National Grid Gas plc
Annual Report and Accounts 2015/16

Company number 2006000

Contents

National Grid Gas plc Annual Report and Accounts 2015/16

Overview

About National Grid Gas plc

National Grid Gas plc (National Grid Gas) is a subsidiary of National Grid plc (National Grid), based in the UK, where we own and operate regulated gas transmission and distribution networks and provide gas metering services. We play a vital role in connecting millions of people safely, reliably and efficiently to the energy they use.

The overall management and governance of National Grid Gas is the responsibility of its Board of Directors. Strategic direction is determined by our ultimate parent company, National Grid. Our Directors are listed on page 33.

More information on the management structure of National Grid can be found in the National Grid plc Annual Report and Accounts 2015/16 and on National Grid's website at www.nationalgrid.com.

Financial highlights

	2015/16 £m	2014/15 £m	Percentage change
Operating profit	**1,430**	1,355	6%
Adjusted operating profit[1]	**1,446**	1,412	2%
Cash generated from operations	**1,898**	1,860	2%
Regulated assets[2]	**14,270**	14,063	1%
Return on equity:			
Gas Transmission	**12.5%**	14.2%	(12%)
Gas Distribution	**13.0%**	12.9%	(1%)

1. See page 12 for further details.
2. See page 6 for further details.

Non-financial highlights

	2015/16	2014/15
Number of employees	**6,128**	5,895
Network reliability:		
Gas Transmission	**100%**	100%
Gas Distribution	**99.999%**	99.999%

Our principal operations

We own and operate the gas national transmission system and four of the eight regional gas distribution networks in Great Britain. Other activities include National Grid Metering and Xoserve. See pages 17 to 22.

Gas distribution business

National Grid have begun a process for the potential sale of a majority stake in the Gas Distribution business. Further details are provided on page 17.

Strategic Report

Operating environment

Our operating environment is shaped by the energy ‘trilemma’, being the cost of energy, security of supply and sustainability, which has become the standard way to assess energy systems. As it simply articulates, the trilemma has 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 System affordability	**Security of supply** Energy supply reliability	**Sustainability** Reducing our impact
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 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, 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 our 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. In May 2016, Ofgem stated that it will undertake a mid-period review of the RIIO outputs for our transmission businesses.	Energy security is the 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.	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 5th 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.
Our response	We’re continuing to make a significant investment in Britain’s energy system to make sure it is fit and ready to support a low-carbon economy. Despite this significant investment, our network costs will remain flat in real terms over the coming years. All network costs are heavily scrutinised by 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.	We have put in place new products to ensure that the System Operator has the right tools to maintain supplies over winter. We are developing demand side response products that reduce reliance on traditional generation sources.	Reducing greenhouse gas emissions forms part of our Company’s KPIs 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.

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.

The UK energy industry has four main sectors.

1. Production and importation

We do not produce gas. Gas used is mainly sourced from gas fields in the North and Irish seas, piped from Europe and imported as liquefied natural gas (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.

2. Transmission

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

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.

3. Distribution

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 distribution networks, four of which are owned by National Grid Gas. Our distribution networks deliver gas to 10.9 million consumers in the UK.

4. Supply

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

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

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.

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.

Our business model

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 stakeholders.

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

- UK Gas Transmission
- UK Gas Distribution
- Other activities (such as Metering)

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

Our transmission and distribution businesses operate as regulated monopolies. Our regulator, Ofgem, safeguards customers' interests by setting the level of charges we are allowed to pass on and the standard of performance we must achieve.

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 regulatory agreements on pages 6 to 8.

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 regulated businesses.

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.

Investment

We invest efficiently in our networks to deliver strong regulated asset growth over the long term. This drives additional future revenues, which in turn generates additional cash flows and allows us to continue reinvesting in our networks and providing sustainable dividends to our ultimate 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 our customers, the communities in which we operate, employees, shareholders, Ofgem and the UK Government.

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;
- engaging with the communities in which we operate; and
- aiming to improve customer satisfaction at all times.

We create value for our stakeholders 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 Ofgem to help them develop the frameworks within which we can meet the changing energy needs of the communities we serve.

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. See pages 15 and 16 for further details.

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. See pages 15 to 16 for further details.

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. See pages 17 to 22 for further details.

What we do - Regulation

Our business operates as a regulated monopoly. We have one economic regulator for our business, Ofgem. The regulator safeguards customers' interests by setting the level of revenues we are allowed to recover, so that we provide value for money while maintaining safe and reliable networks, and deliver good customer service.

How we make money from our regulated assets

Our licences, established under the Gas Act 1986, as amended (the Act), require us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas in Great Britain. They also give us statutory powers, such as the right to bury our pipes under public highways and the ability to use compulsory powers to purchase land so that we can conduct our business.

Our networks are regulated by Ofgem, which has established price control mechanisms that set the amount of revenue our 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 achieve its objectives. These include financial incentives designed to encourage us to:

- Efficiently deliver by investment in and maintenance of the network outputs that customer 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 community; and
- Efficiently balance the transmission networks to support the wholesale markets.

Our Gas Transmission (GT) and Gas Distribution (GD) businesses operate under six separate price controls in the UK. These comprise two for our GT operations, one as Transmission Owner (TO) and one as System Operator (SO); and one for each of our four regional gas distribution networks. While each of the six price controls may have differing terms, they are based on a consistent regulatory framework.

In addition to the six 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.

Allowed revenue is calculated based on a number of factors:

Depreciation of regulated assets – the value of regulated assets is depreciated over an anticipated lifespan. The amount of depreciation is included in our allowed revenue, which represents the repayment of the amount we have invested in the asset.

Return on equity and cost of debt – regulated assets are funded through a mixture of debt and equity. Our regulatory agreements set this ratio. The equity portion earns a 'return on equity'. This represents the profit we can earn on our investment in regulated assets. The debt portion earns an allowance based on the cost of debt (interest costs).

Ofgem use an external benchmark interest rate to incentivise us to raise debt efficiently. The benchmark interest method also provides an opportunity to outperform our regulatory allowance.

Cost of service – in establishing our regulatory agreements, Ofgem consider what costs an efficiently run company would incur to operate and maintain our networks. They vary and examples can include costs relating to employees, office rental, IT systems and taxes.

Ofgem have different approaches to determining what is considered an efficient or prudent cost and this may be different to the actual costs we incur.

Investment in network assets – we are given a cost allowance to make necessary investments in the networks. These investment costs allowed by the regulator are linked to the outputs delivered by the networks.

Performance against incentives – our price controls include incentives that are designed to encourage specific actions, such as reducing greenhouse gas emissions.

Outperforming against incentive targets can increase our allowed revenues in the current year or a future year. Failing to achieve certain minimum targets may lead to a reduction in our allowed revenue.

A further incentive mechanism enables customers and shareholders to share the difference between allowed and actual costs via adjustments to revenue.

Timing – our regulated revenue entitlements are set based on our regulatory price controls. We use forecast energy volumes that we expect to deliver to set the billing tariff. Where there is a difference between the actual and estimated energy volumes, the amount of revenue we collect will be different.

RIIO price Controls

In 2013, Ofgem introduced a 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.

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 (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 Gas Distribution 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.

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 Gas Distribution'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 on the next page.

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 lives for regulatory depreciation in gas distribution spans 45 years across the RIIO period. 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 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 May 2016, Ofgem announced a mid-period review of the RIIO-T1 price control looking at specific output measures in gas 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.

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 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.

Allowed returns

The cost of capital allowed under RIIO is as follows:

	Transmission	Distribution
Cost of equity (post-tax real)	6.8%	6.7%
Cost of debt (pre-tax real)	iBoxx 10 year simple trailing average index (2.55% for 2015/16)	
Notional gearing	62.5%	65.0%
Vanilla WACC*	4.14%	4.01%

*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 gas distribution and gas transmission.

Sharing factors under RIIO are as follows:

Gas Distribution	North West	East of England	West Midlands	London
	Replacement expenditure: Stepped decline from 50% in 2013/14 to 0% in 2020/21 in seven equal instalments of 7.14% per annum			
Fast[1]	73.90%	73.37%	75.05%	76.53%
	Replacement expenditure: Stepped increase from 50% in 2013/14 to 100% in 2020/21 in seven equal instalments of 7.14% per annum			
Slow[2]	26.10%	26.63%	24.95%	23.47%
Sharing	63.04%			

Gas Transmission	Transmission Operator	System Operator
Fast[1]	Baseline[3] 35.6%, Uncertainty 10%	62.60%
Slow[2]	Baseline[3] 64.4%, Uncertainty 90%	37.40%
Sharing	44.36%	

[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.*

For more information on RIIO, including incentive mechanisms, please see the relevant investor fact sheets on the Investor Relations section of our website, www.nationalgrid.com.

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 stakeholders. 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 page 11.

Strategic objective	Description	How we deliver	Relevant KPIs
Deliver operational excellence	Achieve world-class levels of safety, reliability, security and customer service.	Our customers, communities, employees 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.	Employee Injury Frequency Rate (IFR) Network reliability Customer satisfaction
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.	Employee engagement index
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 will 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.	Network reliability
Engage externally	Work with external stakeholders to shape UK and EU energy policy.	Policy decisions by Ofgem, Government 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 Ofgem to help them provide the right mechanisms so we can deliver infrastructure that meets the changing needs of our stakeholders.	Customer satisfaction
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 balance affordability with helping to protect and preserve natural resources and benefit the communities in which we operate. National Grid remains committed to its targets of a 45% reduction in Scope 1 and 2 greenhouse gas emissions by 2020 and 80% by 2050.	Greenhouse gas emissions
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.	Regulated asset growth Return on equity

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 customers 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. Ensuring 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 important factors that enable positive participation in regulatory discussions and the pursuit of 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 ultimate shareholders.

Delivering our strategy - key performance indicators (KPIs)

The Board uses a range of financial and non-financial metrics, reported periodically, against which we measure National Grid Gas performance.

Strategic element	Regulatory Output[1]	KPIs and definition	Our performance	
Deliver operational excellence	**Safety**	**Employee lost time injury frequency rate (IFR)** Injuries resulting in employees taking time off work per 100,000 hours worked on a 12 month basis. Our ambition is to achieve a world-class safety performance of below 0.1.	**2015/16: 0.13 (Target: 0.1)** 2014/15: 0.09 (Target: 0.1)	
	Reliability	**Network reliability[2]** Reliability of gas network as a percentage against the target set by Ofgem.	**Transmission:** **2015/16: 100% (Target: 100%)** 2014/15: 100% (Target: 100%)	**Distribution**: **2015/16: 99.999% (Target: 99.999%)** 2014/15: 99.999% (Target: 99.999%)
Engage our people	**Stakeholder satisfaction**	**Employee engagement index[3]** Employee engagement index calculated using responses to National Grid's annual employee survey. Target is to increase the level of engagement compared with previous year.	**2015/16: 76%** 2014/15: 75%	
Engage externally	**Customer satisfaction**	**Customer satisfaction** Our score in customer satisfaction surveys. Ofgem set a baseline target.	Transmission: **2015/16: 7.6 out of 10 (Target: 6.9[4])** 2014/15: 7.6 out of 10 (Target: 6.9[4])	Distribution: **2015/16: –[5] (Target: 8.3[4])** 2014/15: 8.3 out of 10 (Target: 8.3[4])
Embed sustainability	**Environmental impact**	**Greenhouse gas emissions** Percentage reduction in greenhouse gas emissions.	% reduction against 1990 baseline **2015/16: 66% reduction** 2014/15: 68% reduction 2015/16 and 2014/15 National Grid Target: 45% reduction by 2020 and 80% reduction by 2050.	
Drive growth		**Regulated asset growth[6]** Maintaining efficient growth in the total Regulated Asset Value (RAV) base.	**2015/16: 1.5%** 2014/15: 0.0%	
		Return on equity (RoE) RoE against the allowed return set by the regulator for the current price control period.	**Transmission** **2015/16: 12.5%** 2014/15: 14.2%	**Distribution** **2015/16: 13.0%** 2014/15: 12.9%

1 See pages 6 to 8 for explanation of regulatory outputs.
2 Network reliability is also a KPI for our 'stimulate innovation' strategic objective.
3 Index represents performance for National Grid.
4 Figures represent our baseline targets set by Ofgem for reward or penalty under RIIO.
5 Our customer satisfaction results are now reported on an annual basis with the results being published later this year.
6 Transmission and Distribution combined.

Greenhouse gas emissions

National Grid has remained focused on greenhouse gas emissions reduction programmes to achieve the corporate commitment targets of 45% and 80% reduction in Scope 1 and 2 emissions by 2020 and 2050 respectively from the 1990 baseline. National Grid continues to look for innovations and efficiencies that will help us achieve targets.

National Grid measures and reports its greenhouse gas emissions in accordance with the World resources institute (WRI)/World business council for sustainable development (WBCSD) Greenhouse Gas Protocol: Corporate Accounting and Reporting Standard (Revised Edition) for all six Kyoto gases using the operational control 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 the National Grid website. See page 21 of the National Grid plc Annual Report and Accounts for further information.

Financial review

We have delivered another year of strong financial performance.

Use of adjusted profit measures

In considering the financial performance of our business and segments, we analyse each of our primary financial measures of operating profit and profit before tax into two components.

The first of these components is referred to as an adjusted profit 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 as the second component of the financial measures. Note 3 to the consolidated financial statements 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. These measures are also used by National Grid in communicating financial performance to its 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.

Reconciliations of adjusted profit measures

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.

Years ended 31 March	**2016** £m	2015 £m
Adjusted operating profit	**1,446**	1,412
Exceptional items	**(16)**	(57)
Total operating profit	**1,430**	1,355

Reconciliation of adjusted operating profit to adjusted earnings and earnings

Years ended 31 March	**2016** £m	2015 £m
Adjusted operating profit	**1,446**	1,412
Adjusted net finance costs	**(235)**	(264)
Adjusted profit before tax	**1,211**	1,148
Adjusted taxation	**(256)**	(275)
Adjusted profit	**955**	873
Attributable to non-controlling interests	**(2)**	(4)
Adjusted earnings	**953**	869
Exceptional items	**161**	(64)
Remeasurements	**(7)**	(13)
Earnings	**1,107**	792

Reconciliation of adjusted profit before excluding timing differences to total operating profit

Adjusted profit excluding timing differences is discussed below.

Years ended 31 March	**2016** £m	2015 £m
Adjusted operating profit excluding timing differences	**1,352**	1,417
Timing differences	**94**	(5)
Adjusted operating profit	**1,446**	1,412
Exceptional items	**(16)**	(57)
Total operating profit	**1,430**	1,355

Consolidated income statement commentary

Revenue
Revenue for the year ended 31 March 2016 increased by £75 million to £3,152 million as a result of increases to allowed revenue.

Operating costs
Operating costs for the year ended 31 March 2016 of £1,722 million are consistent with the prior year.

Exceptional items included in our operating costs for the year ended 31 March 2016 reduced by £41 million to £16 million. Exceptional costs in 2015/16 relate to sale preparation costs in respect of the potential transaction by National Grid plc to dispose of a majority stake in its UK Gas Distribution business.

Net finance costs
For the year ended 31 March 2016, net finance costs before exceptional items and remeasurements of £235 million were £29 million lower than the prior year, principally driven by the full year effect of rebalancing of the debt portfolio through the debt buyback programme in 2014/15.

Exceptional finance costs for the year ended 31 March 2016 included a loss of £9 million on financial remeasurements, relating to net gains and losses on derivative financial instruments.

Taxation
The tax charge on profits before exceptional items and remeasurements was £19 million lower than 2014/15. This was mainly due to the reduction in the tax rate in the current year and a lower tax adjustment in respect of share based payment.

Exceptional tax for 2015/16 primarily relates to a £174 million deferred tax credit arising on the reduction in the UK tax rate.

Consolidated statement of financial position commentary

The consolidated statement of financial position sets out all the Group's assets and liabilities at the year end, analysed between the net assets we have for use in the business and those held for sale. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

Intangible assets
Intangibles increased by £2 million to £252 million as at 31 March 2016. This increase relates to software additions of £66 million, offset by software amortisation of £64 million.

Property, plant and equipment
Property, plant and equipment increased by £214 million to £12,654 million as at 31 March 2016. This was due to capital expenditure of £725 million on the renewal and extension of our regulated networks, offset by £500 million of depreciation in the year and net disposals of £11 million.

Other non-current assets
Other non-current assets, which comprises an interest-free loan to our immediate parent company, National Grid Gas Holdings Limited, and non-current prepayments; remained the same at £5,610 million and increased by £17m respectively.

Inventories and current intangible assets, and trade and other receivables
Inventories and current intangible assets, and trade and other receivables have decreased by £39 million to £472 million at 31 March 2016. This decrease is principally due to a decrease in amounts owed to fellow subsidiaries of £54 million, partially offset by an increase in trade receivables of £19 million.

Trade and other payables
Trade and other payables have decreased by £92 million to £819 million. This was primarily due to a decrease in amounts owed to fellow subsidiaries of £96 million and a decrease in trade payables of £14 million, partially offset by an increase in other payables of £33 million.

Current and deferred tax liabilities
Current tax liabilities of £34 million have remained unchanged as at 31 March 2016. The net deferred tax liability decreased by £106 million to £1,548 million, mainly as a result of the reduction in the tax rate that deferred taxes are recognised at, offset by an increase in accelerated tax depreciation.

Provisions and other non-current liabilities
Provisions (both current and non-current) and other non-current liabilities decreased by £28 million to £1,229 million as at 31 March 2016. Total provisions decreased by £28 million in the year. The underlying movements include additions of £15 million, primarily offset by utilisation of £36 million and releases of £12 million. Other non-current liabilities remained the same at £1,047m.

Other balance sheet items

Pensions
We operate pension arrangements on behalf of our employees the majority of whom are members of the defined benefits section of the National Grid UK Pension Scheme which is closed to new entrants. Membership of the defined contribution section of the National Grid Pension Scheme is offered to all new employees.

Liabilities and assets of the scheme are not recognised in the financial statements of National Grid Gas as there is neither a contractual arrangement nor a stated policy under which the Company is charged for cost of providing pensions.

Other off balance sheet arrangements
There were no other significant off balance sheet arrangements

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Cash flow statement commentary

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	**2016 £m**	2015 £m
Cash generated from operations	**1,898**	1,860
Net capital expenditure	**(800)**	(691)
Business net cash flow	**1,098**	1,169
Net interest paid	**(168)**	(187)
Tax paid	**(161)**	(192)
Dividends paid	**(620)**	(700)
Other	**(81)**	(170)
Net debt decrease/(increase)	**68**	(80)
Opening net debt	**(8,520)**	(8,440)
Closing net debt	**(8,452)**	(8,520)

Cash generated from operations

Cash flows from our operations are largely stable when viewed over the longer term. Our gas transmission and gas distribution operations are subject to a multi-year price control agreements with Ofgem.

For the year ended 31 March 2016, cash flow from operations increased by £38 million to £1,898 million. Adjusted operating profit before depreciation, amortisation and impairment was £49 million higher year on year. Changes in working capital decreased by £101 million from the prior year. This was principally due to movements on intercompany balances with other National Grid companies and changes in Gas Distribution Strategic Partners (GDSP) payment terms, partially offset by higher security deposits. Offsetting these decreases, cash outflows relating to exceptional items were £82 million lower.

Net capital expenditure

Net capital expenditure in the year of £800 million was £109 million higher than the prior year.

Dividends paid

Dividends paid in the year ended 31 March 2016 amounted to £620 million. This was £80 million lower than 2014/15.

Other movements in net debt

Other cash flows principally include changes in fair values of financial assets and liabilities, interest accruals, dividends from joint ventures and movements in treasury shares.

Earnings

Timing and Regulated Revenue Adjustments

Our allowed revenues are set in accordance with our regulatory price controls. We calculate the tariffs we charge our customers based on the estimated volume of energy and cost 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.

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 £94 million (2014/15: £5 million under-collection). Our closing balance at 31 March 2016 was £85 million over-recovery (2015: under-recovery of £13 million). All other things being equal, the majority of that balance would normally be returned to customers starting in the year ending 31 March 2017.

In addition to the timing adjustments described above, following the start of the RIIO price controls outperformance against allowances as a result of the totex 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 will therefore 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 regulated business as a whole, regulated revenue adjustments totalled to an over-recovery of £114 million in the year (2014/15: £44 million over-recovery). 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 National Grid Gas finding innovative solutions or the need being permanently removed.

Our people

National Grid Gas plc is a subsidiary of the National Grid plc Group, and its policies and activities contribute to the larger National Grid position. The below represents activities which National Grid Gas plc has contributed to as part of National Grid's achievements in 2015/16.

Safeguarding the future

We remain committed to helping address the significant skills challenge facing the engineering profession.

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.

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 safety and reliably. This year, our Academy has delivered 154,025 days of technical, safety, leadership and personal effectiveness training across our global National Grid 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.

We support six employee resource groups 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.

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.

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.

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 ending 31 March 2016				
	Male	Female	Total	% Male	% Female
Our Board	7	3	10	70	30
Senior Management	41	12	53	77	23
Whole Company	4,602	1,526	6,128	75	25

Health and wellbeing

During 2015/16 we have continued to raise awareness of mental wellbeing across our businesses.

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.

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.

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.

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 National Grid's 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.

Principal Operations - Overview

Our regulated businesses delivered a strong financial performance in the third 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.

We continue to work with UK Government and industry stakeholders to explore the options around the System Operator (SO) role and how this can potentially evolve to address any concerns around conflict of interest. Our aim is to make sure any change does not adversely affect security of supply or impose unnecessary costs on consumers.

In May 2016, Ofgem announced a mid-period review of the RIIO-T1 price control looking at three specific outputs measures in gas. 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. There was no mid-period review for the RIIO-GD1 price control.

National Grid also announced plans to commence a process to sell a majority stake in the Gas Distribution business. Since then National Grid have been working on how to 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, our businesses have continued to perform well during the last year with continued world class safety levels and network reliability.

Principal Operations - Gas Transmission

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, and maintaining 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 almost 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 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 have improved 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 Network Innovation Competition (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 national gas transmission system.

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.

Results

The results for the Gas Transmission segment for the years ended 31 March 2016 and 2015 were as follows:

	Years ended 31 March	
	2016	2015
	£m	£m
Revenue and other operating income	**1,047**	1,023
Operating costs excluding exceptional items	**(647)**	(584)
Adjusted operating profit	**400**	439
Exceptional items	**-**	(85)
Operating profit	**400**	354

Principal movements (2014/15 – 2015/16)

	£m
2014/15 adjusted operating profit	439
Timing[1]	85
Net regulated income[2]	(34)
Regulated controllable operating costs[3]	(12)
Other[4]	(78)
2015/16 adjusted operating profit	**400**

1 - In year estimated over-recovery of £67 million compared with a prior year estimated under-recovery of £18 million. The estimated closing over-recovered value at 31 March 2016 is £38 million.
2 - Resulting from non-occurrence of gas permit incentive income.
3 - Cost increase due to operational costs.
4 - Driven by inclusion of pension deficit charges in 2015/16.

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 further strengthen our investment decisions 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 European IED requirements by delivering our agreed asset enhancement and replacement programme.

System Operator

As System Operator (SO) we are responsible for making sure Britain's gas 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. 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 supporting 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.

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.

Market developments
We will continue to work with Ofgem and DECC as they develop proposals to help meet the energy challenges of the future.

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.

Principal Operations - Gas Distribution

What we do

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 gas national transmission system to around 10.9 million consumers on behalf of 39 gas 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 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 during 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.

In March, the business agreed with Ofgem that it would make a charitable donation of £3m to National Energy Action (NEA) to support fuel poor initiatives as recognition that the business did not achieve certain repair network outputs in 2014/15.

We have worked on improving the services we provide for our customers and 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 not only promises a revolution in working practices but also 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.

Results

The results for the Gas Distribution segment for the years ended 31 March 2016 and 2015 were as follows:

	Years ended 31 March	
	2016	2015
	£m	£m
Revenue and other operating income	**1,921**	1,868
Operating costs excluding exceptional items	**(1,052)**	(1,042)
Adjusted operating profit	**869**	826
Exceptional items	**-**	29
Total operating profit	**869**	855

Principal movements (2014/15 – 2015/16)

	£m
2014/15 adjusted operating profit	826
Timing[1]	13
Net regulated income[2]	49
Regulated controllable operating costs[3]	(21)
Depreciation and amortisation[4]	(12)
Other[5]	14
2015/16 adjusted operating profit	**869**

1 - In year over-recovery of £26 million compared with an over-recovery in the prior year of £13 million. The estimated closing over-recovered value at 31 March 2016 is £46 million.

2 - Positive impact on allowed revenues from 'higher tax charge' recovery.

3 - Increased costs primarily due to increased work load.

4 - Higher average asset values due to the capital investment programme.

5 - Increase resulting from the inclusion of pension deficit charges for 2015/16 within adjusted operating profit.

Priorities for the year ahead

Maintain a stable and strong business throughout the potential sale process 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 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 the 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 - Other activities

Other activities include National Grid Metering, Xoserve and other corporate activities.

National Grid 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, and 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.

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 Gas, as majority shareholder, and the other gas distribution network companies.

Results

The results for other activities for the years ended 31 March 2016 and 2015 were as follows:

	Years ended 31 March	
	2016	2015
	£m	£m
Revenue and other operating income	**351**	356
Operating costs	**(174)**	(209)
Adjusted operating profit	**177**	147
Exceptional items[1]	**(16)**	(1)
Total operating profit	**161**	146

[1] 2016 relates to costs associated with the Gas Distribution sale process.

Internal control and risk management

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

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

The National Grid Gas 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. The Board also regularly monitors and reviews the system of internal controls and risk management arrangements; you can read more about this on page 26.

This year National Grid plc, our ultimate parent company, refined its group-wide risk management processes as a result of changes to guidance in the UK Corporate Governance Code 2014 (the Code). The changes were fully adopted by National Grid Gas, and most notably, the Company now specifically test the impact of 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 Company's ability to continue operating and meet its liabilities over the assessment period.

Risk management approach

National Grid plc's group-wide corporate risk management process provides a framework through which National Grid Gas can consistently identify, assess, prioritise, manage monitor and report risks. This process is designed to support delivery of our strategic and business objectives described on pages 9 and 10.

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

All of the National Grid plc business functions participate in the bottom-up risk management process, including National Grid Gas. Each function identifies 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 identified are collated in risk registers and are reported at functional and regional levels of both the Company and the National Grid plc Group. The risk registers also describe the adequacy of our existing risk controls.

An important feature of the 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 an independent challenge and review. This team partners with the business functions through nominated risk liaisons and collaborates with assurance teams and specialists, like internal audit and compliance management, to sense check risk information.

Senior management regularly review and debate the outputs of the bottom-up risk management process and agree the prioritisation of the risks. The main risks for the businesses are highlighted in risk profiles and reported to the National Grid UK Executive Director through quarterly performance reports.

The main strategic uncertainties for National Grid Gas are developed through top-down discussions with the National Grid plc Executive leadership team. These risks are reported and debated with the UK Executive Committee and National Grid Gas plc Audit Committee every six months, through a regular review of the Company's risk register.

The National Grid Gas Audit Committee review and report to the Board on the adequacy and effectiveness of the procedures for the identification, assessment and reporting of business risks, as well as wider internal control and risk management, ethics and compliance matters. As part of its review, the Audit Committee also considers the annual corporate audit plan and any findings raised by the corporate audit function.

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, the risk management process aims to provide reasonable assurance that we understand 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 inherent risks we face is provided on pages 183 to 186 within the National Grid plc Annual Report and Accounts. An overview of our key financial risks is incorporated within the Notes to our consolidated financial statements on pages 70 to 74.

Our corporate risk profile contains the principal risks that the National Grid Gas Board considers to be the main ones currently faced by the Company as we endeavour to achieve our strategic objectives. An overview of the key risks is provided on the next page, together with examples of the relevant controls and mitigating actions we are taking.

Our principal risks (continued)

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 National Grid'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; 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 the Company's 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 would result in a loss of inflationary indexation of UK RIIO networks' RAV.	The primary controls 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 National Grid Finance Committee) and regulatory strategies.
Engage externally	Failure to secure satisfactory regulatory outcomes/ Failure to influence future energy policy. Policy decisions by Ofgem, Government 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.	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 good 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 15. 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 ultimate shareholders, meet our obligations under our regulatory agreement, and comply with the agreement with bond holders and other providers of finance.	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. 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 resiliency. 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.
	Catastrophic asset failure Safety is paramount. Some of the assets that we own and operate 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 the National Grid 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 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 re-launched 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. 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 27 to 30.

Reviewing the effectiveness of our internal control

The National Grid Gas 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 it remains 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 for noting following consideration by the National Grid Gas Audit Committee to provide overall assurance around the effectiveness of National Grid Gas's risk management and internal controls systems; and
- where appropriate, assurance from our committees, with particular reference to the reports received from the Audit Committee on reviews undertaken at their meetings.

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 and confirmed that it was satisfied the systems and processes were functioning effectively. The National Grid plc risk management and internal control processes comply with the UK Corporate Governance Code.

Internal control over financial reporting

National Grid's 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 of National Grid which consider historical results and expected future performance and involve senior management from both operational and financial areas of the business. The Chief Financial Officer presents a consolidated financial report at each National Grid Gas Board meeting. In addition, the National Grid Gas Audit Committee also monitor, review and report on the Company's Annual Report and Accounts to the Board.

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 and regular budget reviews. This activity is strengthened by the Company's culture of review and challenge. Given our business model, current regulatory clarity, other factors impacting our operating environment, and the robustness of our business planning process, five years is the most appropriate timeframe over which to assess the long-term viability of the Company. This is in line with our five year business plan and one year budget which are reviewed and approved by the Board.

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 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. We have set out the details of the principal risks facing our Company on pages 24 to 25, 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.

The Board has considered the proposed sale of a majority share in our Gas Distribution business and concluded that it will not have an adverse impact of the viability of the Company.

Our business model calls for significant capital investment to maintain and expand our network infrastructure. To deliver this, our business plan highlights that we may 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 KPI's used by lenders 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.

Each Director was satisfied that they had sufficient information to judge the viability of the Company. Based on this assessment the Directors have a reasonable expectation that the Company will be able to continue operating and meets its liabilities over the period to June 2021.

The Strategic Report was approved by the Board of Directors on 24 June 2016 and signed on its behalf by:

Alan Foster
Director

Corporate Governance

Corporate Governance Statement

National Grid Gas aims to achieve high standards of leadership and governance. At the National Grid level, its Board considers that it complied in full with the provisions of the UK Corporate Governance Code 2014 (the Code) during the year being reported on. National Grid Gas is not required to comply with the principles of the Code; however, the Board is mindful of the Code and the Corporate Governance Statement sets out the principal areas of Board governance together with an explanation of areas where it considers that it has operated consistently with the main principles of the Code.

Governance framework

The Board of the Company is collectively responsible for its governance, and oversees its effective oversight of the Company and its businesses, and compliance with all relevant laws and regulations, including compliance with its Gas Transporter Licences. The Board's full responsibilities are set out in the matters reserved for the Board. The operational and financial management of the Company's businesses is undertaken by committees, in compliance with business separation obligations set out in its licenses.

Board composition

The Board has undergone significant change during the last financial year.

Chairmanship of the Board: Nick Winser left the business during July 2015 and resigned as a director. His roles as Chairman of the Board, Audit Committee and Business Separation Compliance Committees were passed to existing members of the Board and Committees. John Pettigrew, UK Executive Director assumed Chairmanship of the Board and fulfilled this role until February 2016, prior to resigning as a director of the Company and moving into the role of Chief Executive Officer of National Grid plc from 1 April 2016. Replacing John as Chairman of the Board is Chris Murray who was appointed as a director of the Board during February 2016.

Executive directors: a number of executive directors have moved roles within the business and a summary of the resulting changes in directorships is provided below:

- Mike Calviou was succeeded by Cordi O'Hara
- Neil Pullen was succeeded by Pauline Walsh
- Malcolm Cooper was succeeded by Andy Agg, a current director of the Company
- Andy Agg was succeeded by Alan Foster
- Mark Ripley's replacement was announced as Chris Bennett, effective from 25 June 2016.

As reported last year Emma Fitzgerald left the Company and was succeeded in her executive role by Chris Train, who was appointed a director of the Company.

Non-executive directors: Whilst a number of executive directors have moved roles, there have been no changes in the non-executive directorships held by Catherine Bell and Clive Elphick.

All Board appointments are made in consultation with its shareholder and in accordance with National Grid's Procedure for the Appointment of Directors to Subsidiary Companies.

Director induction and development

Director training on the duties and responsibilities of directors has been made available to new and existing directors and reference material has been placed in the online document library.

A schedule of head office and operational site visits has been implemented throughout the year providing the opportunity for directors to meet local management teams and discuss aspects of the business with employees. A number of director briefings have taken place, and reference materials have been placed in the online document library.

To strengthen and refresh the Board's knowledge and understanding of the Company and external business and regulatory environment, Board meetings regularly include updates and presentations on specific aspects of the business.

How our Board operates

Board members attend meetings regularly in order to ensure they are kept up to date with the business and accordingly can contribute to meetings. The schedule of board meeting dates is set and communicated a minimum of one year in advance. The agenda for each meeting is set by the Chairman in line with the Board's responsibilities and follows a management reporting cycle which links to that of National Grid plc. Directors are sent papers for meetings of the Board sufficiently in advance of meetings so that they can prepare for and consider agenda items. Additionally, the Chairman holds a short meeting with the two non-executive directors (NEDs), also termed Sufficiently Independent Directors (SIDs), before each meeting to discuss the focus of the upcoming meeting as well as afterwards to share feedback and discuss the dynamics of the meeting.

To support discussion and decision making the Company has adopted the new reporting framework of National Grid plc which has resulted in clearer more concise reports, allowing more time for discussion and questions.

Board performance evaluation

In June 2015 a board evaluation was externally facilitated by independent consultants who specialise in operational subsidiary board evaluations within a regulatory framework. The questions asked covered the following areas:

- Board composition, expertise and dynamics
- Relationship with the plc Board and the Business Executive
- Time management
- Board support
- Board Committees
- Strategic and operational oversight
- Risk management and internal control
- Succession planning and human resource management
- Priorities for change

The responses were collated into a confidential and non-attributable report which was presented to the Board in July. At this meeting the Board considered the report. Following this meeting a draft action plan was prepared and considered by the Board in September. At this meeting the Board agreed a number of actions for the forthcoming year as set out below. Progress against these actions has been monitored throughout the year by the Board.

- Board composition review
- Improving board dialogue and input
- Building on the knowledge base of Directors and developing the relationships between board members
- Bedding in of the Chairman
- Improving reporting
- Clarifying the roles of the various governance forums
- Addressing issues of top concern around strategy
- Focus of deep dives
- Level of challenge

Board membership and attendance

Six Board meetings were scheduled during the last financial year, although the Board may meet more frequently as required. Board membership and attendance at meetings are set out below. 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 2016.

		Attendance
Chris Murray (Chair)	*Appointed 11 February 2016*	1 of 1
Andy Agg		6 of 6
Julian Allsopp		6 of 6
Mark Ripley		5 of 6
Chris Train	*Appointed 1 July 2015*	5 of 5
Cordi O'Hara	*Appointed 24 September 2015*	3 of 4
Pauline Walsh	*Appointed 25 September 2015*	3 of 3
Alan Foster	*Appointed 1 January 2016*	2 of 2
Catherine Bell (SID)		6 of 6
Clive Elphick (SID)		6 of 6
Nick Winser (Chair)	*Resigned 1 July 2015*	1 of 1
John Pettigrew (Chair)	*Resigned 11 February 2016*	5 of 5
Mike Calviou	*Resigned 24 September 2015*	2 of 2
Neil Pullen	*Resigned 25 September 2015*	3 of 3
Malcolm Cooper	*Resigned 1 January 2016*	4 of 4

Board remuneration

The Directors of the Company are not separately remunerated in that capacity with the exception of the SIDs. The remuneration of any Director, who is also a member of the Board of National Grid, is determined by the Remuneration Committee of the Board of National Grid, as set out in its annual report and accounts. The remuneration of other Directors is determined in accordance with National Grid's remuneration policies for employees. As required by Section 33f of the Gas Act 1986, the Company has provided to Ofgem details of the linkages between Directors' remuneration and service standards.

Committees

The Board has established a number of committees and sub-committees which assist it in its activities. The Committees of the Board are the Audit Committee, the Distribution Executive Committee, the Gas Transmission Executive Committee, the Business Separation Compliance Committees, the System Operator Executive Committee and the Finance Committee. The Company does not have a Nominations or Remuneration Committee as these functions are provided by National Grid and their roles relevant to the Company are explained below. See the Annual Report and Accounts of National Grid for further information about these committees.

Distribution Executive Committee

The Distribution Executive Committee (DEC) acts within National Grid's overall corporate governance framework and delegated authorities and is responsible for directing the affairs and operational and financial management of the Distribution business. Membership of DEC comprises two Directors of the Company and senior managers of the Distribution business. Attendance of the voting members is set out and below and is expressed as the number of meetings attended out of the number eligible to attend, and includes attendance by a nominated deputy during the year to 31 March 2016.

		Attendance
Chris Train[1] (Chair)	Director Gas Distribution	3 of 5
Carla James[2]	HR Business Partner	1 of 1
Richard Court[3]	Head of UK RIIO Delivery	3 of 3
Julian Allsopp	Lead Finance Business Partner, Gas Distribution	6 of 6
Hilary Buxton	Replace & Extend Process Manager and Head of Emergency Response & Repair Process (ER&R)	6 of 6
Ed Syson	Director of Operations	5 of 6
David Parkin	Director of Network Strategy	5 of 6
Ann Marie Ward	Head of Customer Operations	6 of 6
Jonathan Callighan	Head of Gas Distribution Strategic Partnerships	6 of 6
David Smith[4]	Operate & Maintain Process Manager	5 of 5
Emma Fitzgerald (Chair)[5]	Director Gas Distribution	0 of 1
Keri Handford[6]	HR Business Partner	5 of 5

[1] *Appointed June 2015*
[2] *Appointed January 2016*
[3] *Transitioned from Head of Stakeholder Delivery to Head of RIIO Delivery in October*
[4] *Resigned November 2015*
[5] *Resigned April 2015*
[6] *Resigned December 2015*

The DEC has a number of sub-committees dealing with matters such as investment governance and coordination of operations.

Gas Transmission Executive Committee

The purpose of the Gas Transmission Executive Committee (GTEC) is to direct the affairs of the Gas Transmission Owner business on behalf of its Board and to perform an assurance role within the context of the overall RIIO networks governance framework and oversee the performance of any sub-committees reporting to it. The Committee's remit extends to approving the Gas Transmission strategies and business objectives for managing the RIIO contract and for approving opportunities to deliver value within that contract in accordance with published Delegation of Authority (DoA) limits.

Additionally the Committee performs assurance responsibilities for the Gas Transmission business performance frameworks including the monitoring of performance against the RIIO contract, financial targets, high-level risks and audit outcomes. To this end the Committee receives summary reports from Process Performance Meetings, Regulatory Commercial Committees and Business Partner Functions.

GTEC acts within National Grid's overall corporate governance framework and delegated authorities and is responsible for the operational and financial management of the Gas Transmission business. Membership of this Committee comprises at least two Directors of the Company, senior managers of the Gas Transmission business and certain other senior managers. Attendance of the voting members is expressed as the number of meetings attended out of the number eligible to attend, and includes attendance by a nominated deputy during the year to 31 March 2016. There were 10 meetings during the year.

		Attendance
Pauline Walsh[1] (Chair)	Director of Gas Transmission Asset Management	5 of 6
Neil Pullen[2] (Chair)	Director of Safety, Sustainability and Resilience	5 of 5
Darren Elsom	Head of Network Engineering	10 of 10
Sara Habib[3]	Head of GTO Business Improvement	1 of 2
Andy Malins	Head of Network Capability and Operations, Gas	9 of 10
Mark Ripley	Director UK Regulation	10 of 10
Richard Smith[4]	Head of Network Strategy	4 of 4
Karl Yates[5]	Head of Delivery Gas Transmission and ISS	10 of 10
Alan Rankin	Group Head of Process Safety	7 of 10
Isabelle Haigh[6]	Head of GTO Business Improvement	5 of 5
Ian Radley[7]	Head of Delivery Gas Transmission and ISS	2 of 2
Vicki Flindall[8]	Lead Finance Business Partner	6 of 6
Tim Bishton[9]	Interim Lead Finance Business Partner	3 of 3
Steve Hines[10]	Interim Lead Finance Business Partner	2 of 2
Richard Philips[11]	Interim Head of GTO Business Improvement	3 of 3

[1] *Appointed October 2015*
[2] *Change of role from October 2015*
[3] *Change of role from June 2015*
[4] *Change of role from September 2015*
[5] *Change of role from March 2016 to new position of Head of GTAM Delivery Services with voting rights at GTEC*
[6] *Appointed from October 2015*
[7] *Appointed from March 2016*
[8] *Change of role from September 2015, and re-appointed in March 2016*
[9] *Appointed between September 2015 to January 2016*
[10] *Appointed between January to March 2016*
[11] *Appointed between June to October 2015*

The GTEC has a number of sub-committees dealing with matters such as investment governance and coordination of operations.

System Operator Executive Committee

The System Operator Executive Committee (SOEC) acts within National Grid's overall corporate governance framework and delegated authorities and is responsible for the strategic direction of Great Britain SO activities (Gas and Electricity combined) and RIIO incentive and output performance measures. The SOEC was set up following the implementation of the new UK Operating Model in 2013. Four meetings took place prior to a change in committee membership. Following this five meetings have taken place. Membership of this committee comprises Directors of the Company, senior managers of the Transmission business and certain other senior managers. Attendance of the voting members is expressed as number of meetings attended out of number eligible to attend, and includes attendance by a nominated deputy during the year to 31 March 2016.

		Attendance
Cordi O'Hara[1] (Chair)	Director Systems Operator	9 of 9
Mike Calviou[2] (Chair)	Director Transmission Network Services	4 of 4
Mark Ripley	Director UK Regulation	6 of 9
Darren Pettifer	Lead Finance Business Partner	9 of 9
Simon Johnston[3]	Head of Business Change	5 of 5
Phil Sheppard[4]	Director System Operation	5 of 5

[1] Appointed chair from October 2015
[2] Resigned October 2015
[3] Appointed October 2015
[4] Appointed October 2015

The SOEC has a number of sub-committees dealing with matters such as SO specific investments and SO incentive risk management. In addition to these matters, a committee accountable for commercial and regulatory framework matter is jointly accountable to SOEC and GTEC.

Business Separation Compliance Committees

The Business Separation Compliance Committees of the Board are responsible for overseeing the duties and tasks of the Business Separation Compliance Officer and for overseeing compliance with the business separation licence conditions. There are separate Business Separation Compliance Committees to manage the DN and NTS licence obligations. Membership of the Committees is by appointment of the Board and comprises all directors of the licensee. The Business Separation Compliance Officer and Compliance Officer are in attendance. Following Nick Winser's departure from the business in July 2015 Chairmanship of the Committees passed to Catherine Bell, a SID of the Company and an existing member of the Committees.

Finance Committee

The Finance Committee of the Board is responsible for setting policy and grants authority for financing decisions, credit exposure, hedging and foreign exchange transactions, guarantees and indemnities subject to the risk appetite of the Board. It also approves, other treasury, tax, pension funding and insurance strategies, and if appropriate, recommends them to the Board.

Audit Committee

The Audit Committee's role is to keep under review the Company's financial reporting and internal controls and their effectiveness, together with reviewing the Company's risk register and risk reports presented by management. It also reviews the external audit plan and reviews the external auditors' findings.

Membership of this Committee is comprised of three Board directors: the two SIDs and an executive director. Following Nick Winser's departure from the business in July 2015, Chairmanship of the Committee passed to Clive Elphick, a SID of the Company and an existing member of the Committee. In addition to the members of the Committee, individuals such as representatives of the external auditors, Head of UK Audit, representatives of the Assurance function, UK Chief Financial Officer and other representatives of the finance function, UK General Counsel and Company Secretary (or his/her nominee) may be invited to attend by the Committee and would normally attend each meeting. Other Directors, representatives of the business and external advisers may be invited to attend as and when considered appropriate by the Committee and in respect of the items that are relevant to them. Four meetings took place during the last financial year. Committee membership and attendance at meetings is set out below. 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 2016.

	Attendance
Clive Elphick[1] (Chair)	4 of 4
Nick Winser[2] (Chair)	1 of 1
Malcolm Cooper[3]	3 of 3
Catherine Bell	4 of 4
Andy Agg[4]	1 of 1

[1] Appointed Chair from 1 July 2015
[2] Resigned 1 July 2015
[3] Resigned 1 January 2016
[4] Appointed member from 1 January 2016

Internal audit

The Company does not have a separate internal audit function. This function is provided by National Grid's Corporate Audit function. The National Grid Corporate Audit function provides independent, objective, assurance to the National Grid Gas Audit Committee, the Safety, Environment and Health Committee (SEH) and the Executive Committee, as to whether the organisation's existing control and governance frameworks are operating effectively in order to meet National Grid's strategic objectives.

Audit work is delivered by employees who typically have either a finance or operational business background and external co-source partners, where specific specialist skills are required.

The annual audit plan is principally risk-based but includes cyclical reviews. Inputs to the plan include risk registers, corporate priorities, external research of emerging risks and trends and discussions with senior management. A number of focus areas are identified, such as financial, regulatory and asset management processes. Appropriate coverage is provided across each of these areas. A tool that captures all auditable areas, prior coverage and inherent process risk is also used to inform of audits that should be undertaken on a cyclical basis.

The plan is reviewed by the Audit Committee in March each year, with focus given to not only the areas which are being covered but also those that are not, so we can make sure that the plan aligns with the Committee's view of risk.

Corporate Audit provides a twice-yearly report to the Audit Committee. The report summarises common control themes arising and progress with implementing management action plans, and also presents information on specific audits as appropriate. Where specific control issues are identified, senior leaders may be invited to attend the Audit Committee to provide a commentary around the actions they are taking to improve the control environment within their area of responsibility.

Auditors' 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 National Grid, and the rotation of the lead engagement partner at least every five years. A new lead engagement partner was appointed for National Grid Gas plc for the 2015/16 financial year.

Business separation

Special Condition 4F of our Retained Distribution Networks Licence requires that the gas Distribution Network businesses comply with the Compliance Statement prepared in accordance with Special Condition 10B of our National Transmission System (NTS) gas transporter licence, which requires that the Company maintains managerial and operational systems such that:

- the Distribution Network (DN) businesses do not gain unfair commercial advantage by reason of the way the Company conducts its NTS business, as required by Standard Special Condition A6; and
- cross-subsidy between the NTS business and the DN businesses is avoided, as required by Standard Special Condition A35.

Our policy on business separation is set out in the Company's Compliance Statement.

We have taken the following specific actions to comply with the requirements of Special Condition 10B:

- established separate management committees for the gas transmission and gas distribution businesses, as described above;
- appointed separate Compliance Committees for each of the gas transmission business and the gas distribution business, as described above. Each Compliance Committee reports directly to the Board of National Grid Gas and also to the Audit Committee of National Grid; and
- appointed a Business Separation Compliance Officer, who reports to the Compliance Committees and twice yearly to the Audit Committee of National Grid.

Standard Special Condition A33 of our gas distribution transporter licence requires that the Company maintains managerial and operational systems such that:

- it's affiliate metering business does not have access to confidential information unless it is made available on an equal basis in accordance with the provisions of Standard Special Condition A33; and
- it manages and operates the transportation business in a way calculated to ensure it does not restrict, prevent or distort competition.

Our policy on business separation is set out in the Company's Compliance Statement.

We have taken the following specific actions to comply with the requirements of Standard Special Condition A33:

- established separate management for the gas distribution business and metering businesses; and
- appointed a Compliance Officer, who reports to the Directors of the licensee through the established Compliance Committee.

Directors' Report

The Directors present their report and the audited consolidated financial statements of the Group for the year ended 31 March 2016. In accordance with the requirements of the Companies Act 2006, the following sections describe the matters that are required for inclusion in the Directors' Report and were approved by the Board. Further details of matters required to be included in the Directors' Report are incorporated by reference into this report, as detailed below.

Directors

The Directors of the company who were in office during the year and up to the date of signing the financial statements were:

Andy Agg	
Julian Allsopp	
Catherine Bell (SID)*	
Mike Calviou	Resigned September 2015
Malcolm Cooper	Resigned January 2016
Clive Elphick (SID)*	
Alan Foster	Appointed January 2016
Chris Murray	Appointed February 2016
John Pettigrew	Resigned February 2016
Neil Pullen	Resigned September 2015
Mark Ripley	
Chris Train	Appointed July 2015
Nick Winser	Resigned July 2015

**sufficiently independent director*

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 2016. Alongside these indemnities, the Company places Directors' and Officers' liability insurance cover for each Director.

Principal activities and business review

A full description of the Company's principal activities, businesses, key performance indicators and principal risks and uncertainties is contained in the Strategic Report on pages 2 to 26, which are incorporated by reference into this report.

Material interests in shares

National Grid Gas plc is a wholly owned subsidiary undertaking of National Grid Gas Holdings Limited. The ultimate parent company of National Grid Gas plc is National Grid plc.

Dividends

During the year, interim dividends totalling £620 million were paid (2014/15: £700 million interim dividend). The Directors have not proposed a final dividend.

Share capital

Share capital remains unchanged. See note 20 to the consolidated financial statement for further details.

Research and development

Expenditure on research and development was £16 million during the year (2014/15: £12 million).

Financial instruments

Details on the use of financial instruments and financial risk management are included in note 25 to the consolidated financial statements.

Future developments

Details of future developments are contained in the Strategic Report.

Employee involvement

Details of how the Company involves its employees are contained in the Strategic Report on pages 15 and 16, which are incorporated by reference into this report.

Audit information

Having made the requisite enquiries, so far as the Directors in office at the date of the signing 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.

Annual General Meeting

Notice of the National Grid Gas's Annual General Meeting for 2016 will be issued separately to the shareholder.

Going concern

Having made enquiries and reviewed management's assessment of the going concern assumption, the Directors consider it appropriate to prepare the financial statements on a going concern basis. The going concern basis 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. More detail on our financial risks, including liquidity and solvency, is provided in note 25 to the consolidated financial statements. There have been no major changes to the Group's significant liquidity and solvency risks in the year. Although not assessed over the same period, the viability of the Group has been assessed on page 26.

On behalf of the Board

Alan Foster
Director
24 June 2016
National Grid Gas plc,
1-3 Strand, London WC2N 5EH
Registered in England and Wales Number 2006000

Introduction to the financial statements

Throughout these financial statements we have included additional information, providing helpful commentary on what the disclosures mean and why they are important to the understanding of our financial performance and position.

Some of this additional information highlight 'Our strategy in action', drawing out the key elements of our business model (set out in the Strategic Report on pages 2 to 26) showing how the disclosures reflect this strategy.

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 provides details of accounting policies that apply to transactions and balances in general.

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, 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 group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (comprising Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland', and applicable law). 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 EU 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 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.

Each of the Directors, whose names are listed on page 33, 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 EU and UK GAAP FRS 102 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 performance, business model and strategy.

On behalf of the Board

Alan Foster
Director
24 June 2016

Independent Auditors' report

to the Members of National Grid Gas plc

Report on the financial statements

Our opinion

In our opinion:

- National Grid Gas 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 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 ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 Statement of Directors' responsibilities 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 (the "Annual Report"), comprise:

- the consolidated statement of financial position as at 31 March 2016;
- the company balance sheet as at 31 March 2016;
- 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 company and consolidated statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by the Companies Act 2006

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.

Other matters on which we are required to report by exception

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 are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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.

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 35, 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

International Standards on Auditing (UK and Ireland) ("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

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

Richard French (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 June 2016

Basis of preparation

(for National Grid Gas plc)

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 Gas plc's principal activities involve the transmission and distribution of gas in Great Britain. The Company is a public limited company incorporated and domiciled in England, with its registered office at 1-3 Strand, London WC2N 5EH.

These consolidated financial statements were approved for issue by the Board of Directors on 24 June 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 International Accounting Standards Board (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 ending 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 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 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 consolidated financial statements have been prepared on a going concern basis following the assessment made by the Directors as set out on page 33. 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. 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). Actual results could differ from these estimates.

A. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. 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 are not recognised, except where the Company or its subsidiaries have made a commitment to make good these losses.

Where necessary, adjustments are made to bring the accounting policies used in the individual financial statements of the Company and its subsidiaries into line with those used by the Company in its consolidated financial statements under IFRS. Inter-company transactions are eliminated.

The results of subsidiaries, 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.

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 see note 11.

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 – note 3.
- environmental and decommissioning provisions – note 19.

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.

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 8 and 9.
- estimation of liabilities for pensions and other post-retirement benefits – notes 4 and 24.
- valuation of financial instruments and derivatives – notes 11 and 25.
- revenue recognition and assessment of unbilled revenue – note 1.
- environmental and decommissioning provisions – note 19.

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 26.

Recent accounting developments

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.

- Amendments to IAS 19 'Defined Benefit Plans: Employee Contributions';
- Annual Improvements to IFRSs 2010-2012 Cycle; and
- Annual improvements to IFRSs 2011-2013 Cycle.

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 after 1 January 2018 and 1 January 2019 respectively, subject to EU endorsement. 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 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 National Grid 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.

Consolidated income statement

for the years ended 31 March

	Notes	**2016 £m**	**2016 £m**	2015 £m	2015 £m
Revenue	1 (a)		**3,152**		3,077
Operating costs	2		**(1,722)**		(1,722)
Operating profit					
Before exceptional items	1 (b)	**1,446**		1,412	
Exceptional items	3	**(16)**		(57)	
Total operating profit	1 (b)		**1,430**		1,355
Finance income	5		**1**		5
Finance costs					
Before exceptional items and remeasurements	5	**(236)**		(269)	
Exceptional items and remeasurements	3, 5	**(9)**		(57)	
Total finance costs	5		**(245)**		(326)
Profit before tax					
Before exceptional items and remeasurements		**1,211**		1,148	
Exceptional items and remeasurements	3	**(25)**		(114)	
Total profit before tax			**1,186**		1,034
Tax					
Before exceptional items and remeasurements	6	**(256)**		(275)	
Exceptional items and remeasurements	3, 6	**179**		37	
Total tax	6		**(77)**		(238)
Profit after tax					
Before exceptional items and remeasurements		**955**		873	
Exceptional items and remeasurements	3	**154**		(77)	
Profit for the year			**1,109**		796
Attributable to:					
Equity shareholders of the parent			**1,107**		792
Non-controlling interests			**2**		4
			1,109		796

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2016 £m	2015 £m
Profit for the year		**1,109**	796
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss			
Net losses in respect of cash flow hedges		**(17)**	(35)
Transferred to profit or loss on cash flow hedges		**13**	9
Tax on items that may be reclassified subsequently to profit or loss	6	**(1)**	4
Total items that may be reclassified subsequently to profit or loss		**(5)**	(22)
Other comprehensive loss for the year, net of tax		**(5)**	(22)
Total comprehensive income for the year		**1,104**	774
Attributable to:			
Equity shareholders of the parent		**1,102**	770
Non-controlling interests		**2**	4
		1,104	774

The value of derivatives held to hedge cash flows is impacted by changes in expected interest rates and in exchange rates. The net loss for the year was £17m (2015: £35m).

Consolidated statement of financial position

as at 31 March

	Notes	2016 £m	2015 £m
Non-current assets			
Intangible assets	8	**252**	250
Property, plant and equipment	9	**12,654**	12,440
Other non-current assets	10	**5,627**	5,610
Derivative financial assets	11	**1,014**	988
Total non-current assets		**19,547**	19,288
Current assets			
Inventories and current intangible assets	12	**26**	26
Trade and other receivables	13	**446**	485
Financial and other investments	14	**137**	384
Derivative financial assets	11	**66**	70
Cash and cash equivalents	15	**-**	1
Total current assets		**675**	966
Total assets		**20,222**	20,254
Current liabilities			
Borrowings	16	**(1,842)**	(2,191)
Derivative financial liabilities	11	**(39)**	(133)
Trade and other payables	17	**(819)**	(911)
Current tax liabilities		**(34)**	(34)
Provisions	19	**(55)**	(39)
Total current liabilities		**(2,789)**	(3,308)
Non-current liabilities			
Borrowings	16	**(7,261)**	(7,158)
Derivative financial liabilities	11	**(527)**	(481)
Other non-current liabilities	18	**(1,047)**	(1,047)
Deferred tax liabilities	6	**(1,548)**	(1,654)
Provisions	19	**(127)**	(171)
Total non-current liabilities		**(10,510)**	(10,511)
Total liabilities		**(13,299)**	(13,819)
Net assets		**6,923**	6,435
Equity			
Share capital	20	**45**	45
Share premium account		**204**	204
Retained earnings		**5,401**	4,908
Cash flow hedge reserve		**(61)**	(56)
Other reserves		**1,332**	1,332
Shareholders' equity		**6,921**	6,433
Non-controlling interests		**2**	2
Total equity		**6,923**	6,435

These consolidated financial statements set out on pages 38 to 76 were approved by the Board of Directors and authorised for issue on 24 June 2016. They were signed on its behalf by:

Chris Murray Chairman

Alan Foster Director

National Grid Gas plc
Registered number: 2006000

Consolidated statement of changes in equity

	Called-up share capital £m	Share premium account £m	Retained earnings £m	Cash flow hedge reserve £m	Other reserves £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
As at 1 April 2014	45	204	4,812	(34)	1,332	6,359	-	6,359
Profit for the year	-	-	792	-	-	792	4	796
Total other comprehensive loss for the year	-	-	-	(22)	-	(22)	-	(22)
Total comprehensive income/(loss) for the year	-	-	792	(22)	-	770	4	774
Equity dividends	-	-	(700)	-	-	(700)	-	(700)
Other movements in non-controlling interests	-	-	-	-	-	-	(2)	(2)
Share-based payment	-	-	6	-	-	6	-	6
Tax on share-based payment	-	-	(2)	-	-	(2)	-	(2)
As at 31 March 2015	45	204	4,908	(56)	1,332	6,433	2	6,435
Profit for the year	-	-	1,107	-	-	1,107	2	1,109
Total other comprehensive loss for the year	-	-	-	(5)	-	(5)	-	(5)
Total comprehensive income/(loss) for the year	-	-	1,107	(5)	-	1,102	2	1,104
Equity dividends	-	-	(620)	-	-	(620)	-	(620)
Other movements in non-controlling interests	-	-	-	-	-	-	(2)	(2)
Share-based payment	-	-	5	-	-	5	-	5
Tax on share-based payment	-	-	1	-	-	1	-	1
At 31 March 2016	**45**	**204**	**5,401**	**(61)**	**1,332**	**6,921**	**2**	**6,923**

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 £7m, and the remainder released with the same maturity profile as borrowings due after more than one year.

Other reserves comprise the capital redemption reserve arising from the refinancing and restructuring of the Lattice Group in 1999. It represents the amount of the reduction in the share capital of the Company as a consequence of that restructuring. As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

Consolidated cash flow statement

for the years ended 31 March

	Notes	**2016** **£m**	2015 £m
Cash flows from operating activities			
Total operating profit	1(b)	**1,430**	1,355
Adjustments for:			
Exceptional items	3	**16**	57
Depreciation, amortisation and impairment		**562**	547
Share-based payment charge		**5**	6
Changes in working capital		**(77)**	24
Changes in provisions		**(32)**	10
Loss/(gain) on disposal of property, plant and equipment		**10**	(41)
Cash flows relating to exceptional items		**(16)**	(98)
Cash generated from operations		**1,898**	1,860
Tax paid		**(161)**	(192)
Net cash inflow from operating activities		**1,737**	1,668
Cash flows from investing activities			
Purchases of intangible assets		**(66)**	(70)
Purchases of property, plant and equipment		**(735)**	(669)
Disposals of property, plant and equipment		**1**	48
Interest received		**1**	5
Net disposals of short-term financial investments		**246**	57
Net cash flow used in investing activities		**(553)**	(629)
Cash flows from financing activities			
Proceeds received from loans		**-**	21
Repayment of loans		**-**	(245)
Net (settlement of)/proceeds from short-term borrowings and derivatives		**(403)**	87
Interest paid		**(169)**	(192)
Dividends paid to shareholders		**(620)**	(700)
Net cash flow used in financing activities		**(1,192)**	(1,029)
Net (decrease)/increase in cash and cash equivalents	21	**(8)**	10
Net cash and cash equivalents at the start of the year		**1**	(9)
Net cash and cash equivalents at the end of the year	15	**(7)**	1

Notes to the consolidated financial statements - analysis of items in the primary statements

1. 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.

We work with our regulators to obtain robust regulatory agreements that balance the risks we face with the opportunity to deliver reasonable returns for our investors. Our regulated businesses earn revenue for the transmission and distribution services they have provided during the year. In any one year, the revenue recognised may differ from the revenue allowed under our regulatory agreements and any such timing differences are adjusted against future prices.

Revenue primarily represents the sales value derived from the transmission and distribution of gas and the provision of gas metering services during the year including an assessment of the value of services provided, but not invoiced, at the year end. It excludes value added tax and intra-group sales.

The sales value for the transmission and distribution of gas is largely determined from the amount of system capacity sold for the year, and the amount of gas transported for the year, evaluated at contractual prices on a monthly basis. The sales value for the provision of gas metering services is largely derived from monthly charges for the provision of individual meters under contractual arrangements.

Where revenue for the year exceeds the maximum amount permitted by regulatory agreement, and adjustments will be made to future prices to reflect this over-recovery, a liability for the over-recovery is not recognised as such an adjustment to future prices relates to the provision of future services. Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

Revenue includes income arising from the sale of properties as a result of property management activities, from the sale of emission allowances and from the recovery of pension deficit from other gas transporters under regulatory arrangement.

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 is National Grid Gas plc'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 3). The following table describes the main activities for each operating segment:

Gas Transmission - The gas transmission network in Great Britain and UK liquefied natural gas (LNG) storage activities
Gas Distribution - Four of the eight regional networks of Great Britain's gas distribution system

Other activities relate to the gas metering business which provides regulated gas metering activities in the UK, the Xoserve business which provides transportation transaction services on behalf of all the major gas network transportation companies, including ourselves, together with corporate activities.

There have been no changes to our reporting structure for the year ended 31 March 2016. All of the Group's sales and operations take place within the UK.

Sales between businesses are priced having regard to the regulatory and legal requirements that the businesses are subject to, which include requirements to avoid cross-subsidies.

1. Segmental analysis (continued)

(a) Revenue

	2016 Total sales £m	**2016 Sales between segments £m**	**2016 Sales to third parties £m**	2015 Total sales £m	2015 Sales between segments £m	2015 Sales to third parties £m
Operating segments						
Gas Transmission	**1,047**	**(107)**	**940**	1,023	(105)	918
Gas Distribution	**1,921**	**(29)**	**1,892**	1,868	(38)	1,830
Other activities	**351**	**(31)**	**320**	356	(27)	329
	3,319	**(167)**	**3,152**	3,247	(170)	3,077

Analysis of revenue by major customer:	**2016 £m**	2015 £m
Customer A	**774**	714
Customer B	**323**	282

These revenues are attributable to the Gas Transmission, Gas Distribution and Other activities. No other single customer contributed 10% or more to the Group's revenue in either 2016 or 2015.

(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 3.

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Operating segments				
Gas Transmission	**400**	439	**400**	354
Gas Distribution	**869**	826	**869**	855
Other activities	**177**	147	**161**	146
	1,446	1,412	**1,430**	1,355
Reconciliation to profit before tax:				
Operating profit	**1,446**	1,412	**1,430**	1,355
Finance income	**1**	5	**1**	5
Finance costs	**(236)**	(269)	**(245)**	(326)
Profit before tax	**1,211**	1,148	**1,186**	1,034

(c) Property, plant and equipment and intangible assets

	Net book value of property, plant and equipment and intangible assets		Capital expenditure		Depreciation and amortisation	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Operating segments						
Gas Transmission	**4,140**	4,132	**186**	184	**178**	172
Gas Distribution	**8,378**	8,130	**549**	498	**298**	286
Other activities	**388**	428	**56**	62	**86**	89
	12,906	12,690	**791**	744	**562**	547
By asset type						
Property, plant and equipment	**12,654**	12,440	**725**	674	**498**	487
Intangible assets	**252**	250	**66**	70	**64**	60
	12,906	12,690	**791**	744	**562**	547

2. 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.

	Before exceptional items and remeasurements		Exceptional items and remeasurements		Total	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Depreciation and amortisation	**562**	547	**-**	-	**562**	547
Payroll costs	**299**	291	**-**	-	**299**	291
Purchases of gas	**91**	97	**-**	-	**91**	97
Rates	**251**	246	**-**	-	**251**	246
Pension deficit charges (i)	**99**	-	**-**	98	**99**	98
Inventory consumed	**42**	41	**-**	-	**42**	41
Operating leases	**13**	15	**-**	-	**13**	15
Research and development expenditure	**16**	12	**-**	-	**16**	12
Other	**333**	416	**16**	(41)	**349**	375
	1,706	1,665	**16**	57	**1,722**	1,722

(i) Pension deficit charges in 2015 arise from recovery plan contributions to the National Grid UK Pension Scheme. For the year ended 31 March 2016 these recurring charges are no longer presented as exceptional.

(a) Payroll costs

	2016 £m	2015 £m
Wages and salaries	**270**	257
Social security costs	**29**	29
Pension costs	**61**	56
Share-based payment	**5**	6
Severance costs (excluding pension costs)	**7**	9
	372	357
Less: payroll costs capitalised	**(73)**	(66)
	299	291

(b) Number of employees, including Directors

	31 March 2016 Number	31 March 2015 Number	**Monthly Average 2016 Number**	Monthly Average 2015 Number
Gas Transmission	**895**	885	**878**	873
Gas Distribution	**3,648**	3,455	**3,608**	3,485
Other	**1,585**	1,555	**1,568**	1,530
	6,128	5,895	**6,054**	5,888

Other comprises National Grid Metering, Xoserve and employees working in shared services supporting the Gas Transmission and Gas Distribution businesses.

(c) Key management compensation

	2016 £m	2015 £m
Short-term employee benefits	**3**	3
Post-employment benefits	**1**	3
Share-based payment	**2**	2
	6	8

Key management comprises the Board of Directors of the Company together with those Executive Directors of National Grid plc who have managerial responsibility for any of the businesses of National Grid Gas plc.

2. Operating costs (continued)

(d) Directors' emoluments

The aggregate amount of emoluments (excluding social security, pensions and share-based payment) paid to Directors of the company in respect of qualifying services for 2016 was £1,846,672 (2015: £2,085,729).

Four Directors including the highest paid Director exercised share options during 2016 (2015: ten Directors including the highest paid Director).

A number of the current Directors are also Directors and employees of National Grid plc or a subsidiary undertaking of that Company and are paid by these companies.

As at 31 March 2016, retirement benefits were accruing to nine Directors under a defined benefit scheme (2015: seven Directors under a defined benefit scheme).

The aggregate emoluments for the highest paid Director were £441,239 for 2016 (2015: £691,839) and total accrued annual pension at 31 March 2016 for the highest paid Director was £71,618 (2015: £nil).

(e) Auditors' remuneration

	2016 £m	2015 £m
Audit services		
Audit of parent company and consolidated financial statements	**0.3**	0.3
Other services		
Fees payable to the company's auditors for audit-related assurance services	**0.2**	0.5
Other non audit services	**8.0**	-

Fees payable to the Company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are required to be carried out by the auditors. Other non audit services primarily includes amounts incurred in respect of the potential disposal of a majority stake in the Gas Distribution business (vendor due diligence and separation support). These fees have been subject to approval by the Audit Committee of National Grid plc.

3. 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 we believe these items are individually important to understanding our financial performance. 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 National Grid Gas 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 debt redemption costs as a consequence of transactions such as significant disposals or issues of equity.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value 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 financial indices and prices over which we have no control.

3. Exceptional items and remeasurements (continued)

	2016 £m	2015 £m
Included within operating profit:		
Exceptional items:		
Transaction costs	**(16)**	-
Sale of surplus land to National Grid Property	**-**	41
Pension deficit charges	**-**	(98)
	(16)	(57)
Included within finance costs:		
Exceptional items:		
Debt redemption costs	**-**	(31)
Remeasurements:		
Net losses on derivative financial instruments	**(9)**	(26)
	(9)	(57)
Total included within profit before tax	**(25)**	(114)
Included within taxation:		
Exceptional credit arising on items not included in profit before tax:		
Deferred tax credit arising on the reduction in the UK tax rate	**174**	3
Tax on exceptional items	**3**	21
Tax on remeasurements	**2**	13
	179	37
Total exceptional items and remeasurements after tax	**154**	(77)
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	**161**	(64)
Total remeasurements after tax	**(7)**	(13)
Total	**154**	(77)

Further detail of operating exceptional items specific to 2015/16
In November 2015, National Grid plc 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 £16m in National Grid Gas plc were recognised in respect of this potential transaction.

Further detail of operating exceptional items in respect of previous years
Pension deficit charges in 2015 arise from recovery plan contributions to the National Grid UK Pension Scheme. For the year ended 31 March 2016 these recurring charges are no longer presented as exceptional.

Debt redemption costs in the year ending 31 March 2015 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. This has resulted in a bond repurchase programme of £127m.

Remeasurements
Net losses on derivative financial instruments comprise gains and losses 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 No. 2 Bill 2015 resulted in 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. This led to a reduction in the deferred tax liability during the year ending March 2016 which has been classified as exceptional. 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. These reductions have resulted in decreases to UK deferred tax liabilities in these periods.

4. Pensions

We have employees who are members of the National Grid UK Pension Scheme which is a defined benefit scheme closed to new entrants. The fair value of scheme assets and present value of defined benefit obligations are updated annually. For further details of the National Grid UK Pension Scheme terms and the actuarial assumptions used to value the associated assets and obligations, see note 24. Membership of the National Grid YouPlan defined contribution trust is offered to all new employees.

The substantial majority of the Group's employees are members of the National Grid UK Pension Scheme or The National Grid YouPlan. There is no contractual arrangement or stated policy for charging the net defined benefit cost of the scheme across the National Grid Group. Accordingly, the scheme is recognised as if it were a defined contribution scheme. The pension charge for the year represents contributions payable to the scheme for the period. A share of the assets and liabilities, or the actuarial gains and losses of the scheme are not recognised in these financial statements.

Risks

The defined benefit pension obligations 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 UK debt markets and will fluctuate as yields change. Scheme 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 liability recognised in the consolidated statement of financial position of National Grid plc.

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.

The scheme’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. 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.

The following disclosures relate to the scheme as a whole which are recognised in the consolidated financial statements of National Grid plc.

	2016 £m	2015 £m
Amounts recognised in the consolidated statement of financial position of National Grid plc		
Present value of funded obligations	**(16,560)**	(17,236)
Fair value of scheme assets (note 24)	**16,845**	17,073
	285	(163)
Present value of unfunded obligations	**(30)**	(29)
Net defined benefit asset/(liability)	**255**	(192)
Reconciliation of the net defined benefit asset/(liability)		
Opening defined benefit liability	**(192)**	(243)
Cost recognised in the income statement	**(69)**	(79)
Remeasurement effects recognised in the statement of other comprehensive income	**357**	(37)
Employer contributions	**159**	167
Closing net defined benefit asset/(liability)	**255**	(192)
Changes in the present value of defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligations	**(17,265)**	(15,695)
Current service cost	**(47)**	(47)
Interest cost	**(557)**	(659)
Actuarial losses - financial assumptions	**-**	(1,629)
Actuarial losses - demographic assumptions	**-**	(88)
Actuarial gains - experience	**509**	113
Past service cost - redundancies	**-**	(1)
Special termination benefit cost - redundancies	**(6)**	(14)
Past service cost - augmentations	**(1)**	(3)
Employee contributions	**(1)**	(1)
Benefits paid	**778**	759
Closing defined benefit obligations	**(16,590)**	(17,265)
Changes in the fair value of scheme assets		
Opening fair value of scheme assets	**17,073**	15,452
Interest income	**553**	651
Return on assets (less)/greater than assumed	**(152)**	1,567
Administration costs	**(11)**	(6)
Employer contributions	**159**	167
Employee contributions	**1**	1
Benefits paid	**(778)**	(759)
Closing fair value of scheme assets	**16,845**	17,073
Actual return on scheme assets	**401**	2,218
Expected contributions to defined benefit scheme in the following year	**154**	151

5. Finance income and costs

This note details the interest income generated by our financial assets and the interest expense incurred on financial liabilities. 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 an exceptional item (see note 3).

	2016 £m	2015 £m
Finance income		
Interest income on financial instruments	**1**	5
Finance income	**1**	5
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**(25)**	(32)
Other borrowings	**(277)**	(308)
Derivatives	**69**	60
Unwinding of discount on provisions	**(5)**	(7)
Other interest	**(2)**	(2)
Less: interest capitalised (i)	**4**	20
	(236)	(269)
Exceptional items		
Debt redemption costs	**-**	(31)
Remeasurements		
Net gains/(losses) on derivative financial instruments included in remeasurements (ii):		
Ineffectiveness on derivatives designated as:		
Fair value hedges (iii)	**20**	17
Cash flow hedges	**(6)**	(2)
Derivatives not designated as hedges or ineligible for hedge accounting	**(23)**	(41)
Exceptional items and remeasurements included within finance costs	**(9)**	(57)
	(245)	(326)
Net finance costs	**(244)**	(321)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 3.23% (2015: 4.25%). Capitalised interest qualifies for a current year tax deduction with tax relief claimed of £1m (2015: £4m).

(ii) Includes a net foreign exchange loss on financing activities of £77m (2015: £55m). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

(iii) Includes a net gain on instruments designated as fair value hedges of £22m (2015: £117m) offset by a net loss of £2m (2015: £94m) arising from the fair value adjustments to the carrying value of debt.

6. Taxation

This note gives further details of the 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 accounting and tax bases.

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 taxation authorities. The tax rates and tax laws used to compute the amounts are those that are 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 taxable profit or

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the Group 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 taxation 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
Tax before exceptional items and remeasurements	**256**	275
Exceptional tax on items not included in profit before tax (note 3)	**(174)**	(3)
Tax on other exceptional items and remeasurements	**(5)**	(34)
Tax on total exceptional items and remeasurements (note 3)	**(179)**	(37)
Total tax charge	**77**	238

Taxation as a percentage of profit before tax	**%**	%
Before exceptional items and remeasurements	**21.1**	24.0
After exceptional items and remeasurements	**6.5**	23.0

The tax charge for the year can be analysed as follows:	**£m**	£m
Current tax		
UK corporation tax at 20% (2015: 21%)	**187**	174
UK corporation tax adjustment in respect of prior years	**(3)**	9
Total current tax	**184**	183
Deferred tax		
UK deferred tax	**(110)**	54
UK deferred tax adjustment in respect of prior years	**3**	1
Total deferred tax	**(107)**	55
Total tax charge	**77**	238

Tax (credited)/charged to other comprehensive income and equity	**2016 £m**	2015 £m
Current tax		
Share-based payment	**(1)**	(2)
Deferred tax		
Share-based payment	**-**	4
Cash flow hedges	**1**	(4)
	-	(2)
Total tax recognised in the statement of comprehensive income	**1**	(4)
Total tax relating to share-based payment recognised directly in equity	**(1)**	2
	-	(2)

6. Taxation (continued)

The tax charge for the year after exceptional items and remeasurements is lower (2015: higher) than the standard rate of corporation tax in the UK of 20% (2015: 21%):

	Before exceptional items and remeasure-ments 2016 £m	**After exceptional items and remeasure-ments 2016 £m**	Before exceptional items and remeasure-ments 2015 £m	After exceptional items and remeasure-ments 2015 £m
Profit before tax				
Before exceptional items and remeasurements	**1,211**	**1,211**	1,148	1,148
Exceptional items and remeasurements	**-**	**(25)**	-	(114)
Profit before tax	**1,211**	**1,186**	1,148	1,034
Profit before tax multiplied by UK corporation tax rate of 20% (2015: 21%)	**242**	**237**	241	217
Effects of:				
Adjustments in respect of prior years	**-**	**-**	10	9
Expenses not deductible for tax purposes	**7**	**7**	8	8
Non-taxable income	**(6)**	**(6)**	(1)	(1)
Impact of share-based payment	**-**	**-**	4	4
Deferred tax impact of change in UK tax rate	**-**	**(174)**	-	(3)
Other	**13**	**13**	13	4
Total tax	**256**	**77**	275	238
	%	**%**	%	%
Effective tax rate	**21.1**	**6.5**	24.0	23.0

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 £86m and reduce the tax expense for the period by £86m.

Taxation 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:

Deferred tax (assets)/liabilities	Accelerated tax depreciation £m	Share-based payment £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2014	-	(12)	-	(15)	(27)
Deferred tax liabilities at 31 March 2014	1,616	-	-	10	1,626
At 1 April 2014	1,616	(12)	-	(5)	1,599
Charged/(credited) to income statement	47	3	(2)	7	55
Credited to other comprehensive income and equity	-	4	(4)	-	-
At 31 March 2015	1,663	(5)	(6)	2	1,654
Deferred tax assets at 31 March 2015	-	(5)	(6)	(8)	(19)
Deferred tax liabilities at 31 March 2015	1,663	-	-	10	1,673
At 1 April 2015	1,663	(5)	(6)	2	1,654
(Credited)/charged to income statement	(106)	-	(2)	1	(107)
Charged to other comprehensive income and equity	-	-	1	-	1
At 31 March 2016	**1,557**	**(5)**	**(7)**	**3**	**1,548**
Deferred tax assets at 31 March 2016	-	(5)	(7)	(6)	(18)
Deferred tax liabilities at 31 March 2016	1,557	-	-	9	1,566
At 31 March 2016	**1,557**	**(5)**	**(7)**	**3**	**1,548**

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 £1,548m (2015: £1,654m). At the balance sheet date there were no material current deferred tax assets or liabilities (2015: £nil).

7. Dividends

Dividends represents 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 meet our gearing target, 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.

The following table shows the dividends paid to equity shareholders:

	2016		2015	
	pence (per ordinary share)	**2016 £m**	pence (per ordinary share)	2015 £m
Ordinary dividends				
Interim dividend paid in the year	**15.72**	**620**	17.75	700

8. Intangible assets

Intangible assets relate to software, which is written down (amortised) over the 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. Intangible assets 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 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 that 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.

Intangible assets under development are not amortised. Other non-current intangible assets are amortised on a straight-line basis over their estimated useful economic lives. The amortisation period for software is up to 8 years.

	Software £m
Cost at 1 April 2014	480
Additions	70
Reclassifications (i)	14
Cost at 31 March 2015	564
Additions	66
Cost at 31 March 2016	630
Accumulated amortisation at 1 April 2014	(248)
Amortisation charge for the year	(60)
Reclassifications (i)	(6)
Accumulated amortisation at 31 March 2015	(314)
Amortisation charge for the year	(64)
Accumulated amortisation at 31 March 2016	(378)
Net book value at 31 March 2016	**252**
Net book value at 31 March 2015	250

(i) Reclassifications represents amounts transferred from property, plant and equipment (see note 9).

9. Property, plant and equipment

This 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.

We operate a gas transmission and distribution 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.

All contributions received prior to 1 July 2009 towards the cost of property, plant and equipment and contributions received post 1 July 2009 towards the altering, diverting or relocating a tangible fixed asset 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 towards the cost of tangible fixed assets from customers for connections to the gas transmission and distribution networks are initially recognised as deferred income and credited to revenue once the connection has been completed. Contributions received post 1 July 2009 towards the provision of ongoing access to a supply of services 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 assessment 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:

Depreciation periods	Years
Freehold and leasehold buildings	up to 50
Plant and Machinery	
- mains, services and regulating equipment	30 to 100
- meters and metering equipment	10 to 16
Motor vehicles and office equipment	up to 7

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 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 material impairments may be disclosed separately.

Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

9. 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	376	18,227	365	524	19,492
Additions	47	514	87	26	674
Disposals	-	(29)	-	(6)	(35)
Reclassifications (i)	-	(1)	(17)	4	(14)
Cost at 31 March 2015	423	18,711	435	548	20,117
Additions	24	584	93	24	725
Disposals	-	(38)	-	(1)	(39)
Reclassifications (i)	-	256	(262)	6	-
Cost at 31 March 2016	447	19,513	266	577	20,803
Accumulated depreciation at 1 April 2014	(145)	(6,679)	-	(395)	(7,219)
Depreciation charge for the year (ii)	(36)	(401)	-	(52)	(489)
Disposals	-	21	-	4	25
Reclassifications (i)	-	-	-	6	6
Accumulated depreciation at 31 March 2015	(181)	(7,059)	-	(437)	(7,677)
Depreciation charge for the year (ii)	(40)	(411)	-	(49)	(500)
Disposals	-	27	-	1	28
Accumulated depreciation at 31 March 2016	(221)	(7,443)	-	(485)	(8,149)
Net book value at 31 March 2016	**226**	**12,070**	**266**	**92**	**12,654**
Net book value at 31 March 2015	242	11,652	435	111	12,440

(i) Represents amounts transferred between categories during 2016 and 2015, and also to intangible assets in 2015 (see note 8).

(ii) Includes amounts in respect of capitalised depreciation £2m (2015: £2m).

	2016 £m	2015 £m
Information in relation to property, plant and equipment		
Capitalised interest included within cost	**224**	220
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	**31**	31
Non-current liabilities	**1,008**	1,000

10. Other non-current assets

Other non-current assets includes assets that do not fall into any other non-current asset category (such as 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
Loans and receivables - amounts owed by parent	**5,609**	5,609
Prepayments	**17**	-
Other receivables	**1**	1
	5,627	5,610

The amount owed by the parent is non-contractual, and its fair value is approximate to book value.

11. 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, equity or other indices. In accordance with the National Grid 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.

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 25.

For each class of derivative instrument type the fair value amounts are as follows:

	2016			2015		
	Asset £m	**Liabilities £m**	**Total £m**	Asset £m	Liabilities £m	Total £m
Interest rate swaps	**595**	**(346)**	**249**	656	(405)	251
Cross-currency interest rate swaps	**482**	**(13)**	**469**	400	(15)	385
Foreign exchange forward contracts	**2**	**(1)**	**1**	1	(1)	-
Inflation linked swaps	**1**	**(206)**	**(205)**	1	(193)	(192)
Total	**1,080**	**(566)**	**514**	1,058	(614)	444

The maturity profile of derivative financial instruments is as follows:

	2016			2015		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
In one year or less	**66**	**(39)**	**27**	70	(133)	(63)
Current	**66**	**(39)**	**27**	70	(133)	(63)
In 1 - 2 years	**21**	**(11)**	**10**	4	(9)	(5)
In 2 - 3 years	**43**	**(63)**	**(20)**	37	(20)	17
In 3 - 4 years	**80**	**(63)**	**17**	47	(83)	(36)
In 4 - 5 years	**-**	**-**	**-**	83	(67)	16
More than 5 years	**870**	**(390)**	**480**	817	(302)	515
Non-current	**1,014**	**(527)**	**487**	988	(481)	507
	1,080	**(566)**	**514**	1,058	(614)	444

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

	2016 £m	2015 £m
Interest rate swaps	**(4,378)**	(4,756)
Cross-currency interest rate swaps	**(913)**	(887)
Foreign exchange forward contracts	**(46)**	(39)
Inflation linked swaps	**(762)**	(739)
	(6,099)	(6,421)

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

11. Derivative financial instruments (continued)

Where possible, derivatives held as hedging instruments are formally designated as hedges as defined in IAS 39 'Financial Instruments: Recognition and Measurement' 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 Gas uses two 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.

	2016 £m	2015 £m
Cross-currency interest rate/interest rate swaps	**494**	427

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 forecasted 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	**162**	132
Foreign exchange forward contracts	**1**	-
Inflation linked swaps	**(85)**	(61)
Cash flow hedges	**78**	71

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	**62**	77
Inflation linked swaps	**(120)**	(131)
Derivatives not in a formal hedge relationship	**(58)**	(54)

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. 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.

12. Inventories and current intangible assets

Inventories represent assets that we intend to use in order to generate revenue in future periods, either 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, 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
Raw materials and consumables	**24**	25
Current intangible assets - emission allowances	**2**	1
	26	26

There is a provision for obsolescence of £5m against inventories as at 31 March 2016 (2015: £5m).

13. Trade and other receivables

Trade and other receivables are amounts which are due from our customers for services we have provided. Other receivables also include prepayments made by us, for example, property lease rentals paid in advance.

Trade, loan 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.

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.

	2016 £m	2015 £m
Trade receivables	**85**	66
Amounts owed by fellow subsidiaries of National Grid plc	**7**	61
Accrued income	**288**	273
Prepayments	**57**	80
Other receivables	**9**	5
	446	485

Provision for impairment of receivables	2016 £m	2015 £m
At 1 April	**4**	3
Charge for the year	**1**	-
Uncollectible amounts written off	**(1)**	-
Releases	**(3)**	1
At 31 March	**1**	4

Trade receivables past due but not impaired

	2016 £m	2015 £m
Up to 3 months past due	**2**	3
3 to 6 months past due	**1**	-
Over 6 months past due	**1**	1
	4	4

For further information about wholesale credit risk refer to note 25(a).

14. 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
Current		
Available-for-sale investments (i)	**-**	194
Loans and receivables - amounts due from fellow subsidiaries	**21**	22
Loans and receivables - restricted cash balances (ii)	**116**	168
	137	384

(i) Includes £nil (2015: £92m) which is restricted and relates to assets held within security accounts with charges in favour of the UK pension scheme trustees.

(ii) Comprises collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £116m (2015: £164m) and secured bank accounts with charges in favour of the UK pension schemes Trustees of £nil (2015: £4m).

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 25(a). None of the financial investments are past due or impaired.

15. 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 25(d).

	2016 **£m**	2015 £m
Cash at bank and short-term deposits	**-**	1
Cash and cash equivalents excluding bank overdrafts	**-**	1
Bank overdrafts (note 16)	**(7)**	-
Net cash and cash equivalents	**(7)**	1

16. Borrowings

We borrow money primarily in the form of bonds, borrowings from fellow subsidiaries and bank loans. These are for a fixed term and may have fixed or floating interest rates or are linked to the retail price index (RPI). As indicated in note 11, we use derivatives to manage risks associated with interest rates and foreign exchange.

Our price controls require us to fund our networks with 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 ratings 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	**473**	446
Bonds	**125**	78
Other loans	**1**	1
Borrowings from ultimate parent company	**1,236**	1,334
Borrowings from fellow subsidiaries of National Grid plc	**-**	332
Bank overdrafts	**7**	-
	1,842	2,191
Non-current		
Bank loans	**908**	898
Bonds	**5,865**	5,797
Other loans	**171**	150
Borrowings from ultimate parent company	**317**	313
	7,261	7,158
Total	**9,103**	9,349

Total borrowings are repayable as follows:	2016 £m	2015 £m
Less than 1 year	**1,842**	2,191
In 1 - 2 years	**270**	43
In 2 - 3 years	**429**	276
In 3 - 4 years	**364**	410
In 4 - 5 years	**7**	365
More than 5 years:		
by instalments	**51**	52
other than by instalments	**6,140**	6,012
	9,103	9,349

The fair value of borrowings at 31 March 2016 was £10,267m (2015: £10,978m). Where market values were available, fair value of borrowings (Level 1) was £3,419m (2015: £3,517m). Where market values were not available, the fair value of borrowings (Level 2) was £6,848m (2015: £7,461m), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2016 was £8,969m (2015: £9,252m).

None of the Group's borrowings are secured by charges over assets of the Group.

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 £470m (2015: £441m) in respect of cash received under collateral agreements.

At 31 March 2016, we had bilateral committed credit facilities of £350m (2015: £400m) of which £350m was undrawn (2015: £400m undrawn). All of the unused facilities at 31 March 2016 and 31 March 2015 were held as backup to commercial paper and similar borrowings.

17. Trade and other payables

Trade and other payables includes 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. Due to their short maturities, the fair value of trade and other payables approximates their book value.

	2016	2015
	£m	£m
Trade payables	**445**	459
Amounts owed to fellow subsidiaries of National Grid plc	**120**	216
Deferred income	**95**	97
Social security and other taxes	**79**	92
Other payables	**80**	47
	819	911

18. 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.

All other non-current liabilities are recorded at amortised cost. There is no material difference between the fair value and the carrying value of other non-current liabilities.

	2016	2015
	£m	£m
Trade payables	**-**	1
Deferred income	**1,047**	1,046
	1,047	1,047

19. 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 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, other provisions, and lease contracts we have entered into that are now loss making.

We are committed to the protection and enhancement of the environment. However, we have acquired, owned and operated a number of assets 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.

	Decommissioning £m	Environmental £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 2014	72	70	44	50	236
Additions	11	-	7	15	33
Unused amounts reversed	-	(13)	(3)	(5)	(21)
Unwinding of discount	3	3	1	-	7
Utilised	(15)	(1)	(23)	(6)	(45)
At 31 March 2015	71	59	26	54	210
Additions	2	4	3	6	15
Unused amounts reversed	(8)	-	(1)	(3)	(12)
Unwinding of discount	2	2	1	-	5
Utilised	(20)	(1)	(11)	(4)	(36)
At 31 March 2016	**47**	**64**	**18**	**53**	**182**

	2016 £m	2015 £m
Current	**55**	39
Non-current	**127**	171
	182	210

Decommissioning provision
The decommissioning provision represents expenditure relating to the demolition of gas and LNG storage facilities expected to be incurred until 2020.

Environmental provision
The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the Company (discounted using a real rate of 2.0%). Cash flows are expected to be incurred between 2016 and 2058.

A number of uncertainties affect the calculation of the provision including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. The provision incorporates our best estimate of the financial effect of these uncertainties, but future material changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount of the provision at 31 March 2016 was £87m (2015: £85m), being the undiscounted best estimate of the liability having regard to these uncertainties.

Restructuring provision
At 31 March 2016, £13m consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties (2015: £13m). The expected payment dates for property restructuring costs remain uncertain. The remainder of the restructuring provision related to business reorganisation costs. The majority of these costs are expected to be incurred within the next 12 months.

Other provisions
Other provisions at 31 March 2016 include £22m (2015: £22m) in respect of employer liability claims. In accordance with insurance industry practice, these estimates for employer liability claims are based on experience from previous years and, therefore, there is no identifiable payment date. Other provisions also include £31m (2015: £32m) in respect of distribution asset protection costs and metering claims.

20. Share capital

Ordinary share capital represents the total number of shares issued.

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.

	Number of shares 2016 millions	Number of shares 2015 millions	**2016 £m**	2015 £m
At 31 March 2015 and 2016 - ordinary shares of $1^{2}/_{15}$p each				
Allotted, called-up and fully paid	**3,944**	3,944	**45**	45

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

21. Net Debt

Net debt represents the amount of cash and financial investments held, less borrowings, overdrafts and related derivatives.

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
(Decrease)/increase in cash and cash equivalents	**(8)**	10
Decrease in financial investments	**(246)**	(57)
Decrease in borrowings and related derivatives	**403**	134
Net interest paid on the components of net debt	**168**	190
Change in net debt resulting from cash flows	**317**	277
Changes in fair value of financial assets and liabilities and exchange movements	**(16)**	(51)
Net interest charge on the components of net debt	**(233)**	(306)
Movement in net debt (net of related derivative financial instruments) in the year	**68**	(80)
Net debt (net of related derivative financial instruments) at the start of the year	**(8,520)**	(8,440)
Net debt (net of related derivative financial instruments) at the end of the year	**(8,452)**	(8,520)

Composition of net debt

Net debt is made up as follows:

	2016 £m	2015 £m
Cash, cash equivalents and financial investments	**137**	385
Borrowings and bank overdrafts	**(9,103)**	(9,349)
Derivatives	**514**	444
Total net debt	**(8,452)**	(8,520)

(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 debt £m
At 1 April 2014	-	(9)	(9)	441	(9,199)	327	(8,440)
Cash flow	1	9	10	(62)	369	(40)	277
Fair value gains and losses and exchange movements	-	-	-	-	(148)	97	(51)
Interest charges	-	-	-	5	(371)	60	(306)
At 31 March 2015	1	-	1	384	(9,349)	444	(8,520)
Cash flow	(1)	(7)	(8)	(247)	624	(52)	317
Fair value gains and losses and exchange movements	-	-	-	-	(69)	53	(16)
Interest charges	-	-	-	-	(302)	69	(233)
At 31 March 2016	**-**	**(7)**	**(7)**	**137**	**(9,096)**	**514**	**(8,452)**
Balances at 31 March 2016 comprise:							
Non-current assets	-	-	-	-	-	1,014	1,014
Current assets	-	-	-	137	-	66	203
Current liabilities	-	(7)	(7)	-	(1,835)	(39)	(1,881)
Non-current liabilities	-	-	-	-	(7,261)	(527)	(7,788)
	-	**(7)**	**(7)**	**137**	**(9,096)**	**514**	**(8,452)**

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 risk that could affect us in the future.

22. Commitments and contingencies

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets their obligations. These commitments primarily relate to operating lease rentals and energy purchase agreements which, in many cases, extend over a long period of time. We also disclose any guarantees that companies have given, where we pledge assets against current obligations which will remain for a specific period.

Future capital expenditure

	2016 £m	2015 £m
Contracted for but not provided	**561**	466

Operating lease commitments

	2016 £m	2015 £m
Amounts due:		
Less than 1 year	**14**	15
In 1 - 2 years	**11**	12
In 2 - 3 years	**9**	8
In 3 - 4 years	**8**	7
In 4 - 5 years	**5**	7
More than 5 years	**17**	19
	64	68

Other commitments, contingencies and guarantees

The value of other commitments and guarantees at 31 March 2016 amounted to £197m (2015: £285m), including energy purchase commitments amounting to £97m (2015: £159m). 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.

Parent Company loan guarantees on behalf of subsidiaries

The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its subsidiaries to third parties. At 31 March 2016, the sterling equivalent amounted to £1,234m (2015: £1,195m).

Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £6m (2015: £7m).

Litigation and claims

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.

23. Related party transactions

A related party is a company or individual who also 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 Gas plc. The related parties identified include fellow subsidiaries, joint ventures, associated undertakings, 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:

	Parent		Other related parties		Total	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Income:						
Goods and services supplied	**-**	-	**16**	17	**16**	17
Expenditure:						
Services received	**-**	-	**21**	13	**21**	13
Corporate services received	**-**	-	**16**	18	**16**	18
Charges in respect of pensions costs	**-**	-	**61**	57	**61**	57
Interest paid on borrowings from fellow subsidiaries (i)	**-**	-	**15**	20	**15**	20
	-	-	**113**	108	**113**	108
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:						
Amounts receivable	**-**	-	**7**	61	**7**	61
Amounts payable	**-**	-	**120**	216	**120**	216
Advances to parent and fellow subsidiaries (due within one year):						
At 1 April	**21**	21	**-**	-	**21**	21
At 31 March	**21**	21	**-**	-	**21**	21
Advances to parent (due after more than one year):						
At 1 April	**5,609**	5,609	**-**	-	**5,609**	5,609
At 31 March	**5,609**	5,609	**-**	-	**5,609**	5,609
Borrowings payable to fellow subsidiaries (amounts due within one year):						
At 1 April	**-**	-	**1,666**	1,926	**1,666**	1,926
Advances	**-**	-	**-**	1,361	**-**	1,361
Repayments	**-**	-	**(430)**	(1,621)	**(430)**	(1,621)
At 31 March	**-**	-	**1,236**	1,666	**1,236**	1,666
Borrowings payable to fellow subsidiaries (due after more than one year):						
At 1 April	**-**	-	**313**	-	**313**	-
Advances	**-**	-	**4**	313	**4**	313
At 31 March	**-**	-	**317**	313	**317**	313

(i) The interest paid on borrowings from ultimate parent and fellow subsidiaries for 2015 has been re-presented on a basis consistent with the current year. treatment.

Amounts receivable from or payable to related parties in respect of sales and expenditure are ordinarily settled one month in arrears. The advance to the parent due after more than one year is not interest bearing. Advances to and borrowings from fellow subsidiaries are repayable on demand and bear interest at commercial rates.

No amounts have been provided at 31 March 2016 (2015: £nil) and no expense has been recognised during the year (2015: £nil) in respect of bad or doubtful debts for related party transactions.

Details of guarantees provided in respect of related parties are provided in note 22.

Details of key management compensation are provided in note 2(c).

24. Actuarial information on pensions and other post-retirement benefits

Further details of the defined benefit scheme 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 defined benefit scheme.

National Grid UK Pension Scheme

The National Grid UK Pension Scheme is funded with assets held in a separate trustee administered fund. The arrangements are managed by a trustee company with a board 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 its beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with National Grid, the qualified actuary certifies the rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable. The 2016 valuation processes have commenced.

The results of the 2013 valuation are shown below:

Latest full actuarial valuation	31 March 2013
Actuary	Willis Towers Watson
Market value of scheme assets at latest valuation	£15,569m
Actuarial value of benefits due to members	£17,332m
Market value as percentage of benefits	90%
Funding deficit	£1,763m
Funding deficit (net of tax)	£1,446m

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 National Grid income statement and a change to the salary increase assumption which affects how our defined benefit liabilities as at 31 March have been calculated. These changes are to ensure our scheme remains affordable and sustainable over the coming years.

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 £98m were made by National Grid Gas in 2014/15 and £99m by National Grid Gas 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 defined contribution 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).

The National Grid YouPlan

The YouPlan is a defined contribution 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 all new hires are enrolled into YouPlan.

Asset allocations

Within the asset allocations below there is significant diversification across regions, asset managers, currencies and bond categories.

	2016 Quoted £m	**2016 Unquoted £m**	**2016 Total £m**	2015 Quoted £m	2015 Unquoted £m	2015 Total £m
Equities (i)	**2,460**	**803**	**3,263**	3,069	608	3,677
Corporate bonds (ii)	**5,526**	**-**	**5,526**	6,273	-	6,273
Government securities	**5,961**	**-**	**5,961**	4,513	-	4,513
Property	**-**	**987**	**987**	-	993	993
Diversified alternatives (iii)	**-**	**505**	**505**	-	716	716
Other	**601**	**2**	**603**	890	11	901
Total	**14,548**	**2,297**	**16,845**	14,745	2,328	17,073

(i) Included within equities at 31 March 2016 were ordinary shares of National Grid plc with a value of £7m (2015: £14m).

(ii) 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).

(iii) Includes return seeking non-conventional asset classes.

24. Actuarial information on pensions and other post-retirement benefits (continued)

Target asset allocations

National Grid UK Pension Scheme'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 scheme as at 31 March 2016 is as follows:

	%
Equities	**21**
Other	**79**
Total	**100**

Actuarial assumptions

National Grid has applied the following financial assumptions in assessing defined benefit liabilities.

	2016	2015
	%	%
Discount rate (i)	**3.3**	3.3
Rate of increase in salaries (ii)	**3.2**	3.2
Rate of increase in RPI (iii)	**2.9**	2.9

(i). The discount rate for pension liabilities has been determined by reference to appropriate yields on high quality corporate bonds prevailing in the UK debt market at the reporting date.

(ii). A promotional scale has also been used where appropriate. The assumption stated is that relating to service prior to 1 April 2014. The assumption for the rate of increase in salaries for service after this date is 2.1% (2015: 2.1%).

(iii). This is the key assumption that determines assumed increases in pensions in payment and deferment. The assumptions were 2.9% (2015: 2.9%) for increases in pensions in payment and 2.9% (2015: 2.9%) for increases in pensions in deferment.

For sensitivity analysis, see note 26.

Assumed life expectations for a retiree age 65.	**2016**	2015
	years	years
Today:		
Males	**22.4**	22.4
Females	**25.1**	25.0
In 20 years:		
Males	**24.7**	24.5
Females	**27.5**	27.2

25. Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate 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 National Grid 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; 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 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 instruments. Our limits are managed by the central treasury department of National Grid.

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.

Customer credit risk

Our principal commercial exposure is governed by the credit rules within the Uniform Network Code. These set out the level of credit relative to the regulatory asset value (RAV) for each credit rating. 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. 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 13.

25. Financial risk management (continued)

(a) Credit risk (continued)

Offsetting financial assets and liabilities
The following tables set out 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 Gas'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 (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

National Grid Gas 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		
	Gross carrying amounts	Gross amounts offset	Net amount presented in statement of financial position	Financial instruments	Cash collateral received/ pledged	Net amount
As at 31 March 2016	£m	£m	£m	£m	£m	£m
Assets						
Derivative financial instruments	1,080	-	1,080	(428)	(460)	192
	1,080	-	1,080	(428)	(460)	192
Liabilities						
Derivative financial instruments	(566)	-	(566)	428	103	(35)
	(566)	-	(566)	428	103	(35)
Total	514	-	514	-	(357)	157

				Related amounts available to be offset but not offset in statement of financial position		
	Gross carrying amounts	Gross amounts offset	Net amount presented in statement of financial position	Financial instruments	Cash collateral received/ pledged	Net amount
As at 31 March 2015	£m	£m	£m	£m	£m	£m
Assets						
Derivative financial instruments	1,058	-	1,058	(415)	(439)	204
	1,058	-	1,058	(415)	(439)	204
Liabilities						
Derivative financial instruments	(614)	-	(614)	415	152	(47)
	(614)	-	(614)	415	152	(47)
Total	444	-	444	-	(287)	157

25. Financial risk management (continued)

(b) Liquidity risk

We 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 adequacy 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 22 can be met from existing cash and investments, operating cash flows and internal or external financing 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 maintaining current rating levels. Failure to comply with these covenants, or to obtain waivers of these 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 to 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	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings	**(1,756)**	**(263)**	**(417)**	**(6,533)**	**(8,969)**
Interest payments on borrowings (i)	**(203)**	**(189)**	**(175)**	**(2,238)**	**(2,805)**
Other non-interest bearing liabilities	**(525)**	**-**	**-**	**-**	**(525)**
Derivative financial liabilities					
Derivative contracts - receipts	**104**	**196**	**406**	**654**	**1,360**
Derivative contract - payments	**(61)**	**(216)**	**(328)**	**(346)**	**(951)**
Total at 31 March 2016	**(2,441)**	**(472)**	**(514)**	**(8,463)**	**(11,890)**

At 31 March 2015	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings	(2,105)	(42)	(263)	(6,842)	(9,252)
Interest payments on borrowings (i)	(199)	(200)	(189)	(2,447)	(3,035)
Other non-interest bearing liabilities	(505)	(1)	-	-	(506)
Derivative financial liabilities					
Derivative contract - receipts	308	99	151	758	1,316
Derivative contract - payments	(179)	(58)	(169)	(624)	(1,030)
Total at 31 March 2015	(2,680)	(202)	(470)	(9,155)	(12,507)

(i) 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.

25. Financial risk management (continued)

(c) Interest rate risk

Interest rate risk arises from our long-term borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk, partially offset by cash held at variable rates. Borrowings issued at fixed rates expose us 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 16 (borrowings) 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 2016 and 2015, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2016				
	Fixed rate £m	**Floating rate £m**	**RPI £m**	**Other (i) £m**	**Total £m**
Financial investments	**-**	**116**	**-**	**21**	**137**
Borrowings	**(3,018)**	**(2,030)**	**(4,055)**	**-**	**(9,103)**
Pre-derivative position	**(3,018)**	**(1,914)**	**(4,055)**	**21**	**(8,966)**
Derivative effect	**1,836**	**(1,374)**	**52**	**-**	**514**
Net debt position (ii)	**(1,182)**	**(3,288)**	**(4,003)**	**21**	**(8,452)**
	2015				
Cash and cash equivalents	-	1	-	-	1
Financial investments	194	190	-	-	384
Borrowings	(2,922)	(2,449)	(3,978)	-	(9,349)
Pre-derivative position	(2,728)	(2,258)	(3,978)	-	(8,964)
Derivative effect	1,738	(1,356)	62	-	444
Net debt position (ii)	(990)	(3,614)	(3,916)	-	(8,520)

(i) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.

(ii) The impact of 2016/17 (2015/16 maturing) short-dated interest rate derivatives is included.

(d) Currency risk

We are exposed to foreign exchange risk arising from non-sterling future commercial transactions and non-sterling recognised assets and liabilities.

Our policy for managing foreign exchange risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where foreign currency cash forecasts are less certain, our policy is to hedge a proportion of the 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.

During 2016 and 2015, derivative financial instruments were used to manage foreign currency risk as follows:

	2016				
	Sterling £m	**Euro £m**	**Dollar £m**	**Other £m**	**Total £m**
Financial investments	**137**	**-**	**-**	**-**	**137**
Borrowings	**(7,498)**	**(210)**	**(1,041)**	**(354)**	**(9,103)**
Pre-derivative position	**(7,361)**	**(210)**	**(1,041)**	**(354)**	**(8,966)**
Derivative effect	**(1,075)**	**177**	**1,059**	**353**	**514**
Net debt position	**(8,436)**	**(33)**	**18**	**(1)**	**(8,452)**
	2015				
Cash and cash equivalents	1	-	-	-	1
Financial investments	384	-	-	-	384
Borrowings	(7,868)	(192)	(968)	(321)	(9,349)
Pre-derivative position	(7,483)	(192)	(968)	(321)	(8,964)
Derivative effect	(1,027)	159	993	319	444
Net debt position	(8,510)	(33)	25	(2)	(8,520)

There was no significant currency exposure on other financial instruments, including trade receivables and payables, and other receivables and payables.

25. Financial risk management (continued)

(e) 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 21). Our objectives when managing capital are: to safeguard our ability to continue as a going concern, to remain within regulatory constraints of our regulated operating company 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 company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by regulatory asset value (RAV) gearing calculated as net debt expressed as a percentage of RAV, which indicates the level of debt employed to fund our regulated business. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for our business, at around 62.5 - 65%. The RAV gearing ratio at 31 March 2016 was 59% compared with 61% at 31 March 2015.

(f) 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	**-**	**-**	**-**	**-**	194	-	-	194
Derivative financial instruments	**-**	**1,080**	**-**	**1,080**	-	1,058	-	1,058
	-	**1,080**	**-**	**1,080**	194	1,058	-	1,252
Liabilities								
Derivative financial instruments	**-**	**(493)**	**(73)**	**(566)**	-	(546)	(68)	(614)
Total	**-**	**587**	**(73)**	**514**	194	512	(68)	638

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

Our level 3 derivative financial instruments include 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.

The changes in value of our level 3 derivative financial instruments are as follows:

	2016 £m	2015 £m
At 1 April	**(68)**	(46)
Net losses for the year (i)	**(5)**	(22)
At 31 March	**(73)**	(68)

(i) Loss of £5m (2015: £22m loss) is attributable to derivative financial instruments held at the end of the reporting period and have been recognised in finance costs in the income statement.

The impacts on a post-tax basis of reasonably possible changes in significant level 3 assumptions are as follows:

	2016 Income Statement £m	2015 Income Statement £m
+ 20 basis points change in LPI market curve (i)	**(31)**	(30)
- 20 basis points change in LPI market curve (i)	**30**	29

(i) 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.

26. 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 table 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 table 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 £29 million 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 increase in useful economic lives (pre-tax)				
Depreciation charge on property, plant and equipment	**12**	**12**	12	12
Amortisation charge on intangible assets	**7**	**7**	8	8
Estimated future cash flows in respect of provisions change of 10% (pre-tax)	**18**	**18**	21	21
Assets and liabilities carried at fair value change of 10% (pre-tax)				
Derivative financial instruments (i)	**51**	**51**	44	44
Unbilled revenue at 31 March change of 10% (post-tax)	**29**	**29**	27	27
No hedge accounting for our derivative financial instruments (post tax)	**(7)**	**2**	54	79

(i). The effect of a 10% change in fair value assumes no hedge accounting.

	2016		2015	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
Financial risk (post-tax)				
UK RPI rate change of 0.5% (i)	**17**	**-**	16	-
UK interest rate changes of 0.50%	**12**	**26**	14	28

(i). Excludes sensitivities to LPI curve. Further details on sensitivities are provided in note 25 (f).

No sensitivities have been included for pensions and other post-retirement benefits, as the National Grid UK Pension Scheme is recognised as a defined contribution scheme as set out in note 4.

Financial instruments assumptions

Our financial instruments are sensitive to changes in market variables, being UK interest rates and the UK RPI. The changes in market variables impacts the valuation of our borrowings, deposits and derivative financial instruments. 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; and
- 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.

27. Ultimate parent company

This note shows the immediate and ultimate parent companies for these consolidated financial statements.

National Grid Gas plc's immediate parent company is National Grid Gas Holdings Limited. The ultimate parent company and controlling party is National Grid plc. Both of these companies are incorporated in Great Britain and are registered in England and Wales. National Grid plc consolidates the financial statements of National Grid Gas plc. Copies of the consolidated financial statements of National Grid plc may be obtained from the Company Secretary, 1-3 Strand, London WC2N 5EH.

28. Subsidiary undertakings, and joint ventures

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. Our structure has evolved through acquisitions as well as regulatory requirements to have certain activities within separate legal entities.

Subsidiary undertakings
The list below contains all subsidiaries included within the National Grid Gas plc Group.

	Principal activity	Holding
British Transco Capital Inc. (incorporated in the US)	Financing	100%
British Transco Finance Inc. (incorporated in the US)	Financing	100%
British Transco International Finance BV (incorporated in the Netherlands)	Financing	100%
National Grid Gas Finance (No. 1) plc	Financing	100%
National Grid Metering Limited	Gas metering services	100%
Xoserve Limited	Gas transportation transaction services	56.57%

Unless otherwise stated all subsidiaries are incorporated in England and Wales.

During the year ended 31 March 2016, as part of a group-wide restructuring exercise, National Grid Gas disposed of its entire shareholding in British Transco Finance (No.1) Limited and British Transco Finance (No.2) Limited, resulting in a gain of £26m.

Joint ventures
The list below contains all joint ventures included within the National Grid Gas plc Group.

	Principal activity	Holding
Joint Radio Company Limited (incorporated in England and Wales)	Consultancy services	50%

Joint Radio Company Limited is based at 52 Dean Bradley House, Horseferry Road, London, SW1P 2AF.

Company accounting policies

for the year ended 31 March 2016

We are required to include the stand-alone balance sheet of our parent Company, National Grid Gas plc, under the Companies Act 2006, and the statement of changes of equity under Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS 102”). Details of the transition to FRS 102 are disclosed in note 18. The following disclosures provide additional information to stakeholders.

A. Basis of preparation of individual financial statements under FRS 102

National Grid Gas plc’s principal activities involve the transmission and distribution of gas in Great Britain. The Company is a public limited company incorporated and domiciled in England, with its registered office at 1-3 Strand, London, WC2N 5EH.

These individual financial statements are the first to be prepared in accordance with FR S102. Accordingly the date of transition is 1 April 2014. The 2015 comparative financial information has also been prepared on this basis. These individual financial statements of the Company have been prepared in accordance with UK Accounting Standards, including FRS 102 and the Companies Act 2006.

The individual financial statements of the Company have been prepared on a 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 2015 comparative financial information has also been prepared on this basis.

The individual financial statements have been prepared on a going concern basis following the assessment made by the Directors as set on page 33.

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 exemption, under FRS 102 paragraph 1.12(b), from preparing a cash flow statement.

The Company has also taken advantage of the exemption, under FRS 102 paragraph 1.12 (d), from making disclosures relating to share based payments as the equivalent disclosures are included in the consolidated financial statements of the Group, and also under paragraph 1.12(e), from disclosing transactions with other members of the National Grid group of companies.

In accordance with exemptions under FRS 102 paragraph 1.12(c), 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. 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:

- environmental and decommissioning provisions – note 14.

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 consistent with those of the Group accounts, and are as follows:

- review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – notes 8 and 9.
- estimation of liabilities for pensions and other post-retirement benefits – notes 4 and 24.
- valuation of financial instruments and derivatives – notes 11 and 25.
- revenue recognition and assessment of unbilled revenue – note 1.
- environmental and decommissioning provisions – note 19.

C. 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.

D. Intangible assets

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over the length of period we expect to receive benefit from the asset. The principal amortisation period for software is eight years.

Intangible assets 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 are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

E. Tangible fixed assets

Tangible fixed assets are included in the balance sheet at their cost less accumulated depreciation. Costs include payroll costs and finance costs incurred which are directly attributable to the construction of tangible fixed assets, as well as the cost of any asset retirement obligations.

Tangible fixed assets include assets in which the Company's interest comprises legally protected statutory or contractual rights of use.

Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, extensions to, enhancements to, or replacement of existing assets.

Contributions received towards the cost of tangible fixed assets from customers for connections to the gas transmission and distribution networks are initially recognised as deferred income and credited to revenue once the connection has been completed. Contributions received towards the provision of ongoing access to a supply of services are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided. Contributions received towards the altering, diverting or relocating a tangible fixed asset are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the estimated useful economic lives of the assets to which they relate.

Depreciation is not provided on freehold land or assets in the course of construction. Other tangible fixed assets are depreciated on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives.

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

In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of tangible fixed assets are, in general, as shown in the following table:

Depreciation periods	Years
Freehold and leasehold properties	up to 50
Plant and machinery:	
– Mains, services and regulating equipment	30 to 100
– Meters and metering equipment	10 to 16
Motor vehicles and office equipment	up to 7

F. 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, where value in use is the present value of future cash flows expected to be derived from an asset.

G. Impairment of fixed assets

Impairments of fixed assets are calculated as the difference between the carrying values of the net assets of income generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit.

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that fixed assets are not carried above their estimated recoverable amounts. Impairments are recognised in the profit and loss account, and, where material, are disclosed as exceptional. Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

H. Taxation

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 taxation 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.

I. Stocks

Stocks are stated at cost less provision for deterioration and obsolescence. Cost is determined on the first-in, first-out (FIFO) method. Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the stocks to their present location and condition.

J. Environmental costs

Environmental costs, based on discounted future estimated expenditures expected to be incurred, are provided for in full. The unwinding of the discount is included within the profit and loss account as a financing charge.

K. Revenue

Revenue represents the sales value derived from the transmission and distribution of gas and the provision of gas metering services during the year, including an assessment of services provided, but not invoiced as at the year end. It excludes value added tax and intra-company sales.

Where revenue for the year exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery, a liability for the over- recovery is not recognised as such an adjustment to future prices relates to the provision of future services. Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under- recovery.

L. Pensions

The Company's employees are members of either the defined benefit National Grid UK Pension Scheme or the National Grid YouPlan defined contribution trust. There is no contractual arrangement or stated policy for charging the net defined benefit cost of the National Grid UK Pension Scheme to the Company. Accordingly, the Company accounts for the defined benefit section of the scheme as if it were a defined contribution scheme.

M. Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Operating lease payments are charged to the profit and loss account on a straight-line basis over the term of the lease.

N. Financial instruments

The Company's accounting policies under FRS 102 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 11, 13, 14, 15, 16 and 17 to the consolidated financial statements. The Company is taking the exemption for financial instruments disclosures, because IFRS 7 disclosures are given in the notes to the consolidated financial statements.

O. 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 11 to the consolidated financial statements.

P. Share-based payments

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

Q. Parent Company guarantees

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due from certain subsidiary undertakings 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.

R. Environmental provision

The environmental provision is calculated on a discounted basis and represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Company.

S. Emission allowances

Emission allowances, which relate to the emissions of carbon dioxide, are recorded as an intangible asset within current assets and are initially recorded at cost, and subsequently at the lower of cost and fair value less costs to sell. For allocations of emission allowances granted by the UK Government, cost is deemed to be equal to fair value at the date of allocation.

Receipts of such grants are treated as deferred income and are recognised in the income statement in the period in which carbon dioxide emissions are made. A provision is recorded in respect of the obligation to deliver emission allowances and charges are recognised in the income statement in the period in which carbon dioxide emissions are made.

T. Dividends

Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised in the financial year in which they are approved.

Company balance sheet

as at 31 March

	Notes	2016 £m	2015 £m
Fixed assets			
Intangible assets	5	**239**	232
Tangible assets	6	**12,628**	12,427
Investments	7	**17**	17
		12,884	12,676
Current assets			
Stocks and other current assets	8	**26**	26
Debtors (amounts falling due within one year)	9	**469**	478
Debtors (amounts falling due after more than one year)	9	**5,650**	5,628
Derivative financial instruments (amounts falling due within one year)	10	**66**	70
Derivative financial instruments (amounts falling due after more than one year)	10	**1,014**	988
Investments		**117**	599
Cash at bank and in hand		**-**	4
		7,342	7,793
Creditors (amounts falling due within one year)	11	**(2,819)**	(3,527)
Net current assets		**4,523**	4,266
Total assets less current liabilities		**17,407**	16,942
Creditors (amounts falling due after more than one year)	12	**(8,265)**	(8,114)
Provisions for liabilities and charges	14	**(1,807)**	(1,948)
Net assets		**7,335**	6,880
Capital and reserves			
Share capital	15	**45**	45
Share premium account		**204**	204
Cash flow hedge reserve		**(61)**	(56)
Capital redemption reserve		**1,332**	1,332
Profit and loss account		**5,815**	5,355
Total equity		**7,335**	6,880

The notes on pages 83 to 89 form part of the individual financial statements of the Company, which were approved by the Board of Directors and authorised for issue on 24 June 2016 and were signed on its behalf by:

Chris Murray Chairman

Alan Foster Director

National Grid Gas plc
Registered number: 2006000

Company statement of changes in equity

for the years ended 31 March

	Share capital £m	Share premium account £m	Profit and loss account £m	Cash flow hedge reserve £m	Other reserves £m	Total equity £m
As at 1 April 2014	45	204	5,274	(34)	1,332	6,821
Profit for the year	-	-	777	-	-	777
Total other comprehensive loss for the year	-	-	-	(22)	-	(22)
Total comprehensive income/(loss) for the year	-	-	777	(22)	-	755
Equity dividends	-	-	(700)	-	-	(700)
Share-based payment	-	-	6	-	-	6
Tax on share-based payment	-	-	(2)	-	-	(2)
As at 31 March 2015	45	204	5,355	(56)	1,332	6,880
Profit for the year	-	-	1,074	-	-	1,074
Total other comprehensive loss for the year	-	-	-	(5)	-	(5)
Total comprehensive income/(loss) for the year	-	-	1,074	(5)	-	1,069
Equity dividends	-	-	(620)	-	-	(620)
Share-based payment	-	-	5	-	-	5
Tax on share-based payment	-	-	1	-	-	1
At 31 March 2016	**45**	**204**	**5,815**	**(61)**	**1,332**	**7,335**

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 £9m, and the remainder released with the same maturity profile as borrowings due after more than one year.

Other reserves comprise the capital redemption reserve arising from the refinancing and restructuring of the Lattice Group in 1999. It represents the amount of the reduction in the share capital of the Company as a consequence of that restructuring. As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

The Company is prohibited from declaring a dividend or other distribution unless it has certified that it is in compliance in all material respects with certain regulatory obligations, including a requirement to ensure it has sufficient financial resources and facilities to enable it to carry on its business and a requirement to use all reasonable endeavours to maintain an investment grade credit rating.

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The Company's profit after taxation was £1,074m (2015: £777m).

For further details of dividends paid and payable to shareholders, refer to note 7 in the consolidated financial statements.

Notes to the Company financial statements

1. Auditors' remuneration

Auditors' remuneration in respect of the Company is set out below:

	2016 £m	2015 £m
Audit services		
Audit fee of Company	**0.3**	0.3
Other services		
Fees payable to the company's auditors for audit-related assurance services	**0.2**	0.2
Other non audit services	**7.7**	-

Fees payable to the Company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are required to be carried out by the auditors. Other non audit services primarily includes amounts incurred in respect of the potential disposal of a majority stake in the Gas Distribution business (vendor due diligence and separation support). These fees have been subject to approval by the Audit Committee of National Grid plc.

2. Number of employees, including Directors

	2016 Monthly Average number	2015 Monthly Average number
Gas Transmission	**878**	873
Gas Distribution	**3,608**	3,485
Other	**934**	832
	5,420	5,190

Other comprises employees working in shared services supporting the Gas Transmission and Gas Distribution businesses.

3. Key management compensation

Key management comprises the Board of Directors of the Company together with those Executive Directors of National Grid plc who have managerial responsibility for National Grid Gas plc. Details of key management personnel compensation are provided in note 2(d) to the consolidated financial statements.

4. Pensions

Substantially all the Company's employees are members of either the defined benefit National Grid UK pension scheme or the National Grid YouPlan defined contribution trust. There is no contractual arrangement or stated policy for charging the net defined benefit cost of the National Grid UK Pension Scheme to the Company. Accordingly, the Company accounts for the defined benefit section of the scheme as if it were a defined contribution scheme.

The disclosures required by FRS 102 are the same as those required by IAS 19 (revised) and are provided in notes 4 and 24 to the consolidated financial statements.

5. Intangible assets

	Software £m
Cost at 31 March 2015	536
Additions	66
Cost at 31 March 2016	602
Accumulated amortisation at 31 March 2015	(304)
Amortisation charge for the year	(59)
Accumulated amortisation at 31 March 2016	(363)
Net book value at 31 March 2016	**239**
Net book value at 31 March 2015	232

6. Tangible assets

	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	421	18,743	410	517	20,091
Additions	23	586	76	24	709
Disposals	-	(38)	-	(1)	(39)
Reclassifications (i)	-	256	(262)	6	-
Cost at 31 March 2016	444	19,547	224	546	20,761
Accumulated depreciation at 1 April 2015	(181)	(7,070)	-	(413)	(7,664)
Depreciation charge for the year	(39)	(413)	-	(45)	(497)
Disposals	-	27	-	1	28
Accumulated depreciation at 31 March 2016	(220)	(7,456)	-	(457)	(8,133)
Net book value at 31 March 2016	**224**	**12,091**	**224**	**89**	**12,628**
Net book value at 31 March 2015	240	11,673	410	104	12,427

(i) Represents amounts transferred between categories.

The cost of tangible fixed assets at 31 March 2016 included £224m (2015: £219m) relating to interest capitalised. Interest was capitalised at the rate of 3.2% (2015: 4.3%)

The net book value of land and buildings comprised:

	2016 £m	2015 £m
Freehold	**133**	151
Short leasehold (under 50 years)	**91**	89
	224	240

Included within creditors (amounts falling due within one year) and creditors (amounts falling due after more than one year) are contributions to the cost of tangible fixed assets amounting to £8m (2015: £8m) and £445m (2015: £435m) respectively.

7. Investments

	Shares in subsidiary undertakings £m
Cost and net book value at 31 March 2015 and 31 March 2016	**17**

The names of the subsidiary undertakings and joint ventures are included in note 28 to the consolidated financial statements.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

8. Stocks and other current assets

	2016 £m	2015 £m
Raw materials and consumables	**24**	25
Other current assets - emission allowances	**2**	1
	26	26

9. Debtors

	2016 £m	2015 £m
Amounts falling due within one year:		
Trade debtors	**84**	63
Amounts owed by fellow subsidiary undertakings	**37**	61
Other debtors	**6**	4
Accrued income	**286**	272
Prepayments	**56**	78
	469	478
Amounts falling due after more than one year:		
Amounts owed by immediate parent undertaking (i)	**5,609**	5,609
Other debtors	**41**	19
	5,650	5,628
Total debtors	**6,119**	6,106

(i) The amount owed by the parent is non-contractual.

The carrying values stated above are considered to represent the fair values of the assets.

10. Derivative financial instruments

The fair value of derivative financial instruments are:

	2016			2015		
	Assets £m	**Liabilities** £m	**Total** £m	Assets £m	Liabilities £m	Total £m
Amounts falling due in one year	**66**	**(39)**	**27**	70	(133)	(63)
Amounts falling due after more than one year	**1,014**	**(527)**	**487**	988	(481)	507
	1,080	**(566)**	**514**	1,058	(614)	444

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

	2016 £m	2015 £m
Interest rate swaps	**(4,378)**	(4,756)
Cross-currency interest rate swaps	**(913)**	(887)
Foreign exchange forward contracts	**(46)**	(39)
Inflation linked swaps	**(762)**	(739)
	(6,099)	(6,421)

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

For details on fair value techniques and assumptions, refer to note 25 to the consolidated financial statements.

11. Creditors (amounts falling due within one year)

	2016 £m	2015 £m
Derivative financial instruments (note 10)	**39**	133
Borrowings (note 13)	**1,981**	2,493
Trade creditors	**297**	316
Amounts owed to fellow subsidiary undertakings	**119**	217
Corporation tax	**34**	34
Other taxation and social security	**78**	91
Other creditors	**73**	46
Deferred income	**198**	197
	2,819	3,527

12. Creditors (amounts falling due after more than one year)

	2016 £m	2015 £m
Derivative financial instruments (note 9)	**527**	481
Borrowings (note 13)	**7,252**	7,150
Other creditors	**-**	1
Accruals and deferred income	**486**	482
	8,265	8,114

Deferred income mainly comprises contributions to capital projects.

13. Borrowings

The following table analyses the Company's total borrowings:

	2016 £m	2015 £m
Amounts falling due within one year:		
Bank loans and overdrafts	**481**	446
Bonds	**120**	74
Borrowings from subsidiary undertakings	**143**	306
Borrowings from fellow subsidiary undertakings	**-**	332
Borrowings from ultimate parent company	**1,236**	1,334
Other loans	**1**	1
	1,981	2,493
Amounts falling due after more than one year:		
Bank loans	**907**	898
Bonds	**5,000**	5,008
Borrowings from subsidiary undertakings	**857**	781
Borrowings from ultimate parent company	**317**	313
Other loans	**171**	150
	7,252	7,150
Total borrowings	**9,233**	9,643

	2016 £m	2015 £m
Total borrowings are repayable as follows:		
Less than 1 year	**1,981**	2,493
In 1 - 2 years	**270**	43
In 2 - 3 years	**221**	276
In 3 - 4 years	**364**	410
In 4 - 5 years	**7**	365
More than 5 years by instalments	**51**	52
More than 5 years, other than by instalments	**6,339**	6,004
	9,233	9,643

The notional amount outstanding of the Company's debt portfolio at 31 March 2016 was £8,731m (2015: £9,140m).

None of the Company's borrowings are secured by charges over assets of the Company.

14. Provisions for liabilities and charges

	Decommissioning £m	Environmental £m	Restructuring £m	Deferred taxation £m	Other £m	Total £m
At 1 April 2015	71	60	24	1,741	52	1,948
Charged to profit and loss account	2	4	3	(119)	6	(104)
Transferred to reserves	-	-	-	1	-	1
Utilised	(20)	(1)	(8)	-	(4)	(33)
Released	(8)	-	-	-	(2)	(10)
Unwinding of discount	2	2	1	-	-	5
At 31 March 2016	**47**	**65**	**20**	**1,623**	**52**	**1,807**

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas and LNG storage facilities expected to be incurred until 2020.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the Company (discounted using a real rate of 2.0%). Cash flows are expected to be incurred between 2016 and 2058.

A number of uncertainties affect the calculation of the provision including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. The provision incorporates our best estimate of the financial effect of these uncertainties, but future material changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount of the provision at 31 March 2016 was £87m (2015: £85m), being the undiscounted best estimate of the liability having regard to these uncertainties.

Restructuring provision

At 31 March 2016, £13m consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties (2015: £13m). The expected payment dates for property restructuring costs remain uncertain. The remainder of the restructuring provision related to business reorganisation costs. The majority of these costs are expected to be incurred within the next 12 months.

Deferred taxation

Deferred taxation comprises:

	2016 £m	2015 £m
Accelerated capital allowances	**1,641**	1,759
Other timing differences	**(18)**	(18)
	1,623	1,741

Other provisions

Other provisions at 31 March 2016 include £21m (2015: £21m) in respect of employer liability claims. In accordance with insurance industry practice, these estimates for employer liability claims are based on experience from previous years and, therefore, there is no identifiable payment date. Other provisions also include £31m (2015: £31m) in respect of distribution and metering claims.

15. Share capital

	Number of shares 2016 millions	Number of shares 2015 millions	**2016 £m**	2015 £m
At 31 March 2015 and 2016 - ordinary shares of $1^2/_{15}$p each Allotted, called-up and fully paid	**3,944**	3,944	**45**	45

National Grid Gas plc is a wholly owned subsidiary undertaking of National Grid Gas Holdings Limited.

16. Commitments and contingencies

Future capital expenditure

	2016 £m	2015 £m
Contracted for but not provided	**553**	462

Operating lease commitments

	2016 £m	2015 £m
Amounts due:		
Not later than one year	**13**	14
Later than one year and not later than five years	**29**	33
Later than five years	**12**	19
	54	66

(c) Other commitments and contingencies

The value of other commitments, contingencies and guarantees at 31 March 2016 amounted to £172m (2015: £235m), including energy purchase commitments amounting to £97m (2015: £159m). 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.

(d) Parent Company loan guarantees on behalf of subsidiary undertakings

The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its subsidiaries to third parties. At 31 March 2016, the sterling equivalent amounted to £1,234m (2015: £1,195m).

(e) Litigation and claims

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.

17. Related parties

The following material transactions are with a subsidiary of the Company which is not wholly owned by National Grid plc and are in the normal course of business. Other related party transactions are not disclosed in accordance with the exemptions available under FRS 102.

	2016 £m	2015 £m
Goods and services supplied	**5**	3
Services received	**31**	27
Amounts payable at 31 March	**(1)**	(1)

Amounts payable or receivable are ordinarily settled one month in arrears. No amounts have been provided at 31 March 2016 (2015: £nil) and no expense has been recognised during the year (2015: £nil) in respect of bad or doubtful debts from the above related party transactions.

18. Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 was 1 April 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 March 2015 and the total equity as at 1 April 2014 and 31 March 2015 between UK GAAP as previously reported and FRS 102.

Profit for the financial year	2015 £m
UK GAAP as previously reported	604
Adjustments for:	
Replacement expenditure to tangible assets (i)	230
Replacement expenditure contributions to deferred income (ii)	(11)
Capital expenditure contributions from deferred income (iii)	(4)
Total adjustment to profit before tax for the financial year	215
Deferred tax impact of adjustments	
Replacement expenditure to tangible assets (iv)	(45)
Replacement expenditure contributions to deferred income (iv)	3
Total adjustment to tax expense	(42)
Total adjustment to profit for the financial year	173
FRS 102	777

Total equity	1 April 2014 £m	31 March 2015 £m
UK GAAP as previously reported	2,371	2,258
Adjustments for:		
Replacement expenditure to tangible assets (i)	5,350	5,581
Replacement expenditure contributions to deferred income (ii)	(432)	(443)
Capital expenditure contributions from deferred income (iii)	639	636
Deferred tax impact of adjustments (iv)		
Replacement expenditure to tangible assets	(1,070)	(1,116)
Capital expenditure contributions from deferred income	(128)	(128)
Replacement expenditure contributions to deferred income	86	89
Deferred Tax in respect of share based payments charged to Equity (v)	5	3
FRS 102	6,821	6,880

(i) Under previous UK GAAP, replacement expenditure was required to be recognised within operating costs and represents the cost of planned maintenance of mains and service assets by replacing or lining sections of pipe. Under FRS 102 replacement expenditure is treated as the replacement of a related component and, assuming these costs meet the recognition criteria, is recognised as additions to tangible fixed assets. The adjustment of £230m comprises £362m relating to the replacement expenditure in the year, offset by £132m relating to the depreciation charge on replacement expenditure.

(ii) Under previous UK GAAP, replacement expenditure contributions were credited to the profit and loss account as received. Under FRS 102, replacement expenditure contributions are initially recorded as deferred income and released to the profit and loss account over the life of the related asset.

(iii) Under previous UK GAAP, contributions to capital expenditure are initially recorded as deferred income and released to the profit and loss account over the life of the related asset. Under FRS 102, contributions to capital expenditure are recorded as revenue when the services to which they relate are provided.

(iv) The Company has accounted for deferred tax on transition as follows:

(a) Adding back replacement expenditure to tangible assets - Deferred tax of £1,070m has been recognised at 20% on the replacement expenditure adjustment recognised on transition at 1 April 2014. In the year ended 31 March 2015 the company has recognised a charge of £46m in the profit and loss account in respect of the increase in replacement expenditure.

(b) Remove capital expenditure contributions from deferred income - Deferred tax of £128m has been recognised at 20% on the capital contributions adjustment recognised on transition at 1 April 2014. No charge was recorded in the profit and loss account in the year ended 31 March 2015.

(c) Adding back replacement expenditure contributions to deferred income - Deferred tax of £86m has been recognised at 20% of the replacement expenditure contributions adjustment recognised on transition at 1 April 2014. In the year ended 31 March 2015 the company has recognised a credit of £2m in the profit and loss account in respect of the increase in replacement expenditure contributions.

(v) Under previous UK GAAP a deferred tax asset could not be recognised in respect of share based payment charges recognised in equity. Under FRS 102 a deferred tax asset is recognised in equity.

Glossary and definitions

References to the 'Company', 'we', 'our', and 'us', refer to National Grid Gas plc itself or to National Grid Gas plc and its subsidiaries collectively, depending on context.

EU
European Union

FRS
UK Financial Reporting Standard

GAAP
Generally accepted accounting principles

GHG
Greenhouse Gas

GW
Gigawatt, 10^9 watts

GWh
Gigawatt hours

HSE
Health and Safety Executive

IAS
International Accounting Standard

IASB
International Accounting Standards Board

IFRIC
International Financial Reporting Standards Interpretations Committee

IFRS
International Financial Reporting Standard

KPI
Key Performance Indicator

LNG
Liquefied natural gas

Lost time injury
A work-related injury which causes a person to be away from work for at least one normal shift after the shift on which the injury occurs, because the person is unfit to perform his or her duties

National Grid
National Grid plc, the ultimate parent Company of National Grid Gas plc and its controlling party

Ofgem
The Office of Gas and Electricity Markets

tonnes CO_2 equivalent
Measure of greenhouse gas emissions in relation to the impact of carbon dioxide

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

RIIO
The revised regulatory framework issued by Ofgem which was implemented in the eight year price controls which started on 1 April 2013

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.
UK regulated return on equity is a measure of how a business is performing operationally against the 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.

RPI
UK Retail Prices Index

TW
Terawatt, 10^{12} watts

TWh
Terawatt hours

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