39)
Actuarial (losses)/gains			
– on plan assets	(18)	(320)	(338)
– on plan liabilities	552	325	877
Employer contributions	239	348	587
As at 31 March 2016	**(15)**	**(2,570)**	**(2,585)**
Represented by:			
Plan assets	19,401	7,033	26,434
Plan liabilities	(19,416)	(9,603)	(29,019)
	(15)	**(2,570)**	**(2,585)**

The principal movements in net obligations during the year include net actuarial gains of £539 million and employer contributions of £587 million. Net actuarial gains include actuarial gains on plan liabilities of £877 million arising as a consequence of decreases in the nominal discount rate in the US and experience gains reflecting liability experience throughout the year including the impact of pension increases being lower than assumed and some updates to the way a section of plan liabilities is estimated. This is partially offset by actuarial losses of £338 million arising on plan assets resulting from actual asset returns being less than assumed returns which is based upon the discount rate at the start of the year.

Further information on our pension and other post-retirement obligations can be found in note 23 to the consolidated financial statements.

Off balance sheet items
There were no significant off balance sheet items other than the contractual obligations shown in note 30(b) to the consolidated financial statements, and the commitments and contingencies discussed in note 28.

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

Summary consolidated financial information

Financial summary (unaudited)

The financial summary set out below has been derived from the audited consolidated financial statements of National Grid for the five financial years ended 31 March 2017. It should be read in conjunction with the consolidated financial statements and related notes, together with the Strategic Report. The information presented below for the years ended 31 March 2013, 2014, 2015, 2016 and 2017 has been prepared under IFRS issued by the IASB and as adopted by the EU[1].

	2017	2016[1]	2015[1]	2014[1]	2013[1,2]
Summary income statement (£m)					
Continuing operations					
Revenue	**15,035**	13,212	13,357	12,941	12,673
Operating profit					
Before exceptional items, remeasurements and stranded cost recoveries	**3,773**	3,214	3,034	2,777	2,866
Exceptional items, remeasurements and stranded cost recoveries	**(565)**	11	(83)	116	141
Profit before tax					
Before exceptional items, remeasurements and stranded cost recoveries	**2,807**	2,417	2,208	1,867	1,922
Exceptional items, remeasurements and stranded cost recoveries	**(623)**	(88)	(248)	209	209
Profit after tax from continuing operations					
Before exceptional items, remeasurements and stranded cost recoveries	**2,141**	1,813	1,665	1,450	1,452
Exceptional items, remeasurements and stranded cost recoveries	**(331)**	89	(172)	324	208
Profit after tax from discontinued operations					
Before exceptional items, remeasurements and stranded cost recoveries	**606**	576	516	553	462
Exceptional items, remeasurements and stranded cost recoveries	**57**	116	2	137	32
Gain/(loss) on disposal of UK Gas Distribution after tax	**5,321**	–	–	–	–
Total profit for the year	**7,794**	2,594	2,011	2,464	2,154
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements and stranded cost recoveries	**2,748**	2,386	2,189	2,015	1,913
Exceptional items, remeasurements and stranded cost recoveries	**(274)**	205	(170)	461	240
Gain on disposal of UK Gas Distribution after tax	**5,321**	–	–	–	–
Total	**7,795**	2,591	2,019	2,476	2,153
Earnings per share					
Basic – continuing operations (pence)[3]	**48.1**	50.4	39.4	46.9	43.5
Diluted – continuing operations (pence)[3]	**47.9**	50.2	39.2	46.6	43.2
Basic – discontinued operations (pence)[3]	**159.0**	18.3	13.5	18.0	13.0
Diluted – discontinued operations (pence)[3]	**158.3**	18.2	13.5	17.9	13.0
Basic – total (pence)[3]	**207.1**	68.7	52.9	64.9	56.5
Diluted – total (pence)[3]	**206.2**	68.4	52.7	64.5	56.2
Number of shares – basic (millions)[4]	**3,763**	3,774	3,817	3,817	3,813
Number of shares – diluted (millions)[4]	**3,780**	3,790	3,834	3,836	3,832
Dividends per ordinary share					
Paid during the year (pence)	**43.51**	43.16	42.25	40.85	39.84
Approved or proposed during the year (pence)[5]	**128.65**	43.34	42.87	42.03	40.85
Paid during the year ($)	**0.555**	0.664	0.697	0.636	0.633
Approved or proposed during the year ($)	**1.642**	0.635	0.672	0.696	0.632

1. Items previously reported for 2013–2016 have been represented to reflect UK Gas Distribution being presented as a discontinued operation in the current year.
2. For the years ended 31 March 2015, 31 March 2016 and 31 March 2017, there have been no significant changes in accounting standards, interpretations or policies that have a material financial impact on the selected financial data. For the year ended 31 March 2014, the adoption of IAS 19 (revised) 'Employee benefits' resulted in a significant change in pensions and employee benefits accounting. The numbers included in the selected financial data above for the years 31 March 2013 were restated to show the impact of IAS 19 (revised).
3. Items previously reported for 2013–2016 have been restated to reflect the impact of the bonus element of the rights issue and the additional shares issued as scrip dividends.
4. Number of shares previously reported for 2013–2016 have been restated to reflect the impact of the additional shares issued as scrip dividends.
5. Following the disposal of UK Gas Distribution, 2017 includes a special interim dividend of 84.375 pence per share that will be paid on 2 June 2017.

	2017	2016	2015	2014	2013[1]
Summary statement of net assets					
Non-current assets	**52,266**	52,622	49,058	44,895	45,129
Current assets	**13,574**	6,312	6,031	7,489	9,576
Total assets	**65,840**	58,934	55,089	52,384	54,705
Current liabilities	**(10,511)**	(7,721)	(7,374)	(7,331)	(7,445)
Non-current liabilities	**(34,945)**	(37,648)	(35,741)	(33,134)	(37,026)
Total liabilities	**(45,456)**	(45,369)	(43,115)	(40,465)	(44,471)
Net assets	**20,384**	13,565	11,974	11,919	10,234
Total shareholders' equity	**20,368**	13,555	11,962	11,911	10,229

1. For the years ended 31 March 2017, 31 March 2016 and 31 March 2015, there have been no significant changes in accounting standards, interpretations or policies that have a material financial impact on the selected financial data. For the year ended 31 March 2014, the adoption of IAS 19 (revised) 'Employee benefits' resulted in a significant change in pensions and employee benefits accounting. The numbers included in the selected financial data above for the year to 31 March 2013 were restated to show the impact of IAS 19 (revised).

Definitions and glossary of terms

Our aim is to use plain English in this Annual Report and Accounts. However, where necessary, we do use a number of technical terms and/or abbreviations and we summarise the principal ones below, together with an explanation of their meanings. The descriptions below are not formal legal definitions.

A

American Depositary Shares (ADSs)
Securities of National Grid listed on the New York Stock Exchange, each of which represents five ordinary shares. They are evidenced by American Depositary Receipts or ADRs.

Annual asset growth
'Annual asset growth' measures the increase in 'total regulatory value and other investments' defined below.

Annual General Meeting (AGM)
Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.

B

BEIS
The Department for Business, Energy and Industrial Strategy, being the UK Government department responsible for business, industrial strategy, and science and innovation with energy and climate change policy, which was formed in July 2016 merging the functions of the former Department of Energy and Climate Change and Department for Business, Innovation and Skills (BIS).

Board
The Board of Directors of the Company (for more information see pages 34 and 35).

bps
Basis point (bps) is a unit that is equal to 1/100th of 1% and is typically used to denote the movement in a percentage based metric such as interest rates or RoE. A 0.1% change in a percentage represents 10 basis points.

BritNed
BritNed Development Limited.

C

called up share capital
Shares (common stock) that have been issued and have been fully paid for.

Capital investment
'Capital investment' or 'investment' refer to additions to plant, property and equipment and intangible assets, and equity contributions to joint ventures, other than the St William joint venture during the period. St William is excluded based on the nature of this joint venture arrangement.

carrying value
The amount at which an asset or a liability is recorded in the Group's statement of financial position and the Company's balance sheet.

the Company, the Group, National Grid, we, our or us
We use the terms 'the Company', 'the Group', 'National Grid', 'we', 'our' or 'us' to refer to either National Grid plc itself or to National Grid plc and/or all or certain of its subsidiaries, depending on context.

consolidated financial statements
Financial statements that include the results and financial position of the Company and its subsidiaries together as if they were a single entity.

Consortium
The consortium which purchased a 61% equity interest in the UK Gas Distribution business on 31 March 2017, comprising Macquarie Infrastructure and Real Assets, Allianz Capital Partners, Hermes Investment Management, CIC Capital Corporation, Qatar Investment Authority, Dalmore Capital and Amber Infrastructure Limited/International Public Partnerships.

Constant currency
'Constant currency basis' refers to the reporting of the actual results against the results for the same period last year which, in respect of any US$ currency denominated activity, have been translated using the average US$ exchange rate for the year ended 31 March 2017, which was \$1.28 to £1.00. The average rate for the year ended 31 March 2016, was \$1.47 to £1.00. Assets and liabilities as at 31 March 2016 have been retranslated at the closing rate at 31 March 2017 of \$1.25 to £1.00. The closing rate for the balance sheet date 31 March 2016 was \$1.44 to £1.00.

contingent liabilities
Possible obligations or potential liabilities arising from past events for which no provision has been recorded, but for which disclosure in the financial statements is made.

D

Dth
Decatherm, being an amount of energy equal to 1 million British thermal units (BTUs), equivalent to approximately 293 kWh.

DB
Defined benefit, relating to our UK or US (as the context requires) final salary pension schemes.

DC
Defined contribution, relating to our UK or US (as the context requires) pension schemes to which National Grid, as an employer, pays contributions based on a percentage of employees' salaries.

deferred tax
For most assets and liabilities, deferred tax is the amount of tax that will be payable or receivable in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the statement of financial position or balance sheet and the value for tax purposes of the same asset or liability.

derivative
A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates or commodity prices. In most cases, contracts for the sale or purchase of commodities that are used to supply customers or for our own needs are excluded from this definition.

Deposit Agreement
Deposit Agreement means the agreement entered into between National Grid Transco plc (now National Grid plc), the Depositary and the registered holders of ADRs, pursuant to which ADSs have been issued, dated as of 21 November 1995 and amended and restated as of 1 August 2005, and any related agreement.

Depositary
Depositary means The Bank of New York Mellon acting as depositary.

Directors/Executive Directors/Non-executive Directors
The Directors/Executive Directors and Non-executive Directors of the Company whose names are set out on pages 34 and 35 of this document.

dollars or $
Except as otherwise noted all references to dollars or $ in this Annual Report and Accounts relate to the US currency.

E

earnings per share (EPS)
Profit for the year attributable to equity shareholders of the parent allocated to each ordinary share.

Electricity Market Reform (EMR)
An energy policy initiative, introduced by the Energy Act 2013, designed to provide greater financial certainty to investors in both low carbon and conventional generation in order to meet environmental targets and maintain security of supply, and to do so at the lowest cost to consumers.

Electricity System Operator (ESO)
The party responsible for the long-term strategy, planning and real time operation (balancing supply and demand) of the electricity system in Great Britain.

employee engagement
A key performance indicator, based on the percentage of favourable responses to certain indicator questions repeated in each employee survey, which provides a measure of how employees think, feel and act in relation to National Grid. Research shows that a highly engaged workforce leads to increased productivity and employee retention, therefore we use employee engagement as a measure of organisational health in relation to business performance.

Estate Tax Convention
The Estate Tax Convention is the convention between the US and the UK for the avoidance of double taxation with respect to estate and gift taxes.

EU
The European Union, being the economic and political union of 28 member states located in Europe.

Exchange Act
The US Securities Exchange Act 1934, as amended.

F

FERC
The US Federal Energy Regulatory Commission.

finance lease
A lease where the asset is treated as if it was owned for the period of the lease and the obligation to pay future rentals is treated as if they were borrowings. Also known as a capital lease.

financial year
For National Grid this is an accounting year ending on 31 March. Also known as a fiscal year.

FRS
A UK Financial Reporting Standard as issued by the UK Financial Reporting Council (FRC). These apply to the Company's individual financial statements on pages 166 to 171, which are prepared in accordance with FRS 101.

G

Grain LNG
National Grid Grain LNG Limited.

Great Britain
England, Wales and Scotland.

Group return on equity (Group RoE)
The Group return on equity calculation provides a measure of the performance of the whole Group compared with the amounts invested by the Group in assets attributable to equity shareholders. The Group return on equity measure is calculated using the Group capital employed in accordance with the definition used in the RoCE measures, adjusted for Group net debt and goodwill.

GW
Gigawatt, being an amount of power equal to 1 billion watts (10^9 watts).

GWh
Gigawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of one hour.

H

HMRC
HM Revenue & Customs. The UK tax authority.

HVDC
High voltage, direct current electric power transmission which uses direct current for the bulk transmission of electrical power, in contrast with the more common alternating current systems.

I

IAS or IFRS
An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe international generally accepted accounting principles as a whole.

individual financial statements
Financial statements of a company on its own, not including its subsidiaries or joint ventures and associates.

J

joint venture
A company or other entity which is controlled jointly with other parties.

K

KEDLI
KeySpan Gas East Corporation.

KEDNY
The Brooklyn Union Gas Company.

kV
Kilovolt, being an amount of electric force equal to 1,000 volts.

kW
Kilowatt, being an amount of power equal to 1,000 watts.

kWm
Kilowatt month, being an amount of energy equivalent to delivering 1kW of power for a period of one month.

Definitions and glossary of terms continued

L

LIPA
The Long Island Power Authority.

LNG
Liquefied natural gas, being natural gas that has been condensed into a liquid form, typically at temperatures at or below -161°C (-258°F).

lost time injury (LTI)
An incident arising out of National Grid's operations which leads to an injury where the employee or contractor normally has time off the following day or shift following the incident. It relates to one specific (acute) identifiable incident which arises as a result of National Grid's premises, plant or activities, which was reported to the supervisor at the time and was subject to appropriate investigation.

lost time injury frequency rate (IFR)
The number of lost time injuries per 100,000 hours worked in a 12 month period.

M

MADPU
The Massachusetts Department of Public Utilities.

MSA
The managed services agreement, under which the Company maintained and operated the electricity transmission and distribution system on Long Island owned by LIPA, which was transitioned to a third party with effect from 31 December 2013.

MW
Megawatt, being an amount of power equal to 1 million watts.

N

National Grid Metering (NGM)
National Grid Metering Limited, National Grid's UK regulated metering business.

Net revenue
'Net revenue' is revenue less pass-through costs, such as payments to other UK network owners, system balancing costs, and gas and electricity commodity costs in the US. Pass-through costs are fully recoverable from our customers and are recovered through separate charges that are designed to recover those costs with no profit. Any over- or under-recovery of these costs is returned to, or recovered from, our customers.

New England
The term refers to a region within the northeastern US that includes the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. National Grid's New England operations are primarily in the states of Massachusetts and Rhode Island.

northeastern US
The northeastern region of the US, comprising the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

NTS
The gas National Transmission System in Great Britain.

NYPSC
The New York Public Service Commission.

O

Ofgem
The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

OPEB
Other post-employment benefits.

ordinary shares
Voting shares entitling the holder to part ownership of a company. Also known as common stock. National Grid's ordinary shares have a nominal value of $11\frac{17}{43}$ pence. Subject to shareholder approval of the proposed share consolidation at the General Meeting of the Company to be held on 19 May 2017, the nominal value of National Grid's ordinary shares will be $12\frac{204}{473}$ with effect from 22 May 2017.

P

price control
The mechanism by which Ofgem sets restrictions on the amounts of revenue we are allowed to collect from customers in our UK businesses. The allowed revenues are intended to cover efficiently incurred operational expenditure, capital expenditure and financing costs, including a return on equity invested.

R

rate base
The base investment on which the utility is authorised to earn a cash return. It includes the original cost of facilities, minus depreciation, an allowance for working capital and other accounts.

rate plan
The term given to the mechanism by which a US utility regulator sets terms and conditions for utility service including, in particular, tariffs and rate schedules. The term can mean a multi-year plan that is approved for a specified period, or an order approving tariffs and rate schedules that remain in effect until changed as a result of future regulatory proceedings. Such proceedings can be commenced through a filing by the utility or on the regulator's own initiative.

regulated controllable costs
Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

regulatory asset value (RAV)
The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for the effects of inflation.

return on capital employed (RoCE)
The return on capital employed metric is designed to give an alternative comparison between the UK and US businesses showing the overall return on capital provided by both debt and equity. The calculation reflects regulatory treatments of costs.

return on equity (RoE)
A performance metric measuring returns from the investment of shareholders' funds. It is a financial ratio of a measure of earnings divided by an equity base.

revenue decoupling
Revenue decoupling is the term given to the elimination of the dependency of a utility's revenue on the volume of gas or electricity transported. The purpose of decoupling is to eliminate the disincentive a utility otherwise has to encourage energy efficiency programmes.

RIIO
The revised regulatory framework issued by Ofgem which was implemented in the eight-year price controls which started on 1 April 2013.

RIPUC
The Rhode Island Public Utilities Commission.

RPI
The UK retail price index as published by the Office for National Statistics.

S

Scope 1 greenhouse gas emissions
Scope 1 emissions are direct greenhouse gas emissions that occur from sources that are owned or controlled by the Company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.

Scope 2 greenhouse gas emissions
Scope 2 emissions are greenhouse gas emissions from the generation of purchased electricity consumed by the Company. Purchased electricity is defined as electricity, heat, steam or cooling that is purchased or otherwise brought into the organisational boundary of the Company. Scope 2 emissions physically occur at the facility where electricity is generated.

Scope 3 greenhouse gas emissions
Scope 3 emissions are indirect greenhouse gas emissions as a consequence of the operations of the Company, but are not owned or controlled by the Company, such as emissions from third-party logistics providers, waste management suppliers, travel suppliers, employee commuting, and combustion of sold gas by customers.

SEC
The US Securities and Exchange Commission, the financial regulator for companies with registered securities in the US, including National Grid and certain of its subsidiaries.

SF_6
Sulphur hexafluoride, an inorganic, colourless, odourless and non-flammable greenhouse gas. SF_6 is used in the electrical industry as a gaseous dielectric medium for high voltage circuit breakers, switchgear and other electrical equipment. The Kyoto protocol estimated that the global warming potential over 100 years of SF_6 is 23,900 times more potent than that of CO_2.

share premium
The difference between the amount shares are issued for and the nominal value of those shares.

stranded cost recoveries
The recovery of historical generation-related costs in the US, related to generation assets that are no longer owned by us.

STEM
Science, technology, engineering and mathematics; the Company is currently looking to recruit people with skills in these subjects.

subsidiary
A company or other entity that is controlled by National Grid.

swaption
A swaption gives the buyer, in exchange for an option premium, the right, but not the obligation, to enter into an interest rate swap at some specified date in the future. The terms of the swap are specified on the trade date of the swaption.

T

taxes borne
Those taxes that represent a cost to the Company and which are reflected in our results.

taxes collected
Those taxes that are generated by our operations but which do not affect our results; we generate the commercial activity giving rise to these taxes and then collect and administer them on behalf of HMRC.

Tax Convention
Tax Convention means the income tax convention between the US and the UK.

tonne
A unit of mass equal to 1,000 kilogrammes, equivalent to approximately 2,205 pounds.

tonnes carbon dioxide equivalent (CO_2e)
A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

Total regulatory value and other investments
The sum of: the regulatory asset value of the UK regulated businesses determined under the methodology set out in Ofgem's Price Control Financial Model; the rate bases applicable to each US regulated entity calculated according to the methodology used by each respective utility regulator; the value of assets held by the Group's other activities; together with investments in joint ventures and associates. Other activities primarily relate to non-network businesses and other commercial operations including: UK gas metering activities; the Great Britain-France Interconnector; UK property management; and a UK LNG import terminal.

Totex
Total expenditure, comprising capital and operating expenditure.

treasury shares
Shares that have been repurchased but not cancelled. These shares can then be allotted to meet obligations under the Company's employee share schemes.

TWh
Terawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of 1,000 hours.

Definitions and glossary of terms continued

U

UK
The United Kingdom, comprising England, Wales, Scotland and Northern Ireland.

UK Corporate Governance Code (the Code)
Guidance, issued by the Financial Reporting Council in September 2014 (as updated in 2016 to reflect forthcoming legislation on audit committees and auditor appointments), on how companies should be governed, applicable to UK listed companies, including National Grid.

UK GAAP
Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.

UK regulated return on equity (UK RoE)
UK regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.

US
The United States of America, its territories and possessions, any state of the United States and the District of Columbia.

US GAAP
Generally accepted accounting principles in the US. These differ from IFRS and from UK GAAP.

US regulated return on equity (US RoE)
US regulated return on equity is a measure of how a business is performing operationally against the assumptions used by the relevant regulator. This US operational return measure is calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure. This is a post-tax US GAAP metric and is calculated annually. For 2016/17, it is calculated on a fiscal year basis. For 2015/16 and prior years, it is calculated on a calendar year basis.

US state regulators (state utility commissions)
In the US, public utilities' retail transactions are regulated by state utility commissions, including the New York Public Service Commission (NYPSC), the Massachusetts Department of Public Utilities (MADPU) and the Rhode Island Public Utilities Commission (RIPUC).

V

Value Added
Value Added is a measure to capture the value created through investment attributable to equity holders, being the change in total regulated and non-regulated assets including goodwill (both at constant currency) plus the cash dividend paid in the year plus share repurchase costs less the growth in net debt (at constant currency). This is then presented on an absolute and a per share basis.

Value Growth
Value Growth is the growth in the value of our regulated and non-regulated assets including goodwill plus dividend plus share repurchase costs less net debt, as a percentage.

Want more information or help?

Capita Asset Services
For queries about ordinary shares:

0371 402 3344
Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open 8.30am to 5.30pm, Monday to Friday excluding public holidays. If calling from outside the UK: +44 (0)371 402 3344

Visit the National Grid share portal www.nationalgridshareholders.com
Email: nationalgrid@capita.co.uk

National Grid Share Register
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham, Kent BR3 4TU

The Bank of New York Mellon
For queries about American Depositary Shares:

1-800-466-7215
If calling from outside the US: +1-201-680-6825

www.mybnymdr.com
Email: shrrelations@cpushareownerservices.com

The Bank of New York Mellon
Depository Receipts
PO Box 30170
College Station, Texas 77842-3170

Further information about National Grid including share price and interactive tools can be found on our website: www.nationalgrid.com

Beware of share fraud
Fraudsters use persuasive and high-pressure tactics to lure investors into scams. Shareholders are advised to be wary of any unsolicited advice or offers, whether over the telephone, through the post or by email. If you receive any such unsolicited communication please check the company or person contacting you is properly authorised by the Financial Conduct Authority (FCA) before getting involved. You can check at www.fca.org.uk/consumers/protect-yourself and can report calls from unauthorised firms to the FCA by calling 0800 111 6768.

Financial calendar
The following dates have been announced or are indicative:

31 May 2017	ADRs go ex-dividend for 2016/17 final dividend
1 June 2017	Ordinary shares go ex-dividend for 2016/17 final dividend
2 June 2017	Record date for 2016/17 final dividend
8 June 2017	Scrip reference price announced
19 June 2017	Scrip election date
31 July 2017	2017 AGM
16 August 2017	2016/17 final dividend paid to qualifying shareholders
9 November 2017	2017/18 half-year results
22 November 2017	ADRs go ex-dividend for 2017/18 interim dividend
23 November 2017	Ordinary shares go ex-dividend for 2017/18 interim dividend
24 November 2017	Record date for 2017/18 interim dividend
10 January 2018	2017/18 interim dividend paid to qualifying shareholders
May 2018	2017/18 preliminary results

Dividends
The Directors are recommending a final dividend of 29.10 pence per ordinary share ($1.8924 per ADS) to be paid on 16 August 2017 to shareholders on the register as at 2 June 2017. Further details in respect of dividend payments can be found on page 22. If you live outside the UK, you may be able to request that your dividend payments be converted into your local currency.

Under the Deposit Agreement, a fee of up to $0.05 per ADS can be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2016/17 final dividend will be charged a fee of $0.02 per ADS by the Depositary prior to the distribution of the cash dividend.

Have your dividends paid directly into your bank or building society account:
- Your dividend reaches your account on the payment day
- It is more secure – cheques do sometimes get lost in the post
- No more trips to the bank

Elect to receive your dividends as additional shares:
- Join our scrip dividend scheme
- No stamp duty or commission to pay

Electronic communications
To receive an email notifying you as soon as new shareholder information is available to view online, including your electronic tax voucher, sign up for electronic communications. Simply go to the National Grid share portal www.nationalgridshareholders.com and once you have registered, click on the 'manage your account' link and follow the on screen instructions to change your communication preference.

Registered office
National Grid plc was incorporated on 11 July 2000. The Company is registered in England and Wales No. 4031152, with its registered office at 1–3 Strand, London WC2N 5EH.

Share dealing
Capita Share Dealing Services offer our European Economic Area resident shareholders a range of quick and easy share dealing services by post, online or by telephone.

Internet Dealing Commission – 0.4% of the trade value (minimum £16.20, maximum £62.20) until 30 June 2017. 0.50% of the trade (minimum £19.00, maximum £76.50) after 30 June 2017.

Postal Dealing Commission – 10 pence per share (maximum £10) when selling 1–150 shares, flat fee of £15 when selling 151 shares or more. No commission will be chargeable for shareholders holding up to 50 shares until 30 June 2017.

Telephone Dealing Commission – 0.75% of the trade (minimum £24.50, maximum £114.50).

Visit www.capitadeal.com/nationalgrid or call Capita Share Dealing free on 0800 022 3374 for details and terms and conditions. This is not a recommendation to take any action. If you have any doubt as to what action you should take, please contact an authorised financial advisor.

ShareGift: If you only have a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to ShareGift. ShareGift is a registered charity (No. 1052686) which specialises in accepting such shares as donations. For more information visit www.sharegift.org.uk or contact Capita Asset Services.

Individual Savings Accounts (ISAs): Corporate ISAs for National Grid shares are available from Stocktrade. For more information, call Stocktrade on 0131 240 0443, email isa@stocktrade.co.uk or write to Stocktrade, 7th floor, Atria One, 144 Morrison Street, Edinburgh EH3 8EX.

Cautionary statement

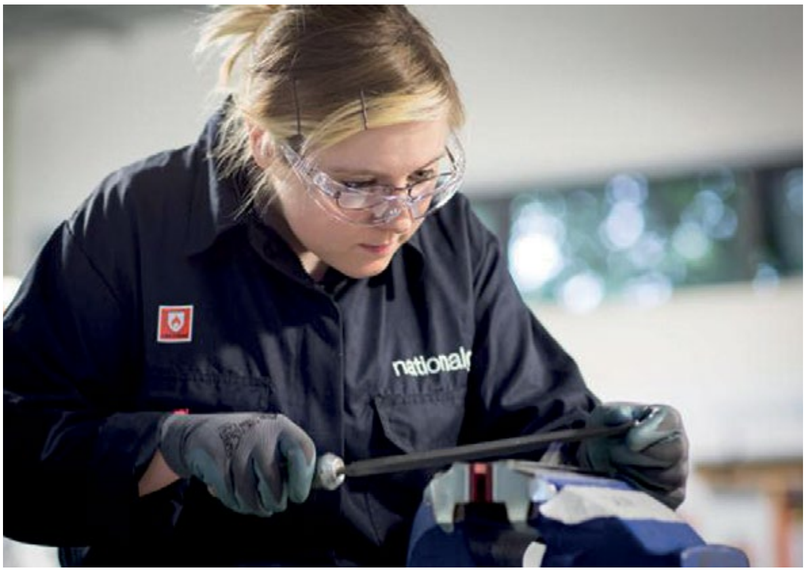
This document comprises the Annual Report and Accounts for the year ending 31 March 2017 for National Grid and its subsidiaries.

It contains the Directors' Report and Financial Statements, together with the independent auditors' report thereon, as required by the Companies Act 2006. The Directors' Report, comprising pages 8 to 71 and 172 to 201 has been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to National Grid.

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as 'anticipates', 'expects', 'should', 'intends', 'plans', 'believes', 'outlook', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as changes in laws or regulations, including any arising as a result of the United Kingdom's exit from the European Union; announcements from and decisions by governmental bodies or regulators, including proposals relating to the role of the electricity system operator; the timing of construction and delivery by third parties of new generation projects requiring connection; breaches of, or changes in, environmental, climate change and health and safety laws or regulations, including breaches or other incidents arising from the potentially harmful nature of our activities; network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure, due to adverse weather conditions including the impact of major storms as well as the results of climate change, due to counterparties being unable to deliver physical commodities, or due to the failure of or unauthorised access to or deliberate breaches of our IT systems and supporting technology; performance against regulatory targets and standards and against our peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, including those related to investment programmes and internal transformation and remediation plans; and customers and counterparties (including financial institutions) failing to perform their obligations to the Company. Other factors that could cause actual results to differ materially from those described in this document include fluctuations in exchange rates, interest rates and commodity price indices; restrictions and conditions (including filing requirements) in our borrowing and debt arrangements, funding costs and access to financing; regulatory requirements for us to maintain financial resources in certain parts of our business and restrictions on some subsidiaries' transactions such as paying dividends, lending or levying charges; the delayed timing of recoveries and payments in our regulated businesses and whether aspects of our activities are contestable; the funding requirements and performance of our pension schemes and other post-retirement benefit schemes; the failure to attract, develop and retain employees with the necessary competencies, including leadership and business capabilities, and any significant disputes arising with our employees or the breach of laws or regulations by our employees; the failure to respond to market developments, including competition for onshore transmission, the threats and opportunities presented by emerging technology, development activities relating to changes to the energy mix and the integration of distributed energy resources and the need to grow our business to deliver our strategy, as well as incorrect or unforeseen assumptions or conclusions (including unanticipated costs and liabilities) relating to business development activity, including assumptions in connection with the Company's sale of a majority interest in its UK Gas Distribution business and joint ventures.

For further details regarding these and other assumptions, risks and uncertainties that may affect National Grid, please read the Strategic Report and the Risk factors on pages 180 to 183 of this document. In addition, new factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause actual future results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document.

The contents of any website references in this document do not form part of this document.



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