### **Financial Statements**

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### Introduction to the Financial Statements

Throughout these financial statements we have provided explanations of the disclosures and why they are important to the understanding of our financial performance and position. In places we have also highlighted 'Our strategy in action', drawing out the key elements of our business model (set out in the Strategic Report on page 2), and showing how the disclosures reflect this strategy.

### **Audit opinions**

We have two audit opinions on our financial statements, reflecting our listing on both the London Stock Exchange and the New York Stock Exchange. Due to the different reporting requirements for each listing, our auditors are required to confirm compliance with each set of standards in a prescribed format. The audit opinion as required under our UK listing (starting on page 83) continues to provide more detail as to how our auditors have planned and conducted their audit, as well as their views on significant matters they have noted and that were discussed by the Audit Committee.

#### **Notes**

Notes to the financial statements provide additional information required by statute, accounting standards or other regulations to assist in a more detailed understanding of the primary financial statements. In many notes we have included an accounting policy that describes how the transactions or balance in that note have been measured, recognised and disclosed. The basis of preparation section (see note 1) provides details of accounting policies that apply to transactions and balances in general. There are also additional specific disclosure requirements due to our US listing which are included in the notes.

#### **Unaudited commentary**

We have presented with the financial statements certain analysis as part of the Strategic Report of our Annual Report and Accounts. This approach provides a clearer narrative, a logical flow of information and reduces duplication. We have created a combined financial review, including a commentary on items within the primary statements, on pages 94-103. Unless otherwise indicated, all analysis provided in the financial statements is on a statutory IFRS basis. All information in ruled boxes styled in the same manner as this one does not form part of the audited financial statements. This has been further highlighted by including the word 'unaudited' at the start of each box header. Unaudited commentary boxes appear on pages 96-98, 100, 102-103, 111, 121-122, 124, 131 and 141.

### 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 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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- · properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information:
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

In preparing the Parent Company financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company on a consolidated

and individual basis, and to enable them to ensure that the consolidated financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Parent Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Each of the Directors, whose names and functions are listed on pages 42 and 43, confirms that:

- to the best of their knowledge, the consolidated financial statements and the parent company financial statements, which have been prepared in accordance with IFRSs as issued by the IASB and IFRS as adopted by the European Union and UK GAAP FRS 101 respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Company on a consolidated and individual basis;
- to the best of their knowledge, the Strategic Report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces; and
- they consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibilities statement was approved by the Board and signed on its behalf.

### **Directors' Report**

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Listing Rules, and Disclosure Rules and Transparency Rules, comprising pages 2–79 and 184–217, was approved by the Board and signed on its behalf.

### Strategic Report

The Strategic Report, comprising pages 2–39, was approved by the Board and signed on its behalf.

By order of the Board

### **Alison Kay**

Group General Counsel & Company Secretary

16 May 2018 Company number: 4031152

### Independent auditor's report

to the Members of National Grid plc

### Report on the audit of the financial statements

#### **Opinion**

In our opinion:

- 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 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; 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.

We have audited the financial statements of National Grid plc (the 'Company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated statement of financial position;
- the consolidated cash flow statement;
- the related notes 1 to 35 of the consolidated financial statements;
- the Company accounting policies;
- the Company balance sheet;
- the Company statement of changes in equity; and
- the related notes 1 to 10 of the Company financial statements.

We have not audited the unaudited commentaries on:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of changes in equity;

- the consolidated statement of financial position;
- the consolidated cash flow statement;
- the results of our principal operations by segment continuing operations (accompanying note 2);
- tax (accompanying note 6);
- dividends (accompanying note 8);
- financial and other investments (accompanying note 14); or
- borrowings (accompanying note 20).

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRS as adopted by the European Union and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Summary of our audit approach

### Key audit matters

The key audit matters that we identified in the current year are in relation to:

- the internal control refresh programme;
- IT user access management controls;
- environmental provisions;
- net pension obligations;
- revenue recognition;
- classification of capital costs; and
- treasury derivative transactions.

Two key audit matters identified by the previous auditor and described in their report for the year ended 31 March 2017 are not included in our report for the year ended 31 March 2018. These were:

- accounting for the disposal of the UK Gas Distribution business the transaction was completed and accounted for in
- the previous financial year and accordingly it does not have such a significant impact on the result for the current period; and

  US financial controls which have been subject to a programme of process and control improvements this programme has been subsumed within the group-wide internal control refresh programme which we have identified as a key audit matter in the current period.

This year we have identified IT user access management controls as a new key audit matter.

Within this report, any key audit matters which are similar to those identified by the previous auditor in the prior year are identified with (>). New key audit matters are identified with (2)

### Materiality

We have set materiality for the current year at £130 million based on 5% of profit before tax, exceptional items and remeasurements for the year.

### Scoping

Our scope covered eight components of the Group. Of these, four were subjected to a full-scope audit whilst the remaining four were subject to specific procedures on certain account balances.

#### First year audit transition

The year ended 31 March 2018 is our first as auditor of the Group. We have been independent since 1 January 2017 and commenced our transition from that date. The transition has included:

- establishing a detailed audit transition plan;
- shadowing the previous auditor through the 31 March 2017 audit, including attendance at key meetings;
- holding transition workshops with key component finance and operational management, Internal Audit, the treasury function, the pensions, tax and legal teams and Group finance management in order to inform our audit planning;
- holding a Group audit planning meeting with our component audit teams;
- performing Group audit team oversight visits to components throughout the transition process; reviewing the previous auditor's audit file; and
- reviewing historic accounting policies and accounting judgements through discussion with management and review and challenge of management's papers and supporting documentation.

This process built our understanding of the Group which informed our risk assessment process, from which we identified the risks of material misstatement to the Group's financial statements.

We presented our audit plan and transition observations to the Group's senior management and to the Audit Committee throughout the transition process, including in a transition report and audit plan presented in September 2017 and updates to our audit plan in January 2018 and March 2018.

### Independent auditor's report

### to the Members of National Grid plc continued

### Conclusions relating to going concern, principal risks and viability statement

We have reviewed the Directors' statement in note 1 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

### Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of our audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 18-21 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 26 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on pages 26-27 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

Throughout the course of our audit we identify risks of material misstatement ('risks') and classify those risks according to their severity. In assigning a category we consider both the likelihood of a risk of a material misstatement and the potential magnitude of a misstatement

in making the assessment. Certain risks are classified as 'significant' or 'higher' depending on their severity. The category of the risk determines the level of evidence we seek in providing assurance that the associated financial statement item is not materially misstated.

We have described herein the risk categorisation assigned to each of our key audit matters and the reasoning behind that judgement.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do  $% \left\{ 1,2,\ldots ,n\right\}$ not provide a separate opinion on these matters.

### Internal control refresh programme (8)







Throughout the period the Group has undertaken a refresh of its internal control over financial reporting framework including the scoping. risk assessment, process and design of control documentation, and the evaluation and testing of controls ('the refresh programme')

As a result of the programme undertaken by management a significant focus has been placed on the understanding of the Group's processes and the assessment of the design, implementation and operating effectiveness of the Group's internal control framework.

The assessment of the Group's control framework is a key part of our audit and core to the Group's ability to maintain financial records, prepare financial statements in accordance with IFRSs and, where material, prevent or detect unauthorised acquisition, use or disposition of the Group's assets. In particular, in the current period, the refresh programme has meant that the control environment has evolved through the period and accordingly has required additional resource to perform procedures on new or enhanced controls as they are designed and implemented by the Group.

The internal control refresh programme is pervasive to the Group's operations and accordingly the level of risk ascribed to our work in this area is dependent on the nature and complexity of the control itself and the balance or balances within the Financial Statements to which the control relates.

Refer additionally to the Audit Committee's discussion of significant issues on pages 50-53.

#### How the scope of our audit responded to the key audit matter



- In performing our assessment of the Group's control environment we have performed a number of procedures, including:
- detailed walkthroughs of the processes associated with each of the Group's key business cycles including financial reporting, revenue, purchase-to-pay, order-to-cash and property, plant and equipment;
- identification of the audit risks impacted by a change in process or control during the period;
- testing of relevant controls where the control has changed in the period following the refresh programme; identifying reports and other information used in the operation of relevant controls and performing appropriate procedures to determine their accuracy and completeness;
- identifying relevant IT applications, infrastructure and operating systems used in the operation of the Group's relevant controls and performing testing of the general IT controls over those systems, including the use of our automated controls testing tool; and
- where deficiencies in internal control were identified testing compensating controls or performing alternative procedures, including modifying our audit approach, where appropriate.

### Key observations



We identified weaknesses relating to user access controls over some IT systems in both the UK and US which could have had a negative impact on other controls by allowing unauthorised access to the financial reporting systems. As a result of our findings we identified a further key audit matter in relation to IT user access management controls discussed below.

### IT user access management controls (8)



#### Key audit matter description



Due to the reliance on IT systems within the Group, controls over access rights are critical to maintaining an effective control environment. As a result of our procedures over internal control, we identified a number of deficiencies relating to segregation of duties, control over privileged access and user access management, both within the Group and the Group's IT service organisations (together 'access deficiencies'). The access deficiencies identified increase the risk that individuals within the Group and at service organisations had inappropriate access during the period. The existence of deficiencies during the year and at the year end result in an increased risk that data and reports from the affected systems are not reliable. The issues identified impact all components of the Group but particularly the UK-based operations.

The Group put in place a programme of activities to remediate the deficiencies during the year which is ongoing at year end.

The IT user access management controls are pervasive to the Group's operations and accordingly the level of risk ascribed to our work in this area is dependent on the nature and complexity of the control itself and balances within the financial statements the control addresses.

Refer additionally to the Audit Committee's discussion of significant issues on pages 50-53.

#### How the scope of our audit responded to the key audit matter



In responding to the identified deficiencies in user access we have:

- obtained and reviewed reports on the internal controls implemented and operated by relevant service organisations and, where necessary, directly tested certain third party controls or identified business controls that do not rely on information that is potentially affected by the IT access management controls which mitigate reported control issues;
- determined the impact that utilising inappropriate levels of access could feasibly have had on the affected systems including assessing the likelihood of inappropriate user access impacting the financial statements, and testing controls implemented by management to identify instances of the use of inappropriate access; and
- · identified and tested alternative or compensating controls where such controls existed within the Group's control framework or where no such controls existed extended the scope of our audit such that we have not placed reliance on controls for information produced or held in the impacted systems, including expanding the scope of our substantive testing.

#### **Key observations**



We confirmed that the mitigating business controls address the risk of a material misstatement to the financial statements. Furthermore, we conducted a largely substantive audit in the UK Electricity Transmission (UKET), UK Gas Transmission (UKGT) and US Regulated components and all other areas impacted by the access deficiencies. We have, however, continued to rely on revenue and environmental provisions controls in the UKET and UKGT components.

### Environmental provisions (9)



#### Key audit matter description



The Group's environmental provisions relate to a number of sites owned and managed by the Group together with certain US sites, which are no longer owned. In the US, the most significant provisions relate to former manufacturing gas plant facilities that are subject both to state and federal law. In the UK, the most significant portion of the provision relates to old gas manufacturing and electricity sites.

Environmental provisions as at 31 March:

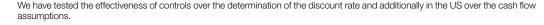
		2018			2017	
			Real			Real
	Discounted	Undiscounted	discount	Discounted	Undiscounted	discount
	£m	£m	rate	£m	£m	rate
UK sites	213	235	1%	242	270	1%
US sites	1,318	1,410	1%	1,479	1,619	1%
	1,531	1,645		1,721	1,889	

The key audit matter arises from a number of estimation uncertainties that exist in relation to the environmental provisions including the impact of regulation, the form and extent of remediation needed at each site including timing and cost assumptions thereon, methods and technologies used in remediation and the discount rates applied to the cash flow assumptions.

We have identified the discount rate used in calculating the present value of the environmental provisions as a 'significant' risk within our audit plan due to the level of sensitivity, estimation uncertainty and judgement involved in determining the rate used. Other assumptions have been assessed as 'higher' or 'lower' risk within our audit plan depending on the significance of the judgement and the sensitivity of those assumptions within the calculation.

Refer additionally to notes 24 and 33 of the financial statements for further discussion on environmental provisions.

#### How the scope of our audit responded to the key audit matter





The expenditure required to remediate the sites is determined by management with the support of their internal and external specialists. We have reviewed the reports provided by those specialists and agreed they are reflected in the expenditure forecasts prepared. We have also assessed the independence, objectivity and competence of the internal and external specialists used.

We have challenged the methodology that management has adopted for calculating the discount rate with reference to common practice and publicly available papers released by relevant organisations. In addition, we have independently calculated an appropriate discount rate range and used this to benchmark management's rate. We have performed a sensitivity analysis of the environmental provisions using our independently calculated range. We have also tested the mechanical accuracy of the calculations performed including the reversal or utilisation of provisions in the current period.

### Key observations



The results of our testing were satisfactory - we consider the estimated costs of remediation for identified sites to be reasonable and that the discount rate used by management is within our internally developed 'reasonable range', albeit the rate used for provisions in the US is towards the upper end of that range.

### Independent auditor's report

### to the Members of National Grid plc continued

#### Net pension obligations (>>)



### Key audit matter description



Substantially all of the Group's employees are members of one of a number of pension schemes in either the UK or US. These pension schemes include both defined benefit and defined contribution schemes. Healthcare and life insurance benefits are also provided to

We have identified a key audit matter specifically in relation to the assumptions used in the valuations of the defined benefit schemes which as at 31 March 2018 represent an obligation of £23.7 billion and scheme assets of £23.9 billion.

The key judgements relating to the pension obligations include inflation assumptions, discount rates, mortality assumptions and future salary changes applied to active members

The setting of these assumptions is complex and changes to these assumptions can have a material impact on the value of pension liabilities. The increase or decrease in the Group's net asset position caused by a change in each of the key assumptions is set out below:

	2018		2017		
	Income statement £m	Net assets £m	Income statement £m	Net assets £m	
Pensions and other post-retirement benefits (pre-tax):					
UK discount rate change of 0.5%	8	1,075	9	1,305	
US discount rate change of 0.5%	15	623	17	669	
UK RPI rate change of 0.5%	5	965	8	1,114	
UK long-term rate of increase in salaries change of 0.5%	-	61	2	80	
US long-term rate of increase in salaries change of 0.5%	3	44	3	51	
UK change of one year to life expectancy at age 65	2	588	2	673	
US change of one year to life expectancy at age 65	4	359	4	365	
Assumed US healthcare cost trend rates change of 1%	31	448	37	510	

The pension schemes also include a number of 'level 3' assets, being those assets which do not have market-observable inputs to use in calculating their fair value. As such there is significant judgement in determining the fair value of these assets including the selection of the valuation methodology and other key assumptions.

We have identified the discount rates applied to net pension obligations as a 'significant' risk within our audit plan due to the sensitivity of the balance to changes in the rate and the level of estimation uncertainty and judgement involved in determining the level of liability. We have assessed other areas of the net pension obligations to be 'higher' or 'lower' risk in our audit plan.

We additionally note that during the year there has been a change in the specialist actuary used by the Group to calculate net pension obligations for the UK schemes

Refer additionally to note 23 for further discussion on the Group's net pension obligations and note 33 for sensitivity analysis.

#### How the scope of our audit responded to the key audit matter



We have tested the operating effectiveness of controls over the pension assets and liabilities.

We have engaged our actuarial experts to assist in testing of the discount rate used in calculating the pension liabilities. We have independently calculated an appropriate discount rate and compared this to management's rate. We have performed a sensitivity analysis of the pension liabilities using our independently calculated rate.

Further, our actuarial experts have assisted us in benchmarking and challenging the other assumptions used by management in determining the value of pension liabilities particularly focusing on inflation, salary growth and mortality rates; this has included comparing the inputs and assumptions used in determining the valuation of the Group's schemes to those used in comparable pension plans and our internal benchmarks

Additionally, we have considered the independence, objectivity and competence of the independent actuaries engaged by management to perform valuations of the relevant schemes.

We have performed audit procedures relating to the assets held within the pension schemes through seeking third party confirmation from asset managers and/or custodians or other supporting evidence as appropriate. Additionally, we have engaged internal specialists to challenge the valuation of scheme assets, in particular the 'level 3' assets. Our work has included reviewing publicly available information on these assets, comparing to internal benchmarks and reconciling inputs used by management to determine the asset values

### **Key observations**



We judge the discount rate and other key pension assumptions used by management to be in the middle of our internally developed reasonable range.

#### Revenue recognition (>>)



#### Key audit matter description



In the year to 31 March 2018 the Group has recognised revenue of £15.3 billion (31 March 2017: £15.0 billion, 31 March 2016: £13.2 billion) from four segments: UKET, UKGT, US Regulated and National Grid Ventures and Other ('Other').

#### Revenue profile by segment for the past three years (£m)



We have identified aspects of revenue recognition as 'higher' risks in our audit plan within the UKET, UKGT and US Regulated components of our audit. We have rebutted the presumption set out in Auditing Standards that there is a significant risk of fraud in revenue recognition given the nature of the Group's primary revenue streams. As the first year of our audit tenure however, significant resource has been invested in understanding the regulatory environment and methodologies used and this has led us to identify revenue recognition as a key audit matter.

Revenue has historically been predictable across the segments which is a function of both the nature of the business and, where relevant, the regulatory price controls.

In the UKET and UKGT components, the Group is a transmission owner and operator and operates in a highly regulated market. Accordingly there is little judgement with regard to revenue recognition.

In the US Regulated component, the Group sells electricity and gas directly to private consumers. Whilst the Group operates in a highly regulated market this requires estimates to be included within the Financial Statements concerning the level of accrued income to be recognised for energy delivered but not yet billed. The methodology used for this is well established and the Group has a significant amount of historic data on which to base such estimates.

Refer additionally to note 2(a)

#### How the scope of our audit responded to the key audit matter



We have tested the effectiveness of controls over revenue recognition including the controls over the calculation of accrued income.

In the UKET and UKGT components, we have developed analytical tools designed to use third party data and known regulatory prices to recalculate the Group's revenue for the period. We have tested whether the amounts charged to customers are consistent with the rates which are set by the Group's regulators.

In the US Regulated component, we have used analytical tools to develop expectations for relevant revenue streams based on volumes and knowledge of the rates set by regulators adjusted for other factors such as the impact of weather. Specific focus has been given to the impact of rate changes resulting from new rate proceedings

### **Key observations**



On the basis of the procedures performed we are satisfied that the Group has recognised revenue in accordance with its policy and IAS 18 Revenue

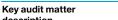
### Independent auditor's report

### to the Members of National Grid plc continued

### Classification of capital costs (>)



## description



The Group has an extensive capital investment programme with capital expenditure across the Group totalling £3.9 billion (2017: £4.1 billion)



Judgement is required to determine whether certain activities should be treated as operating expenditure (maintenance or network repair) or capital expenditure (additions of or enhancement to network assets).

The Group has significant experience in determining the classification of expenditure as operating cost or capital expenditure. We do not consider this to be a 'significant' risk for our audit. We have however identified the accuracy of capital expenditure as a 'higher' risk within our audit plan as there is judgement in classifying expenditure albeit the level of judgement is not as significant as in other areas of the financial statements. Due to the magnitude and significance of the asset base to the Group's operations we do consider it to be a key audit matter requiring the allocation of significant audit resource.

Additionally we note that the previous auditor identified a risk in the US Regulated business that the controls over:

- the classification of costs between property, plant and equipment and expenses in relation to small value work orders; and
- the transfer of assets in the course of construction to assets in service may not have been working effectively throughout the previous period.

Refer to note 12 for further discussion of the Group's capital expenditure.

#### How the scope of our audit responded to the key audit matter

We have tested the effectiveness of controls over the classification of expenditure and the transfer between assets in the course of construction and property, plant and equipment.



We have tested an audit sample of additions to assets which are classified as assets in the course of construction and validated their classification as capital expenditure.

### **Key observations**



The results of our procedures were satisfactory and on the basis of these procedures we conclude that the capital expenditure recorded is appropriate.

In particular we have not found any of the issues highlighted by the previous auditor in their 31 March 2017 audit opinion.

### Treasury derivative transactions (>>)



#### Kev audit matter description



At 31 March 2018 the Group had total borrowings of £26.6 billion (31 March 2017: £28.6 billion). The Group mitigates the exposure to interest rate and foreign exchange rate risks with risk management activities including the use of derivatives such as cross-currency and variable interest rate swaps. The Group designates derivatives in hedge relationships where possible.

The valuation of the derivative portfolio requires management to make certain assumptions and judgments in particular around the valuation methodologies adopted and the discount rate to be applied to forecast cash flows.

The portfolio also includes 'level 3' derivatives for which no directly observable inputs for their fair value are available (such as a quoted market price). Accordingly there is judgement involved in determining the methodology used to fair value these derivatives.

We have identified the accuracy and valuation of certain treasury derivatives as a 'higher' risk within our audit plan due to the level of judgement and the technical nature of determining derivative values. We have also identified certain of the hedge accounting requirements adopted for certain of the Group's derivative financial instruments as a 'higher' risk.

Refer additionally to notes 16 and 30 to the financial statements for further detail on derivatives.

#### How the scope of our audit responded to the key audit matter



We have tested the design, implementation and operating effectiveness of controls over the recording and valuation of derivative financial instruments. This has included testing of the review-type controls performed by management over the valuations and challenge

In conjunction with our treasury specialists we have tested a sample of the models used by management, including a challenge of the assumptions therein, to confirm the appropriateness of the valuation methodology adopted and the assumptions applied. Where relevant we have obtained third party confirmations to test the completeness and accuracy of the information held within the Group's treasury

We have analysed the hedge effectiveness testing performed by management and tested the disclosure within the financial statements.

In the performance of our testing we have considered the requirements of IAS 39 Financial Instruments: Recognition and Measurement to determine whether the appropriate accounting treatment has been adopted by the Group.

### **Kev observations**



The results of our procedures were satisfactory and on the basis of these procedures we conclude that the accounting for derivatives, including the Group's use of hedge accounting, is appropriate

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	Materiality has been set at £130 million for the current year. In 2017 the previous auditor used a materiality of £175 million.	Materiality has been set at £125 million for the current year.
Component materiality	The majority of the audit work is performed at a component level and is audited to a lower materiality. The component performance materiality used ranges from $\Sigma 24.5$ million to $\Sigma 52.5$ million – refer to the table below for more details.	Component materiality is not relevant to our audit of the Company financial statements.
Basis for determining materiality	We have set materiality for the current year at £130 million based on 5% of profit before tax, exceptional items and remeasurements for the year as disclosed in the consolidated income statement.  In 2017 the previous auditor also set materiality on the same basis.	We have set materiality for the current year at $\mathfrak{L}125$ million. We have set materiality based on $2\%$ of the net assets of the Company.
Rationale for the benchmark applied	We consider profit before tax, exceptional items and remeasurements to be a critical benchmark of the performance of the Group. We consider it appropriate to adjust for exceptional items and remeasurements as these items are one-off in nature or relate to derivative items which are volatile and not reflective of the underlying performance of the Group. We consider this measure suitable having considered also other benchmarks: our materiality equates to 3.8% of operating profit; 0.2% of gross non-current assets; and 0.7% of net assets.	As the Company is non-trading and operates primarily as a holding company for the Group's trading entities we believe the net asset position is the most appropriate benchmark to use.

We set performance materiality for the Group at &287.5 million which represents 67% of our materiality. We use performance materiality to determine the extent of our testing; it is lower than materiality to reflect our assessment of the risk of errors remaining undetected by our sample testing and uncorrected in the financial statements.

In the performance of our audit we also allocated a specific component materiality to each of the component audit teams. We use component performance materiality to determine the extent of our testing at each component individually; it is lower than the Group performance materiality to reduce the risk of the aggregation of errors across components remaining undetected in the Group's financial statements. The performance materialities used for each component reflect the fact that this is our first year as auditor and are summarised below:

	<u>£m</u>
UKET	43.8
UKGT	35.0
US Regulated	52.5
Quadgas HoldCo	24.5

We have agreed with the Audit Committee that we would report to the Committee all audit differences in excess of  $\mathfrak{L}6.3$  million (in 2017 the previous auditor used a threshold of  $\mathfrak{L}9$  million), as well as differences below that threshold which, in our view, warrant reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### Independent auditor's report

### to the Members of National Grid plc continued

### An overview of the scope of our audit

The following significant components of the Group were identified in our audit planning: UKET, UKGT, US Regulated and Quadgas HoldCo. Each of these components was subjected to a full-scope audit for Group reporting purposes, completed to the individual component materiality level discussed above.

As each of the financially significant components maintains separate financial records we have engaged component auditors, from the Deloitte member firms in the US or the UK, to perform procedures at these components on our behalf. This approach also allows us to engage local auditors who have appropriate knowledge of local regulations to perform this audit work. We have issued detailed instructions to the component auditors and directed and supervised their work through a number of visits to the component auditors during the planning and performance stages of our audit alongside frequent remote communication and review of their work.

Our oversight of component auditors focused on the planning of their audit work and key judgements made. In particular our supervision and direction focused on the work performed in relation to key audit matters including internal controls (including general IT controls), environmental provisions, pensions, revenue recognition, capital expenditure and derivative financial instruments. As part of our monitoring of component auditors we have also attended key local audit meetings.

Additionally our audit planning identified the following non-significant components where we consider there to be a reasonable possibility of material misstatement in specific items within the Financial Statements: UK Property, NG Insurance, the Isle of Grain LNG terminal and the Metering business. Accordingly, we have directed component auditors to perform specific audit procedures in relation to material account balances and analytical procedures on the respective income statements and statements of financial position for these components. The work on these components is carried out by the same component audit team as for the UKET and UKGT components.

In addition to the work performed at a component level the Group audit team also performs audit procedures on corporate activities such as treasury and pensions as well as on the consolidated Financial Statements themselves, including the consolidation, Financial Statement disclosures and risk assessment work on components not included elsewhere in the scope of our audit. The Group audit team also co-ordinates certain procedures performed on key areas, such as environmental provisions, where audit work is performed by both the Group and component audit teams.

### Other information

The Directors are responsible for the other information. The other information comprises all information included in the Annual Report other than the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

### **Responsibilities of Directors**

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### Auditor's responsibilities for the audit of the Financial Statements

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

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

#### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- · the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

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

### Adequacy of explanations received and accounting records

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.

### **Directors' remuneration**

Under the Companies Act 2006 we are also required to report if, in our opinion, certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

We have nothing to report

in respect of these matters.

### Other matters

### Auditor tenure

We became independent and commenced our audit transition on 1 January 2017. Following the recommendation of the Audit Committee, we were appointed by the Shareholders at the Annual General Meeting on 31 July 2017 to audit the Financial Statements for the year ending 31 March 2018. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is accordingly one year.

### Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

### **Douglas King FCA (Senior statutory auditor)**

For and on behalf of Deloitte LLP Statutory Auditor

London United Kingdom 16 May 2018

### Report of independent registered public accounting firm

## To the Shareholders and the Board of Directors of National Grid plc

### Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of National Grid plc and subsidiaries (the 'Company') as at 31 March 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at 31 March 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as at and for the year ended 31 March 2018, of the Company and our report dated 16 May 2018, expressed an unqualified opinion on those financial statements.

### Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying internal control over financial reporting section appearing on page 193 of the Additional Information section. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

## Definition and limitations of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Deloitte LLP**

London United Kingdom 16 May 2018

### Report of independent registered public accounting firm

## To the Shareholders and the Board of Directors of National Grid plc

### Opinion on the financial statements

We have audited the accompanying consolidated statement of financial position of National Grid plc and subsidiaries (the 'Company') as at 31 March 2018, the conslidated income statement, the statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 March 2018, and the related notes (collectively referred to as the 'financial statements'). We have not audited the unaudited commentaries on: the consolidated income statement, the statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the cash flow statement, the results of our principal operations by segment - continuing operations (accompanying note 2), tax (accompanying note 6), dividends (accompanying note 8), financial and other investments (accompanying note 14), and borrowings (accompanying note 20), which are not part of the financial statements. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2018, and the results of its operations and its cash flows for the year ended 31 March 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as at 31 March 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated 16 May 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

### **Basis for opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Deloitte LLP**

London United Kingdom 16 May 2018

The first accounting period we audited was the 12 months ended 31 March 2018. In 2017, we began preparing for audit firm transition.

### **Consolidated income statement**

for the years ended 31 March

		Before exceptional items and remeasurements	Exceptional items and remeasurements (see note 4)	Total
2018	Notes	£m	£m	£m
Continuing operations				
Revenue	2(a)	15,250	-	15,250
Operating costs	3,4	(11,793)	36	(11,757)
Operating profit	2(b)	3,457	36	3,493
Finance income	5	154	-	154
Finance costs	4,5	(1,128)	229	(899)
Share of post-tax results of joint ventures and associates	15,4	167	(207)	(40)
Profit before tax	2(b),4	2,650	58	2,708
Tax	6	(589)	1,473	884
Profit after tax from continuing operations	4	2,061	1,531	3,592
Loss after tax from discontinued operations	9	-	(41)	(41)
Total profit for the year (continuing and discontinued)		2,061	1,490	3,551
Attributable to:				
Equity shareholders of the parent		2,060	1,490	3,550
Non-controlling interests <sup>1</sup>		1	-	1
Earnings per share (pence)				
Basic earnings per share (continuing)	7			103.8
Diluted earnings per share (continuing)	7			103.3
Basic earnings per share (continuing and discontinued)	7			102.6
Diluted earnings per share (continuing and discontinued)	7			102.1

<sup>1.</sup> The non-controlling interests for the year ended 31 March 2018 relate to continuing operations.

		Before exceptional items and remeasurements	Exceptional items and remeasurements (see note 4)	Total
2017'	Notes	£m	£m	£m
Continuing operations				
Revenue	2(a)	15,035	-	15,035
Operating costs	3,4	(11,262)	(565)	(11,827)
Operating profit	2(b)	3,773	(565)	3,208
Finance income	5	53	-	53
Finance costs	4,5	(1,082)	(58)	(1,140)
Share of post-tax results of joint ventures and associates	15	63	-	63
Profit before tax	2(b),4	2,807	(623)	2,184
Tax	6	(666)	292	(374)
Profit after tax from continuing operations	4	2,141	(331)	1,810
Profit after tax from discontinued operations	9	606	5,378	5,984
Total profit for the year (continuing and discontinued)		2,747	5,047	7,794
Attributable to:				
Equity shareholders of the parent		2,747	5,048	7,795
Non-controlling interests <sup>2</sup>		-	(1)	(1)
Earnings per share (pence)				
Basic earnings per share (continuing)	7			48.1
Diluted earnings per share (continuing)	7			47.9
Basic earnings per share (continuing and discontinued)	7			207.1
Diluted earnings per share (continuing and discontinued)	7			206.2

<sup>1.</sup> Comparatives have been re-presented to reflect the change to a columnar format (see note 1).
2. The non-controlling interests for the year ended 31 March 2017 relate to discontinued operations.

		Before exceptional items and remeasurements	Exceptional items and remeasurements (see note 4)	Total
20161	Notes	£m	£m	£m
Continuing operations				
Revenue	2(a)	13,212	_	13,212
Operating costs	3,4	(9,998)	11	(9,987)
Operating profit	2(b)	3,214	11	3,225
Finance income	5	22	_	22
Finance costs	4,5	(878)	(99)	(977)
Share of post-tax results of joint ventures and associates		59	-	59
Profit before tax	2(b),4	2,417	(88)	2,329
Tax	4,6	(604)	177	(427)
Profit after tax from continuing operations	4	1,813	89	1,902
Profit after tax from discontinued operations	9	576	116	692
Total profit for the year (continuing and discontinued)		2,389	205	2,594
Attributable to:				
Equity shareholders of the parent		2,386	205	2,591
Non-controlling interests <sup>2</sup>		3	-	3
Earnings per share (pence)				
Basic earnings per share (continuing)	7			50.4
Diluted earnings per share (continuing)	7			50.2
Basic earnings per share (continuing and discontinued)	7			68.7
Diluted earnings per share (continuing and discontinued)	7			68.4

Comparatives have been re-presented to reflect the change to a columnar format (see note 1).
 The non-controlling interests for the year ended 31 March 2016 relate to both continuing and discontinued operations.

#### Unaudited commentary on the consolidated income statement

The consolidated income statement shows income earned and expenditure for the year, with the difference being the overall profit for the year.

The commentary below relates to continuing operations only.

#### Revenue

Revenue for the year ended 31 March 2018 increased by £215 million to £15,250 million. This increase was driven by higher revenues in our US Regulated and NGV and Other businesses, partially offset by lower revenues in our UK Electricity Transmission business. US Regulated revenues were £341 million higher year-on-year including increased pass-through costs, the impact of new rate plans and the benefit of capital trackers, partially offset by an unfavourable impact from foreign exchange. UK Electricity Transmission revenues decreased by £285 million, including a reduction in pass-through costs, the absence of last year's recovery of outstanding timing balances and higher adjustments this year to return the benefits of efficiencies and lower required outputs to customers. Revenue from NGV and Other businesses increased by £63 million, primarily driven by support services provided to Cadent.

### **Operating costs**

Operating costs for the year ended 31 March 2018 of £11,757 million were £70 million lower than the prior year. This decrease in costs included a £601 million decrease in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £531 million higher, principally due to higher pass-through costs in the US, £142 million of major storm costs incurred in the US and higher depreciation as a result of continued asset investment, partially offset by the impact of movement in exchange rates.

#### **Net finance costs**

For the year ended 31 March 2018, net finance costs before exceptional items and remeasurements were £55 million lower than 2016/17 at £974 million, mainly as a result of the impact of the weaker US dollar, higher gains on the sale of financial assets and lower pension interest expense due to a reduction in pension deficits, partially offset by the impact of higher UK RPI inflation. Net finance costs in 2017/18 included remeasurement gains of £119 million on derivative financial instruments used to hedge our borrowings, compared to £58 million of remeasurement losses in 2016/17. In addition, during 2017/18 we had a £110 million remeasurement gain on a derivative financial instrument relating to the put/call option over a 14% interest in Quadgas HoldCo Limited.

### Share of post-tax results of joint ventures and associates

Share of post-tax results of joint ventures and associates before exceptional items and remeasurements was  $\mathfrak{L}104$  million higher at  $\mathfrak{L}167$  million, primarily due to the inclusion of our 39% share of the results of Cadent this year.

### Tax

The tax charge on profits before exceptional items and remeasurements of  $\pounds 589$  million was  $\pounds 77$  million lower than 2016/17. This was primarily due to lower UK and US corporate tax rates partially offset by lower tax credits in respect of prior years.

### **Exceptional items and remeasurements**

Operating costs for the year ended 31 March 2018 included a  $\mathfrak{L}26$  million gain on settlement of outstanding balances related to the LIPA Management Services Agreement, together with a net  $\mathfrak{L}10$  million gain on remeasurement of commodity contracts. In the previous year, operating costs included  $\mathfrak{L}565$  million of exceptional costs primarily associated with environmental charges and gas holder decommissioning.

Finance costs for the year ended 31 March 2018 included a gain of £229 million on financial remeasurements of derivative financial instruments, including a £110 million gain on the put option to dispose of a 14% interest in Cadent. For the previous year ended 31 March 2017, we incurred a loss of £58 million on financial remeasurements.

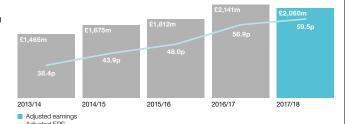
Share of post-tax results of joint ventures and associates for the year ended 31 March 2018 included a £207 million exceptional loss, principally relating to an impairment of the carrying value of our investment in Cadent following the agreement to potentially dispose of our remaining 25% holding.

Exceptional items and remeasurements relating to taxation for 2017/18 comprised a credit of  $\mathfrak{L}1,473$  million, which primarily related to a decrease in net deferred tax liabilities due to the reduction in the US corporate tax rate.

## Adjusted earnings and adjusted EPS from continuing operations

Adjusted earnings and adjusted EPS, which exclude exceptional items and remeasurements, are provided to reflect results of the Group on a 'business performance' basis, described further in note 4. The following chart shows the five-year trend in adjusted profit attributable to equity shareholders of the parent (adjusted earnings) and adjusted earnings per share. See note 7 for a reconciliation of adjusted basic EPS to EPS.

### Adjusted earnings and adjusted EPS from continuing operations<sup>1</sup>



1. Adjusted earnings and adjusted EPS are attributable to equity shareholders of the parent.

The above earnings performance translated into adjusted EPS growth in 2017/18 of 2.6p (5%).

### Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars, so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate. The table below shows the average and closing exchange rates of sterling to US dollars.

	2017/18	2016/17	% change
Weighted average (income statement)	1.36	1.28	6%
Year-end (statement of financial position)	1.40	1.25	12%

The movement in foreign exchange during 2017/18 has resulted in a  $\pounds536$  million reduction in revenue, a £98 million reduction in adjusted operating profit, and a £73 million reduction in operating profit.

### Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2018 £m	2017 £m	2016 £m
Profit after tax from continuing operations		3,592	1,810	1,902
Other comprehensive income from continuing operations				
Items from continuing operations that will never be reclassified to profit or loss:				
Remeasurement gains of pension assets and post-retirement benefit obligations	23	1,313	423	410
Share of other comprehensive income of associates, net of tax1		142	-	-
Tax on items that will never be reclassified to profit or loss	6	(530)	(277)	(95)
Total items from continuing operations that will never be reclassified to profit or loss		925	146	315
Items from continuing operations that may be reclassified subsequently to profit or loss:				
Exchange adjustments		(505)	346	69
Net gains in respect of cash flow hedges		19	70	88
Transferred to profit or loss in respect of cash flow hedges		(3)	(6)	26
Net (losses)/gains on available-for-sale investments		(30)	81	43
Transferred to profit or loss on sale of available-for-sale investments		(73)	(25)	-
Share of other comprehensive income of associates, net of tax1		5	-	-
Tax on items that may be reclassified subsequently to profit or loss	6	33	(34)	(39)
Total items from continuing operations that may be reclassified subsequently to profit or loss		(554)	432	187
Other comprehensive income for the year, net of tax from continuing operations		371	578	502
Other comprehensive income for the year, net of tax from discontinued operations	9	-	42	71
Other comprehensive income for the year, net of tax		371	620	573
Total comprehensive income for the year from continuing operations		3,963	2,388	2,404
Total comprehensive income for the year from discontinued operations	9	(41)	6,026	763
Total comprehensive income for the year		3,922	8,414	3,167
Attributable to:				
Equity shareholders of the parent				
From continuing operations		3,963	2,389	2,403
From discontinued operations		(41)	6,026	761
		3,922	8,415	3,164
Non-controlling interests				
From continuing operations		-	(1)	1
From discontinued operations		-	_	2
		-	(1)	3

<sup>1.</sup> The share of other comprehensive income of associates relates to items of other comprehensive income of Cadent (investment through Quadgas HoldCo Limited), comprising £142 million (2017: £nil; 2016: £nil) remeasurement gains on pension assets and post-retirement benefit obligations and a £5 million (2017: £nil; 2016: £nil) net gain in respect of cash flow hedges. Both items are shown net of tax.

### Unaudited commentary on consolidated statement of comprehensive income

The consolidated statement of comprehensive income records certain items as prescribed by the accounting rules. For us, the majority of the income or expense included here relates to movements in actuarial assumptions on defined benefit pension schemes and the associated tax impact. These items are not part of profit for the year, yet are important to allow the reader to gain a more comprehensive picture of our performance as a whole.

### Remeasurement gains of pension assets and post-retirement benefit obligations

We had a net gain after tax of £925 million (2016/17: £146 million; 2015/16: £315 million) on our pension assets and other post-retirement benefit obligations which is due to changes in key assumptions made in the valuation calculation of pension liabilities and differences between the expected and actual pension asset returns.

### Exchange adjustments

Adjustments are made when we translate the results and net assets of our companies operating outside the UK, as well as debt and derivative transactions designated as a net investment hedge of our foreign currency operations. The net movement for the year resulted in a loss of £505 million (2016/17: £346 million gain; 2015/16: £69 million gain).

### Net gains in respect of cash flow hedges

The value of derivatives held to hedge cash flows is impacted by changes in expected interest rates and exchange rates. The net gain for the year was £19 million (2016/17: £70 million; 2015/16: £88 million).

### Consolidated statement of changes in equity

for the years ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Other equity reserves <sup>1</sup> £m	Total shareholders' equity £m	Non- controlling interests £m	Total equity £m
At 31 March 2015	443	1,331	14,870	(4,682)	11,962	12	11,974
Profit for the year	_	_	2,591	-	2,591	3	2,594
Other comprehensive income for the year	_	_	414	159	573	-	573
Total comprehensive income for the year	_	_	3,005	159	3,164	3	3,167
Equity dividends	_	_	(1,337)	_	(1,337)	-	(1,337)
Scrip dividend-related share issue <sup>2</sup>	4	(5)	-	_	(1)	-	(1)
Purchase of treasury shares	_	_	(267)	_	(267)	-	(267)
Issue of treasury shares	_	_	16	_	16	-	16
Purchase of own shares	_	_	(6)	_	(6)	-	(6)
Other movements in non-controlling interests	_	-	-	-	_	(5)	(5)
Share-based payments	_	_	22	_	22	-	22
Tax on share-based payments	_	_	2	_	2	-	2
At 31 March 2016	447	1,326	16,305	(4,523)	13,555	10	13,565
Profit/(loss) for the year	_	_	7,795	_	7,795	(1)	7,794
Other comprehensive income for the year	_	-	84	536	620	-	620
Total comprehensive income/(loss) for the year	_	-	7,879	536	8,415	(1)	8,414
Equity dividends	_	-	(1,463)	-	(1,463)	-	(1,463)
Scrip dividend-related share issue <sup>2</sup>	2	(2)	-	-	-	-	-
Purchase of treasury shares	_	_	(189)	-	(189)	-	(189)
Issue of treasury shares	_	-	18	-	18	-	18
Purchase of own shares	_	-	(6)	-	(6)	-	(6)
Other movements in non-controlling interests	_	-	-	-	-	7	7
Share-based payments	-	-	35	-	35	-	35
Tax on share-based payments	_	-	3	_	3	-	3
At 31 March 2017	449	1,324	22,582	(3,987)	20,368	16	20,384
Profit for the year	-	-	3,550	-	3,550	1	3,551
Other comprehensive income/(loss) for the year	_	-	925	(553)	372	(1)	371
Total comprehensive income/(loss) for the year	-	-	4,475	(553)	3,922	-	3,922
Equity dividends	-	-	(4,487)	-	(4,487)	-	(4,487)
Scrip dividend-related share issue <sup>2</sup>	3	(3)	-	-	-	-	_
Purchase of treasury shares	_	-	(1,017)	-	(1,017)	-	(1,017)
Issue of treasury shares	-	-	33	-	33	-	33
Purchase of own shares	-	-	(5)	-	(5)	-	(5)
Share-based payments	_	-	16	-	16	-	16
Tax on share-based payments		_	2		2	-	2
At 31 March 2018 <sup>3</sup>	452	1,321	21,599	(4,540)	18,832	16	18,848

### Unaudited commentary on consolidated statement of changes in equity

The consolidated statement of changes in equity shows additions and reductions to equity. For us, the main items are profit earned and dividends paid in the year.

### Dividends

The Directors are proposing a final dividend of 30.44 pence per share, bringing the total dividend for the year to 45.93 pence per share, a 3.7% increase on 2016/17. The Directors intend to target increasing the annual dividend per share by at least the rate of RPI inflation for the foreseeable future.

### Special dividend

Following completion of the sale of the majority interest in UK Gas Distribution, the Company paid a special interim dividend on 2 June 2017 of 84.375 pence per existing ordinary share (\$5.4224 per existing American Depositary Share). This returned approximately £3,170 million to shareholders.

For further details of other equity reserves, see note 26.
 Included within the share premium account are costs associated with scrip dividends.

<sup>3.</sup> Refer to note 7 for the effect of the share consolidation and the special dividend.

## **Consolidated statement of financial position**

as at 31 March

	Notes	2018 £m	2017¹ £m
Non-current assets			
Goodwill	10	5,444	6,096
Other intangible assets	11	899	923
Property, plant and equipment	12	39,853	39,825
Other non-current assets	13	115	69
Pension assets	23	1,409	603
Financial and other investments	14	899	1,100
Investments in joint ventures and associates	15	2,168	2,083
Derivative financial assets	16	1,319	1,567
Total non-current assets		52,106	52,266
Current assets			
Inventories and current intangible assets	17	341	403
Trade and other receivables	18	2,798	2,728
Current tax assets		114	317
Financial and other investments	14	2,694	8,741
Derivative financial assets	16	405	246
Cash and cash equivalents	19	329	1,139
Total current assets		6,681	13,574
Total assets		58,787	65,840
Current liabilities			
Borrowings	20	(4,447)	(5,496)
Derivative financial liabilities	16	(401)	(1,147)
Trade and other payables	21	(3,453)	(3,345)
Current tax liabilities		(123)	(107)
Provisions	24	(273)	(416)
Total current liabilities		(8,697)	(10,511)
Non-current liabilities			
Borrowings	20	(22,178)	(23,142)
Derivative financial liabilities	16	(660)	(1,246)
Other non-current liabilities	22	(1,317)	(1,370)
Deferred tax liabilities	6	(3,636)	(4,479)
Pensions and other post-retirement benefit obligations	23	(1,672)	(2,536)
Provisions	24	(1,779)	(2,172)
Total non-current liabilities		(31,242)	(34,945)
Total liabilities		(39,939)	(45,456)
Net assets		18,848	20,384
Equity			
Share capital	25	452	449
Share premium account		1,321	1,324
Retained earnings		21,599	22,582
Other equity reserves	26	(4,540)	(3,987)
Total shareholders' equity		18,832	20,368
Non-controlling interests		16	16
Total equity		18,848	20,384

<sup>1.</sup> Comparative amounts have been represented to reflect the reclassification of commodity derivative contracts from trade and other receivables and payables, and from other non-current assets and liabilities to derivative financial assets and derivative financial liabilities (see note 16).

The consolidated financial statements set out on pages 94 to 177 were approved by the Board of Directors on 16 May 2018 and were signed on its behalf by:

Sir Peter Gershon Chairman Andrew Bonfield Finance Director

National Grid plc

Registered number: 4031152

### Consolidated statement of financial position continued

### Unaudited commentary on consolidated statement of financial position

The consolidated statement of financial position shows all the Group's assets and liabilities at the year end. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

### Goodwill and other intangible assets

Goodwill and other intangibles decreased by £676 million to £6,343 million as at 31 March 2018. This decrease primarily relates to foreign exchange movements of £707 million with software additions of £173 million mostly offset by software amortisation of £138 million.

### Property, plant and equipment

Property, plant and equipment remained steady, showing a £28 million increase to £39,853 million as at 31 March 2018. This was principally due to additions of £3,901 million primarily related to capital expenditure on the renewal and extension of our regulated networks less depreciation of £1,392 million in the year, disposals of £45 million and the impact of foreign exchange movements of £2,428 million. See note 2 for further details of our capital expenditure.

### Investments and other non-current assets

Investments in joint ventures and associates, financial and other investments and other non-current assets (including the non-current corporate tax asset) have decreased by  $\mathfrak{L}70$  million to  $\mathfrak{L}3,182$  million. This is primarily due to the net effect of the sale of our shares in Dominion driving a decrease of  $\mathfrak{L}173$  million in the year; additions to our joint ventures and associates of  $\mathfrak{L}129$  million partially offset by a net reduction in our investment in Quadgas HoldCo Limited of  $\mathfrak{L}17$  million as a result of the impairment recorded, the actuarial gains in the pension scheme and dividends received largely offsetting profits; and the recognition of a non-current corporation tax asset of  $\mathfrak{L}51$  million in respect of tax repayments due in the US.

## Inventories and current intangible assets and trade and other receivables

Inventories and current intangible assets and trade and other receivables have increased by £286 million, excluding £278 million of foreign exchange, to £3,139 million as at 31 March 2018. The increase in trade receivables reflects the colder winter, higher gas costs and Balancing Services Incentives Scheme cost recoveries. This is partly offset by a decrease in inventories following lower levels of gas on hand held at 31 March 2018 due to the increased demand at that time and to lower current intangible assets of £30 million following the settlement of outstanding emissions credits.

### **Current tax balances**

The net current tax liability of  $\mathfrak{L}9$  million as at 31 March 2018 has changed by  $\mathfrak{L}219$  million from a net current tax asset of  $\mathfrak{L}210$  million as at 31 March 2017. This is primarily due to the current tax charge in the year.

### **Deferred tax balances**

Deferred tax balances have decreased by £843 million to £3,636 million as at 31 March 2018. This is primarily due to the deferred tax credit arising on the reduction in the US corporate tax rate partially offset by the deferred tax charge on actuarial gains in reserves.

### Trade and other payables

Trade and other payables have increased by £313 million, excluding foreign exchange of £209 million, to £3,453 million. This is principally due to an increase in storm accruals in the US.

### Provisions and other non-current liabilities

Provisions and other non-current liabilities decreased by  $\mathfrak{L}324$  million, excluding foreign exchange of  $\mathfrak{L}265$  million, to  $\mathfrak{L}3,369$  million as at 31 March 2018.

This primarily relates to provisions, which decreased by  $\mathfrak{L}341$  million in the year excluding the impact of foreign exchange. The underlying movements included  $\mathfrak{L}93$  million utilisation and reversal of unused provisions for costs associated with the sale of UK Gas Distribution and  $\mathfrak{L}75$  million utilisation of the environmental provision. In 2016/17 we recognised a provision of  $\mathfrak{L}150$  million relating to a voluntary distribution to be made for the benefit of energy customers from the proceeds arising from the sale of UK Gas Distribution. During the year we paid out  $\mathfrak{L}33$  million, and the remaining balance of  $\mathfrak{L}117$  million is now classified within trade and other payables, reflecting our Funding Agreement with Affordable Warmth Solutions.

#### Net debt

Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and all derivative financial assets and liabilities excluding commodity contract derivatives and excluding the Further Acquisition Agreement derivative. See further analysis with the consolidated cash flow statement on page 101 and further breakdowns and analysis within note 27.

### Net pension and other post-retirement obligations

A summary of the total UK and US assets and liabilities and the overall net IAS 19 (revised) accounting deficit is shown below:

Net plan surplus/(deficit)	UK £m	US £m	Total £m
As at 1 April 2017	(156)	(1,777)	(1,933)
Exchange movements	_	175	175
Current service cost	(49)	(144)	(193)
Net interest cost	(3)	(62)	(65)
Curtailments and other	(15)	(20)	(35)
Actuarial gains/(losses)			
– on plan assets	103	465	568
– on plan liabilities	1,074	(329)	745
Employer contributions	150	325	475
As at 31 March 2018	1,104	(1,367)	(263)
Represented by:			
Plan assets	15,330	8,528	23,858
Plan liabilities	(14,226)	(9,895)	(24,121)
	1,104	(1,367)	(263)

The principal movements in net obligations during the year include net actuarial gains of £1,313 million and employer contributions of £475 million. Actuarial gains include gains of £568 million arising on plan assets resulting from actual asset returns being greater than assumed returns which are based upon the discount rates at the start of the year. Actuarial gains on plan liabilities of £745 million arose primarily as a consequence of an increase in the real UK discount rate giving an actuarial gain of £604 million combined with updated UK demographic assumptions reducing liabilities by £565 million and a decrease in the US nominal discount rate resulting in actuarial losses of £430 million.

Further information on our pension and other post-retirement obligations can be found in note 23 to the consolidated financial statements.

### Off balance sheet items

There were no significant off balance sheet items other than the commitments and contingencies detailed in note 28.

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

## Consolidated cash flow statement

for the years ended 31 March

	Notes	2018 £m	2017 £m	2016 £m
Cash flows from operating activities				
Total operating profit from continuing operations	2(b)	3,493	3,208	3,225
Adjustments for:				
Exceptional items and remeasurements	4	(36)	565	(11)
Depreciation, amortisation and impairment		1,530	1,481	1,311
Share-based payments charge		16	32	21
Gain on exchange of associate for available-for-sale investment		_	_	(49)
Changes in working capital		118	151	416
Changes in provisions		(206)	(181)	(58)
Changes in pensions and other post-retirement benefit obligations		(239)	(768)	(293)
Cash flows relating to exceptional items		26	(36)	(40)
Cash generated from operations – continuing operations		4,702	4,452	4,522
Tax recovered/(paid)		8	(132)	(230)
Net cash inflow from operating activities – continuing operations		4,710	4,320	4,292
Net cash (used in)/inflow from operating activities – discontinued operations	9	(207)	909	1,076
Cash flows from investing activities				
Acquisition of investments		(2)	-	-
Investments in joint ventures and associates		(129)	(76)	(116)
Loans to joint ventures and associates		(68)	(61)	_
Disposal of investments		134	_	_
Disposal of UK Gas Distribution	9,15	(20)	5,454	_
Purchases of intangible assets		(173)	(223)	(196)
Purchases of property, plant and equipment		(3,738)	(3,296)	(2,855)
Disposals of property, plant and equipment		10	18	4
Dividends received from joint ventures and associates		213	99	72
Interest received		57	51	23
Net movements in short-term financial investments		5,953	(5,600)	(391)
Net cash flow from/(used in) investing activities – continuing operations		2,237	(3,634)	(3,459)
Net cash flow used in investing activities – discontinued operations		-	(680)	(577)
Cash flows from financing activities				
Purchase of treasury shares		(1,017)	(189)	(267)
Proceeds from issue of treasury shares		33	18	16
Purchase of own shares		(5)	(6)	(6)
Proceeds received from loans		1,941	2,463	2,726
Repayment of loans		(2,156)	(1,616)	(896)
Net movements in short-term borrowings and derivatives		(772)	90	(730)
Interest paid		(853)	(839)	(711)
Dividends paid to shareholders		(4,487)	(1,463)	(1,337)
Net cash flow used in financing activities – continuing operations		(7,316)	(1,542)	(1,205)
Net cash flow (used in)/from financing activities – discontinued operations	9	(231)	1,611	(123)
Net (decrease)/increase in cash and cash equivalents	27(a)	(807)	984	4
Disposal of bank overdraft in UK Gas Distribution	.,	_	15	_
Exchange movements		(3)	16	4
Net cash and cash equivalents at start of year		1,139	124	116
Net cash and cash equivalents at end of year <sup>1</sup>	19	329	1,139	124

<sup>1.</sup> Net of bank overdrafts of £nil (2017: £nil; 2016: £3 million).

### Consolidated cash flow statement continued

### Unaudited commentary on the consolidated cash flow statement

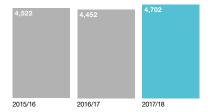
The consolidated cash flow statement shows how the cash balance has moved during the year. Cash inflows and outflows are presented to allow users to understand how they relate to the day-to-day operations of the business (Operating activities); the money that has been spent or earned on assets in the year, including acquisitions of physical assets or other businesses and the disposal of UK Gas Distribution (Investing activities); and the cash raised from debt, share issues or share buybacks, restructuring of borrowings for the disposal of UK Gas Distribution and other loan borrowings or repayments (Financing activities).

### Reconciliation of cash flows to net debt

	2018 £m	2017 £m
Cash generated from continuing operations	4,702	4,452
Cash generated from discontinued operations	(207)	987
	4,495	5,439
Net capital investment – continuing operations	(4,098)	(3,638)
Net capital investment – discontinued operations	-	(605)
	(4,098)	(4,243)
Business net cash flow	397	1,196
Net interest paid – continuing operations	(796)	(788)
Net interest paid – discontinued operations	_	(1,167)
	(796)	(1,955)
Tax recovered/(paid) – continuing operations	8	(132)
Tax paid – discontinued operations	_	(78)
	8	(210)
Ordinary dividends paid and scrip buybacks	(1,494)	(1,652)
Return of capital	(4,010)	-
Disposal of UK Gas Distribution	(20)	11,344
Other cash movements	239	110
Non-cash movements	1,948	(2,782)
(Increase)/decrease in net debt	(3,728)	6,051
Opening net debt	(19,274)	(25,325)
Closing net debt	(23,002)	(19,274)

### Cash generated from continuing operations

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Cash flows from our operations are largely stable when viewed over the longer term. Our electricity and gas transmission operations in the UK are subject to multi-year rate agreements with regulators. In the UK, we have largely stable cash flows. However, in the US our short-term cash flows are dependent on the price of gas and electricity and the timing of customer payments. The regulatory mechanisms for recovering costs from customers can result in significant cash flow swings from year to year. Changes in volumes in the US, for example as a consequence of abnormally mild or extreme weather can affect revenues, and hence cash flows, particularly in the winter months.

For the year ended 31 March 2018, cash flows from continuing operations increased by  $\pounds 250$  million to  $\pounds 4,702$  million. The outflow of  $\pounds 239$  million from changes in pensions and other post-retirement obligations was  $\pounds 529$  million lower than 2016/17 due to higher levels of contributions into the UK and US schemes in the prior year.

Cash flows from discontinued operations decreased by £1,194 million to a £207 million outflow in 2017/18. Discontinued operations in 2016/17 included the cash flows of the UK Gas Distribution business. In 2017/18, discontinued operations included cash outflows for residual transaction costs related to the disposal.

### Unaudited commentary on the consolidated cash flow statement continued

### Net capital investment

Net cash capital investment for continuing operations in the year of £4,098 million comprising investments and loans to joint ventures and associates of £197 million (including St William) and purchases of intangibles and property, plant and equipment (net of disposals) of £3,901 million was £460 million higher than the prior year. This was a result of higher spend in our US Regulated and UK Gas Transmission businesses, along with increased levels of investment in interconnectors, offset by exchange movements of £133 million and lower spend in UK Electricity Transmission.

### Net interest paid (including exceptional interest)

Net interest paid for continuing operations was £796 million, £8 million higher than 2016/17 with increased payments at constant currency mostly offset by the impact of exchange rates on our US dollar denominated finance costs. Net interest paid and exceptional finance costs for discontinued operations in 2016/17 were £1,167 million, primarily due to £1,052 million of debt buyback costs incurred as part of the Group's liability management programme in relation to the disposal of the UK Gas Distribution business.

#### Tax recovered/paid

Tax recovered for continuing operations in the year to 31 March 2018 was £8 million. This was primarily due to refunds in the US and UK of tax previously overpaid of £46 million and £67 million respectively, offset by UK tax payments which were lower than 2016/17 as a result of tax deductible costs incurred in respect of the disposal of UK Gas Distribution.

### Dividends paid and scrip buybacks

Ordinary dividends paid in the year ended 31 March 2018 amounted to £1,316 million. This was £147 million lower than 2016/17 reflecting the decrease in the number of shares following the share consolidation, offset by an increase in the final dividend paid in August 2017. Share buybacks of £178 million, related to the repurchase of the scrip uptake, were £11 million lower than 2016/17.

### Return of capital

A total cash outflow of £4,010 million related to the return to shareholders of proceeds from the disposal of the UK Gas Distribution business. This comprised a £3,171 million outflow related to the special dividend on 2 June 2018 (accompanied by an 11 for 12 share consolidation) and £839 million of share buybacks.

### **Disposal of UK Gas Distribution**

The inflow in 2016/17 reflects the cash proceeds received of  $\pounds5,454$  million and the  $\pounds5,890$  million of net debt deconsolidated on disposal of UK Gas Distribution (see note 27). The outflow of  $\pounds20$  million in 2017/18 relates to the completion account settlement in November 2017.

#### Other cash movements

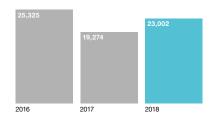
Other cash flows principally arise from the disposal of a financial investment in Dominion for £126 million and dividends from joint ventures and associates of £213 million (£114 million higher than 2016/17), partly offset by movements in treasury shares.

#### Non-cash movements

The non-cash movements are predominantly due to the weakening of the US dollar against sterling, resulting in movements in foreign exchange arising on net debt held in US dollars. In the year, the dollar weakened from \$1.25 at 31 March 2017 to \$1.40 at 31 March 2018. Other non-cash movements primarily arise from changes in fair values of financial assets and liabilities and interest accretions and accruals.

### Net debt

#### £m



### Notes to the consolidated financial statements

- analysis of items in the primary statements

### 1. Basis of preparation and recent accounting developments

Accounting policies describe our approach to recognising and measuring transactions and balances in the year. Accounting policies applicable across the financial statements are shown below. Accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

This section also shows areas of judgement and key sources of estimation uncertainty in these financial statements. In addition, we summarise new IASB and EU endorsed accounting standards, amendments and interpretations and whether these are effective in 2019 or later years, explaining how significant changes are expected to affect our reported results.

National Grid's principal activities involve the transmission and distribution of electricity and gas in Great Britain and northeastern US. The Company is a public limited liability company incorporated and domiciled in England and Wales, with its registered office at 1–3 Strand, London WC2N 5EH.

The Company, National Grid plc, which is the ultimate parent of the Group, has its primary listing on the London Stock Exchange and is also quoted on the New York Stock Exchange.

These consolidated financial statements were approved for issue by the Board on 16 May 2018.

These consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations as issued by the IASB and IFRS as adopted by the EU. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ended 31 March 2018 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the EU IAS Regulation. The comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on a historical cost basis, except for the recording of pension assets and liabilities, the revaluation of derivative financial instruments and certain commodity contracts and investments classified as available-for-sale.

These consolidated financial statements are presented in pounds sterling, which is also the functional currency of the Company.

The notes to the financial statements have been prepared on a continuing basis unless otherwise stated.

Our income statement and segmental analysis separately identify financial results before and after exceptional items and remeasurements. The Directors believe that presentation of the results in this way is relevant to an understanding of the Group's financial performance. Presenting financial results before exceptional items and remeasurements is consistent with the way that financial performance is measured by management and reported to the Board and Executive Committee and aids the comparability of reported financial performance from year to year in this context.

Further, this year we have adopted a columnar presentation as we consider it improves the clarity of the presentation, and is consistent with the way that financial performance is measured by management and reported to the Board and Executive Committee, and better enables users of the financial statements to understand the results. The inclusion of total profit for the period from continuing operations before exceptional items and remeasurements forms part of the incentive target set annually for remunerating certain Executive Directors. Accordingly we believe it is important for users of the financial statements to understand how this compares to our results on a statutory basis and year-on-year.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period (see accounting policy E).

#### A. Going concern

The Directors considered it appropriate to prepare the financial statements on a going concern basis, having considered the Company's cash flow forecasts with respect to business planning and treasury management activities. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed.

#### B. Basis of consolidation

The consolidated financial statements incorporate the results, assets and liabilities of the Company and its subsidiaries, together with a share of the results, assets and liabilities of joint operations. The Group accounts for joint ventures and associates using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the share of net assets of the joint venture or associate, less any provision for impairment.

A subsidiary is defined as an entity controlled by the Group. Control is achieved where the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the power to affect those returns through its power over the entity.

Losses in excess of the consolidated interest in joint ventures and associates are not recognised, except where the Company or its subsidiaries have made a commitment to make good those losses.

Where necessary, adjustments are made to bring the accounting policies used in the individual financial statements of the Company, subsidiaries, joint operations, joint ventures and associates into line with those used by the Group in its consolidated financial statements under IFRS. Intercompany transactions are eliminated.

The results of subsidiaries (other than relating to UK Gas Distribution as described in C below), joint operations, joint ventures and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

### C. Disposal of UK Gas Distribution

As described further in note 9, on 8 December 2016 the Group entered into a sale and purchase agreement to dispose of a 61% controlling stake in the UK Gas Distribution business. The disposal completed on 31 March 2017 and the Group has retained a 39% interest in the business. As a result, all assets and liabilities of UK Gas Distribution were deemed to be disposed of and a 39% interest reacquired. The 39% retained interest is classified as an associate on the basis that the Group retains significant influence over the business through its retained stake. The Group has the ability to appoint 4 of the 12 directors on the board of Quadgas HoldCo Limited.

In addition, the Group entered into a Further Acquisition Agreement (FAA) over a further 14% interest. Refer to note 15 for further details.

The Group classified UK Gas Distribution as held for sale as of 8 December 2016, when it became highly probable that the value of the business to the Group would be recovered through sale rather than continuing ownership. As UK Gas Distribution represents a separate major line of business, the business was classified as a discontinued operation in the 2016/17 consolidated income statement. This continues to be reflected in the consolidated income statement and the consolidated statement of comprehensive income, as well as earnings per share (EPS) split between continuing and discontinued operations.

In the current year, any true-ups relating to the disposal of the controlling stake are recorded within discontinued operations.

### 1. Basis of preparation and recent accounting developments continued

#### D. Foreign currencies

Transactions in currencies other than the functional currency of the Company or subsidiary concerned are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Non-monetary assets are not retranslated unless they are carried at fair value.

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the application of hedge accounting requires inclusion in other comprehensive income see note 16.

On consolidation, the assets and liabilities of operations that have a functional currency different from the Company's functional currency of pounds sterling, principally our US operations that have a functional currency of US dollars, are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period where these do not differ materially from rates at the date of the transaction. Exchange differences arising are recognised in other comprehensive income and transferred to the consolidated translation reserve within other equity reserves see note 26.

### E. Areas of judgement and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimations is contained in the notes to the financial statements, and the key areas are summarised below.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

 categorisation of certain items as exceptional items and the definition of adjusted earnings see notes 4 and 7.

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- valuation of liabilities for pensions and other post-retirement benefits see note 23; and
- the discount rate and cash flows applied in determining the environmental provisions see note 24.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analyses in note 33.

#### F. Accounting policy choices

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 after tax from continuing operations, together with additional subtotals excluding exceptional items and remeasurements as a result of the three columnar layout described earlier. Exceptional items and remeasurements are presented in a separate column on the face of the income statement.
- Customer contributions: contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.
- Financial instruments: we normally opt to apply hedge accounting in most circumstances where this is permitted. For net investment hedges, we have chosen to use the spot rate method, rather than the alternative forward rate method.

## New IFRS accounting standards effective for the year ended 31 March 2018

The Group has adopted the following amendments to standards:

- annual improvements to IFRSs 2014-2016 Cycle;
- amendments to IAS 7 'Statement of cash flows'; and
- amendments to IAS 12 'Income taxes'.

The adoption of these amendments has had no material impact on the Group's results or financial statement disclosures.

### Notes to the consolidated financial statements

- analysis of items in the primary statements continued

### 1. Basis of preparation and recent accounting developments continued

## New IFRS accounting standards and interpretations not yet adopted

The Group enters into a significant number of transactions that fall within the scope of IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. We are assessing the likely impact of these standards on the Group's financial statements.

#### i) IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' is effective for National Grid for the year ending 31 March 2019. The change to IFRS 9 principally impacts the accounting for the classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

The Group has elected not to restate comparatives on initial application of IFRS 9. The full impact of adopting IFRS 9 will depend on the financial instruments that the Group has during the year ending 31 March 2019 as well as on economic conditions and judgements made as at the year end. The Group has performed an assessment of the potential impact of adopting IFRS 9 based on the financial instruments and hedging relationships as at the date of adoption of IFRS 9 (1 April 2018). It is not expected that the adoption of IFRS 9 will materially impact our profits or net assets on transition or prospectively.

#### Classification and measurement: financial assets

The number of categories of financial assets has been reduced under IFRS 9 compared to IAS 39. Under IFRS 9 the classification of financial assets is based on the business model within which the asset is held and the contractual terms of the asset. There are three principal classification categories for financial assets that are debt instruments: (i) amortised cost, (ii) fair value through other comprehensive income (FVOCI), and (iii) fair value through profit or loss (FVTPL). Equity investments are either classified as (i) FVTPL or (ii) FVOCI. Where assets or liabilities are measured at FVTPL, any fair value movements will be reported as remeasurements. If measured at FVOCI, realised gains on equity investments are not recycled to the income statement but instead are transferred directly to retained profits.

The largest reallocation of financial assets will be from available-for-sale investments to FVTPL and relates to over  $\mathfrak{L}2$  billion Group investments in money market funds and insurance company investments in mutual funds, where the contractual terms are such that they do not qualify for any other category. All other available-for-sale investments will be categorised as FVOCI under IFRS 9.

The change to the asset classification rules will have no impact on reported Group net assets, although there will be some changes to reserves at transition.

### Classification and measurement: financial liabilities

Under IFRS 9 financial liabilities can be designated at FVTPL to eliminate an accounting mismatch. Where financial liabilities are designated at FVTPL, changes in their fair value due to credit risk are presented in other comprehensive income. Remaining changes in fair value are presented in the income statement.

With effect from 1 April 2018 the Group will take the fair value option for one issued zero coupon liability to reduce the measurement mismatch against some derivatives. This change will result in a reduction of reported net assets of less than  $\pounds 50$  million.

#### Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred losses under IAS 39. The new impairment model will apply to the Group's financial assets that are debt instruments measured at amortised cost or FVOCI as well as the Group's trade receivables.

The Group expects to apply the simplified approach, recognising lifetime expected losses for its trade receivables. The Group's preliminary calculation of the loss allowance for these assets as at 31 March 2018 results in an immaterial impact compared to under IAS 39.

The Group's other investments in debt instruments that are subject to the IFRS 9 impairment model are determined to be low credit risk at 31 March 2018. The Group intends to apply the low credit risk simplification in IFRS 9, which allows the Group to assume that there has not been a significant increase in credit risk since initial recognition of these assets, and therefore recognise a loss allowance for only 12-month expected credit losses as at 1 April 2018. The adjustment to the opening reserves in respect of this is not expected to be significant.

### Hedge accounting

On initial application of IFRS 9, an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of those of IFRS 9. The Group has elected to apply the IFRS 9 hedge accounting requirements because they more closely align with the Group's risk management policies.

An assessment of the Group's designated hedging relationships under IAS 39 has been performed and it has been determined that all would qualify as continuing hedge relationships under IFRS 9. However, in order to apply elective changes to the treatment of costs of hedging, certain relationships will be formally redesignated from the date of adoption. The Group is considering additional opportunities to apply hedge accounting under IFRS 9.

The Group does not anticipate the application of IFRS 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements.

### 1. Basis of preparation and recent accounting developments continued

#### ii) IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is effective for National Grid for the year ending 31 March 2019. The new standard provides enhanced detail and a five-step revenue recognition approach to reflect the transfer of goods and services to customers.

The core principle of IFRS 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to customers. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services.

This differs from the principle under the current revenue standard that requires an assessment of when risks and rewards of goods and services are transferred rather than control of those goods or services.

Detailed reviews of revenue arrangements in the UK and US have been undertaken prior to our transition to IFRS 15 on 1 April 2018. We will adopt the modified retrospective approach whereby the historical cumulative transition adjustment is reflected through retained earnings. There are two types of revenue arrangements that will be impacted on transition to IFRS 15. The financial impacts and the transition adjustment to retained earnings are described further:

- There are certain pass-through revenues (principally revenues collected on behalf of the Scottish and Offshore transmission operators) where the principal/agency assessment changes on transition to IFRS 15. In moving from a risk and reward model to a control model, we will no longer record our revenues collected on behalf of the Scottish and Offshore transmission operators as principal as we do not control the Scottish or Offshore transmission networks. If we had adopted IFRS 15 in 2017/18, both revenues and operating costs would have been £1,056 million lower, with no impact to profit as a result of this change. There will be no transition adjustment as a result of this change; and
- Across our subsidiaries in the UK and the US, our customers provide contributions for certain capital works (e.g. connections) which we continue to own on completion of the works. In our electricity business in the UK, we currently recognise customer contributions for connections over time as we have an ongoing contractual condition to maintain connections over their lives. In our UK Gas Transmission business, we recognise customer contributions when the connection is completed (the contractual conditions of the connection agreement do not explicitly require connections to be maintained over the life of the connection). In the US, revenue is also recognised when the connection is completed.

Under IFRS 15, connection contributions in our subsidiaries will be deferred and released into the income statement as revenue over the life of the network. We have reached this conclusion because our customers cannot benefit from a connection without the use of our utility network; access to our network through the connection is satisfied over time.

In the UK, we also have arrangements where our customers make contributions for diversions. These are currently deferred over the life of our network. Under IFRS 15, these revenues are recognised on completion of the diversion as there are no ongoing performance obligations to satisfy.

Had we adopted IFRS 15 in 2017/18, revenues would have been approximately \$83 million lower, as revenues from connections in the US and in UK Gas Transmission that were recognised up-front would have been deferred over the life of the network. The decrease in profit after tax in our subsidiaries would have been \$56 million.

The transition adjustment through retained earnings of  $\mathfrak{L}167$  million will result in an increase to deferred revenues of approximately  $\mathfrak{L}240$  million and a corresponding deferred tax impact of  $\mathfrak{L}73$  million.

#### iii) IFRS 16 'Leases'

IFRS 16 'Leases' is effective for National Grid for the year ending 31 March 2020. The Group enters into a significant number of operating lease transactions. Under IFRS 16, our operating leases will be accounted for on the balance sheet as 'right-of-use' assets. This treatment will increase both our assets and liabilities and subsequently, will result in an increase in finance costs and depreciation and a reduction in operating costs. The outcome of our conclusions will have an impact on how we account for our operating leases. We are also performing an assessment of our revenue, service contracts and power purchase contracts to determine whether we have the right to use assets under those contracts and whether they fall within the scope of IFRS 16. We plan to apply IFRS 16 using the modified retrospective approach, whereby comparatives will not be restated on adoption of the new standard but instead a cumulative adjustment will be reflected in retained earnings.

#### iv) Other

In addition, the following new accounting standards and amendments to existing standards have been issued but are not yet effective or have not yet been endorsed by the EU:

- Amendments to IFRS 2 'Share-based payment';
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration';
- IFRIC 23 'Uncertainty over Income Tax Treatments';
- Amendments to IAS 40 'Investment Property';
- Amendments to IAS 28: 'Investments in associates' Long-term interests in associates and joint ventures;
- Annual Improvements to IFRS Standards 2015–2017 Cycle;
- IFRS 17 'Insurance Contracts': and
- Amendments to IAS 19 'Employee Benefits'.

Effective dates remain subject to the EU endorsement process.

The Group is currently assessing the impact of the above standards, but they are not expected to have a material impact. The Group has not early adopted any other standard, amendment or interpretation that was issued but is not yet effective.

### Notes to the consolidated financial statements

- analysis of items in the primary statements continued

### 2. Segmental analysis

This note sets out the financial performance for the year split into the different parts of the business (operating segments). The performance of these operating segments is monitored and managed on a day-to-day basis. Revenue and the results of the business are 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's chief operating decision maker (as defined by IFRS 8 'Operating Segments') and assesses the profitability of operations principally on the basis of operating profit before exceptional items and remeasurements (see note 4). As a matter of course, the Board also considers profitability by segment, excluding the effect of timing. However, the measure of profit disclosed in this note is operating profit before exceptional items and remeasurements as this is the measure that is most consistent with the IFRS results reported within these financial statements.

#### Our strategy in action

The Group owns a portfolio of businesses that range from businesses with high levels of investment and growth to cash generative developed assets with lower investment requirements (such as National Grid Metering, included within NGV and Other). The majority of revenue is generated from regulated operating segments in the UK and US. The Group works with its regulators to obtain agreements that balance the risks faced with the opportunity to deliver reasonable returns for investors. When investing in NGV and Other, the Group aims to leverage its core capabilities to deliver higher returns for investors. The regulated businesses earn revenue for the transmission, distribution and generation services they have provided during the year. In any one year, the revenue recognised may differ from that allowed under the Group's regulatory agreements and any such timing differences are adjusted through future prices. NGV and Other businesses earn revenue in line with their contractual terms.

The following table describes the main activities for each reportable operating segment:

UK Electricity Transmission	High-voltage electricity transmission networks in England and Wales
UK Gas Transmission	High-pressure gas transmission networks in Great Britain and LNG storage activities
US Regulated	Gas distribution networks, electricity distribution networks and high-voltage electricity transmission networks in New York and New England and electricity generation facilities in New York

NGV was formed on 1 April 2017 and brought together our businesses that are adjacent to our core regulated operations to create a new division with its own leadership. NGV is led by a member of the Group Executive Committee and its results are reported separately to the Board of Directors. This operating segment represents our key strategic growth area outside our regulated core business in competitive markets across the US and the UK. The business comprises all commercial operations in metering, LNG at the Isle of Grain in the UK and electricity interconnectors, with a focus on investment and future activities in emerging growth areas. NGV does not meet the thresholds set out in IFRS 8 to be identified as a separate reportable segment and therefore its results have not been disaggregated. The results of the businesses that now form NGV were previously reported in the Other activities segment and therefore, although the segment has been renamed NGV and Other, the results of previous periods have not been affected.

Other activities that do not form part of any of the segments in the above table or NGV primarily relate to UK property development together with insurance and corporate activities in the UK and US.

Discontinued operations in 2017 and 2016 comprise the profits and losses associated with the UK Gas Distribution business, up to and including the point at which it was sold to Quadgas HoldCo Limited (see note 9). In the current year, transactions within discontinued operations relate solely to the business prior to the sale and the sale transaction itself.

Revenue primarily represents the sales value derived from the generation, transmission and distribution of energy, together with the sales value derived from the provision of other services to customers. It excludes value added (sales) tax and intra-group sales. Revenue includes an assessment of unbilled energy and transportation services supplied to customers between the date of the last meter reading and the year end. This is estimated based on historical consumption and weather patterns.

Where revenue exceeds the maximum amount permitted by a regulatory agreement, adjustments will be made to future prices to reflect this over-recovery. No liability is recognised, as such an adjustment relates to the provision of future services. Similarly, no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. As part of our regulatory agreements we are entitled to recover certain costs directly from customers (pass-through costs). These amounts are included in the overall calculation of allowed revenue as stipulated by regulatory agreements and explained further in the unaudited commentary on pages 186–191.

Sales between operating segments are priced considering the regulatory and legal requirements to which the businesses are subject. The analysis of revenue by geographical area is on the basis of destination. There are no material sales between the UK and US geographical areas.

### 2. Segmental analysis continued

### (a) Revenue

		2018		<b>2018</b> 2017				2016			
	Total sales £m	Sales between segments £m	Sales to third parties £m	Total sales £m	Sales between segments £m	Sales to third parties £m	Total sales £m	Sales between segments £m	Sales to third parties £m		
Operating segments – continuing operations:											
UK Electricity Transmission	4,154	(28)	4,126	4,439	(29)	4,410	3,977	(20)	3,957		
UK Gas Transmission	1,091	(9)	1,082	1,080	(99)	981	1,047	(109)	938		
US Regulated	9,272	-	9,272	8,931	-	8,931	7,493	-	7,493		
NGV and Other <sup>1</sup>	776	(6)	770	713	-	713	824	-	824		
Total revenue from continuing operations	15,293	(43)	15,250	15,163	(128)	15,035	13,341	(129)	13,212		
Split by geographical areas – continuing operations:											
UK			5,938			6,064			5,619		
US			9,312			8,971			7,593		
			15,250			15,035			13,212		

<sup>1.</sup> Included within NGV and Other is £593 million (2017: £604 million; 2016: £719 million) of revenue relating to NGV.

### (b) Operating profit

A reconciliation of the operating segments' measure of profit to profit before tax from continuing operations is provided below. Further details of the exceptional items and remeasurements are provided in note 4.

	Before exceptional items and remeasurements				xceptional item measurements	
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m
Operating segments – continuing operations:						
UK Electricity Transmission	1,041	1,372	1,173	1,041	1,361	1,173
UK Gas Transmission	487	511	486	487	507	486
US Regulated	1,698	1,713	1,185	1,734	1,278	1,196
NGV and Other <sup>1</sup>	231	177	370	231	62	370
Total operating profit from continuing operations	3,457	3,773	3,214	3,493	3,208	3,225
Split by geographical area – continuing operations:						
UK	1,840	2,118	2,007	1,840	1,988	2,007
US	1,617	1,655	1,207	1,653	1,220	1,218
	3,457	3,773	3,214	3,493	3,208	3,225

Below we reconcile total operating profit from continuing operations to profit before tax from continuing operations. We have shown the share of post-tax results of joint ventures and associates disaggregated between those held within NGV and Other and our retained 39% interest in the UK Gas Distribution business (Cadent<sup>2</sup>). Operating exceptional items and remeasurements of £nil (2017: £11 million cost; 2016: £nil) detailed in note 4 are attributable to UK Electricity Transmission; £nil (2017: £4 million cost; 2016: £nil) to UK Gas Transmission; £36 million gain (2017: £435 million cost; 2016: £11 million gain) to US Regulated; and £nil (2017: £115 million cost; 2016: £nil) to NGV and Other.

Reconciliation to profit before tax:						
Operating profit from continuing operations	3,457	3,773	3,214	3,493	3,208	3,225
Finance income	154	53	22	154	53	22
Finance costs	(1,128)	(1,082)	(878)	(899)	(1,140)	(977)
Share of post-tax results of joint ventures and associates:						
Cadent <sup>2</sup>	123	_	-	(89)	-	_
NGV and Other	44	63	59	49	63	59
Profit before tax from continuing operations	2,650	2,807	2,417	2,708	2,184	2,329

<sup>1.</sup> Included within NGV and Other is £234 million (2017: £239 million; 2016: £394 million) of operating profit (both before and after exceptional items and remeasurements) relating to NGV.

<sup>2.</sup> Investment held through Quadgas HoldCo Limited.

### Notes to the consolidated financial statements

- analysis of items in the primary statements continued

### 2. Segmental analysis continued

### (c) Capital expenditure

	Net book value of property, plant and equipment and other intangible assets		Capit	al expenditure		Depreciati	on and amortis	ation	
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m
Operating segments:									
UK Electricity Transmission	13,028	12,515	11,907	999	1,027	1,084	(475)	(421)	(390)
UK Gas Transmission	4,280	4,165	4,140	310	214	186	(194)	(186)	(178)
US Regulated	20,953	21,638	17,490	2,424	2,247	1,856	(635)	(642)	(535)
NGV and Other <sup>2</sup>	2,491	2,430	2,291	341	247	201	(226)	(232)	(208)
Total from continuing operations	40,752	40,748	35,828	4,074	3,735	3,327	(1,530)	(1,481)	(1,311)
Split by geographical area – continuing operations:									
UK	18,772	18,102	17,491	1,527	1,357	1,386	(804)	(753)	(715)
US	21,980	22,646	18,337	2,547	2,378	1,941	(726)	(728)	(596)
	40,752	40,748	35,828	4,074	3,735	3,327	(1,530)	(1,481)	(1,311)
Asset type:		-							
Property, plant and equipment	39,853	39,825	35,074	3,901	3,507	3,130	(1,392)	(1,348)	(1,207)
Non-current intangible assets	899	923	754	173	228	197	(138)	(133)	(104)
Total from continuing operations	40,752	40,748	35,828	4,074	3,735	3,327	(1,530)	(1,481)	(1,311)

Total non-current assets other than financial instruments and pension assets located in the UK and US were £20,816 million and £27,663 million respectively as at 31 March 2018 (31 March 2017: UK £20,045 million, US £28,951 million, 31 March 2016: UK £26,261 million, US £23,774 million).

Represents additions to property, plant and equipment and non-current intangibles but excludes additional investments in and loans to joint ventures and associates.
 Included within NGV and Other are assets with a net book value of £1,454 million (2017: £1,432 million; 2016: £1,482 million), capital expenditure of £186 million (2017: £98 million; 2016: £144 million) relating to NGV.

### Unaudited commentary on the results of our principal operations by segment - continuing operations

### Commentary on segmental adjusted operating profit results

Below we summarise the results of our operating segments. This analysis has been prepared based on adjusted operating profit (operating profit before exceptional items and remeasurements) as set out in note 2(b).

### **UK Electricity Transmission**

For the year ended 31 March 2018, revenue in the UK Electricity Transmission segment decreased by £285 million to £4,154 million and adjusted operating profit decreased by £331 million to £1,041 million.

The revenue reduction of £285 million included a reduction in pass-through costs such as system balancing costs charged on to customers. Excluding pass-through costs, net revenue was £235 million lower, reflecting the absence of last year's recovery of outstanding timing balances along with higher adjustments this year to return the benefits of efficiencies and lower required outputs to customers. Regulated controllable costs were £35 million higher reflecting inflation, increased headcount and workload and initiative spend. Depreciation and amortisation was £54 million higher, reflecting the continued capital investment programme. Other costs were in line with the prior year.

Capital expenditure decreased by £28 million compared with last year to £999 million.

#### **UK Gas Transmission**

Revenue in the UK Gas Transmission segment increased by £11 million to £1,091 million and adjusted operating profit decreased by £24 million to £487 million.

After deducting pass-through costs, net revenue was £23 million lower than prior year. Increases in allowed revenues this year were more than offset by the end of certain legacy revenue allowances and the refund of prior year over-recoveries to customers. Regulated controllable costs were £9 million higher than last year, mainly as a result of higher employee numbers to deliver additional outputs. Depreciation and amortisation costs were £8 million higher, reflecting ongoing investment. Other operating costs were £16 million lower than last year, including the release of unused provisions relating to LNG plant closures.

Capital expenditure increased to  $\mathfrak{L}310$  million,  $\mathfrak{L}96$  million higher than last year, with increases in asset health spend and higher investment on compressor projects.

### **US Regulated**

Revenue in our US Regulated business increased by £341 million to £9,272 million and adjusted operating profit decreased by £15 million to £1,698 million.

The weaker US dollar decreased revenue and operating profit in the year by  $\mathfrak{L}534$  million and  $\mathfrak{L}102$  million respectively. Excluding the impact of foreign exchange rate movements, revenue increased by  $\mathfrak{L}875$  million. Of this increase,  $\mathfrak{L}597$  million was due to increases in pass-through costs charged on to customers. Excluding pass-through costs, net revenue increased by  $\mathfrak{L}278$  million at constant currency, reflecting increased revenue allowances under new rate plans in downstate New York and Massachusetts Electric, and the benefit of capital trackers.

We have incurred £142 million of major storm costs in 2017/18 including a sequence of heavy storms this winter causing substantial damage to our electricity networks. Separate from these costs, regulated controllable costs were broadly in line with last year at constant currency, and bad debt costs were £13 million lower. Depreciation and amortisation was £31 million higher this year at constant currency as a result of ongoing investment in our networks. Other operating costs were £34 million higher at constant currency, reflecting higher property taxes.

Capital expenditure in the US Regulated business increased to £2,424 million this year, £177 million more than in 2016/17. At constant currency, this represented a £311 million increase in investment driven by higher investment in new and replacement gas mains.

#### NGV and Other

Revenue in NGV and Other increased by £63 million to £776 million and adjusted operating profit increased by £54 million to £231 million. This reflects higher revenues and profit on disposal of property sites in the UK and lower levels of business change costs incurred, partially offset by lower auction revenues in the French Interconnector.

Capital expenditure in NGV and Other was  $\mathfrak{L}94$  million higher than last year at  $\mathfrak{L}341$  million, including the start of construction of a second French Interconnector and increases in smart meter installations in the UK.

### Notes to the consolidated financial statements

- analysis of items in the primary statements continued

### 3. Operating costs

Below we have presented separately certain items included in our operating costs from continuing operations. These include a breakdown of payroll costs (including disclosure of amounts paid to key management personnel) and fees paid to our auditors.

Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

	Before exceptional items and remeasurements		Exceptional items and remeasurements				Total		
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m
Depreciation and amortisation	1,530	1,481	1,311	-	-	-	1,530	1,481	1,311
Payroll costs	1,648	1,578	1,337	-	-	-	1,648	1,578	1,337
Purchases of electricity	1,299	1,143	1,304	(14)	(46)	8	1,285	1,097	1,312
Purchases of gas	1,539	1,241	986	4	(22)	(19)	1,543	1,219	967
Rates and property taxes	1,057	1,042	899	-	-	-	1,057	1,042	899
Balancing Services Incentive Scheme	1,012	1,120	907	-	-	-	1,012	1,120	907
Payments to other UK network owners	1,043	1,008	971	-	-	-	1,043	1,008	971
Other	2,665	2,649	2,283	(26)	633	-	2,639	3,282	2,283
	11,793	11,262	9,998	(36)	565	(11)	11,757	11,827	9,987
Operating costs include:									
Inventory consumed							367	296	274
Operating leases							102	98	91
Research and development expenditure							13	14	19

### (a) Payroll costs

	2018 £m	2017 £m	2016 £m
Wages and salaries <sup>1</sup>	1,998	1,852	1,553
Social security costs	157	145	120
Defined contribution scheme costs	65	58	47
Defined benefit pension costs (see note 23)	156	151	154
Share-based payments	16	32	21
Severance costs (excluding pension costs)	7	5	4
	2,399	2,243	1,899
Less: payroll costs capitalised	(751)	(665)	(562)
Total payroll costs	1,648	1,578	1,337

<sup>1.</sup> Included within wages and salaries are US other post-retirement benefit costs of £46 million (2017: £53 million; 2016: £52 million). For further information refer to note 23.

### (b) Number of employees

	31 March 2018	Monthly average 2018	31 March 2017	Monthly average 2017	31 March 2016	Monthly average 2016
UK	6,517	6,431	6,265	6,291	6,224	6,067
US	16,506	16,274	15,867	15,752	14,830	14,775
Total number of employees	23,023	22,705	22,132	22,043	21,054	20,842

### 3. Operating costs continued

### (c) Key management compensation

	2018 £m	2017 £m	2016 £m
Short-term employee benefits	8	8	9
Post-employment benefits	1	1	1
Share-based payments	3	6	4
Total key management compensation	12	15	14

Key management compensation relates to the Board, including the Executive Directors and Non-executive Directors for the years presented.

### (d) Directors' emoluments

Details of Executive Directors' emoluments are contained in the Remuneration Report on page 70 and those of Non-executive Directors on page 75.

### (e) Auditors' remuneration

Auditors' remuneration is presented below in accordance with the requirements of the Companies Act 2006 and the principal accountant fees and services disclosure requirements of Item 16C of Form 20-F:

	2018 £m	2017 £m	2016 £m
Audit fees payable to the parent Company's auditors' and their associates in respect of:			
Audit of the parent Company's individual and consolidated financial statements <sup>2</sup>	2.7	1.5	1.3
The auditing of accounts of any associate of the Company	7.5	13.7	9.2
Other services supplied <sup>3</sup>	3.9	4.6	3.6
	14.1	19.8	14.1
Total other services <sup>4</sup>			
Tax fees:			
Tax compliance services	0.3	0.4	0.5
Tax advisory services	-	0.1	-
All other fees:			
Other assurance services <sup>5</sup>	0.7	4.6	4.3
Services relating to corporate finance transactions not covered above <sup>6</sup>	_	5.9	1.6
Other non-audit services not covered above <sup>7</sup>	0.9	6.3	2.5
	1.9	17.3	8.9
Total auditors' remuneration	16.0	37.1	23.0

- 1. Deloitte LLP became the Group's principal auditor for the year ended 31 March 2018. PricewaterhouseCoopers LLP (PwC) was the principal auditor for the years ended 31 March 2017. and 31 March 2016.
- 2. Audit fees in each year represent fees for the audit of the Company's financial statements and regulatory reporting for the years ended 31 March 2018, 2017 and 2016.
- Other services supplied represent fees payable for services in relation to other statutory filings or engagements that are required to be carried out by the auditors. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley), audit reports on regulatory returns and the review of interim financial statements for the six-month periods ended 30 September 2017, 2016 and 2015 respectively. There were no audit related fees as described in Item 16C(b) of Form 20-F.
- 5. Principally amounts relating to assurance services provided in relation to comfort letters for debt issuances. In 2016/17, amounts represented assurance services undertaken by PwC in relation to the sale of UK Gas Distribution and data assurance work in respect of financial information included in US rate fillings.
- 6. Vendor due diligence and other transaction services in relation to the sale of UK Gas Distribution.

  7. Fees for other non-audit services projects including services provided to the UK Property business, relating to evaluating possible options for the use of property assets. In 2016/17, services related principally to PwC assisting the Company with separation activities in relation to the sale of UK Gas Distribution.

For the year ended 31 March 2017, PwC contracted with Ofgem to assess the UK gas industry's readiness for the introduction of new settlement processes and systems. Fees for these services were paid by Xoserve Limited, a subsidiary of National Grid (until 31 March 2017), on behalf of the industry, under instruction from Ofgem. As PwC had no contract with or duty of care to Xoserve Limited, these amounts were not included above.

The Audit Committee considers and makes recommendations to the Board, to be put to shareholders for approval at each AGM, in relation to the appointment, re-appointment, removal and oversight of the Company's independent auditors. The Board of Directors, in accordance with a resolution approved at the 2016 AGM, is authorised to agree the auditors' remuneration. The Audit Committee considers and approves the audit fees on behalf of the Board in accordance with the Competition and Market Authority Audit Order 2014. The Board of Directors will seek to renew this authority at the 2018 AGM. Details of our policies and procedures in relation to non-audit services to be provided by the independent auditors are set out within page 55 of the Corporate Governance Report.

Certain services are prohibited from being performed by the external auditors under the Sarbanes-Oxley Act. Of the above services, none were prohibited.

### Notes to the consolidated financial statements

- analysis of items in the primary statements continued

### 4. Exceptional items and remeasurements

To monitor our financial performance, we use a profit measure that excludes certain income and expenses. We call that measure 'business performance' or 'adjusted profit'. We exclude items from business performance because, if included, these items could distort understanding of our performance for the year and the comparability between periods. This note analyses these items, which are included in our results for the year but are excluded from business performance.

Our financial performance is analysed into two components: business performance, which excludes exceptional items and remeasurements; and exceptional items and remeasurements. Business performance is used by management to monitor financial performance as it is considered that it improves the comparability of our reported financial performance from year to year. Business performance sub-totals 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 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 significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and significant debt redemption costs as a consequence of transactions such as significant disposals or issues of equity, and the related tax as well as deferred tax arising on changes to corporation tax rates.

Costs arising from restructuring programmes include redundancy costs. Redundancy costs are charged to the income statement in the year in which a commitment is made to incur the costs and the main features of the restructuring plan have been announced to affected employees.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contract derivatives and of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective. These fair values increase or decrease because of changes in commodity and financial indices and prices over which we have no control.

### Exceptional items and remeasurements from continuing operations

	2018 £m	2017 £m	2016 £m
Included within operating profit			
Exceptional items:			
Environmental charges	_	(526)	_
Gas holder demolition costs	_	(107)	_
Final settlement of LIPA MSA Transition	26	_	_
	26	(633)	
Remeasurements – commodity contract derivatives	10	68	11
	36	(565)	11
Included within finance costs			
Remeasurements – net gains/(losses) on derivative financial instruments	229	(58)	(99)
Included within share of post-tax results of joint ventures and associates			
Remeasurements – net gains on financial instruments	1	-	_
Exceptional items:			
Deferred tax arising on the reduction in US corporation tax rate	5	_	_
Impairment of investment in Quadgas HoldCo Limited	(213)	-	-
	(207)	_	
Total included within profit before tax	58	(623)	(88)
Included within tax			
Exceptional items – credits arising on items not included in profit before tax:			
Deferred tax arising on the reduction in the UK corporation tax rate	-	94	162
Deferred tax arising on the reduction in the US corporation tax rate	1,510	-	-
Tax on exceptional items	(9)	227	_
Tax on remeasurements	(28)	(29)	15
	1,473	292	177
Total exceptional items and remeasurements after tax	1,531	(331)	89
Analysis of total exceptional items and remeasurements after tax			
Exceptional items after tax	1,319	(312)	162
Remeasurements after tax	212	(19)	(73)
Total exceptional items and remeasurements after tax	1,531	(331)	89

### 4. Exceptional items and remeasurements continued

## Operating exceptional items 2017/18

During the year, the Group reached an agreement with LIPA on an amount in final settlement of receivables and payables that arose following the cessation of the Management Services Agreement with LIPA in December 2013. The settlement has resulted in a gain of £26 million, which has been recorded as exceptional, consistent with the treatment of gains and losses on the original transaction.

In assessing the value of the Group's interests in Quadgas HoldCo Limited (the holding company for Cadent Gas) at 31 March 2018, the Company has considered the fair market value of its interests as implied by the agreement relating to the potential sale of a 25% interest in Quadgas HoldCo Limited (equity and shareholder loans), announced on 1 May 2018 and described in note 15.

The associated accounting implications are the recognition of a £110 million fair value gain on the Further Acquisition Agreement (FAA) which is detailed in the remeasurements section below and a £213 million impairment against the equity carrying value of investment in Quadgas HoldCo Limited. We have assessed the carrying value of all our interests in Quadgas HoldCo Limited (including the FAA derivative asset noted above) against the cash flows we expect to receive under the agreement for the 25% (comprising future dividends, shareholder loan interest income and the proceeds on exercise of the option arrangement plus a cost of carry), discounted to present value using an estimate of Quadgas Investments BidCo Limited's marginal cost of borrowing. Following the recognition of this charge, the total carrying value of our interests in Quadgas HoldCo Limited is £2.1 billion. Neither of these two accounting entries are taxable.

#### 2016/17

In the US, the Group's most significant environmental liabilities relate to former manufacturing gas plant (MGP) facilities formerly owned or operated by the Group. The sites are subject to both state and federal law in the US. Environmental reserves are re-evaluated at each reporting period. The expenditure is expected to be largely recoverable from rate payers but, under IFRS, no asset can be recorded for this. During the second half of 2016/17, the Group updated its assessment of the gross remediation costs at three key sites in New York, resulting in an increase of £481 million on an undiscounted basis.

The charge booked reflects the Group's best estimate of future cash outflow, based on notices received from state and federal authorities, and plans developed in response, supported by external consultants where appropriate. In some cases, judgement is also required regarding the Group's share of the estimated cost, principally at sites where other parties are also potentially liable but where no cost sharing agreement exists.

Also included within the above are charges relating to the impact of a change in the real discount rate from 2% to 1% on our provisions.

A provision of £107 million was made for the demolition of certain non-operational gas holders in the UK. Following the disposal of UK Gas Distribution, the land on which the gas holders are sited was transferred to the Group's UK property division. The Group's property division maximises our return from our land portfolio and therefore a constructive obligation exists to demolish the gas holders.

#### Remeasurements

As described further in note 30(f), the FAA signed on 31 March 2017 relating to a 14% interest in the equity and shareholder loans of Quadgas HoldCo Limited is treated as a derivative at fair value through profit and loss. In assessing the fair value of this derivative at 31 March 2018, we have compared the pricing mechanism within the FAA against that of the agreement concerning our remaining 25% interest. The £110 million gain reflects the pricing differential between the two contracts. At 31 March 2017, being the date on which the FAA was signed, the fair value was taken to be zero.

Commodity contract derivatives represent mark-to-market movements on certain physical and financial commodity contract obligations in the US. These contracts primarily relate to the forward purchase of energy for supply to customers, or to the economic hedging thereof, that are required to be measured at fair value and that do not qualify for hedge accounting. Under the existing rate plans in the US, commodity costs are recoverable from customers although the timing of recovery may differ from the pattern of costs incurred.

Net losses or gains on derivative financial instruments comprise losses or gains arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt. Therefore, these are always excluded from business performance.

Net gains on financial instruments comprise the gains on financial instruments of Quadgas HoldCo Limited reported through their income statement.

### Items included within tax

The Tax Cuts and Jobs Act (Tax Reform) which was enacted on 22 December 2017 reduced the US corporate rate from 35% to 21% with effect from 1 January 2018. Deferred taxes at the reporting date have been measured using these enacted tax rates. Since we are in a net deferred tax liability position in the US, this results in a deferred tax credit in the year. As described further in note 10, however, we expect the overall impact of Tax Reform to be economically neutral for the Group.

The Finance Act 2016 which was enacted on 15 September 2016 reduced the main rate of UK corporation tax to 17% with effect from 1 April 2020. Deferred tax balances have been calculated at this rate for the years ended 31 March 2017 and 31 March 2018.

The Finance Act 2015 (No. 2) was enacted on 18 November 2015 which reduced the main rate of UK corporation tax to 19% with effect from 1 April 2017 and 18% from 1 April 2020. Deferred tax balances were calculated at 18% for the year ended 31 March 2016.

- analysis of items in the primary statements continued

#### 5. Finance income and costs

This note details the interest income generated by our financial assets and interest expense incurred on our financial liabilities. It also includes the net interest on our pensions and other post-retirement assets. In reporting business performance, we adjust net financing costs to exclude any net gains or losses on derivative financial instruments included in remeasurements. In addition, significant debt redemption costs are typically treated as exceptional (see note 4).

No	2018 tes £m	2017 £m	2016 £m
Finance income			
Interest income on financial instruments:			
Bank deposits and other financial assets	81	28	22
Gains on disposal of available-for-sale investments	73	25	-
	154	53	22
Finance costs			
Net interest on pensions and other post-retirement benefit obligations	23 <b>(65)</b>	(107)	(111)
Interest expense on financial liabilities held at amortised cost:			
Bank loans and overdrafts	(87)	(59)	(28)
Other borrowings	(1,030)	(927)	(792)
Derivatives	12	(8)	37
Unwinding of discount on provisions	24 (75)	(73)	(69)
Other interest	(11)	(17)	(27)
Less: interest capitalised <sup>1</sup>	128	109	112
	(1,128)	(1,082)	(878)
Remeasurements			
Net gains/(losses) on derivative financial instruments included in remeasurements <sup>2</sup> :			
Ineffectiveness on derivatives designated as:			
Fair value hedges <sup>3</sup>	34	33	39
Cash flow hedges	10	(12)	(15)
Net investment hedges – undesignated forward rate risk	5	60	(34)
Derivatives not designated as hedges or ineligible for hedge accounting <sup>4</sup>	180	(139)	(89)
	229	(58)	(99)
	(899)	(1,140)	(977)
Net finance costs from continuing operations	(745)	(1,087)	(955)

<sup>1.</sup> Interest on funding attributable to assets in the course of construction in the current year was capitalised at a rate of 4.1% (2017: 3.4%; 2016: 3.3%). In the UK, capitalised interest qualifies for a current year tax deduction with tax relief claimed of £20 million (2017: £18 million; 2016: £19 million). In the US, capitalised interest is added to the cost of plant and qualifies for tax depreciation allowances.

<sup>2.</sup> Includes a net foreign exchange loss on financing activities of £314 million (2017: £264 million loss; 2016: £407 million loss) offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

<sup>3.</sup> Includes a net loss on instruments designated as fair value hedges of £90 million (2017: £27 million loss; 2016: £34 million gain) and a net gain of £124 million (2017: £60 million gain; 2016: £5 million gain) arising from fair value adjustments to the carrying value of debt.

<sup>4.</sup> Includes £110 million gain on the Further Acquisition Agreement (FAA) derivative financial instrument relating to the put/call option over a 14% interest in Quadgas HoldCo Limited. Further details can be found in note 15.

#### 6. Tax

Tax is payable in the territories where we operate, mainly the UK and the US. This note gives further details of the total tax charge and tax liabilities, including current and deferred tax. The current tax charge is the tax payable on this year's taxable profits. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in the accounting and tax bases.

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

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

The Group operates internationally in territories with different and complex tax codes. Management exercises judgement in relation to the level of provision required for uncertain tax outcomes. There are a number of tax positions not yet agreed with the tax authorities where different interpretations of legislation could lead to a range of outcomes. Judgements are made for each position having regard to particular circumstances and advice obtained.

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.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor the taxable profit or loss.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and joint arrangements except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Company and its subsidiaries intend to settle their current tax assets and liabilities on a net basis.

#### Tax (credited)/charged to the income statement - continuing operations

	2018 £m	2017 £m	2016 £m
Tax before exceptional items and remeasurements	589	666	604
Exceptional tax on items not included in profit before tax (see note 4)	(1,510)	(94)	(162)
Tax on other exceptional items and remeasurements	37	(198)	(15)
Tax on total exceptional items and remeasurements	(1,473)	(292)	(177)
Total tax (credit)/charge from continuing operations	(884)	374	427
Tax as a percentage of profit before tax	2018 %	2017 %	2016 %
	70		
Before exceptional items and remeasurements – continuing operations	22.2	23.7	25.0

- analysis of items in the primary statements continued

### 6. Tax continued

The tax credit for the year can be analysed as follows:

The tax diedic for the year can be an ayeed de follower.			
	2018 £m	2017 £m	2016 £m
Current tax:			
UK corporation tax at 19% (2017: 20%; 2016: 20%)	205	225	239
UK corporation tax adjustment in respect of prior years	(18)	(47)	(5)
	187	178	234
Overseas corporation tax	15	_	38
Overseas corporation tax adjustment in respect of prior years	(4)	1	(19)
	11	1	19
Total current tax from continuing operations	198	179	253
Deferred tax:			
UK deferred tax	65	(9)	(80)
UK deferred tax adjustment in respect of prior years	(2)	(18)	24
	63	(27)	(56)
Overseas deferred tax	(1,155)	224	229
Overseas deferred tax adjustment in respect of prior years	10	(2)	1
	(1,145)	222	230
Total deferred tax from continuing operations	(1,082)	195	174
Total tax (credit)/charge from continuing operations	(884)	374	427
Tax charged/(credited) to other comprehensive income and equity			
	2018 £m	2017 £m	2016 £m
Current tax:			
Share-based payments	(3)	(4)	(1)
Available-for-sale investments	(11)	6	5
Deferred tax:			
Available-for-sale investments	(18)	8	12
Cash flow hedges	(4)	20	22
Share-based payments	1	1	_
Remeasurements of gains of pension assets and post-retirement benefit obligations'	530	277	95

134

23

(1)

(1)

155

311

10

(3)

318

497

(2)

495

Total tax recognised in the statements of comprehensive income from continuing operations

Total tax recognised in the statements of comprehensive income from discontinued operations

Total tax relating to share-based payments recognised directly in equity from continuing operations

Total tax relating to share-based payments recognised directly in equity from discontinued operations

<sup>1.</sup> Remeasurements of gains of pension assets and post-retirement benefit obligations includes a deferred tax charge of £281 million arising on the reduction in the US corporation tax rate.

#### 6. Tax continued

The tax credit for the year after exceptional items and remeasurements, for the continuing business, is lower (2017: lower tax charge; 2016: lower tax charge) than the standard rate of corporation tax in the UK of 19% (2017: 20%; 2016: 20%):

	Before exceptional items and remeasurements 2018 £m	After exceptional items and remeasurements 2018	Before exceptional items and remeasurements 2017 £m	After exceptional items and remeasurements 2017	Before exceptional items and remeasurements 2016 £m	After exceptional items and remeasurements 2016
Profit before tax from continuing operations						
Before exceptional items and remeasurements	2,650	2,650	2,807	2,807	2,417	2,417
Exceptional items and remeasurements	-	58	_	(623)	_	(88)
Profit before tax from continuing operations	2,650	2,708	2,807	2,184	2,417	2,329
Profit before tax from continuing operations multiplied by UK corporation tax rate of 19% (2017: 20%; 2016: 20%)	503	515	561	437	483	465
Effect of:						
Adjustments in respect of prior years <sup>1</sup>	(22)	(14)	(67)	(67)	2	1
Expenses not deductible for tax purposes <sup>2</sup>	20	21	35	442	25	114
Non-taxable income <sup>2</sup>	(16)	(47)	(24)	(425)	(25)	(112)
Adjustment in respect of foreign tax rates	153	157	180	104	124	129
Deferred tax impact of change in UK tax rate	(7)	(7)	_	(94)	_	(162)
Deferred tax impact of change in US tax rate due to Tax Reform	_	(1,510)	_	_	_	_
Other <sup>3</sup>	(42)	1	(19)	(23)	(5)	(8)
Total tax charge/(credit) from continuing operations	589	(884)	666	374	604	427
	%	%	%	%	%	%
Effective tax rate – continuing operations	22.2	(32.6)	23.7	17.1	25.0	18.3

### Factors that may affect future tax charges

The Finance Act 2016 which was enacted on 15 September 2016 reduced the main rate of UK corporation tax to 17% with effect from 1 April 2020. Deferred tax balances have been calculated at this rate.

We will continue to monitor the developments driven by Brexit, the OECD's Base Erosion and Profit Shifting (BEPS) project and European Commission initiatives including fiscal state aid investigations. At this time we do not expect this to cause any material impact on our future tax charges.

On 22 December 2017, the Tax Cuts and Jobs Act (Tax Reform) was signed into law in the US. The Tax Reform includes significant changes to various federal tax provisions applicable to National Grid. The most significant changes include the reduction in the corporate federal income tax rate from 35% to 21% effective 1 January 2018 and the elimination of bonus depreciation deduction on utility property, plant and equipment acquired after 27 September 2017 but the allowance for 100% expensing of non-utility property, plant and equipment. The reduction in the US corporate tax rate is the only item we would expect to materially impact our future effective tax rate.

Prior year adjustment is primarily due to agreement of prior period tax returns.
 For the years ended 31 March 2017 and prior, the adjustments after exceptional items and remeasurements primarily represent the impact of the Group's net investment hedging following significant US dollar currency fluctuations.
 Other primarily comprises tax on joint ventures and associates.

- analysis of items in the primary statements continued

#### 6. Tax continued

#### Tax included within the statement of financial position

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current and prior reporting periods:

At 31 March 2018	4,874	(9)	(203)	21	(1,047)	3,636
Charged/(credited) to other comprehensive income and equity		1	530	(1)	(21)	509
(Credited)/charged to income statement	(1,641)	2	(55)	12	598	(1,084)
Exchange adjustments and other <sup>2</sup>	(559)	-	69	1	221	(268)
At 1 April 2017	7,074	(12)	(747)	9	(1,845)	4,479
Disposal of UK Gas Distribution	(1,072)	-	(6)	_	5	(1,073)
Charged to other comprehensive income and equity	-	1	264	46	5	316
Charged/(credited) to income statement	402	-	177	23	(481)	121
Exchange adjustments and other <sup>2</sup>	681	1	(144)	(7)	(50)	481
At 1 April 2016	7,063	(14)	(1,038)	(53)	(1,324)	4,634
Deferred tax liabilities/(assets)						
	Accelerated tax depreciation £m	Share- based payments £m	Pensions and other post- retirement benefits £m	Financial instruments £m	Other net temporary differences¹ £m	Total £m

<sup>1.</sup> The deferred tax asset of £1,047 million as at 31 March 2018 in respect of other net temporary differences primarily relates to US net operating losses (£390 million) and environmental provisions (£378 million).

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 £3,636 million (2017: £4,479 million). This balance is after offset of a deferred tax asset of £390 million (2017: £798 million) which has been recognised in respect of net operating losses. The deferred tax credited to the income statement of £1,084 million is after offset of a £293 million deferred tax charge in respect of net operating losses.

Deferred tax assets in respect of capital losses, trading losses and non-trade deficits have not been recognised as their future recovery is uncertain or not currently anticipated. The deferred tax assets not recognised are as follows:

	2018 £m	2017 £m
Capital losses	510	362
Non-trade deficits	4	4
Trading losses	4	9

The capital losses arise in the UK and are available to carry forward indefinitely. However, the capital losses can only be offset against future capital gains. The UK non-trade deficits arose prior to 1 April 2017 and therefore can only be offset against future non-trade profits.

At 31 March 2018 there was no recognised deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's subsidiaries or its associates as there are no significant corporation tax consequences of the Group's UK, US or overseas subsidiaries or associates paying dividends to their parent companies. There are also no significant income tax consequences for the Group attaching to the payment of dividends by the Group to its shareholders.

<sup>2.</sup> Exchange adjustments and other comprises of foreign exchange arising on translation of the US dollar deferred tax balances together with a reclassification of £43 million (2017: £143 million) being the opening deferred tax balance in respect of US net operating losses to offset against US current tax liabilities.

#### **Unaudited commentary on tax**

### Tax strategy

National Grid is a responsible tax payer. Our approach to tax is consistent with the Group's broader commitments to doing business responsibly and upholding the highest ethical standards. This includes managing our tax affairs, as we recognise that our tax contribution supports public services and the wider economy. We endeavour to manage our tax affairs so that we pay and collect the right amount of tax, at the right time, in accordance with the tax laws in all the territories in which we operate. We will claim valid tax reliefs and incentives where these are applicable to our business operations, but only where they are widely accepted through the relevant tax legislation such as those established by government to promote investment, employment and economic growth.

We have a strong governance framework and our internal control and risk management framework helps us manage risks, including tax risk, appropriately. We take a conservative approach to tax risk. However, there is no prescriptive level or pre-defined limit to the amount of acceptable tax risk.

We act with openness and honesty when engaging with relevant tax authorities and seek to work with tax authorities on a real time basis. We engage proactively in developments on external tax policy and engage with relevant bodies where appropriate.

Ultimate responsibility and oversight of our tax strategy and governance rests with the Finance Committee, with executive management delegated to our Finance Director.

For more detailed information, please refer to our published global tax strategy on our website.

# Total UK tax contribution (continuing and discontinued operations combined)

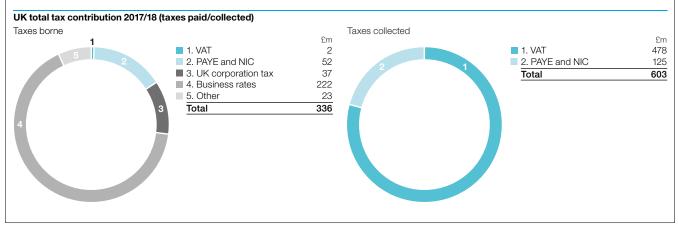
This year we have again disclosed additional information in respect of our total UK tax contribution for consistency and to aid transparency in an area in which there remains significant public interest. As was the case in prior years, the total amount of taxes we pay and collect in the UK year-on-year is significantly more than just the corporation tax which we pay on our UK profits. Within the total, we again include other taxes paid such as business rates and taxes on employment together with employee taxes and other indirect taxes.

The most significant amounts making up the 2017/18 total tax contribution are shown in the charts below:

For 2017/18 our total tax contribution to the UK Exchequer was  ${\rm 20.9~billion}$  (2016/17:  ${\rm 21.5~billion}$ ), taxes borne in 2017/18 were  ${\rm 2336~million}$  (2016/17:  ${\rm 2644~million}$ ) and taxes collected were  ${\rm 2603~million}$  (2016/17:  ${\rm 2887~million}$ ). The fall in our total tax contribution against prior year is primarily due to the sale of the UK Gas Distribution business in the previous year, which reduced the overall size of the UK business. This reduction was expected and as such forecasted in the total UK tax contribution commentary included in our prior year accounts.

Our 2016/17 total tax contribution of  $\mathfrak{L}1.5$  billion meant that National Grid was the 15th highest contributor of UK taxes (2015/16: 15th) based on the results of the 100 Group's 2017 Total Tax Contribution Survey (being the most recent available), a position commensurate with the size of our business and capitalisation during that year relative to other contributors to the survey. In 2016/17 we ranked 9th in respect of taxes borne (2015/16: 9th). Due to the sale of the UK Gas Distribution business on 31 March 2017, our ranking in future 100 Group surveys is expected to fall, commensurate with the ongoing size of the business.

National Grid's contribution to the UK economy is again broader than just the taxes it pays over to and collects on behalf of HMRC. The 100 Group's 2017 Total Tax Contribution Survey ranks National Grid in 3rd place in respect of UK capital expenditure on fixed assets, retaining 3rd place from 2016. National Grid's economic contribution also supports a significant number of UK jobs in our supply chain.



- analysis of items in the primary statements continued

#### Unaudited commentary on tax continued

#### Tax transparency

The UK tax charge for the year disclosed in the financial statements in accordance with accounting standards and the UK corporation tax paid during the year will differ. To aid transparency we have included a reconciliation below of the tax charge per the income statement to the UK corporation tax paid in 2017/18.

The tax credit for the Group from continuing operations as reported in the income statement is £884 million (2016/17: £374 million charge). The UK tax charge is £250 million (2016/17: £151 million) and UK corporation tax paid was £37 million (2016/17: £129 million), with the principal differences between these two measures as follows:

	Year ended	d 31 March
Reconciliation on continuing operations of UK total tax charge to UK corporation tax paid	2018 £m	2017 £m
Total UK tax charge (current tax £187m (2017: £178m) and deferred tax charge £63m (2017: credit £27m))	250	151
Adjustment for non-cash deferred tax (charge)/credit	(63)	27
Adjustments for current tax credit in respect of prior years	18	47
UK current tax charge	205	225
UK corporation tax instalment payments not payable until the following year	(101)	(216)
UK corporation tax instalment (refunds)/payments in respect of prior years paid in current year	(67)	120
UK corporation tax paid	37	129

#### **Tax losses**

We have total unrecognised deferred tax assets in respect of losses of £518 million (2016/17: £375 million) of which £510 million (2016/17: £362 million) are capital losses in the UK as set out on page 120. These losses arose as a result of the disposal of certain businesses or assets and may be available to offset against future capital gains in the UK.

#### **Development of future tax policy**

We believe that the continued development of a coherent and transparent tax policy in the UK is critical to help drive growth in the economy

We continue to contribute to research into the structure of business tax and its economic impact by contributing to the funding of the Oxford University Centre for Business Tax at the Saïd Business School.

We are a member of a number of industry groups which participate in the development of future tax policy, including the 100 Group, which represents the views of Finance Directors of FTSE 100 companies and several other large UK companies. Our Finance Director is Chairman of the 100 Group. This helps to ensure that we are engaged at the earliest opportunity on tax issues which affect our business. In the current year we have reviewed and responded to a number of HMRC consultations, the subject matter of which directly impacts taxes borne or collected by our business, with the aim of openly contributing to the debate and development of UK tax legislation. We undertake similar activities in the US, where the Company is an active member in the Edison Electric Institute, the American Gas Association and the Organization for International Investment.

#### 7. Earnings per share (EPS)

EPS is the amount of post-tax profit attributable to each ordinary share. Basic EPS is calculated on profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS shows what the impact would be if all outstanding share options were exercised and treated as ordinary shares at year end. The weighted average number of shares is increased by additional shares issued as scrip dividends and reduced by shares repurchased by the Company during the year. The earnings per share calculations are based on profit after tax attributable to equity shareholders of the Company which excludes non-controlling interests.

Adjusted earnings and EPS, which exclude exceptional items and remeasurements, are provided to reflect the business performance sub-totals used by the Company. We have included reconciliations from this additional EPS measure to earnings for both basic and diluted EPS to provide additional detail for these items. For further details of exceptional items and remeasurements, see note 4.

Following the sale of the UK Gas Distribution business on 31 March 2017, National Grid plc returned approximately £3,170 million of proceeds to shareholders through a special dividend, paid on 2 June 2017. In order to maintain the comparability of the Company's share price before and after the special dividend, this was preceded by a share consolidation undertaken on 22 May 2017, replacing every 12 existing ordinary shares with 11 new ordinary shares. The weighted average number of ordinary shares outstanding for the period includes the effect of both the share consolidation and the special dividend from the date that the special dividend was paid. The associated share buyback programme which commenced on 2 June 2017 is now complete. Purchased shares are held as treasury shares.

#### (a) Basic earnings per share

	Earnings 2018 £m	Earnings per share 2018 pence	Earnings 2017 £m	Earnings per share 2017 pence	Earnings 2016 £m	Earnings per share 2016 pence
Adjusted earnings from continuing operations	2,060	59.5	2,141	56.9	1,812	48.0
Exceptional items after tax from continuing operations	1,319	38.1	(312)	(8.3)	162	4.3
Remeasurements after tax from continuing operations	212	6.2	(19)	(0.5)	(73)	(1.9)
Earnings from continuing operations	3,591	103.8	1,810	48.1	1,901	50.4
Adjusted earnings from discontinued operations	-	-	607	16.1	574	15.2
Exceptional items and remeasurements after tax from discontinued operations	(41)	(1.2)	5,378	142.9	116	3.1
Earnings from discontinued operations	(41)	(1.2)	5,985	159.0	690	18.3
Total adjusted earnings	2,060	59.5	2,748	73.0	2,386	63.2
Total exceptional items and remeasurements after tax (including discontinued operations)	1,490	43.1	5,047	134.1	205	5.5
Total earnings	3,550	102.6	7,795	207.1	2,591	68.7
		2018 millions		2017 millions		2016 millions
Weighted average number of ordinary shares – basic		3,461		3,763		3,774

#### (b) Diluted earnings per share

	Earnings 2018 £m	Earnings per share 2018 pence	Earnings 2017 £m	Earnings per share 2017 pence	Earnings 2016 £m	Earnings per share 2016 pence
Adjusted earnings from continuing operations	2,060	59.3	2,141	56.7	1,812	47.8
Exceptional items after tax from continuing operations	1,319	37.9	(312)	(8.3)	162	4.3
Remeasurements after tax from continuing operations	212	6.1	(19)	(0.5)	(73)	(1.9)
Earnings from continuing operations	3,591	103.3	1,810	47.9	1,901	50.2
Adjusted earnings from discontinued operations	-	-	607	16.0	574	15.1
Exceptional items and remeasurements after tax from discontinued operations	(41)	(1.2)	5,378	142.3	116	3.1
Earnings from discontinued operations	(41)	(1.2)	5,985	158.3	690	18.2
Total adjusted earnings	2,060	59.3	2,748	72.7	2,386	62.9
Total exceptional items and remeasurements after tax (including discontinued operations)	1,490	42.8	5,047	133.5	205	5.5
Total earnings	3,550	102.1	7,795	206.2	2,591	68.4
		2018 millions		2017 millions		2016 millions

### (c) Reconciliation of basic to diluted average number of shares

Weighted average number of ordinary shares - diluted

	2018 millions	2017 millions	2016 millions
Weighted average number of ordinary shares – basic	3,461	3,763	3,774
Effect of dilutive potential ordinary shares – employee share plans	15	17	16
Weighted average number of ordinary shares – diluted	3,476	3,780	3,790

3,476

3,780

3,790

- analysis of items in the primary statements continued

#### 8. Dividends

Dividends represent the return of profits to shareholders. Dividends are paid as an amount per ordinary share held. We retain part of the profits generated in the year to meet future growth plans and pay out the remainder in accordance with our dividend policy.

Interim dividends are recognised when they become payable to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

	2018		2017			2016			
	Pence per share	Cash dividend paid £m	Scrip dividend £m	Pence per share	Cash dividend paid £m	Scrip dividend £m	Pence per share	Cash dividend paid £m	Scrip dividend £m
Interim dividend in respect of the current year	15.49	346	176	15.17	540	32	15.00	532	31
Special dividend	84.375	3,171	-	_	-	-	_	_	-
Final dividend in respect of the prior year	29.10	970	33	28.34	923	151	28.16	805	248
	128.965	4,487	209	43.51	1,463	183	43.16	1,337	279

The Directors are proposing a final dividend for the year ended 31 March 2018 of 30.44p per share that will absorb approximately £1.0 billion of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 15 August 2018 to shareholders who are on the register of members at 1 June 2018 (subject to shareholders' approval at the AGM). A scrip dividend will be offered as an alternative.

Following completion of the sale of the majority interest in UK Gas Distribution, the Company paid a special dividend on 2 June 2017 of 84.375p per existing ordinary share (\$5.4224 per existing American Depositary Share). This returned approximately £3,170 million to shareholders. No scrip dividend was offered as an alternative.

#### **Unaudited commentary on dividends**

Following the announcement of our dividend policy in March 2013, the Board remains confident that National Grid is able to support a dividend per share growing at least in line with RPI inflation for the foreseeable future, while continuing to invest as required in our regulated assets.

In August 2014 we began a share buyback programme that will allow us to offer the scrip dividend option for both the full year and interim dividend. The buyback programme is designed to balance shareholders' appetite for the scrip dividend option with our desire to operate an efficient balance sheet with appropriate leverage. At this stage we do not expect to buyback scrip issuances in 2019 and 2020, unless we have higher than anticipated balance sheet capacity.

#### 9. Discontinued operations

Our results and cash flows of significant assets or businesses sold during the year are shown separately from our continuing operations. Assets and businesses are classified as held for sale when their carrying amounts are recovered through sale rather than through continuing use. It only meets the held for sale condition when the assets are ready for immediate sale in their present condition, management is committed to the sale and it is highly probable that the sale will complete within one year. Depreciation ceases on assets and businesses when they are classified as held for sale and the assets and businesses are impaired if the proceeds less sale costs fall short of the carrying value.

As a result of the sale of a 61% controlling interest in UK Gas Distribution on 31 March 2017, we are required to report our earnings for the Group excluding UK Gas Distribution ('continuing operations') separately from the results of that business, which we report within 'discontinued operations'. The gain recognised by the Group on sale is analysed in the detail of the note below. All costs associated with the transaction, including those associated with separation and setting up UK Gas Distribution are shown as a deduction from the proceeds received. Any adjustments arising as part of the completion adjustments finalised within the measurement period would result in a further gain or loss on disposal to be reported within discontinued operations in the current period.

#### **Disposal of UK Gas Distribution**

On 31 March 2017 the Group completed the disposal of a 61% equity interest in the UK Gas Distribution business, principally comprising the Group's equity and debt interests in National Grid Gas Distribution Limited together with certain other assets (principally property and a 45% interest in Xoserve Limited). Further details are included in the Annual Report and Accounts 2016/17.

The Group sold its 100% equity interest in UK Gas Distribution to Quadgas HoldCo Limited, a newly incorporated UK limited company 61% owned by Quadgas Investments BidCo Limited and 39% by the Group's subsidiary National Grid Holdings One plc. In exchange, the Group received cash consideration of £3,679 million, loan proceeds of £1,775 million and recognised a shareholder loan receivable of £429 million and a 39% equity interest in Quadgas HoldCo Limited.

The UK Gas Distribution business met the criteria to be classified as held for sale at 8 December 2016, the date that the Group initially entered into the sale agreement, and depreciation and amortisation (circa £25 million per month) on tangible and intangible fixed assets ceased from this date. The disposal of UK Gas Distribution resulted in a £5.3 billion gain on disposal. The provisional purchase price allocation reported in the Annual Report and Accounts 2016/17 has been finalised and there were no significant adjustments arising on finalisation of this exercise in the current year.

The business represented a reportable segment and a separate major line of business and accordingly was presented as a discontinued operation in the consolidated income statement, consolidated statement of comprehensive income and the consolidated cash flow statement in 2016/17.

In 2017/18 a loss of  $\mathfrak{L}41$  million is reported in discontinued operations, with  $\mathfrak{L}33$  million relating to the completion accounts settlement in November 2017. In addition, this reflects a net charge of  $\mathfrak{L}8$  million representing further transaction costs and gains principally relating to the reversal of provisions.

In addition, there was a cash outflow from operating activities of £207 million related to the utilisation of provisions, principally relating to payments of professional fees in respect of the disposal of the UK Gas Distribution business. Net cash flows used in financing activities were £231 million for the settlement of RPI swaps relating to the final stages of the Group-wide liability management programme executed as part of the sale process (2017: cash flows comprising £4.8 billion of debt issued and term debt raised, offset by £3.2 billion in respect of bond buybacks).

On 1 May 2018, the Group announced that it had entered into an agreement with Quadgas Investments BidCo Limited regarding the potential sale of its remaining 25% interest in Quadgas HoldCo Limited. Further details are given in notes 4, 15 and 35.

- analysis of items in the primary statements continued

### 9. Discontinued operations continued

#### Summary income statement - discontinued operations

The summary income statement for discontinued operations for the years ended 31 March 2017 and 2016 are as follows:

	2017 £m	2016 £m
Revenue	1,887	1,903
Operating costs	(993)	(1,043)
Operating profit <sup>1</sup>	894	860
Finance costs	(152)	(157)
Profit before tax from discontinued operations	742	703
Tax from discontinued operations	(79)	(11)
Profit after tax from discontinued operations	663	692
Gain on disposal of UK Gas Distribution	5,009	-
Tax on gain on disposal of UK Gas Distribution	312	-
Gain on disposal of UK Gas Distribution after tax	5,321	-
Total profit after tax from discontinued operations	5,984	692

<sup>1. 2016</sup> includes sale preparation costs of £22 million in respect of the disposal of the UK Gas Distribution business. 2017 costs have been included as part of transaction costs in determining the gain on disposal.

The total gain on the disposal after tax of  $\mathfrak{L}5,321$  million was comprised of total consideration of  $\mathfrak{L}7,494$  million before transaction costs of  $\mathfrak{L}1,837$  million and a tax credit of  $\mathfrak{L}312$  million compared to net assets on disposal of  $\mathfrak{L}648$  million.

### Statement of comprehensive income - discontinued operations

for the years ended 31 March

	Notes	2017 £m	2016 £m
Profit after tax from discontinued operations		5,984	692
Other comprehensive (loss)/income			
Items that will never be reclassified to profit or loss:			
Remeasurement (losses)/gains of pension assets and post-retirement benefit obligations	23	(75)	129
Tax on items that will never be reclassified to profit or loss	6	13	(30)
Total items from discontinued operations that will never be reclassified to profit or loss		(62)	99
Items that may be reclassified subsequently to profit or loss:			
Net losses in respect of cash flow hedges		(106)	(38)
Transferred to profit or loss in respect of cash flow hedges		233	3
Tax on items that may be reclassified subsequently to profit or loss	6	(23)	7
Total items from discontinued operations that may be reclassified subsequently to profit or loss		104	(28)
Other comprehensive income/(loss) for the year, net of tax from discontinued operations		42	71
Total comprehensive income for the year from discontinued operations		6,026	763

#### 10. Goodwill

Goodwill represents the excess of what we paid to acquire businesses over the fair value of their net assets at the acquisition date. We assess whether goodwill is recoverable each year by performing an impairment review.

Goodwill is recognised as an asset and is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

Goodwill is allocated to cash-generating units and this allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Impairment is recognised where there is a difference between the carrying value of the cash-generating unit and the estimated recoverable amount of the cash-generating unit to which that goodwill has been allocated. Any impairment loss is first allocated to the carrying value of the goodwill and then to the other assets within the cash-generating unit. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value-in-use at the date the impairment review is undertaken.

Value-in-use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairments are recognised in the income statement and are disclosed separately.

Net book value at 31 March 2018	5,444
Exchange adjustments	(652)
Net book value at 31 March 2017	6,096
Exchange adjustments	781
Net book value at 1 April 2016	5,315
	£m

The cost of goodwill at 31 March 2018 was £5,458 million (2017: £6,112 million) with an accumulated impairment charge of £14 million (2017: £16 million).

The amounts disclosed above as at 31 March 2018 include balances relating to the following cash-generating units: New York £3,137 million (2017: £3,512 million); Massachusetts £1,173 million (2017: £1,313 million); Rhode Island £436 million (2017: £488 million); and Federal £699 million (2017: £783 million).

Goodwill is reviewed annually for impairment and the recoverability of goodwill has been assessed by comparing the carrying amount of our operations described above (our cash-generating units) with the expected recoverable amount on a value-in-use basis. In each assessment, the value-in-use has been calculated based on five-year plan projections that incorporate our best estimates of future cash flows, customer rates, costs (including changes in commodity prices), future prices and growth. Such projections reflect our current regulatory rate plans taking into account regulatory arrangements to allow for future rate plan filings and recovery of investment. Our plans have proved to be reliable guides in the past and the Directors believe the estimates are appropriate.

The future economic growth rate used to extrapolate projections beyond five years is 2.3% (2017: 2.0%). The growth rate has been determined having regard to data on projected growth in US real gross domestic product (GDP). Based on our business' place in the underlying US economy, it is appropriate for the terminal growth rate to be based upon the overall growth in real GDP and, given the nature of our operations, to extend over a long period of time. Cash flow projections have been discounted to reflect the time value of money, using a post-tax discount rate of 5.3% (2017: 5.4%). The equivalent pre-tax discount rate is 5.3% (2017: 5.4%) as no cash tax is payable in our five-year plan projections. The discount rate represents the estimated weighted average cost of capital of these operations.

In reaching this conclusion, the Directors have considered the potential future consequences regarding the manner in which Tax Reform will impact the Group and its future cash flows. The full implications of the new legislation on earnings and cash flows are still being reviewed, and will depend on the outcome of discussions with regulators.

In our US business, we are subject to federal and state taxes, however our regulatory arrangements require us to pass this cost back to our customers. The reduction in the corporation tax rate from 35% to 21% will be reflected through lower bills to customers, reducing our revenues (and tax costs) in future periods. For the purposes of the goodwill impairment exercise, we have reflected the lower billing levels through lower revenue forecasts as well as lower tax charges.

Historically, as a result of tax losses arising from claiming accelerated depreciation allowances, we have not paid substantial amounts of tax in the US. Accordingly, for IFRS purposes, we have recognised significant deferred tax liabilities in respect of these accelerated allowances. In accounting terms, Tax Reform triggers the remeasurement of our deferred tax liabilities from 35% to 21% which has resulted in the exceptional gain under IFRS (as disclosed in notes 4 and 6). However, the impact for our US business is that the amounts we have previously received from customers assuming a 35% federal tax rate must now be returned to customers. The precise manner and timing over which this occurs remains subject to agreement with our regulators. We are currently in discussions with regulators as to how best to adjust the customer bills for this purpose, and over what time period.

Offsetting this change will be the additional income we earn, since the rate base will grow faster. (Our rate base is net of deferred tax liabilities, which, as a result of Tax Reform, will now be smaller.) In overall terms we expect the outcome to be economically neutral.

In assessing the carrying value of goodwill, we have sensitised our forecasts to factor in a reduction in revenues and lower tax costs into our cash flow forecasts, but not reflected the impact of additional rate base growth on future earnings. While it is possible that a key assumption in the calculation could change, the Directors believe that no reasonably foreseeable change would result in an impairment of goodwill, in view of the long-term nature of the key assumptions and the margin by which the estimated value-in-use exceeds the carrying amount.

- analysis of items in the primary statements continued

#### 11. Other intangible assets

Other intangible assets include software which is written down (amortised) over the length of period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Other intangible assets are tested for impairment only if there is an indication that the carrying value of the assets may have been impaired. Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets, such as software, are recognised only if: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

Years

Other intangible assets are amortised on a straight-line basis over their estimated useful economic lives. Amortisation periods for categories of intangible assets are:

	Teas
Software	3 to 10
	Software
	£m
Cost at 1 April 2016	1,744
Exchange adjustments	105
Additions	234
Disposals	(43)
Disposal of UK Gas Distribution	(304)
Reclassifications'	(4)
Cost at 31 March 2017	1,732
Exchange adjustments	(98)
Additions	173
Disposals	(18)
Reclassifications <sup>1</sup>	8
Cost at 31 March 2018	1,797
Accumulated amortisation at 1 April 2016	(857)
Exchange adjustments	(43)
Amortisation charge for the year	(164)
Accumulated amortisation of disposals	40
Disposal of UK Gas Distribution	215
Accumulated amortisation at 31 March 2017	(809)
Exchange adjustments	43
Amortisation charge for the year	(138)
Accumulated amortisation of disposals	6
Accumulated amortisation at 31 March 2018	(898)
Net book value at 31 March 2018 <sup>2</sup>	899
Net book value at 31 March 2017	923

<sup>1.</sup> Reclassifications includes amounts transferred (to)/from property, plant and equipment (see note 12).
2. Included in software is £160 million relating to the US ERP system, which still has a remaining amortisation period of six years.

#### 12. Property, plant and equipment

The following note shows the physical assets controlled by us. The cost of these assets primarily represents the amount initially paid for them. This includes both their purchase price and the construction and other costs associated with getting them ready for operation. A depreciation expense is charged to the income statement to reflect annual wear and tear and the reduced value of the asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economic life) and charging the cost of the asset to the income statement equally over this period.

### Our strategy in action

We operate an energy networks business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment is recorded at cost, less accumulated depreciation and any impairment losses.

Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment as well as the cost of any associated asset retirement obligations.

Property, plant and equipment includes assets in which the Group'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 costs associated with projects or activities which have not been fully commissioned at the period end are classified within assets in the course of construction.

Contributions received prior to 1 July 2009 towards the cost of property, plant and equipment are included in trade and other payables as deferred income and credited on a straight-line basis to the income statement over the estimated useful economic lives of the assets to which they relate.

Contributions received post 1 July 2009 are recognised in revenue immediately, except where the contributions are consideration for a future service, in which case they are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided.

No depreciation is provided on freehold land or assets in the course of construction.

Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessments of estimated useful economic lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

	Years
Freehold and leasehold buildings	up to 101
Plant and machinery:	
Electricity transmission plant and wires	15 to 100
Electricity distribution plant	29 to 75
Electricity generation plant	20 to 93
Interconnector plant and other	5 to 60
Gas plant – mains, services and regulating equipment	10 to 95
Gas plant – storage	5 to 65
Gas plant – meters	7 to 65
Motor vehicles and office equipment	up to 29

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within operating profit in the income statement.

Items within property, plant and equipment are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

Impairments are recognised in the income statement and if immaterial are included within depreciation charge for the year.

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

- analysis of items in the primary statements continued

#### 12. Property, plant and equipment continued

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2016	2,758	54,772	3,874	1,171	62,575
Exchange adjustments	196	3,157	93	76	3,522
Additions	55	822	3,080	132	4,089
Disposals <sup>1</sup>	(22)	(572)	(70)	(204)	(868)
Disposal of UK Gas Distribution	(112)	(11,861)	(88)	(300)	(12,361)
Reclassifications <sup>2</sup>	104	2,913	(2,938)	(41)	38
Cost at 31 March 2017	2,979	49,231	3,951	834	56,995
Exchange adjustments	(169)	(2,862)	(89)	(67)	(3,187)
Additions	38	430	3,358	75	3,901
Disposals <sup>1</sup>	(16)	(216)	(21)	(34)	(287)
Reclassifications <sup>2</sup>	98	2,791	(2,926)	49	12
Cost at 31 March 2018	2,930	49,374	4,273	857	57,434
Accumulated depreciation at 1 April 2016	(640)	(17,828)	-	(743)	(19,211)
Exchange adjustments	(29)	(780)	-	(44)	(853)
Depreciation charge for the year	(84)	(1,338)	-	(113)	(1,535)
Disposals <sup>1</sup>	42	545	_	203	790
Disposal of UK Gas Distribution	29	3,425	_	207	3,661
Reclassifications <sup>2</sup>	(2)	(20)	-	-	(22)
Accumulated depreciation at 31 March 2017	(684)	(15,996)	-	(490)	(17,170)
Exchange adjustments	28	695	_	36	759
Depreciation charge for the year	(28)	(1,276)	-	(88)	(1,392)
Disposals <sup>1</sup>	10	199	_	33	242
Reclassifications <sup>2</sup>	_	(20)	_	-	(20)
Accumulated depreciation at 31 March 2018	(674)	(16,398)	-	(509)	(17,581)
Net book value at 31 March 2018	2,256	32,976	4,273	348	39,853
Net book value at 31 March 2017	2,295	33,235	3,951	344	39,825

<sup>1.</sup> Includes the reversal of assets with cost of £51 million (2017: £107 million) and accumulated depreciation of £51 million (2017: £107 million) disposed in previous years that remain in use in the Group. It also includes £334 million of adjustments from accumulated depreciation to cost for historical disposals relating to assets acquired as part of the KeySpan acquisition in 2008 which were disposed of in subsequent periods. Both of these adjustments have a nil net book value impact.

<sup>2.</sup> Represents amounts transferred between categories, (to)/from other intangible assets (see note 11), reclassifications from inventories and reclassifications between cost and accumulated depreciation.

	2018 £m	2017 £m
Information in relation to property, plant and equipment		
Capitalised interest included within cost	1,861	1,749
Net book value of assets held under finance leases (all relating to motor vehicles and office equipment)	253	289
Additions to assets held under finance leases (all relating to motor vehicles and office equipment)	58	98
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	85	89
Non-current liabilities	844	839

### 13. Other non-current assets

Other non-current assets include assets that do not fall into any other non-current asset category (such as goodwill or property, plant and equipment) where the benefit to be received from the asset is not due to be received until after 31 March 2019.

	2018 £m	2017¹ £m
Other receivables	36	45
Non-current tax assets	51	-
Prepayments and accrued income	28	24
	115	69

<sup>1.</sup> Comparative amounts have been represented to reflect the reclassification of commodity derivative contracts from other non-current assets to derivatives (see note 16).

#### 14. Financial and other investments

Financial and other investments include three main categories. Assets classified as available-for-sale typically represent investments in short-term money funds and quoted investments in equities or bonds of other companies. The second category comprises long-term loans to our associates and joint ventures. The third category is other loans and receivables which includes bank deposits with a maturity of greater than three months, and cash balances that cannot be readily used in operations, principally collateral pledged against derivative holdings.

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 plus transaction costs 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.

	2018 £m	2017 £m
Non-current		
Available-for-sale investments	417	605
Loans to joint ventures and associates <sup>1</sup>	482	495
	899	1,100
Current		
Available-for-sale investments	2,304	7,432
Other loans and receivables	390	1,309
	2,694	8,741
	3,593	9,841
Financial and other investments include the following:		
Investments in short-term money funds <sup>2</sup>	1,999	6,899
Managed investments in equity and bonds <sup>3</sup>	530	939
Cash surrender value of life insurance policies	198	202
Loans to joint ventures and associates	482	495
Restricted balances:		
Collateral <sup>4</sup>	335	1,262
Other	49	44
	3,593	9,841

- 1. Comprises £352 million (2017: £434 million) relating to a shareholder loan to Quadgas HoldCo Limited, and the remainder is a loan to a joint venture.
- 2. Includes £69 million (2017: £14 million) held by insurance captives and therefore restricted.

  3. Includes restricted amounts of £301 million (2017: £434 million) held by insurance captives and £214 million (2017: £225 million) relating to US non-qualified plan investments
- 4. Refers to collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA (International Swaps and Derivatives Association) Master Agreement.

Available-for-sale investments are recorded at fair value. The carrying value of current loans and receivables is approximate to their fair values, due to short-dated maturities. The carrying value of the non-current loans to joint ventures and associates approximates their fair values as at 31 March 2018 and 31 March 2017. The exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our credit risk, refer to note 30(a). None of the financial investments are impaired.

### Unaudited commentary on financial and other investments

Current available-for-sale investments at 31 March 2018 were £5,128 million lower than the prior year. The balance at 31 March 2017 included the proceeds received from the sale of the UK Gas Distribution business. £4,010 million of these proceeds were distributed in the current year through the special dividend and share buyback.

- analysis of items in the primary statements continued

#### 15. Investments in joint ventures and associates

Investments in joint ventures and associates represent businesses we do not control, but instead exercise joint control or significant influence.

A joint venture is an arrangement established to engage in economic activity, which the Group jointly controls with other parties and has rights to the net assets of the arrangement. An associate is an entity which is neither a subsidiary nor a joint venture, but over which the Group has significant influence.

		2018			2017	
	Associates £m	Joint ventures £m	Total £m	Associates £m	Joint ventures £m	Total £m
Share of net assets at 1 April	1,776	307	2,083	84	313	397
Exchange adjustments	(19)	7	(12)	16	19	35
Additions	65	64	129	74	63	137
Acquisition of stake in Quadgas HoldCo Limited	-	-	-	1,611	-	1,611
Capitalisation of shareholder loan to Quadgas HoldCo Limited	69	-	69	_	_	-
Impairment charge against investment in Quadgas HoldCo Limited	(213)	-	(213)	-	-	-
Share of post-tax results for the year	147	26	173	15	48	63
Share of other comprehensive income of associates, net of tax	147	_	147	_	_	_
Dividends received	(170)	(43)	(213)	(24)	(75)	(99)
Other movements	5	-	5	-	(61)	(61)
Share of net assets at 31 March	1,807	361	2,168	1,776	307	2,083

A list of joint ventures and associates including the name and proportion of ownership is provided in note 32.

Further information on the Group's acquisition of an associate interest in Quadgas HoldCo Limited is provided in note 9 and opposite.

On 1 May 2018, the Group announced that it had entered into the Remaining Acquisition Agreement (RAA) with Quadgas Investments BidCo Limited (the Consortium) regarding the potential sale of its remaining 25% interest in Quadgas HoldCo Limited, the holding company for Cadent Gas Limited. The RAA contains both put and call options for both the Group and the Consortium that can be exercised in the period between 1 March 2019 and 31 October 2019 (subject to giving six months' notice) for cash proceeds of approximately £1.2 billion.

The nature of the contractual arrangements in the RAA are substantially the same as those within the Further Acquisition Agreement (FAA), which also contains put and call options that can be exercised by either party during the same time-frame.

The carrying value of the Group's equity interest in Quadgas HoldCo Limited at 31 March 2017 was £1.6 billion, reflecting our best estimate of the fair value of that stake, as it was treated as an asset acquired at fair value following the disposal of a controlling interest in the UK Gas Distribution business.

As set out in note 16, at 31 March 2018 we recognised a derivative financial asset of £110 million relating to the FAA agreement. In addition, an impairment review of the Group's interests in Quadgas HoldCo Limited, (comprising the FAA derivative, a 39% equity interest and £352 million in shareholder loans), was undertaken, comparing the aggregated carrying value of these interests against the future dividend income and proceeds we would expect to receive under the FAA and RAA. This resulted in a charge of £213 million, recorded as impairment against the carrying value of the equity. The impairment largely offsets pension accounting gains, and the recognition of the FAA derivative asset.

Following recognition of the FAA derivative asset and the impairment charge, the aggregate carrying value of Group's interests associated with Quadgas HoldCo Limited is £2.1 billion, which is close to our original assessment of fair market value as determined at 31 March 2017. Of this, £1.6 billion relates to our equity interest.

In 2017 the Group first entered into an arrangement with San Francisco-based Sunrun Neptune Investor 2016 LLC, a leading US provider of residential solar energy systems to provide investment capital. In the period to 31 March 2018, the Group invested £38 million (2017: £41 million) alongside Sunrun into a newly incorporated partnership vehicle. The investment is classified as an associate as the Group has significant influence over the activities of the partnership vehicle. The fair value gain on this investment of £7 million has been reflected within the share of post-tax results for the year.

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed, and the Group has no significant contingent liabilities in relation to its interests in the joint ventures and associates. The Group has capital commitments of £120 million (2017: £235 million) in relation to joint ventures.

Outstanding balances with joint ventures and associates are shown in note 29.

At 31 March 2018, the Group had one material joint venture, being its 50% equity stake in BritNed Development Limited, and one material associate being its 39% equity stake in Quadgas HoldCo Limited.

#### 15. Investments in joint ventures and associates continued

#### **BritNed Development Limited (joint venture)**

BritNed Development Limited is a joint venture with transmission system operator TenneT and operates the subsea electricity link between Great Britain and the Netherlands, commissioned in 2011.

BritNed Development Limited has a reporting period end of 31 December with monthly management reporting information provided to National Grid. Summarised financial information of this joint venture, as at 31 March, together with the carrying amount of the investment in the consolidated financial statements is as follows:

	2018 £m	2017 £m
Statement of financial position – BritNed Development Limited		
Non-current assets	390	392
Cash and cash equivalents	50	45
All other current assets	4	1
Non-current liabilities	(10)	(10)
Current liabilities	(28)	(20)
Equity	406	408
Carrying amount of the Group's investment (National Grid ownership 50%)	203	204
	2018 £m	2017 £m
Income statement – BritNed Development Limited		
Revenue	429	399
Depreciation and amortisation	(13)	(13)
Other costs	(324)	(257)
Operating profit	92	129
Income tax expense	(20)	(23)
Profit for the year	72	
. rone ro. and you	12	106

#### Quadgas HoldCo Limited (associate)

As set out in note 9, on disposal of the Group's interest in the UK Gas Distribution business, the Group retained an equity interest in UK Gas Distribution through its parent, Quadgas HoldCo Limited, and a shareholder loan asset of £0.4 billion (see note 14).

The Group has the power to appoint 4 of the 12 members of the board of Quadgas HoldCo Limited, which confers significant influence, but not joint control. In general, the key strategic, operational and financial decisions can be effected by a simple majority of votes. However, in limited circumstances, certain decisions require the consent of both parties. While these circumstances are not expected to occur regularly, given the rights conferred, and in view of the Group's equity stake, the investment has been accounted for as an equity investment in an associate.

The Group initially recognised its 39% interest in Quadgas HoldCo Limited at fair value, being the market price of the investment as at 31 March 2017. The FAA was signed concerning a 14% interest in Quadgas HoldCo Limited, which contains put and call options for both the Group and the Consortium that can be exercised in the period between 1 March 2019 and 31 October 2019. The FAA is accounted for as a derivative financial instrument (see notes 16 and 30(f)).

Quadgas HoldCo Limited is an unlisted entity, and so no quoted price exists. The fair value on initial recognition was determined with reference to the equity value of the business implicit in the sale transaction, adjusted to reflect a deduction for the estimated premium paid for control by the Consortium. In assigning value to the retained interests, the Group valued 14% of its 39% interest based on the price implied by the FAA. The deduction for control premium was applied to the residual 25% interest.

- analysis of items in the primary statements continued

### 15. Investments in joint ventures and associates continued

The Group has completed a purchase price allocation exercise for its interest in Quadgas HoldCo Limited. There were adjustments arising from the finalisation of the purchase price allocation. A £33 million loss was recognised relating to the completion accounts settlement, resulting in a £20 million payment being made to Quadgas BidCo Limited.

The fair values of the assets and liabilities of Quadgas HoldCo Limited as at 31 March 2017, as previously reported, are set out below, along with the reconciliation to the carrying value of the investment in the associate at that date:

	2017 £m
Statement of financial position – Quadgas HoldCo Limited (as previously reported)	
Non-current assets	15,559
Current assets	299
Non-current liabilities	(10,408)
Current liabilities	(519)
Equity	4,931
Proportion of the Group's ownership interest in associate	1,923
Discount for non-controlling interest	(312)
Carrying amount of the Group's interest in associate (National Grid ownership 39%)	1,611

Summarised financial information of this associate (incorporating the purchase price allocation completion adjustments), as at 31 March, together with the carrying amount of the investment in the consolidated financial statements is as follows:

	2018 £m	2017 £m
Statement of financial position – Quadgas HoldCo Limited		
Non-current assets	16,735	16,047
Current assets	427	299
Non-current liabilities	(11,195)	(10,864)
Current liabilities	(534)	(551)
Equity	5,433	4,931
Proportion of the Group's ownership interest in associate	2,119	1,923
Discount for non-controlling interest (arising on initial acquisition)	(312)	(312)
Impairment charge against investment	(213)	-
Carrying amount of the Group's interest in associate (National Grid ownership 39%)	1,594	1,611

The sale of the previously owned subsidiary and subsequent acquisition of the 39% equity interest occurred (see note 9) on 31 March 2017. All profit or loss impact for the year ended 31 March 2017 is disclosed as discontinued operations. The summarised income statement for the year ended 31 March 2018 is set out below:

	2018 £m
Income statement – Quadgas HoldCo Limited	
Revenue	1,468
Depreciation and amortisation	(378)
Other costs	(423)
Operating profit	667
Net interest payable	(272)
Income tax expense	(76)
Profit for the year	319
Group's share of profit (National Grid ownership 39%)	124

#### 16. Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange rates, credit spreads, commodities, equity or other indices. In accordance with Board approved policies, derivatives are transacted generally to manage our exposure to fluctuations in interest rate, foreign exchange and our operational market risks from our commodity activities. Our derivatives are split into the broad categories analysed below:

- derivatives managing risks to interest rate and foreign exchange rate. Specifically we use these derivatives to manage risks from the financing
  portfolio, to optimise the overall cost of accessing the debt capital markets, managing the exposure to holdings in foreign operations and other
  contractual operational cash flows; and
- · derivatives managing our price and supply risks from our commodity activity.

Derivative financial instruments are initially recognised at fair value and subsequently remeasured to 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 as required by IAS 39. Where the gains or losses recorded in the income statement arise from changes in the fair value of commodity contract derivatives and of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective, these are recorded as remeasurements, detailed in notes 4 and 5. Where the fair value of a derivative is positive it is carried as a derivative asset, and where negative as a derivative liability.

The total fair value of derivatives split by category is as follows:

	2018			2017		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Financing derivatives	1,545	(945)	600	1,707	(2,223)	(516)
Commodity derivatives <sup>1</sup>	69	(116)	(47)	106	(170)	(64)
Further Acquisition Agreement derivative <sup>2</sup>	110	-	110	-	-	-
	1,724	(1,061)	663	1,813	(2,393)	(580)

Comparative amounts have been re-presented to reflect the reclassification of commodity derivative contracts from trade and other receivables (31 March 2017: £54 million), trade and other payables (31 March 2017: £93 million), other non-current assets (31 March 2017: £92 million) and other non-current liabilities (31 March 2017: £77 million), to current and non-current derivative financial assets and derivative financial liabilities.

#### (a) Financing derivatives

We calculate fair value of the financial derivatives by discounting all future cash flows using the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. Analysis of these derivatives and the various methods used to calculate their respective fair values is detailed below and in note 30.

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

		2018			2017	
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Interest rate swaps	678	(457)	221	849	(657)	192
Cross-currency interest rate swaps	687	(207)	480	676	(909)	(233)
Foreign exchange forward contracts <sup>1</sup>	174	(2)	172	160	(113)	47
Inflation linked swaps	5	(278)	(273)	7	(529)	(522)
Equity options	1	(1)	-	15	(15)	-
	1,545	(945)	600	1,707	(2,223)	(516)

<sup>1.</sup> Included within the foreign exchange forward contracts balance is £67 million (2017: £69 million) of derivatives in relation to hedging of capital expenditure.

The maturity profile of financing derivative instruments is as follows:

		2018			2017	
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Current						
Less than 1 year	375	(325)	50	192	(1,054)	(862)
	375	(325)	50	192	(1,054)	(862)
Non-current						
In 1 to 2 years	83	(88)	(5)	199	(305)	(106)
In 2 to 3 years	25	(27)	(2)	122	(160)	(38)
In 3 to 4 years	418	(5)	413	39	(83)	(44)
In 4 to 5 years	12	-	12	419	(36)	383
More than 5 years	632	(500)	132	736	(585)	151
	1,170	(620)	550	1,515	(1,169)	346
	1,545	(945)	600	1,707	(2,223)	(516)

<sup>2.</sup> This year a further derivative category has been added for the Further Acquisition Agreement (FAA) derivative. This relates to the put/call option over a 14% interest in Quadgas HoldCo Limited. Refer to note 15 for further details.

- analysis of items in the primary statements continued

#### 16. Derivative financial instruments continued

#### (a) Financing derivatives continued

For each class of financing derivative the notional contract<sup>1</sup> amounts are as follows:

	2018 £m	2017 £m
Interest rate swaps	(8,390)	(9,469)
Cross-currency interest rate swaps	(6,925)	(8,631)
Foreign exchange forward contracts	(5,793)	(8,253)
Inflation linked swaps	(1,191)	(1,423)
Equity options	(800)	(800)
	(23,099)	(28,576)

<sup>1.</sup> The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the reporting date.

#### (b) Commodity risk

We purchase electricity and gas to supply our customers in the US and to meet our own energy needs. Substantially all our costs of purchasing electricity and gas for supply to customers are recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular year that can lead to large fluctuations in the income statement. We follow approved policies to manage price and supply risks for our commodity activities.

Our energy procurement risk management policy and delegations of authority govern our US commodity trading activities for energy transactions. The purpose of this policy is to ensure we transact within pre-defined risk parameters and only in the physical and financial markets where we or our customers have a physical market requirement. In addition, state regulators require National Grid to manage commodity risk and cost volatility prudently through diversified pricing strategies. In some jurisdictions we are required to file a plan outlining our strategy to be approved by regulators. In certain cases we might receive guidance with regard to specific hedging limits.

Energy purchase contracts for the forward purchase of electricity or gas that are used to satisfy physical delivery requirements to customers, or for energy that the Group uses itself, meet the expected purchase or usage requirements of IAS 39. They are, therefore, not recognised in the financial statements until they are realised. Disclosure of commitments under such contracts is made in note 28.

US states have introduced a variety of legislative requirements with the aim of increasing the proportion of our electricity that is derived from renewable or other forms of clean energy. Annual compliance filings regarding the level of Renewable Energy Certificates (and other similar environmental certificates) are required by the relevant department of utilities. In response to the legislative requirements, National Grid has entered into long-term, typically fixed-price, energy supply contracts to purchase both renewable energy and environmental certificates. We are entitled to recover all costs incurred under these contracts through customer billing.

Under IFRS, where these supply contracts are not accounted for as finance leases, they are considered to comprise two components, being a forward purchase of power at spot prices, and a forward purchase of environmental certificates at a variable price (being the contract price less the spot power price). With respect to our current contracts, neither of these components meets the requirement to be accounted for as a derivative. The environmental certificates are currently required for compliance purposes, and at present there are no liquid markets for these attributes. Accordingly, this component meets the expected purchase or usage requirements of IAS 39. We expect to enter into an increasing number of these contracts, in order to meet our compliance requirements in the short to medium term. It is possible that in future, if and when liquid markets develop, and to the extent that we are in receipt of environmental certificates in excess of our required levels, this exemption may cease to apply and we may be required to account for forward purchase commitments for environmental certificates as derivatives at fair value through profit and loss.

Some forward contracts for the purchase of commodities do not meet the exemption for accounting purposes and hence are accounted for as derivatives. We also enter into derivative financial instruments linked to commodity prices, including index-linked futures, swaps, and option contracts. These derivative financial instruments are used to manage market price volatility and are carried at fair value on the statement of financial position, with the mark-to-market changes reflected through remeasurements.

For each class of commodity contract derivative type, the fair value amounts are as follows:

		2018			2017	
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Commodity purchase contracts accounted for as derivative contracts						
Forward purchases of electricity	-	-	-	_	(10)	(10)
Forward purchases of gas	60	(64)	(4)	82	(97)	(15)
Derivative financial instruments linked to commodity prices						
Electricity capacity	1	-	1	2	_	2
Electricity swaps	7	(46)	(39)	11	(61)	(50)
Electricity options	-	(1)	(1)	-	_	-
Gas swaps	1	(4)	(3)	11	(2)	9
Gas options	_	(1)	(1)	-	_	-
	69	(116)	(47)	106	(170)	(64)

#### 16. Derivative financial instruments continued

### (b) Commodity risk continued

The maturity profile of commodity contracts is as follows:

		2018			2017	
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Current						
Less than one year	30	(76)	(46)	54	(93)	(39)
	30	(76)	(46)	54	(93)	(39)
Non-current						
In 1 to 2 years	6	(17)	(11)	8	(36)	(28)
In 2 to 3 years	6	(11)	(5)	7	(9)	(2)
In 3 to 4 years	6	(3)	3	6	(7)	(1)
In 4 to 5 years	5	(2)	3	6	(5)	1
More than 5 years	16	(7)	9	25	(20)	5
	39	(40)	(1)	52	(77)	(25)
	69	(116)	(47)	106	(170)	(64)

For each class of commodity contract derivative, our exposure based on the notional quantities is as follows:

	2018	2017
Forward purchases of electricity <sup>1</sup>	0 GWh	159 GWh
Forward purchases of gas <sup>2</sup>	54m Dth	54m Dth
Electricity swaps	12,839 GWh	12,776 GWh
Electricity options	13,897 GWh	17,793 GWh
Electricity capacity	0.6 GWm	0.7 GWm
Gas swaps	100m Dth	83m Dth
Gas options	7m Dth	9m Dth
NYMEX gas futures <sup>3</sup>	0 Dth	3m Dth

- 1. Forward electricity purchases expired on 30 September 2017. The contractual obligations under these contracts are £nil (2017: £15 million).
- Forward gas purchases have terms up to three years. The contractual obligations under these contracts are £96 million (2017: £131 million).
   NYMEX gas futures have been offset with related margin accounts (see note 30(a)).

# (c) Further Acquisition Agreement derivative

The Group signed a Further Acquisition Agreement (FAA) concerning a 14% interest in Quadgas HoldCo Limited, which contains put and call options. The fair value of these derivatives is £110 million asset at 31 March 2018 (2017: £nil). The derivative notional was £739 million (2017: £690 million). The options can be exercised in the period between 1 March 2019 and 31 October 2019. The fair value of the option has been disclosed as a non-current derivative asset.

#### (d) Hedge accounting

Where possible, derivatives held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, cash flow hedges or net investment hedges. Our use of derivatives may entail a derivative transaction qualifying for one or more hedge type designations under IAS 39.

Hedge accounting allows derivatives to be designated as a hedge of another non-derivative financial instrument, to mitigate the impact of potential volatility in the income statement of changes in the fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. National Grid uses three hedge accounting methods, which are described as follows:

#### Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates and foreign exchange rates. For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the item in relation to the risk being hedged are offset in the income statement to the extent the fair value hedge is effective. Adjustments made to the carrying amount of the hedged item for fair value hedges will be amortised over the remaining life, in line with the hedged item.

	2018 £m	2017 £m
Cross-currency interest rate/interest rate swaps	496	548

- analysis of items in the primary statements continued

#### 16. Derivative financial instruments continued

# (d) Hedge accounting continued

#### 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 in other comprehensive income as gains or losses recognised in equity and transferred to the cash flow hedge reserve, and any ineffective portion is recognised immediately in the income statement. Amounts are transferred from equity and recognised in the income statement as the income or expense is recognised on the hedged item.

Forward foreign currency contracts are used to hedge anticipated and committed future currency cash flows. Where these contracts qualify for hedge accounting they are designated as cash flow hedges. On recognition of the underlying transaction in the financial statements, the associated hedge gains and losses, deferred in equity, are transferred and included with the recognition of the underlying transaction.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously reported in equity is transferred to the income statement.

Where a non-financial asset or a non-financial liability results from a forecast transaction or firm commitment being hedged, the amounts deferred in equity are included in the initial measurement of that non-monetary asset or liability.

	2018 £m	2017 £m
Cross-currency interest rate/interest rate swaps	138	(180)
Foreign exchange forward contracts	66	69
	204	(111)

#### Net investment hedges

Borrowings, cross-currency swaps and forward currency contracts are used in the management of the foreign exchange exposure arising from the investment in non-sterling denominated subsidiaries. Where these contracts qualify for hedge accounting they are designated as net investment hedges.

	2018 £m	2017 £m
Cross-currency interest rate/interest rate swaps	(104)	(544)
Foreign exchange forward contracts	87	(56)
	(17)	(600)

The cross-currency swaps and forward foreign currency contracts are hedge accounted using the spot to spot method. The foreign exchange gain or loss on retranslation of the borrowings and the spot to spot movements on the cross-currency swaps and forward currency contracts are transferred to equity to offset gains or losses on translation of the net investment in the non-sterling denominated subsidiaries, with any ineffective portion recognised immediately in the income statement.

### Derivatives not in a formal hedge relationship

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting under IAS 39 some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised in remeasurements within the income statement.

	2018 £m	2017 £m
Cross-currency interest rate/interest rate swaps	171	135
Foreign exchange forward contracts	19	34
Inflation linked swaps	(273)	(522)
Equity options	_	-
Commodity derivatives (all categories)	(47)	(64)
Further Acquisition Agreement derivative	110	-
	(20)	(417)

#### Discontinuation of hedge accounting

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement in the same periods in which the previously hedged item affects profit or loss, unless the hedged item is no longer expected to occur and then the amounts would be recognised immediately. Amounts deferred in equity with respect to net investment hedges are subsequently recognised in the income statement in the event of the disposal of the overseas operations concerned. For fair value hedges, the cumulative adjustment recorded to the carrying value of the hedged item at the date hedge accounting is discontinued is amortised to the income statement using the effective interest method.

#### Embedded derivatives

No adjustment is made with respect to derivative clauses embedded in financial instruments or other host 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 that are not closely related, the embedded derivative is separately accounted for as a derivative financial instrument.

#### 17. Inventories and current intangible assets

Inventories represent assets that we intend to use in order to generate revenue in the short-term, either by selling the asset itself (for example, fuel stocks) or by using it to fulfil a service to a customer or to maintain our network (consumables).

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

Emission allowances, principally relating to the emissions of carbon dioxide in the UK and sulphur and nitrous oxides in the US, are recorded as intangible assets within current assets, and are initially recorded at cost and subsequently at the lower of cost and net realisable value. A liability 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.

	2018 £m	2017 £m
Fuel stocks	78	101
Raw materials and consumables	190	191
Work in progress	-	8
Current intangible assets – emission allowances	73	103
	341	403

There is a provision for obsolescence of £18 million against inventories as at 31 March 2018 (2017: £26 million).

#### 18. 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 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.

	2018 £m	2017¹ £m
Trade receivables	1,674	1,591
Accrued income	817	811
Prepayments	229	228
Other receivables	78	98
	2,798	2,728

<sup>1.</sup> Comparative amounts have been represented to reflect the reclassification of commodity contract derivatives from trade and other receivables to derivatives (see note 16).

Trade receivables are non-interest-bearing and generally have a 30 to 90 days term. Due to their short maturities, the fair value of trade and other receivables approximates their book value.

#### Provision for impairment of receivables

	2018 £m	2017 £m
At 1 April	424	349
Exchange adjustments	(42)	51
Charge for the year, net of recoveries	36	147
Uncollectible amounts written off against receivables	(109)	(121)
Disposal of UK Gas Distribution	-	(2)
At 31 March	309	424

#### Trade receivables past due but not impaired

	2018 £m	2017 £m
Up to 3 months past due	271	238
3 to 6 months past due	73	67
Over 6 months past due	131	143
	475	448

For further information on our wholesale and retail credit risk, refer to note 30(a).

- analysis of items in the primary statements continued

#### 19. Cash and cash equivalents

Cash and cash equivalents include cash balances, together with short-term investments with an original maturity of less than three months that are readily convertible to cash.

Net cash and cash equivalents reflected in the cash flow statement are net of bank overdrafts, which are reported in borrowings. The carrying amounts of cash and cash equivalents and bank overdrafts approximate their fair values.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for periods varying between one day and three months, depending on the immediate cash requirements, and earn interest at the respective short-term deposit rates.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 30(d).

	2018	2017
	£m	£m
Cash at bank	54	199
Short-term deposits	275	940
Cash and cash equivalents	329	1,139

#### 20. Borrowings

We borrow money primarily in the form of bonds and bank loans. These are for a fixed term and may have fixed or floating interest rates or are linked to RPI. As indicated in note 16, we use derivatives to manage risks associated with interest rates and foreign exchange. Further details on our net debt can be found in note 27.

#### Our strategy in action

Our price controls and rate plans require us to fund our networks within a certain ratio of debt to equity and, as a result, we have issued a significant amount of debt. As we continue to invest in our networks, the value of debt is expected to increase over time. To maintain a strong balance sheet and to allow us to access capital markets at commercially acceptable interest rates, we balance the amount of debt we issue with the value of our assets, and take account of certain other metrics used by credit rating agencies.

Borrowings, which include interest-bearing and inflation-linked debt and overdrafts, are recorded at their initial fair values which normally reflect 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.

	2018 £m	2017 £m
Current		
Bank loans	2,020	1,339
Bonds	2,156	2,209
Commercial paper	206	1,881
Finance leases	64	66
Other loans	1	1
	4,447	5,496
Non-current		
Bank loans	2,384	2,343
Bonds	19,418	20,368
Finance leases	207	242
Other loans	169	189
	22,178	23,142
Total borrowings	26,625	28,638

#### 20. Borrowings continued

Total borrowings are repayable as follows:

	2018 £m	2017 £m
Less than 1 year	4,447	5,496
In 1 to 2 years	1,694	1,941
In 2 to 3 years	2,347	1,821
In 3 to 4 years	1,873	2,453
In 4 to 5 years	1,469	1,921
More than 5 years:		
By instalments	1,010	1,043
Other than by instalments	13,785	13,963
	26,625	28,638

The fair value of borrowings at 31 March 2018 was £30,164 million (2017: £32,239 million). Where market values were available, fair value of borrowings (Level 1) was £13,018 million (2017: £12,547 million). Where market values were not available, fair value of borrowings (Level 2) was £17,146 million (2017: £19,692 million), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2018 was £26,363 million (2017: £28,310 million).

The assets of the Colonial Gas Company and the Niagara Mohawk Power Corporation and certain gas distribution assets of the Narragansett Electric Company are subject to liens and other charges and are provided as collateral over borrowings totalling £392 million at 31 March 2018 (2017: £440 million).

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £878 million (2017: £709 million) in respect of cash received under collateral agreements. For further details of our borrowing facilities, refer to note 31. For further details of our bonds in issue, please refer to the debt investor section of our website. Unless included herein, the information on our website is unaudited.

Assets held under finance leases are recognised at their fair value or, if lower, the present value of the minimum lease payments on inception. The corresponding liability is recognised as a finance lease obligation within borrowings. Rental payments are apportioned between finance costs and reduction in the finance lease obligation, so as to achieve a constant rate of interest.

Assets held under finance leases are depreciated over the shorter of their useful life and the lease term.

### Finance lease obligations

	2018 £m	
Gross finance lease liabilities are repayable as follows:		
Less than 1 year	64	66
1 to 5 years	177	213
More than 5 years	72	89
	313	368
Less: finance charges allocated to future periods	(42)	(60)
	271	308
The present value of finance lease liabilities is as follows:		
Less than 1 year	64	66
1 to 5 years	144	174
More than 5 years	63	68
	271	308

### **Unaudited commentary on borrowings**

As at 31 March 2018, total borrowings of £26,625 million (2017: £28,638 million) including bonds, bank loans, commercial paper, collateral, finance leases and other debt had decreased by £2,013 million. We expect to repay £4,447 million of our total borrowings in the next 12 months including commercial paper, collateral and interest, and to fund this repayment through the capital and money markets and surplus cash. The average long-term debt maturity of the portfolio is 11 years (2017: 11 years). Further information on our bonds can be found in the debt investor section of our website. Unless included herein, the information on our website is unaudited.

- analysis of items in the primary statements continued

#### 21. Trade and other payables

Trade and other payables include amounts owed to suppliers, tax authorities and other parties which are due to be settled within 12 months. The total also includes deferred income, which represents monies received from customers but for which we have not yet delivered the associated service. These amounts are recognised as revenue when the service is provided.

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost.

	2018 £m	2017¹ £m
Trade payables	1,977	2,135
Deferred income <sup>2</sup>	440	298
Social security and other taxes	173	136
Other payables	863	776
	3,453	3,345

Comparative amounts have been represented to reflect the reclassification of commodity derivative contracts from trade and other payables to derivatives (see note 16).

Due to their short maturities, the fair value of trade payables approximates their book value.

#### 22. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2019. It also includes payables that are not due until after that date.

Non-current liabilities are initially recognised at fair value and subsequently measured at amortised cost.

	2018 £m	2017 <sup>1</sup> £m
Deferred income <sup>2</sup>	958	1,032
Other payables	359	338
	1,317	1,370

<sup>1.</sup> Comparative amounts have been represented to reflect the reclassification of commodity derivative contracts from other non-current liabilities to derivatives (see note 16). 2. Included within deferred income is £844 million (2017: £839 million) relating to customer contributions.

There is no material difference between the fair value and the carrying value of other payables.

### 23. Pensions and other post-retirement benefits

The majority of employees are either members of a DB (defined benefit) or a DC (defined contribution) pension scheme. In the US we also provide healthcare and life insurance benefits to eligible retired US employees.

The fair value of associated scheme assets and present value of DB obligations are updated annually in accordance with IAS 19 (revised).

We separately present our UK and US pension schemes to show geographical split. Below we provide a more detailed analysis of the amounts recorded in the primary financial statements and the actuarial assumptions used to value the DB obligations.

#### Defined contribution plans

Most new hires are able to join DC plans in the UK or US. These plans are designed to provide members with a pension pot for their retirement. The risks associated with these plans are assumed by the member.

Payments to these DC plans are charged as an expense as they fall due. There is no legal or constructive obligation on National Grid to pay additional contributions into a DC plan if the fund has insufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

#### Defined benefit schemes

The principal UK schemes are the National Grid UK Pension Scheme (NGUKPS) and the National Grid Electricity Group of the Electricity Supply Pension Scheme (NGEG of the ESPS). In the US, we have four plans and a number of healthcare and life insurance plans.

For DB pension schemes, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. National Grid underwrites both financial and demographic risks associated with this type of scheme.

National Grid's obligation in respect of DB pension schemes is calculated separately for each DB scheme by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities. Current service cost and any unrecognised past service cost are recognised immediately. The discount rate used is the yield at the valuation date on high-quality corporate bonds.

Advice is taken from independent actuaries relating to the appropriateness of the key assumptions applied, including life expectancy, expected salary and pension increases, and inflation. Comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement, the statement of other comprehensive income and the net liability recognised in the statement of financial position.

Remeasurements of pension assets and post-retirement benefit obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

<sup>2.</sup> Included within deferred income is £85 million (2017: £89 million) relating to customer contributions

#### 23. Pensions and other post-retirement benefits continued

#### **UK** pension plans

#### **Defined Contribution**

#### The National Grid YouPlan

National Grid pays contributions into YouPlan to provide DC benefits on behalf of employees. National Grid provides a double match of member contributions, up to a maximum of 6% of member salary.

YouPlan was established in 2013 and is the qualifying scheme used for automatic enrolment of new hires. Prior to its establishment, DC benefits were provided through the NGUKPS, which transferred all historical DC benefits to YouPlan in 2013.

#### **Defined Benefit**

National Grid's DB pension arrangements are held in separate trustee administered funds. The arrangements are managed by trustee companies with boards consisting of company and member appointed directors.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with us, the qualified actuary certifies the employers' contributions, which, together with the specified contributions payable by the employees and proceeds from the plans' assets, are expected to be sufficient to fund the benefits payable.

The results of the most recent actuarial valuations are shown below. See page 145 for the assumptions used for IAS 19 purposes.

	Section A of NGUKPS	Section B of NGUKPS	NGEG of ESPS
Latest full actuarial valuation	31 March 2017	31 March 2017	31 March 2016
Actuary	Willis Towers Watson	Willis Towers Watson	Aon Hewitt
Market value of scheme assets at latest valuation	£6,716m	£5,849m	£2,553m
Actuarial value of benefits due to members	£6,627m	£6,057m	£3,053m
Market value as percentage of benefits	101%	97%	84%
Funding surplus/(deficit)	£89m	(£208m)	(£500m)
Funding surplus/(deficit) net of tax	£74m	(£173m)	(£415m)

#### National Grid UK Pension Scheme

With effect from 1 January 2017 the scheme was split into three sections, each of which is legally and actuarially separate. Sections A and B are supported by companies within the National Grid Group, and National Grid makes payments to Sections A and B to cover administration costs and the Pension Protection Fund levy. The scheme closed to new hires on 1 April 2002.

Section C is supported by Cadent Gas Limited which is no longer part of the National Grid Group following the disposal of UK Gas Distribution which completed on 31 March 2017. The disclosures for the current year do not include Section C data. However, the actuarial assumptions adopted will influence our equity accounting for Quadgas HoldCo Limited (the ultimate parent of Cadent Gas Limited).

### Section A

Following the actuarial valuation at 31 March 2017, Section A was in surplus. As such, no deficit funding contributions are being made to the section. National Grid and the Trustees have agreed a schedule of contributions whereby the employers will contribute 51.8% of pensionable salary, less member contributions, in respect of ongoing service cost. This rate is deemed to be sufficient to meet the statutory funding objective during the period for which it is in force.

The next actuarial valuation will be performed at 31 March 2019.

#### Section E

The actuarial valuation as at 31 March 2017 determined that Section B was in deficit. National Grid and the Trustee agreed on a schedule of contributions, whereby deficit funding contributions of approximately £32 million payable by 30 September each year from 2017 onwards until 30 September 2022, with an additional £8 million payable by 30 September 2023. All deficit funding amounts due will be adjusted for the change in the Retail Price Index (RPI) from 31 December 2016 up to three months prior to the date of payment. As a result, the funding shortfall is expected to be eliminated by 30 September 2023.

The employers will also contribute 51.4% of pensionable salary, less member contributions, in respect of ongoing service cost.

The next actuarial valuation will be performed as at 31 March 2019.

- analysis of items in the primary statements continued

#### 23. Pensions and other post-retirement benefits continued

### National Grid Electricity Group of the Electricity Supply Pension Scheme

The scheme closed to new hires from 1 April 2006.

The last full actuarial valuation for the NGEG of the ESPS was carried out at 31 March 2016 and determined that the scheme was in deficit. National Grid and the Trustee agreed on a schedule of contribution, whereby deficit funding contributions of £48 million are payable each year from 2016 onwards until 31 March 2027. All deficit funding amounts due will be adjusted for the change in the Retail Price Index (RPI). The funding shortfall is expected to be eliminated by 31 March 2027.

The employer will also contribute 40.7% of pensionable earnings (less member contributions).

The next actuarial valuation is required with an effective date of no later than 31 March 2019.

#### Security arrangements

National Grid has also established security arrangements with charges in favour of the Trustees. As at 31 March 2018 the required value of these arrangements and principal supporting employers were:

- Section A of NGUKPS: £315 million, National Grid plc and National Grid UK Limited;
- Section B of NGUKPS: £179 million, National Grid Gas plc (NGG); and
- NGEG of ESPS: £250 million, National Grid Electricity Transmission plc (NGET).

The majority of the security is provided in the form of letters of credit with the remainder in surety bonds. The assets held in security will be paid to the respective section or scheme in the event that the relevant supporting employer is subject to an insolvency event or fails to make the required contributions. In addition, counter indemnities have also been taken out to ensure the obligations will be fulfilled.

The following specific conditions apply to the security arrangements:

- Section B of NGUKPS: The assets will be paid to Section B if NGG is given notice of less than 12 months that Ofgem intends to revoke its licence under the Gas Act 1986, or if NGG grants any charges over its assets other than where agreed with the Trustee.
- NGEG of ESPS: The asset and an amount in respect of the deficit (to a maximum of £500 million) will be paid to the scheme if NGET ceases to hold a licence granted under the Electricity Act 1989.

In addition to the above, if the credit rating of the supporting employer, as determined by two out of three specified agencies, falls below certain agreed levels for 40 days, the following amounts will be payable:

- Section A of NGUKPS: £72 million (increased in line with RPI).
- Section B of NGUKPS: £65 million (increased in line with RPI).
- NGEG of ESPS: A maximum of £500 million in respect of the deficit.

#### **US** pension plans

National Grid has multiple DC pension plans, primarily comprised of employee savings and Company matching contributions. Non-union employees hired after 1 January 2011, as well as new hires in the majority of represented union employees, receive a core contribution into the DC plan, irrespective of the employee's contribution into the plan.

National Grid also sponsors numerous non-contributory DB pension plans. The DB plans provide retirement benefits to vested union employees, as well as vested non-union employees hired before 1 January 2011. Benefits under these plans generally reflect age, years of service and compensation and are paid in the form of an annuity or lump sum. An independent actuary performs valuations annually. The Company funds the DB plans by contributing no less than the minimum amount required, but no more than the maximum tax deductible amount allowed under US Internal Revenue Service regulations. The range of contributions determined under these regulations can vary significantly depending upon the funded status of the plans. At present, there is some flexibility in the amount that is contributed on an annual basis. In general, the Company's policy for funding the US pension plans is to contribute the amounts collected in rates and capitalised in the rate base during the year, to the extent that the funding is no less than the minimum amount required. The assets of the plans are held in trusts and administered by fiduciary committees comprised of appointed employees of the Company.

### US retiree healthcare and life insurance plans

National Grid provides healthcare and life insurance benefits to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in most cases retirees contribute to the cost of their healthcare coverage. In the US, there is no governmental requirement to pre-fund post-retirement healthcare and life insurance plans. However, in general, the Company's policy for funding the US retiree healthcare and life insurance plans is to contribute amounts collected in rates and capitalised in the rate base during the year.

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#### 23. Pensions and other post-retirement benefits continued

#### Risks

National Grid underwrites the financial and demographic risks associated with DB plans, the most significant of which are:

- Asset volatility: The schemes invest 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, impacting on the net balance sheet asset or liability. Each scheme seeks to balance the level of investment return sought with the aim of reducing volatility and risk by means of liability matching asset strategies, diversification of asset portfolios, interest rate hedging and management of foreign exchange exposure. In taking this approach, reference is made to both the maturity of liabilities and the funding level of that scheme.
- Changes in bond yields: Liabilities are calculated using discount rates set with reference to yields on high-quality corporate bonds prevailing in the US and UK debt markets and will fluctuate as yields change.
- Inflation risk: Changes in inflation will affect current and future pensions, but are partially mitigated though investing in inflation matching assets and hedging instruments.
- Member longevity: Longevity is a key driver of liabilities and changes in expected mortality will have a direct impact on liabilities. In aggregate,
  the liabilities are relatively mature which mitigates the risk to a certain extent. The NGEG of ESPS holds a longevity insurance contract which
  covers exposure to improvements in longevity, providing long-term protection and income to the scheme in the event that members live longer
  than currently expected.

#### **Actuarial assumptions**

The Company has applied the following financial assumptions in assessing DB liabilities.

	OK pensions		
	2018 %	2017 %	2016 %
Discount rate <sup>1</sup> – past service <sup>2</sup>	2.60	2.40	3.30
Discount rate¹ – future service²	2.65	2.65	3.30
Rate of increase in salaries <sup>3</sup>	3.40	3.50	3.20
Rate of increase in RPI – past service <sup>4</sup>	3.15	3.20	2.90
Rate of increase in RPI – future service <sup>4</sup>	3.10	3.15	2.90

- The discount rates for pension liabilities have been determined by reference to appropriate yields on high-quality corporate bonds prevailing in the UK debt markets at the reporting date.
   In the UK for 2018, National Grid has adopted a different discount rate assumption by increasing the duration of the scheme liabilities to 25 years for future service obligations. This has led to a future service discount rate in the UK of 2.65% for both the 2017 and 2018 year-ends. The 2017 discount rate was 2.40% based on an expected duration of scheme liabilities of 17 years.
- 3. A promotional scale has also been used where appropriate. The UK assumption stated is that relating to service prior to 1 April 2013. The UK assumption for the rate of increase in salaries for past service after this date is 2.20% (2017: 2.20%; 2016: 2.10%) and for future service 2.15% (2017: 2.20%; 2016: 2.10%). The rates of increase stated are not indicative of historical increases awarded or a quarantee of future increases but merely an appropriate assumption.
- awarded or a guarantee of future increases, but merely an appropriate assumption utilised in assessing DB liabilities.
  4. This is the key assumption that determines assumed increases in pensions in payment and deferment in the UK only. Consistent with the derivation of the discount rate, the RPI assumption reflects the duration of the active liabilities to be adopted in the calculation of the future service obligations. This approach leads to a RPI assumption for the future service rate of 3.10% p.a. at reporting date (2017: 3.15%; 2016: 2.90%), as compared to the 2017 published assumption of 3.20% for both past service and future service.

	US pensions			US other post-retirement benefits		
	2018 %	2017 %	2016	<b>2018</b> %	2017 %	2016 %
Discount rate <sup>1</sup>	4.00	4.25	4.25	4.00	4.25	4.25
Rate of increase in salaries	3.50	3.50	3.50	3.50	3.50	3.50
Initial healthcare cost trend rate	n/a	n/a	n/a	7.50	7.00	7.50
Ultimate healthcare cost trend rate <sup>2</sup>	n/a	n/a	n/a	4.50	4.50	4.50

- 1. The discount rates for pension liabilities have been determined by reference to appropriate yields on high-quality corporate bonds prevailing in the US debt markets at the reporting date with an expected duration of plan liabilities of 17 years.
- 2. The ultimate healthcare cost trend rate will reach the ultimate trend in 2026/28 (2017 and 2016: 2024/25).

For sensitivity analysis see note 33.

	2018		2017		2016	
	UK years	US years	UK years	US years	UK years	US years
Assumed life expectations for a retiree age 65						
Males	22.3	22.0	22.9	21.9	22.8	21.8
Females	23.9	24.2	24.7	24.1	25.2	24.0
n 20 years:						
Males	23.7	23.6	25.1	23.6	25.1	23.5
Females	25.5	25.8	27.1	25.7	27.6	25.6

### Maturity profile of DB obligations

The weighted average duration of the DB obligation for each category of scheme is 16 years for UK pension schemes; 13 years for US pension schemes and 15 years for US other post-retirement benefits.

- analysis of items in the primary statements continued

#### 23. Pensions and other post-retirement benefits continued

### Amounts recognised in the statement of financial position

	2018 £m	2017 £m	2016 £m
Present value of funded obligations <sup>1</sup>	(23,747)	(25,890)	(28,648)
Fair value of plan assets	23,858	24,375	26,434
	111	(1,515)	(2,214)
Present value of unfunded obligations	(307)	(340)	(304)
Other post-employment liabilities	(67)	(78)	(67)
Net defined benefit liability	(263)	(1,933)	(2,585)
Represented by:			
Liabilities	(1,672)	(2,536)	(2,995)
Assets	1,409	603	410
	(263)	(1,933)	(2,585)

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK Pensions			U	US Pensions			US other post-retirement benefits		
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	
Present value of funded obligations <sup>1</sup>	(14,152)	(15,565)	(19,341)	(6,349)	(6,790)	(5,916)	(3,246)	(3,535)	(3,391)	
Fair value of plan assets	15,330	15,489	19,401	6,030	6,322	5,136	2,498	2,564	1,897	
	1,178	(76)	60	(319)	(468)	(780)	(748)	(971)	(1,494)	
Present value of unfunded obligations	(74)	(80)	(75)	(233)	(260)	(229)	_	-	_	
Other post-employment liabilities	-	_	-	-	-	-	(67)	(78)	(67)	
Net defined benefit asset/(liability)	1,104	(156)	(15)	(552)	(728)	(1,009)	(815)	(1,049)	(1,561)	
Represented by:										
Liabilities	(74)	(536)	(300)	(783)	(951)	(1,134)	(815)	(1,049)	(1,561)	
Assets	1,178	380	285	231	223	125	-	-	_	
	1,104	(156)	(15)	(552)	(728)	(1,009)	(815)	(1,049)	(1,561)	

- Present value of funded obligations split approximately as follows:
   UK pensions at 31 March 2018: 10% active members (2017: 12%; 2016: 12%); 18% deferred members (2017: 19%; 2016: 18%); 72% pensioner members (2017: 69%; 2016: 70%)
   US pensions at 31 March 2018: 38% active members (2017: 38%; 2016: 39%); 8% deferred members (2017: 9%; 2016: 9%); 54% pensioner members (2017: 53%; 2016: 52%)
   US other post-retirement benefits at 31 March 2018: 38% active members (2017: 39%; 2016: 41%); 0% deferred members (2017: 0%; 2016: 0%); 62% pensioner members (2017: 61%; 2016: 59%)

The recognition of the pension assets in both the UK in relation to the National Grid UK Pension Scheme (NGUKPS) and the Niagara Mohawk Plan in the US reflect legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14. In both cases we have concluded that the Group has an unconditional right to a refund from the individual plans, including from each Section of the NGUKPS, in the event of a winding up. In the UK, the Trustees must seek the agreement of the Company to any benefit augmentation beyond the provisions set out in the Scheme Rules. In the US, the surplus assets may be used to pay benefits under other Plans, thereby allowing the Company to settle other liabilities under other Plans.

### 23. Pensions and other post-retirement benefits continued

### Amounts recognised in the income statement and statement of other comprehensive income

	2018 £m	2017 £m	2016 £m
Included within operating costs			
Administration costs	16	16	16
Included within payroll costs			
Defined benefit scheme costs:			
Current service cost	193	232	221
Past service cost – augmentations	1	1	3
Past service credit – redundancies	(1)	(1)	(1)
Special termination benefit cost – redundancies	9	7	11
	202	239	234
Included within finance income and costs			
Net interest cost	65	105	112
Included within gain on disposal of discontinued operations			
Administration costs	-	5	2
Disposal of UK Gas Distribution	-	34	-
	-	39	2
Total included in income statement <sup>1,2</sup>	283	399	364
Remeasurement gains of pension assets and post-retirement benefit obligations	1,313	348	539
Exchange adjustments	175	(345)	(81)
Total included in the statement of other comprehensive income <sup>2</sup>	1,488	3	458

<sup>1.</sup> Amounts recognised in the income statement include operating costs of £nil (2017: £1 million; 2016: £1 million); payroll costs of £nil (2017: £35 million; 2016: £28 million; 2016: £28 million; and net interest of £nil (2017: £2 million income; 2016: £1 million cost) presented within profit from discontinued operations. These amounts all relate to UK pensions.

2. Amounts recognised in the statement of other comprehensive income include remeasurements of pension assets and post-retirement benefit obligations of £nil (2017: £75 million loss; 2016: £129 million gain) presented within discontinued operations. These amounts all relate to UK pensions.

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK Pensions			u	US Pensions			US other post-retirement benefits			
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m		
Included within operating costs											
Administration costs	6	6	9	9	9	6	1	1	1		
Included within payroll costs											
Defined benefit scheme costs:											
Current service cost	49	76	74	98	103	95	46	53	52		
Past service cost – augmentations	1	1	3	_	_	_	_	-	_		
Past service credit – redundancies	(1)	(1)	(1)	_	_	_	_	_	_		
Special termination benefit cost – redundancies	9	7	11	_	_	_	_	_	_		
	58	83	87	98	103	95	46	53	52		
Included within finance income and costs											
Net interest cost	3	_	18	27	43	36	35	62	58		
Included within gain on disposal of discontinued operations											
Administration costs	-	5	2	_	-	-	-	-	-		
Disposal of UK Gas Distribution	-	34	-	_	-	-	-	-	-		
	-	39	2	-	-	-	-	_	_		
Total included in income statement	67	128	116	134	155	137	82	116	111		
Remeasurement gains/(losses) of pension assets and post retirement benefit obligations	1,177	(541)	534	27	319	(67)	109	570	72		
Exchange adjustments	_	_	_	75	(140)	(33)	100	(205)	(48)		
Total included in the statement of other comprehensive income	1,177	(541)	534	102	179	(100)	209	365	24		

- analysis of items in the primary statements continued

### 23. Pensions and other post-retirement benefits continued

### Reconciliation of the net defined benefit liability

	2018 £m	2017 £m	2016 £m
Opening net defined benefit liability	(1,933)	(2,585)	(3,258)
Cost recognised in the income statement	(283)	(399)	(364)
Remeasurement and foreign exchange effects recognised in the statement of other comprehensive income	1,488	3	458
Employer contributions	475	1,073	587
Other movements	(10)	(25)	(8)
Closing net defined benefit liability	(263)	(1,933)	(2,585)

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			U	US pensions			US other post-retirement benefits		
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	
Opening net defined benefit liability	(156)	(15)	(672)	(728)	(1,009)	(1,003)	(1,049)	(1,561)	(1,583)	
Cost recognised in the income statement	(67)	(128)	(116)	(134)	(155)	(137)	(82)	(116)	(111)	
Remeasurement and foreign exchange effects recognised in the statement of other comprehensive income	1,177	(541)	534	102	179	(100)	209	365	24	
Employer contributions	150	528	239	208	257	231	117	288	117	
Other movements	-	-	-	-	-	-	(10)	(25)	(8)	
Closing net defined benefit asset/(liability)	1,104	(156)	(15)	(552)	(728)	(1,009)	(815)	(1,049)	(1,561)	

Changes in the present value of	f defined benefit obligations (including	g unfunded obligations)

	2018 £m	2017 £m	2016 £m
Opening defined benefit obligations	(26,230)	(28,952)	(29,592)
Current service cost	(193)	(232)	(221)
Interest cost	(775)	(1,057)	(1,026)
Actuarial (losses)/gains – experience	(100)	166	659
Actuarial gains – demographic assumptions	671	225	_
Actuarial gains/(losses) – financial assumptions	174	(3,377)	218
Past service credit – redundancies	1	1	1
Special termination benefit cost – redundancies	(9)	(7)	(11)
Past service cost – augmentations	(1)	(1)	(3)
Medicare subsidy received	(21)	(14)	(15)
Obligations transferred on disposal of UK Gas Distribution	_	6,970	-
Employee contributions	(1)	(1)	(2)
Benefits paid	1,285	1,443	1,348
Exchange adjustments	1,145	(1,394)	(308)
Closing defined benefit obligations	(24,054)	(26,230)	(28,952)

The geographical split of pensions and other post-retirement benefits is as shown below:

	U	UK pensions US pensions				US other post-retirement benefits			
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m
Opening defined benefit obligations	(15,645)	(19,416)	(20,125)	(7,050)	(6,145)	(6,055)	(3,535)	(3,391)	(3,412)
Current service cost	(49)	(76)	(74)	(98)	(103)	(95)	(46)	(53)	(52)
Interest cost	(366)	(615)	(649)	(273)	(285)	(242)	(136)	(157)	(135)
Actuarial (losses)/gains – experience	(95)	106	552	(38)	(2)	15	33	62	92
Actuarial gains – demographic assumptions	565	214	-	30	2	-	76	9	_
Actuarial gains/(losses) – financial assumptions	604	(3,751)	_	(279)	37	120	(151)	337	98
Past service credit – redundancies	1	1	1	-	_	-	-	-	_
Special termination benefit cost – redundancies	(9)	(7)	(11)	_	_	-	_	_	_
Past service cost – augmentations	(1)	(1)	(3)	-	-	-	-	-	_
Medicare subsidy received	-	-	-	-	-	-	(21)	(14)	(15)
Obligations transferred on disposal of UK Gas Distribution	_	6,970	_	_	_	_	_	_	_
Employee contributions	(1)	(1)	(2)	-	-	-	-	-	_
Benefits paid	770	931	895	362	349	310	153	163	143
Exchange adjustments	_	-	-	764	(903)	(198)	381	(491)	(110)
Closing defined benefit obligations	(14,226)	(15,645)	(19,416)	(6,582)	(7,050)	(6,145)	(3,246)	(3,535)	(3,391)

### 23. Pensions and other post-retirement benefits continued

### Changes in the value of plan assets

	2018 £m	2017 £m	2016 £m
Opening fair value of plan assets	24,375	26,434	26,408
Interest income	710	952	914
Return on plan assets in excess of/(less than) interest	568	3,334	(338)
Administration costs	(16)	(21)	(18)
Employer contributions	475	1,073	587
Employee contributions	1	1	2
Benefits paid	(1,285)	(1,443)	(1,348)
Exchange adjustments	(970)	1,049	227
Assets transferred on disposal of UK Gas Distribution	_	(7,004)	-
Closing fair value of plan assets	23,858	24,375	26,434
Actual return on plan assets	1,278	4,286	576
Expected contributions to plans in the following year	363	491	686

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			U	US pensions			US other post-retirement benefits		
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	
Opening fair value of plan assets	15,489	19,401	19,453	6,322	5,136	5,052	2,564	1,897	1,903	
Interest income	363	615	631	246	242	206	101	95	77	
Return on plan assets in excess of/(less than) interest	103	2,890	(18)	314	282	(202)	151	162	(118)	
Administration costs	(6)	(11)	(11)	(9)	(9)	(6)	(1)	(1)	(1)	
Employer contributions	150	528	239	208	257	231	117	288	117	
Employee contributions	1	1	2	-	-	-	_	-	_	
Benefits paid	(770)	(931)	(895)	(362)	(349)	(310)	(153)	(163)	(143)	
Exchange adjustments	-	-	-	(689)	763	165	(281)	286	62	
Assets transferred on disposal of UK Gas Distribution	_	(7,004)	_	-	_	-	_	_	_	
Closing fair value of plan assets	15,330	15,489	19,401	6,030	6,322	5,136	2,498	2,564	1,897	
Actual return on plan assets	466	3,505	613	560	524	4	252	257	(41)	
Expected contributions to plans in the following year	140	128	228	221	229	220	2	134	238	

# Investment strategy

Each plan's investment strategy is formulated specifically in order to target specific asset allocations, asset returns and to manage risk. The asset allocation of the plans as at 31 March 2018 is as follows:

	UK pensions' %	US pensions <sup>2</sup> %	US other post-retirement benefits <sup>3</sup> %
Equities	14.6	42.0	60.9
Corporate bonds	25.8	24.8	1.0
Government securities	36.7	16.2	20.4
Property	6.3	4.6	-
Diversified alternatives	5.1	10.3	12.2
Liability matching assets	7.7	-	-
Other	3.8	2.1	5.5
	100.0	100.0	100.0

Of total assets at year-end date, 57.8% is invested in the UK, 18.4% in the US and 23.7% in other countries, including the EU.
 Of total assets at year-end date, 88.5% is invested in the US, 1.2% in the UK and 10.3% in other countries.
 Of total assets at year-end date, 91.8% is invested within the US, 0.2% in the UK and 8.0% in other countries.

- analysis of items in the primary statements continued

#### 23. Pensions and other post-retirement benefits continued

### Investment strategy continued

In the UK, the Trustees as governing body of each scheme are solely responsible for setting the investment strategy and managing risk. The Trustees' responsibilities are set out in the Trust Deeds and Rules. In the US, the fiduciary committee for each respective retirement plan is the Retirement Plan Committee (RPC). The RPC is solely responsible for setting the investment strategy and managing the risk of each plan. The RPC is structured in accordance with US laws governing retirement plans under the Employee Retirement Income Security Act (ERISA).

The Trustees or the RPC where applicable, will perform the following duties:

- After taking advice from professional investment advisers and consultation with the sponsoring employers, set the key principles, including expected returns, risk and liquidity requirements, after taking into account expected contributions, maturity of the pension liabilities and in the UK, the strength of the covenant.
- Formulate an investment strategy to manage risk through diversification, including the use of liability matching assets, which move in line with long-term liabilities of the scheme, return seeking assets, some of which are designed to mitigate downside risk and exposure. Where appropriate, the strategies may include interest rate and inflation hedging instruments, and currency hedging to hedge foreign holdings.
- Review the investment strategies' performance and risk regularly and amend the portfolios if required.
- Appoint investment managers with the necessary skills, expertise and credit worthiness to manage the investments. On a regular basis, the performance of the asset managers and their adherence to the investment strategies will be reviewed.

Investments are made predominantly in regulated markets and investments outside of these markets are kept to prudent levels and subject to agreed control ranges.

#### Asset allocations

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

#### **UK** pensions

		2018			2017			2016		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	
Equities <sup>1</sup>	1,420	813	2,233	2,624	596	3,220	3,272	962	4,234	
Corporate bonds <sup>2</sup>	3,949	-	3,949	3,526	-	3,526	5,601	-	5,601	
Government securities	5,629	-	5,629	5,406	-	5,406	6,059	-	6,059	
Property	129	834	963	90	708	798	90	1,081	1,171	
Diversified alternatives <sup>3</sup>	99	690	789	250	628	878	159	505	664	
Liability matching assets4	1,174	-	1,174	1,162	-	1,162	1,020	-	1,020	
Other <sup>5</sup>	211	382	593	63	436	499	649	3	652	
	12,611	2,719	15,330	13,121	2,368	15,489	16,850	2,551	19,401	

<sup>1.</sup> Included within equities at 31 March 2018 were ordinary shares of National Grid plc with a value of £nil (2017: £2 million; 2016: £7 million).

### **US** pensions

•										
		2018			2017			2016		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	
Equities	577	1,954	2,531	698	1,915	2,613	625	1,508	2,133	
Corporate bonds	1,085	413	1,498	1,130	537	1,667	954	483	1,437	
Government securities	414	565	979	872	71	943	711	_	711	
Property	_	279	279	_	335	335	-	276	276	
Diversified alternatives <sup>1</sup>	198	421	619	209	433	642	163	334	497	
Other <sup>2</sup>	20	104	124	31	91	122	-	82	82	
	2,294	3,736	6,030	2,940	3,382	6,322	2,453	2,683	5,136	

Includes return seeking non-conventional asset classes which include hedge funds, real estate debt and limited partnerships. 2. Includes collateral, liquid investments and cash deposits, debtors and creditors.

### US other post-retirement benefits

	2018			2017			2016		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	412	1,110	1,522	405	1,162	1,567	281	853	1,134
Corporate bonds	24	-	24	19	-	19	37	1	38
Government securities	508	2	510	520	1	521	390	_	390
Diversified alternatives <sup>1</sup>	161	144	305	166	149	315	122	104	226
Other <sup>2</sup>	-	137	137	_	142	142	_	109	109
	1,105	1,393	2,498	1,110	1,454	2,564	830	1,067	1,897

<sup>1.</sup> Includes return seeking non-conventional asset classes which include hedge funds, real estate debt and limited partnerships

<sup>2.</sup> Included within corporate bonds at 31 March 2018 was an investment in a number of bonds issued by subsidiary undertakings with a value of £nil (2017; £nil; 2016; £70 million).

<sup>3.</sup> Includes return seeking non-conventional asset classes which include hedge funds, private debt, mezzanine debt, infrastructure debt and fixed income debt instrument

<sup>4.</sup> Includes liability-driven investment vehicles

<sup>5.</sup> Includes cash and cash type instruments

<sup>2.</sup> Includes collateral, liquid investments and cash deposits, debtors and creditors

#### 24. Provisions

We make provisions when an obligation exists, resulting from a past event and it is probable that cash will be paid to settle it, but the exact amount of cash required can only be estimated.

The main estimates relate to environmental remediation and decommissioning costs for various sites we own or have owned and other provisions, including restructuring plans and lease contracts we have entered into that are now loss making. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, the likelihood could alter.

#### Our strategy in action

We are committed to the protection and enhancement of the environment. However, we have acquired, owned and operated a number of businesses which have, during the course of their operations, created an environmental impact. Therefore we have a provision that reflects the expected cost to remediate these sites. Current operations will seldom result in new sites with significant expected costs being added to the provision.

Provisions are recognised where a legal or constructive obligation exists at the reporting date, as a result of a past event, where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Provision is made for decommissioning and environmental costs, based on future estimated expenditures, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

The unwinding of the discount is included within the income statement as finance costs.

	Environmental £m	Decommissioning £m	Restructuring £m	Emissions £m	Other £m	Total provisions £m
At 1 April 2016	1,169	141	30	18	361	1,719
Exchange adjustments	137	13	-	2	36	188
Additions	572	107	16	12	308	1,015
Unused amounts reversed	(75)	_	(5)	_	(6)	(86)
Unwinding of discount	60	-	1	_	12	73
Utilised	(110)	(19)	(25)	_	(73)	(227)
Disposal of UK Gas Distribution	(32)	(21)	_	_	(41)	(94)
At 31 March 2017	1,721	221	17	32	597	2,588
Exchange adjustments	(158)	(9)	-	(2)	(26)	(195)
Additions	27	2	10	12	23	74
Unused amounts reversed <sup>1</sup>	(45)	(19)	(6)	_	(37)	(107)
Unwinding of discount	61	5	1	_	8	75
Utilised <sup>2</sup>	(75)	(6)	(7)	(34)	(146)	(268)
Transfers <sup>3</sup>	_	-	(12)	_	(103)	(115)
At 31 March 2018	1,531	194	3	8	316	2,052

	2018 £m	2017 £m
Current	273	416
Non-current Non-current	1,779	2,172
	2.052	2 588

<sup>1.</sup> Unused amounts reversed from other provisions include £16 million in relation to discontinued operations.

<sup>2.</sup> Utilised amounts for other provisions include £77 million in relation to discontinued operations.

3. Represents net amounts transferred to trade and other payables (see note 21) of £115 million (2017: £nil).

- analysis of items in the primary statements continued

#### 24. Provisions continued

#### **Environmental provision**

The environmental provision represents the estimated restoration and remediation costs relating to a number of sites owned and managed by subsidiary undertakings, together with certain US sites that National Grid no longer owns. The environmental provision is as follows:

	2018				2017	
	Discounted £m	Undiscounted £m	Real discount rate	Discounted £m	Undiscounted £m	Real discount rate
UK sites	213	235	1%	242	270	1%
US sites	1,318	1,410	1%	1,479	1,619	1%
	1,531	1,645		1,721	1,889	

The remediation expenditure in the UK relates to old gas manufacturing sites and also to electricity transmission sites. Cash flows are expected to be incurred until 2075 although the weighted average duration of the cash flows is 11 years. A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the real discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

The remediation expenditure in the US is expected to be incurred until 2069. The weighted average duration of the cash flows is nine years. The increase in the US provision last year principally related to the reduction in real discount rate and expected expenditure in relation to three industrial sites located on or near waterways in New York that are subject to both state and federal law in the US. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK sites. This expenditure is expected to be largely recoverable from ratepayers under the terms of various rate agreements in the US.

#### **Decommissioning provision**

The decommissioning provision represents £71 million (2017: £78 million) of expenditure relating to asset retirement obligations estimated to be incurred until 2115, and £104 million (2017: £107 million) of expenditure relating to the demolition of gas holders estimated to be incurred until 2023. It also includes the net present value of the estimated expenditure (discounted at a real rate of 1%) expected to be incurred until 2033 in respect of the decommissioning of certain US nuclear generating units that National Grid no longer owns. A pre-existing decommissioning provision formed part of the net assets sold as part of the UK Gas Distribution transaction.

#### Other provisions

Included within other provisions at 31 March 2018 are the following amounts in respect of the disposal of UK Gas Distribution:

- £50 million (2017: £143 million) in respect of business restructuring costs following the sale of UK Gas Distribution. We expect the majority of this
  provision to be utilised within one year; and
- Last year, other provisions included £150 million voluntary distribution to be made for the benefit of energy customers on the successful sale
  of UK Gas Distribution. During the year, this was transferred to trade and other payables and has a closing balance of £117 million.

#### Other provisions also include:

- Amounts provided in respect of onerous lease commitments and rates payable on surplus properties of £48 million (2017: £84 million) with expenditure expected to be incurred until 2043;
- £152 million (2017: £166 million) of estimated liabilities in respect of past events insured by insurance subsidiary undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date; and
- £13 million (2017: £13 million) in respect of obligations associated with investments in joint ventures and associates.

#### 25. Share capital

Ordinary share capital represents the total number of shares issued which are publicly traded. We also disclose the number of treasury shares the Company holds, which are shares that the Company has bought itself, predominately to actively manage scrip issuances and employee share option plan liabilities.

Share capital is accounted for as an equity instrument. An equity instrument is any contract that includes a residual interest in the consolidated assets of the Company after deducting all its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

	Allotted, called up and	d fully paid
	million	£m
At 1 April 2016	3,924	447
Issued during the year in lieu of dividends <sup>1</sup>	19	2
At 31 March 2017	3,943	449
Effect of share consolidation <sup>2</sup>	(328)	_
Issued during the year in lieu of dividends <sup>1</sup>	23	3
At 31 March 2018	3,638	452

- 1. The issue of shares under the scrip dividend programme is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.
- strate premium account.

  2. On 22 May 2017 the ordinary share capital was consolidated with 11 new ordinary shares of 12<sup>205</sup>/<sub>475</sub> pence nominal value issued for every 12 existing ordinary shares of 11<sup>17</sup>/<sub>45</sub> pence nominal value. This consolidation was completed to maintain the comparability of the Company's share price before and after the special dividend.

The share capital of the Company consists of ordinary shares of  $12^{204}/_{473}$  pence nominal value each including ADSs. The ordinary shares and ADSs allow holders to receive dividends and vote at general meetings of the Company. The Company holds treasury shares but may not exercise any rights over these shares including the entitlement to vote or receive dividends. There are no restrictions on the transfer or sale of ordinary shares.

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

#### Treasury shares

At 31 March 2018, the Company held 283 million (2017: 193 million) of its own shares. The market value of these shares as at 31 March 2018 was £2,270 million (2017: £1,958 million).

The Company made the following transactions in respect of its own shares during the year ended 31 March 2018:

- 1. During the year, the Company completed a share repurchase programme as part of the return of cash to shareholders following the sale of UK Gas Distribution in addition to the management of the dilutive effect of share issuances under the scrip dividend programme. As a result the Company repurchased 114 million (2017: 20 million) ordinary shares for aggregate consideration of £1,017 million (2017: £189 million), including transaction costs. The shares repurchased had a nominal value of £14 million (2017: £2 million) and represented approximately 3.1% (2017: 0.5%) of the ordinary shares in issue as at 31 March 2018.
- 2. During the year, 3 million (2017: 3 million) treasury shares were gifted to National Grid Employee Share Trusts and 5 million (2017: 3 million) treasury shares were re-issued in relation to employee share schemes, in total representing approximately 0.2% (2017: 0.2%) of the ordinary shares in issue as at 31 March 2018. The nominal value of these shares was £1 million (2017: £1 million) and the total proceeds received were £33 million (2017: £18 million).
- 3. During the year, the Company made payments totalling £5 million (2017: £6 million) to National Grid Employee Share Trusts, outside its share repurchase programme, to enable the trustees to make purchases of National Grid plc shares in order to satisfy the requirements of employee share option and reward plans.

The maximum number of ordinary shares held in treasury during the year was 283 million (2017: 194 million) representing approximately 7.8% (2017: 4.9%) of the ordinary shares in issue as at 31 March 2018 and having a nominal value of £35 million (2017: £22 million).

- analysis of items in the primary statements continued

#### 26. Other equity reserves

Other equity reserves are different categories of equity as required by accounting standards and represent the impact of a number of our historical transactions.

Other equity reserves comprise the translation reserve (see accounting policy D in note 1), cash flow hedge reserve (see note 16), available-for-sale reserve (see note 14), the capital redemption reserve and the merger reserve. The merger reserve arose as a result of the application of merger accounting principles under the then prevailing UK GAAP, which under IFRS 1 was retained for mergers that occurred prior to the IFRS transition date. Under merger accounting principles, the difference between the carrying amount of the capital structure of the acquiring vehicle and that of the acquired business was treated as a merger difference and included within reserves.

As the amounts included in other equity reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

	Translation £m	Cash flow hedge £m	Available- for-sale £m	Capital redemption £m	Merger £m	Total £m
At 1 April 2015	479	(109)	94	19	(5,165)	(4,682)
Exchange adjustments <sup>1</sup>	69	-	-	-	-	69
Net gains taken to equity	_	50	43	-	-	93
Transferred to profit or loss	_	29	-	_	-	29
Tax	_	(15)	(17)	-	-	(32)
At 31 March 2016	548	(45)	120	19	(5,165)	(4,523)
Exchange adjustments <sup>1</sup>	346	-	-	-	-	346
Net (losses)/gains taken to equity	_	(36)	81	-	-	45
Transferred to/(from) profit or loss	_	227	(25)	_	-	202
Tax	_	(43)	(14)	_	-	(57)
At 31 March 2017	894	103	162	19	(5,165)	(3,987)
Exchange adjustments <sup>1</sup>	(504)	-	-	-	-	(504)
Net gains/(losses) taken to equity	_	19	(30)	_	-	(11)
Share of net gains taken to equity of associates	_	5	-	-	-	5
Transferred from profit or loss	_	(3)	(73)	_	-	(76)
Tax	-	4	29	-	-	33
At 31 March 2018	390	128	88	19	(5,165)	(4,540)

The exchange adjustments recorded in the translation reserve comprise a loss of £1,304 million (2017: gain of £1,364 million; 2016: gain of £275 million) relating to the translation of foreign operations offset by a gain of £800 million (2017: loss of £1,018 million; 2016: loss of £206 million) relating to borrowings, cross-currency swaps and foreign exchange forward contracts used to hedge the net investment in the non-sterling denominated subsidiaries.

The merger reserve represents the difference between the carrying value of subsidiary undertaking investments and their respective capital structures following the Lattice demerger from BG Group plc and the 1999 Lattice refinancing.

The cash flow hedge reserve will amortise as the committed future cash flows from borrowings are paid or capitalised in fixed assets (as described in note 16). The amount due to be released from reserves next year is a gain of £23 million (pre-tax) of which £20 million relates to capital expenditure. The majority of the remaining reserve will be released over the next four years as forecast capital expenditure is incurred and over a similar maturity profile as the hedged borrowings.

#### 27. Net debt

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

Funding and liquidity risk management is carried out by the treasury function under policies and guidelines approved by the Finance Committee of the Board. The Finance Committee is responsible for the regular review and monitoring of treasury activity and for the approval of specific transactions, the authority for which fall outside the delegation of authority to management.

The primary objective of the treasury function is to manage our funding and liquidity requirements. A secondary objective is to manage the associated financial risks, in the form of interest rate risk and foreign exchange risk, to within pre-authorised parameters. Details of the main risks arising from our financing and commodity hedging activities can be found in the risk factors discussion starting on page 193 and in note 30 to the consolidated financial statements on pages 158 to 164.

Investment of surplus funds, usually in short-term fixed deposits or placements with money market funds that invest in highly liquid instruments of high credit quality, is subject to our counterparty risk management policy.

#### (a) Reconciliation of net cash flow to movement in net debt

	2018 £m	2017 £m	2016 £m
(Decrease)/increase in cash and cash equivalents	(807)	984	4
(Decrease)/increase in financial investments	(5,953)	5,675	391
Decrease/(increase) in borrowings and related derivatives¹	1,209	(3,715)	(1,100)
Net interest paid on the components of net debt <sup>2</sup>	808	1,955	810
Change in debt resulting from cash flows	(4,743)	4,899	105
Changes in fair value of financial assets and liabilities and exchange movements	2,098	(2,273)	(515)
Net interest charge on the components of net debt	(1,017)	(2,401)	(913)
Disposal of UK Gas Distribution	_	5,890	-
Other non-cash movements	(66)	(64)	(87)
Movement in net debt (net of related derivative financial instruments) in the year	(3,728)	6,051	(1,410)
Net debt (net of related derivative financial instruments) at start of year	(19,274)	(25,325)	(23,915)
Net debt (net of related derivative financial instruments) at end of year	(23,002)	(19,274)	(25,325)

#### Composition of net debt

Net debt is made up as follows:

	2018 £m	2017 £m	2016 £m
Cash, cash equivalents and financial investments	3,023	9,880	3,125
Borrowings and bank overdrafts	(26,625)	(28,638)	(28,344)
Financing derivatives <sup>1</sup>	600	(516)	(106)
	(23,002)	(19,274)	(25,325)

<sup>1.</sup> The financing derivatives balance included in net debt excludes the commodity derivatives and the Further Acquisition Agreement (FAA) derivative (see note 16). Included within the financing derivatives balance is £12 million; 2016: £(16) million) of derivative cash flows in relation to capital expenditure. This is included within investing activities and not financing activities in the cash flow statement.

2. Excludes £27 million (2017: £nil; 2016: £nil) cash interest from the Quadgas HoldCo Limited shareholder loan included within interest received in the cash flow statement.

- analysis of items in the primary statements continued

#### 27. Net debt continued

### (b) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Financing derivatives £m	Total¹ £m
At 1 April 2016	127	(3)	124	2,998	(28,341)	(106)	(25,325)
Cash flow	1,001	(17)	984	5,624	(2,196)	487	4,899
Fair value gains and losses and exchange movements	16	-	16	141	(1,527)	(903)	(2,273)
Interest income/(charges) <sup>2</sup>	_	-	-	53	(2,221)	(233)	(2,401)
Other non-cash movements	_	-	-	-	(294)	230	(64)
Disposal	(5)	20	15	(75)	5,941	9	5,890
At 31 March 2017	1,139	_	1,139	8,741	(28,638)	(516)	(19,274)
Cash flow <sup>2</sup>	(807)	-	(807)	(5,983)	2,108	(61)	(4,743)
Fair value gains and losses and exchange movements	(3)	-	(3)	(149)	1,088	1,162	2,098
Interest income/(charges) <sup>2</sup>	_	-	-	85	(1,117)	15	(1,017)
Other non-cash movements	_	-	-	-	(66)	-	(66)
At 31 March 2018	329	-	329	2,694	(26,625)	600	(23,002)
Balances at 31 March 2018 comprise:							
Non-current assets	_	-	-	-	-	1,170	1,170
Current assets	329	_	329	2,694	-	375	3,398
Current liabilities	_	-	-	-	(4,447)	(620)	(5,067)
Non-current liabilities	_	-	-	-	(22,178)	(325)	(22,503)
	329	-	329	2,694	(26,625)	600	(23,002)

<sup>1.</sup> Includes accrued interest at 31 March 2018 of £197 million (2017: £210 million; 2016: £243 million).
2. An exceptional income of £3 million (2017: £1,313 million expense; 2016: £nil) is included in net interest charge on the components of net debt and an exceptional cash outflow of £231 million (2017: £1,052 million; 2016: £nil) is included in cash flow on the components of net debt.

- supplementary information

This section includes information that is important to enable a full understanding of our financial position, particularly areas of potential uncertainty that could affect us in the future.

We also include specific disclosures for British Transco Finance Inc., Niagara Mohawk Power Corporation and National Grid Gas plc in accordance with various rules including Rule 3-10 of Regulation S-X (a US SEC requirement), as they have issued public debt securities which have been guaranteed by National Grid plc and one of its subsidiary companies, National Grid Gas plc. Additional disclosures have also been included in respect of the two guarantor companies. These disclosures are in lieu of publishing separate financial statements for these companies. See note 34 for further information.

#### 28. Commitments and contingencies

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

	2018 £m	2017 £m
Future capital expenditure		
Contracted for but not provided <sup>1</sup>	1,843	1,913
Operating lease commitments		
Less than 1 year	68	95
In 1 to 2 years	44	82
In 2 to 3 years	40	58
In 3 to 4 years	37	56
In 4 to 5 years	35	54
More than 5 years	219	274
	443	619
Energy purchase commitments <sup>2</sup>		
Less than 1 year	1,237	1,325
In 1 to 2 years	700	744
In 2 to 3 years	563	587
In 3 to 4 years	449	507
In 4 to 5 years	410	436
More than 5 years	1,969	2,100
	5,328	5,699
Guarantees		
Guarantee of sublease for US property (expires 2040)	178	225
Guarantees of certain obligations of Grain LNG Import Terminal (expire up to 2028)	46	100
Guarantees of certain obligations for construction of HVDC West Coast Link (expires 2018)	213	281
Guarantees of certain obligations of Nemo Link Limited (various expiry dates)	63	140
Guarantees of certain obligations of National Grid North Sea Link Limited (various expiry dates) <sup>3</sup>	1,009	1,059
Guarantees of certain obligations of St William Homes LLP (various expiry dates) <sup>4</sup>	98	147
Guarantees of certain obligations for construction of IFA 2 SAS (expected expiry 2021) <sup>3</sup>	729	354
Other guarantees and letters of credit (various expiry dates)	333	474
	2,669	2,780

<sup>1.</sup> Following a review in the year, the basis on which we disclose capital commitments has been refined.

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £42 million (2017: £15 million).

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

<sup>2.</sup> Energy purchase commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves (i.e. normal purchase, sale or usage) and hence are accounted for as ordinary purchase contracts. Details of commodity contract derivatives that do not meet the normal purchase, sale or usage criteria, and hence are accounted for as derivative contracts, are shown in note 16(b).

3. Included within total guarantees are guarantees to both joint ventures and EPC contractors regarding the construction of interconnectors of £739 million (2017: £555 million).

<sup>4.</sup> Includes guarantees to related parties

supplementary information continued

#### 29. Related party transactions

Related parties include joint ventures, associates, investments and key management personnel.

The following significant transactions with related parties were in the normal course of business. Amounts receivable from and payable to related parties are due on normal commercial terms:

	2018 £m	2017 £m	2016 £m
Sales: Goods and services supplied to a pension plan	3	3	3
Sales: Goods and services supplied to joint ventures <sup>1</sup>	14	78	9
Sales: Goods and services supplied to associates <sup>2</sup>	220	_	4
Purchases: Goods and services received from joint ventures <sup>3</sup>	135	168	183
Purchases: Goods and services received from associates <sup>3</sup>	160	169	83
Receivable from joint ventures <sup>4</sup>	160	64	7
Receivable from associates <sup>4</sup>	376	457	-
Payable to joint ventures⁵	_	84	96
Payable to associates	17	27	7
Interest income from joint ventures	4	_	_
Interest income from associates	27	_	_
Dividends received from joint ventures <sup>6</sup>	43	75	48
Dividends received from associates <sup>7</sup>	170	24	24

- 1. In 2018 £5 million (2017: £68 million) of property sites were sold to joint venture St William Homes LLP.
- 2. Sales in the year relate to transactions with Quadgas HoldCo Limited. Within this is other income of £54 million relating to a Transitional Service Agreement following the sale of the UK Gas Distribution business to Quadgas HoldCo Limited.
- 3. During the year the Group received goods and services from a number of US associates, both for the transportation of gas and for pipeline services in the US. Additionally, goods and services were received from UK joint ventures for the construction of a transmission link in the UK.

  4. Amounts receivable from associates includes a loan receivable balance from Quadgas HoldCo Limited of £352 million (2017: £434 million) and a loan receivable balance of £130 million
- (2017: £61 million) from Nemo Link Limited (a joint venture).
- 5. In previous years the amounts payable to joint ventures include deposits received for National Grid property sites from St William Homes LLP which have been settled during the year.
- 6. Dividends in respect of joint ventures were received from BritNed Development Limited.

  7. Within dividends received from associates in 2018, £144 million (2017: £nil) was from Quadgas HoldCo Limited.

Details of investments in principal subsidiary undertakings, joint ventures and associates are disclosed in note 32 and information relating to pension fund arrangements is disclosed in note 23. For details of Directors' and key management remuneration, refer to the Remuneration Report and note 3(c).

As a result of an overpayment due to a payroll processing error in September 2017, the Company was owed \$70,767 by Dean Seavers (Executive Director, US and a Director of National Grid plc), which was repaid in full in early October 2017.

#### 30. Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate risk, commodity price risk, credit risk, capital risk and liquidity risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage risks of this type.

This note describes our approach to managing risk, including an analysis of assets and liabilities by currency type and an analysis of interest rate category for our net debt. We are required by accounting standards to also include a number of specific disclosures (such as a maturity analysis of contractual undiscounted cash flows) and have included these requirements below.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

We have exposure to the following risks, which are described in more detail below:

- credit risk;
- liquidity risk;
- interest rate risk;
- currency risk; and
- capital risk.

#### 30. Financial risk management continued

#### (a) Credit risk

We are exposed to the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in our commercial business activities. We are exposed to credit risk on our cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

#### Treasury credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. As at 31 March 2018, the following limits were in place for investments held with banks and financial institutions:

	Maximum limit £m	Long-term limit £m
Triple 'A' G7 sovereign entities (AAA)	1,853	927
Triple 'A' vehicles (AAA)	500	_
Triple 'A' range institutions and non G7 sovereign entities (AAA)	1,011	506
Double 'A+' G7 sovereign entities (AA+)	1,685	843
Double 'A' range institutions (AA)	674 to 843	337 to 421
Single 'A' range institutions (A)	236 to 337	118 to 169

The maximum limit applies to all transactions, including long-term transactions. The long-term limit applies to transactions which mature in more than 12 months' time.

As at 31 March 2017 and 2018, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Management does not expect any significant losses from non performance by these counterparties.

#### Commodity credit risk

The credit policy for US-based commodity transactions is owned by the Finance Committee to the Board, which establishes controls and procedures to determine, monitor and minimise the credit exposure to counterparties. Authority to administer the policy has been delegated to the Energy Procurement Risk Management Committee by the Board and the Executive Committee.

#### Wholesale and retail credit risk

Our principal commercial exposure in the UK is governed by the credit rules within the regulated codes: Uniform Network Code and Connection and Use of System Code. These set out the level of credit relative to the RAV for each credit rating. In the US, we are required to supply electricity and gas under state regulations. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash, cheques, electronic bank payments or by using major credit cards. We are committed to measuring, monitoring, minimising and recording counterparty credit risk in our wholesale business. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 18.

supplementary information continued

#### 30. Financial risk management continued

#### (a) Credit risk continued

#### Offsetting financial assets and liabilities

The following tables set out our financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present National Grid's net exposure.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a currently enforceable legal right of offset exists and the cash flows are intended to be settled on a net basis.

Amounts which do not meet the criteria for offsetting on the statement of financial position, but could be settled net in certain circumstances, principally relate to derivative transactions under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Commodity contract derivatives that have not been offset on the balance sheet may be settled net in certain circumstances under ISDA or NAESB (North American Energy Standards Board) agreements.

National Grid has similar arrangements in relation to bank account balances and bank overdrafts, and trade payables and trade receivables which are subject to general terms and conditions. However, these balances are immaterial.

				Related amounts available to be offset but not offset in statement of financial position			
At 31 March 2018	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m	
Assets							
Financing derivatives	1,545	-	1,545	(523)	(772)	250	
Commodity contract derivatives	69	-	69	(16)	-	53	
Further Acquisition Agreement derivative <sup>1</sup>	110	-	110	-	-	110	
	1,724	_	1,724	(539)	(772)	413	
Liabilities							
Financing derivatives	(945)	-	(945)	523	326	(96)	
Commodity contract derivatives	(116)	-	(116)	16	7	(93)	
	(1,061)	-	(1,061)	539	333	(189)	
	663	-	663	-	(439)	224	

<sup>1.</sup> The Group held a put/call option as at 31 March 2017. The fair value was £nil.

Related amounts available to be offset but not offset in statement of financial position Net amount presented in Cash Gross Gross statement of collateral financial Financial carrying amounts received/ amounts £m offset position instruments £m pledged £m Net amount £m £m £m At 31 March 2017 Assets 1,707 1,707 (718)(692) 297 Financing derivatives Commodity contract derivatives 106 106 (25)81 1,813 1.813 (743)(692)378 Liabilities Financing derivatives (2,223)(2,223)718 1,230 (275)Commodity contract derivatives 25 (127)(170)(170)(2,393)(2,393)743 1,248 (402)(580)(580)556 (24)

#### 30. Financial risk management continued

#### (b) Liquidity risk

Our policy is to determine our liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding requirements for at least a 24-month period and maintain adequate liquidity for a continuous 12-month period.

We believe our contractual obligations, including those shown in commitments and contingencies in note 28 can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of subsidiary indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt and may restrict our ability to draw upon our facilities or access the capital markets.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the reporting date:

At 31 March 2018	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	More than 3 years £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(4,099)	(1,642)	(2,325)	(18,023)	(26,089)
Interest payments on borrowings¹	(730)	(692)	(629)	(12,897)	(14,948)
Finance lease liabilities	(60)	(60)	(45)	(148)	(313)
Other non interest-bearing liabilities	(2,840)	(359)	-	-	(3,199)
Derivative financial liabilities					
Derivative contracts – receipts	1,069	601	130	250	2,050
Derivative contracts – payments	(890)	(263)	(188)	(529)	(1,870)
Commodity contract derivatives	(80)	(33)	(26)	1	(138)
	(7,630)	(2,448)	(3,083)	(31,346)	(44,507)
At 31 March 2017	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	More than 3 years £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(5,142)	(1,864)	(1,750)	(19,245)	(28,001)
Interest payments on borrowings <sup>1</sup>	(767)	(707)	(670)	(12,975)	(15,119)
Finance lease liabilities	(66)	(58)	(61)	(183)	(368)
Other non interest-bearing liabilities	(2,989)	(260)	_	_	(3,249)
Derivative financial liabilities					
Derivative contracts – receipts	571	961	572	234	2,338
Derivative contracts – payments	(1,551)	(959)	(304)	(610)	(3,424)
Commodity contract derivatives	(15)	(18)	(8)	-	(41)
	(9,959)	(2,905)	(2,221)	(32,779)	(47,864)

<sup>1.</sup> The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle.

#### (c) Interest rate risk

National Grid's interest rate risk arises from our long-term borrowings. Borrowings issued at variable rates expose National Grid to cash flow interest rate risk, partially offset by cash held at variable rates. Borrowings issued at fixed rates expose National Grid to fair value interest rate risk.

Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints. We do this by using fixed and floating rate debt and derivative financial instruments including interest rate swaps, swaptions and forward rate agreements.

We hold some borrowings on issue that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

The table in note 20 sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

supplementary information continued

#### 30. Financial risk management continued

#### (c) Interest rate risk continued

During 2018 and 2017, net debt was managed using derivative financial instruments to hedge interest rate risk as follows:

		2018				2017				
	Fixed rate £m	Floating rate £m	Inflation linked £m	Other¹ £m	Total £m	Fixed rate £m	Floating rate £m	Inflation linked £m	Other <sup>1</sup> £m	Total £m
Cash and cash equivalents	-	302	-	27	329	940	199	-	-	1,139
Financial investments	31	2,625	_	38	2,694	44	8,691	-	6	8,741
Borrowings	(16,144)	(3,191)	(7,290)	-	(26,625)	(17,681)	(3,917)	(7,040)	-	(28,638)
Pre-derivative position	(16,113)	(264)	(7,290)	65	(23,602)	(16,697)	4,973	(7,040)	6	(18,758)
Derivative effect	1,735	(1,237)	102	-	600	1,424	(1,785)	(155)	-	(516)
Net debt position	(14,378)	(1,501)	(7,188)	65	(23,002)	(15,273)	3,188	(7,195)	6	(19,274)

<sup>1.</sup> Represents financial instruments which are not directly affected by interest rate risk, such as investments in equity or other similar financial instruments.

#### (d) Currency risk

National Grid operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and investments in foreign operations.

Our policy for managing foreign exchange transaction risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where foreign currency cash flow forecasts are less certain, our policy is to hedge a proportion of such cash flows. Instruments used to manage foreign exchange transaction risk include foreign exchange forward contracts and foreign exchange swaps.

Our policy for managing foreign exchange translation risk relating to our net investment in foreign operations is to maintain cross-currency swaps and foreign exchange forwards so as to provide an economic offset. The primary managed foreign exchange exposure arises from the dollar denominated assets and liabilities held by our US operations, with a further small euro exposure in respect of joint venture investments.

During 2018 and 2017, derivative financial instruments were used to manage foreign currency risk as follows:

		2018				2017				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Cash and cash equivalents	294	2	33	-	329	1,110	-	29	-	1,139
Financial investments	1,471	69	1,125	29	2,694	6,824	98	1,753	66	8,741
Borrowings	(10,912)	(3,794)	(11,068)	(851)	(26,625)	(11,099)	(5,373)	(10,729)	(1,437)	(28,638)
Pre-derivative position	(9,147)	(3,723)	(9,910)	(822)	(23,602)	(3,165)	(5,275)	(8,947)	(1,371)	(18,758)
Derivative effect	3,748	3,793	(7,992)	1,051	600	2,310	6,241	(10,708)	1,641	(516)
Net debt position	(5,399)	70	(17,902)	229	(23,002)	(855)	966	(19,655)	270	(19,274)

The exposure to dollars largely relates to our net investment hedge activities; exposure to euros largely relates to hedges for our future non-sterling capital expenditure as described in note 16.

The currency exposure on other financial instruments is as follows:

	2018				2017					
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Trade and other receivables	253	-	1,528	-	1,781	83	_	1,660	-	1,743
Trade and other payables	(1,124)	-	(1,793)	-	(2,917)	(1,209)	-	(1,795)	-	(3,004)
Other non-current liabilities	(144)	-	(254)	-	(398)	(100)	-	(315)	-	(415)

The carrying amounts of other financial instruments are denominated in the above currencies, which in most instances are the functional currency of the respective subsidiaries. Our exposure to dollars is due to activities in our US subsidiaries. We do not have any other significant exposure to currency risk on these balances.

#### 30. Financial risk management continued

#### (e) Capital risk management

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 27). National Grid's objectives when managing capital are: to safeguard our ability to continue as a going concern; to remain within regulatory constraints of our regulated operating companies; and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our operating and holding companies is an important aspect of our capital risk management strategy and balance sheet efficiency. As noted on page 24, we monitor our balance sheet efficiency using several metrics including retained cash flow/net debt (RCF), interest cover and gearing. Retained cash flow/net debt and interest cover for the Group for the year ended 31 March 2018 were 9.7% (2017: 14.9%) and 4.4 (2017: 5.0) respectively. We believe these are consistent with the current credit ratings for National Grid plc and the main operating companies within the Group, based on guidance from the rating agencies.

We monitor the RAV gearing within each of NGET and the regulated transmission businesses within NGG. This is calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our UK regulated businesses. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for these businesses, at around 60% to 62.5%. We also monitor net debt as a percentage of rate base for our US operating companies, comparing this with the allowed rate base gearing inherent within each of our agreed rate plans.

The majority of our regulated operating companies in the US and the UK are subject to certain restrictions on the payment of dividends by administrative order, contract and/or licence. The types of restrictions that a company may have that would prevent a dividend being declared or paid unless they are met include:

- dividends must be approved in advance by the relevant US state regulatory commission;
- the subsidiary must have at least two recognised rating agency credit ratings of at least investment grade;
- dividends must be limited to cumulative retained earnings, including pre-acquisition retained earnings;
- National Grid pic must maintain an investment grade credit rating and if that rating is the lowest investment grade bond rating it cannot
  have a negative watch/review for downgrade notice by a credit rating agency;
- the subsidiary must not carry on any activities other than those permitted by the licences;
- · the subsidiary must not create any cross-default obligations or give or receive any intra-group cross-subsidies; and
- the percentage of equity compared with total capital of the subsidiary must remain above certain levels.

There is a further restriction relating only to the Narragansett Electric Company, which is required to maintain its consolidated net worth above certain levels.

These restrictions are subject to alteration in the US as and when a new rate case or rate plan is agreed with the relevant regulatory bodies for each operating company and in the UK through the normal licence review process.

As most of our business is regulated, at 31 March 2018 the majority of our net assets are subject to some of the restrictions noted above. These restrictions are not considered to be significantly onerous, nor do we currently expect they will prevent the planned payment of dividends in future in line with our dividend policy.

Some of our regulatory and bank loan agreements additionally impose lower limits for the long-term credit ratings that certain companies within the Group must hold. All the above requirements are monitored on a regular basis in order to ensure compliance. The Group has complied with all externally imposed capital requirements to which it is subject.

#### (f) Fair value analysis

Included in the statement of financial position are financial instruments which have been measured at fair value. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

	2018				2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Investments – available-for-sale	2,406	310	5	2,721	7,717	315	5	8,037
Investments – joint ventures and associates	-	-	79	79	-	-	41	41
Financing derivatives	-	1,544	1	1,545	-	1,692	15	1,707
Commodity contract derivatives	-	8	61	69	-	22	84	106
Further Acquisition Agreement derivative	-	-	110	110	-	-	-	-
	2,406	1,862	256	4,524	7,717	2,029	145	9,891
Liabilities								
Financing derivatives	-	(725)	(220)	(945)	-	(1,743)	(480)	(2,223)
Commodity contract derivatives	-	(54)	(62)	(116)	-	(70)	(100)	(170)
	-	(779)	(282)	(1,061)	-	(1,813)	(580)	(2,393)
	2,406	1,083	(26)	3,463	7,717	216	(435)	7,498

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets, and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

supplementary information continued

#### 30. Financial risk management continued

#### (f) Fair value analysis continued

Our level 3 derivative financial instruments include cross-currency swaps, inflation linked swaps and equity options, all of which are traded on illiquid markets. In valuing these instruments we use in-house valuation models and obtain external valuations to support each reported fair value.

Our level 3 commodity contract derivatives primarily consist of our forward purchases of electricity and gas where pricing inputs are unobservable, as well as other complex transactions. Complex transactions can introduce the need for internally developed models based on reasonable assumptions. Industry standard valuation techniques such as the Black-Scholes pricing model and Monte Carlo simulation are used for valuing such instruments. Level 3 is also applied in cases when optionality is present or where an extrapolated forward curve is considered unobservable. We consider forward curves to be unobservable if observed market transactions differ from the curve by more than 5%.

Our level 3 investments include investments in associates relating to Sunrun Neptune Investor 2016 LLC, accounted at fair value (see note 15), and £5 million Series B preferred stocks in Enbala Holdings, Inc., accounted for as an available-for-sale investment. The Group is also party to the Further Acquisition Agreement (FAA) which contains a put/call option over 14% of the loan and equity it holds in Cadent (through its investment in Quadgas HoldCo Limited). The FAA is a derivative, which is accounted for at fair value, and the assumptions which are used to determine fair value are specific to the contract and not readily observable in active markets. The fair value of the option is £110 million (2017: £nil).

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

	Financing derivatives/ Further Acquisition Agreement derivative		Commodity contract derivatives		Investments in associates and available-for-sale investments		Tot	al
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
At 1 April	(465)	(196)	(16)	(27)	46	-	(435)	(223)
Net gains/(losses) for the year <sup>1,2</sup>	125	(35)	8	(2)	-	-	133	(37)
Purchases	-	-	27	15	41	46	68	61
Settlements	231	_	(20)	(2)	(3)	-	208	(2)
Reclassification into level 3	-	(234)	-	-	-	-	-	(234)
At 31 March	(109)	(465)	(1)	(16)	84	46	(26)	(435)

<sup>1.</sup> Gain of £125 million (2017; £35 million loss) is attributable to derivative financial instruments held at the end of the reporting period and has been recognised in finance costs in the income statement. 2. Gain of £35 million (2017: £21 million loss) is attributable to commodity contract derivative financial instruments held at the end of the reporting period.

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

	Financing de	Financing derivatives		contract ves
	2018 £m	2017 £m	2018 £m	2017 £m
10% increase in commodity prices¹	_	-	(1)	1
10% decrease in commodity prices <sup>1</sup>	_	-	3	-
Volume forecast uplift <sup>2</sup>	_	-	-	(1)
Volume forecast reduction <sup>2</sup>	_	-	-	1
+10% market area price change	_	-	(6)	(13)
-10% market area price change	_	-	5	9
+20 basis points change in Limited Price Inflation (LPI) market curve <sup>3</sup>	(84)	(93)	-	-
-20 basis points change in LPI market curve <sup>3</sup>	82	88	-	-

<sup>1.</sup> Level 3 commodity price sensitivity is included within the sensitivity analysis disclosed in note 33

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified. The level 3 investments were acquired in the period on market terms and sensitivity is considered insignificant at 31 March 2018. A 50 basis point change in the discount rate is used to determine the sensitivity of the fair value of our investment in Sunrun Neptune 2016 LLC. A 50 basis point increase/(decrease) would (decrease)/increase the fair value by £(5) million/£6 million (2017: £(8) million/£8 million) respectively.

A 5 percentage point decrease in the offer price received from Quadgas Investments BidCo Limited on 30 April 2018 applied in valuing the FAA would increase the fair value by approximately £39 million.

<sup>2.</sup> Volumes were flexed using maximum and minimum historical averages, or by >10% where historical averages were not available.

3. A reasonably possible change in assumption of other level 3 derivative financial instruments is unlikely to result in a material change in fair values.

#### 31. Borrowing facilities

To support our long-term liquidity requirements and provide backup to commercial paper and other borrowings, we agree loan facilities with financial institutions over and above the value of borrowings that may be required. These facilities have never been drawn, and our undrawn amounts are listed below.

At 31 March 2018, we had bilateral committed credit facilities of £5,438 million (2017: £4,938 million). In addition, we had committed credit facilities from syndicates of banks of £245 million at 31 March 2018 (2017: £338 million). All committed credit facilities were undrawn in 2018 and 2017. An analysis of the maturity of these undrawn committed facilities is shown below:

	2018 £m	2017 £m
Undrawn committed borrowing facilities expiring:		
Less than 1 year	_	_
In 1 to 2 years	3,910	1,115
In 2 to 3 years	_	2,388
In 3 to 4 years	_	-
In 4 to 5 years	1,773	1,773
More than 5 years	_	-
	5,683	5,276

Of the unused facilities at 31 March 2018, £5,438 million (2017: £4,938 million) is available for liquidity purposes, while £245 million (2017: £338 million) is available as backup to specific US borrowings.

In addition to the above, the Group has Export Credit Agreements (ECAs) totalling £797 million (2017: £600 million), of which £704 million (2017: £562 million) is undrawn. During the year, two new ECAs totalling £261 million were made available, of which £239 million is undrawn. Of the £3,910 million of undrawn committed borrowing facilities due to expire within 1 to 2 years, £1,255 million was renegotiated before 31 March 2018, with effect from 1 June 2018. This amount has increased to £1,380 million with the expiry extended to more than 5 years.

Further information on our bonds can be found on the debt investor section of our website. Unless included in these financial statements the information on our website is unaudited.

supplementary information continued

#### 32. Subsidiary undertakings, joint ventures and associates

While we present consolidated results in these financial statements as if we were one company, our legal structure is such that there are a number of different operating and holding companies that contribute to the overall result. This structure has evolved through acquisitions as well as regulatory requirements to have certain activities within separate legal entities.

#### Subsidiary undertakings

A list of the Group's subsidiaries as at 31 March 2018 is given below. The entire share capital of subsidiaries is held within the Group except where the Group's ownership percentages are shown. These percentages give the Group's ultimate interest and therefore allow for the situation where subsidiaries are owned by partly-owned intermediate subsidiaries. Where subsidiaries have different classes of shares, this is largely for historical reasons and the effective percentage holdings given represent both the Group's voting rights and equity holding. Shares in National Grid (US) Holdings Limited, National Grid Holdings One plc and NGG Finance plc are held directly by National Grid plc. All other holdings in subsidiaries are owned by other subsidiaries within the Group. All subsidiaries are consolidated in the Group's financial statements.

Principal Group companies are identified in **bold**. These companies are incorporated and principally operate in the countries under which they are shown.

#### Incorporated in England and Wales

Registered office: 1-3 Strand, London WC2N 5EH, UK (unless stated otherwise in footnotes).

Beegas Nominees Limited Birch Sites Limited Carbon Sentinel Limited Droylsden Metering Services Limited

Gridcom Limited Icelink Interconnector Limited

Landranch Limited

Lattice Group Employee Benefit Trust Limited

**Lattice Group Limited** Lattice Group Trustees Limited Natgrid Limited NatGrid One Limited NatgridTW1 Limited

National Grid Belgium Limited National Grid Blue Power Limited National Grid Carbon Limited

**National Grid Commercial Holdings Limited** 

National Grid Distributed Energy Limited National Grid Electricity Group Trustee Limited National Grid Electricity System Operator Limited National Grid Electricity Transmission plc

National Grid Energy Metering Limited

National Grid Four Limited National Grid Fourteen Limited

**National Grid Gas Holdings Limited** 

National Grid Gas plc National Grid Grain LNG Limited National Grid Holdings Limited National Grid Holdings One plc

National Grid IFA 2 Limited

National Grid Interconnector Holdings Limited **National Grid Interconnectors Limited** 

National Grid International Limited National Grid Metering Limited

National Grid North Sea Link Limited

National Grid Offshore Limited (previously Cadent Services Limited)

National Grid Property Holdings Limited

National Grid Seventeen Limited National Grid Smart Limited

National Grid Ten

National Grid Thirty Five Limited

National Grid Thirty Four Limited (previously Cadent Gas Limited)\* National Grid Thirty Six Limited (previously Cadent Finance Limited)\* National Grid Twelve Limited

National Grid Twenty Eight Limited National Grid Twenty-Five Limited National Grid Twenty Seven Limited National Grid Twenty Three Limited National Grid UK Limited
National Grid UK Pension Services Limited

National Grid (US) Holdings Limited National Grid (US) Investments 2 Limited National Grid (US) Investments 4 Limited National Grid (US) Partner 1 Limited

National Grid Ventures Limited National Grid Viking Link Limited National Grid William Limited NG Nominees Limited

NG Shetland Link Limited

NGC Employee Shares Trustee Limited

NGG Finance plc Ngrid Intellectual Property Limited

NGT Telecom No. 1 Limited NGT Two Limited Port Greenwich Limited Stargas Nominees Limited Supergrid Electricity Limited

Supergrid Energy Transmission Limited

Supergrid Limited

Thamesport Interchange Limited

The National Grid Group Quest Trustee Company Limited

The National Grid YouPlan Trustee Limited

Transco Limited

Warwick Technology Park Management Company (No 2) Limited (60.56%)

<sup>1.</sup> Registered office: Shire Hall, PO Box 9, Warwick CV34 4RL, UK

\* Change of name effective from 2 May 2017

#### 32. Subsidiary undertakings, joint ventures and associates continued

#### Incorporated in the US

Registered office: Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA (unless stated otherwise in footnotes).

### Boston Gas Company<sup>1</sup>

**British Transco Capital Inc.** 

British Transco Finance, Inc.

Broken Bridge Corp.<sup>2</sup>
Colonial Gas Company<sup>1</sup>
EUA Energy Investment Corporation<sup>1</sup>

GridAmerica Holdings Inc.

Grid NY LLC<sup>3</sup>

KeySpan CI Midstream Limited

KeySpan Corporation³

KeySpan Energy Corporation³

KeySpan Energy Services Inc.

KeySpan Gas East Corporation³

KeySpan International Corporation KeySpan MHK, Inc.

KeySpan Midstream Inc. KeySpan Plumbing Solutions, Inc.<sup>3</sup> KSI Contracting, LLC KSI Electrical, LLC

KSI Mechanical, LLC

Land Management & Development, Inc.3

Landwest, Inc.3

Massachusetts Electric Company<sup>1</sup>

Metro Energy, LLC<sup>3</sup> Metrowest Realty LLC Mystic Steamship Corporation

Nantucket Electric Company National Grid Algonquin LLC

National Grid Connect Inc.

National Grid Development Holdings Corp.

National Grid Electric Services, LLC<sup>3</sup> National Grid Energy Management, LLC National Grid Energy Services LLC

National Grid Energy Trading Services LLC<sup>3</sup> National Grid Engineering & Survey Inc.

National Grid Generation LLC<sup>3</sup>

National Grid Generation Ventures LLC<sup>3</sup> National Grid Glenwood Energy Center, LLC

National Grid Green Homes Inc.

National Grid IGTS Corp.

National Grid Insurance USA Ltd3

#### Incorporated in Australia

Registered office: Level 7, 330 Collins Street, Melbourne, VIC 3000, Australia

National Grid Australia Pty Limited

### Incorporated in Canada

Registered office: 1959 Upper Water Street, Suite 800, Halifax NS, B3J 2X2, Canada

KeySpan Energy Development Co.

### Incorporated in the Cayman Islands

Registered office: c/o KPMG, PO Box 493, 2nd Floor, Century Yard, Cricket Square, Grand Cayman KY1-1106, Cayman Islands

British Transco Finance (No 1) Limited\* British Transco Finance (No 2) Limited'

#### Incorporated in the Isle of Man

Registered office: Third Floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man, UK (unless stated otherwise in footnotes)

Lattice Telecom Finance (No 1) Limited5\* National Grid Insurance Company (Isle of Man) Limited NGT Holding Company (Isle of Man) Limited

National Grid Islander East Pipeline LLC

National Grid LNG GP LLC

National Grid LNG LLC

National Grid LNG LP LLC

National Grid Millennium LLC

National Grid NE Holdings 2 LLC National Grid North America Inc.

National Grid North East Ventures Inc. National Grid Port Jefferson Energy Center LLC

National Grid Services Inc.

National Grid Technologies Inc.3

National Grid Transmission Services Corporation<sup>1</sup>

National Grid US 6 LLC National Grid US LLC

#### **National Grid USA** National Grid USA Service Company, Inc.3

Nees Energy, Inc.1

New England Electric Transmission Corporation<sup>2</sup>

New England Energy Incorporated<sup>1</sup>
New England Hydro Finance Company, Inc. (53.704%)

New England Hydro-Transmission Corporation (53.704%)<sup>2</sup>

New England Hydro-Transmission Electric Company Inc. (53.704%)<sup>1</sup>

#### New England Power Company<sup>1</sup>

Newport America Corporation NGNE LLC

Niagara Mohawk Energy, Inc.

## Niagara Mohawk Holdings, Inc.3

Niagara Mohawk Power Corporation<sup>3</sup>

NM Properties, Inc.

North East Transmission Co., Inc.

Opinac North America, Inc. Philadelphia Coke Co., Inc.

Port of the Islands North, LLC<sup>3</sup>

#### The Brooklyn Union Gas Company<sup>3</sup> The Narragansett Electric Company<sup>4</sup>

Transgas, Inc.1

Upper Hudson Development Inc.1

Valley Appliance and Merchandising Company<sup>4</sup> Vermont Green Line Devco, LLC (90%)

Wayfinder Group, Inc.1

#### Incorporated in Jersey

Registered office: 44 Esplanade, St Helier, Jersey JE4 9WG, UK

National Grid Jersey Investments Limited NG Jersey Limited

### Incorporated in the Netherlands

Registered office: Westblaak 89, 3012 KG Rotterdam, PO Box 21153, 3001 AD, Rotterdam, Netherlands British Transco International Finance B.V.

Registered office: Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands National Grid Holdings B.V.

### Incorporated in the Republic of Ireland

Registered office: Third Floor, The Metropolitan Building, James Joyce Street, Dublin 1, Ireland

National Grid Insurance Company (Ireland) Designated Activity Company

Registered office: Corporation Service Company, 84 State Street, Boston MA 02109, Suffolk County, USA.
 Registered office: Corporation Service Company, 10 Ferry Street, Suite 313, Concord NH 03301, Merrimack County, USA.
 Registered office: Corporation Service Company, 80 State Street, Albany NY 12207-2543, Albany County, USA.
 Registered office: Corporation Service Company, 222 Jefferson Boulevard, Suite 200, Warwick RI 02888, Kent County, USA.
 Registered office: Heritage Court, 41 Athol Street, Douglas, IM99 1HN, Isle of Man, UK.

In liquidation

supplementary information continued

#### 32. Subsidiary undertakings, joint ventures and associates continued

#### Joint ventures

A list of the Group's joint ventures as at 31 March 2018 is given below. All joint ventures are included in the Group's financial statements using the equity method of accounting. Principal joint ventures are identified in **bold**.

#### Incorporated in England and Wales

Registered office: 1-3 Strand, London WC2N 5EH, UK (unless stated otherwise in footnotes).

### BritNed Development Limited (50%)\* Joint Radio Company Limited (50%)1 Nemo Link Limited (50%)

NGET/SPT Upgrades Limited (50%)† St William Homes LLP (50%)2

#### Incorporated in the US

Registered office: Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA (unless stated otherwise in footnotes).

Clean Energy Generation, LLC (50%) Glean Energy Generation, LLC (50%)
Island Park Energy Center, LLC (50%)
Islander East Pipeline Company, LLC (50%)
LI Energy Storage System, LLC (50%)
LI Solar Generation, LLC (50%) Swan Lake North Holdings LLC (50%)

#### Incorporated in France

Registered office: 1 Terrasse Bellini, Tour Initiale, TSA 41000 - 9291, Paris La Defense, CEDEX, France

IFA2 SAS (50%)

#### **Associates**

A list of the Group's associates as at 31 March 2018 is given below. All associates are included in the Group's financial statements using the equity method of accounting. Principal associates are identified in **bold**.

#### Incorporated in England and Wales

Registered office: Ashbrook Court, Prologis Park, Central Boulevard, Coventry CV7 8PE, UK

#### Quadgas HoldCo Limited (39%)

#### Incorporated in the US

Registered office: Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA (unless stated otherwise in footnotes)

Algonquin Gas Transmission, LLC (20%)3 Clean Line Energy Partners LLC (32%)
Connecticut Yankee Atomic Power Company (19.5%)<sup>4</sup> Direct Global Power, Inc. (26%)5 Energy Impact Fund LP (9.7%)6 KHB Venture LLC (33%)7 Maine Yankee Atomic Power Company (24%)<sup>8</sup> Millennium Pipeline Company, LLC (26.25%)<sup>3</sup> New York Transco LLC (28.3%)<sup>9</sup> Nysearch RMLD, LLC (22.63%) Sunrun Neptune Investor 2016 LLC3\*\*\* Yankee Atomic Electric Company (34.5%)10

#### Incorporated in Belgium

Registered office: Avenue de Cortenbergh 71, 1000 Brussels, Belgium

Coreso SA (15.84%)

#### Other investments

A list of the Group's other investments as at 31 March 2018 is given below.

Incorporated in England and Wales Registered office: 1 More London Place, London SE1 2AF, UK

Energis plc (33.06%)<sup>‡</sup>

- Registered office: Friars House, Manor House Drive, Coventry CV1 2TE, UK.
  Registered office: Berkeley House, 19 Portsmouth Road, Cobham, Surrey KT11 1JG, UK.
  Registered office: Corporation Trust Company, 1209 Orange, Wilmington DE 19808, New Castle County, USA.
  Registered office: Carla Pizzella, 362 Injun Hollow Road, East Hampton CT 06424, USA.
- Registered office: 507 Plum Street, PO Box 5001, Syracuse NY 13250, USA.
  Registered office: Farvard Business Services, Inc., 16192 Coastal Highway, Lewes DE 19958, Sussex County, USA.
  Registered office: De Maximus Inc., 135 Beaver Street, 4th Floor, Waltham MA 02452, USA.
  Registered office: Joseph D Fay, 321 Old Ferry Road, Wiscasset ME 04578, USA.
  Registered office: Corporation Service Company, 80 State Street, Albany NY 12207, USA.
  Registered office: Brian Smith, 49 Yankee Road, Rowe MA 01367, USA.

- National Grid Interconnector Holdings Limited owns 284,500,000 €0.20 C Ordinary shares and one £1.00 Ordinary A share.
- National Grid Gas plc owns all £1.00 Å Ordinary shares. National Grid Green Homes Inc owns 1,000 Class Å Membership Interests
- National Grid Electricity Transmission plc owns 50 £1.00 A Ordinary shares

Our interests and activities are held or operated through the subsidiaries, joint arrangements or associates as disclosed above. These interests and activities (and their branches) are established in - and subject to the laws and regulations of - these jurisdictions.

#### 33. Sensitivities

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are hypothetical, as they are based on assumptions and conditions prevailing at the year-end, and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing.

The sensitivities in the tables below show the potential impact in the income statement (and consequential impact on net assets) for a reasonably possible 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.

The sensitivities included in the tables below broadly have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated.

#### (a) Sensitivities on areas of estimation uncertainty

The table below sets out the sensitivity analysis for each of the areas of estimation uncertainty set out in note 1E. These estimates are those that have a significant risk of resulting in a material adjustment to the carrying values of assets and liabilities in the next year.

	2018		2017	
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
Pensions and other post-retirement benefits¹ (pre-tax):				
UK discount rate change of 0.5% <sup>2</sup>	8	1,075	9	1,305
US discount rate change of 0.5% <sup>2</sup>	15	623	17	669
UK RPI rate change of 0.5% <sup>3</sup>	5	965	8	1,114
UK long-term rate of increase in salaries change of 0.5%4	-	61	2	80
US long-term rate of increase in salaries change of 0.5%	3	44	3	51
UK change of one year to life expectancy at age 65	2	588	2	673
US change of one year to life expectancy at age 65	4	359	4	365
Assumed US healthcare cost trend rates change of 1%	31	448	37	510
Environmental provision:				
10% change in estimated future cash flows	154	154	175	175
0.5% change in discount rate	56	56	67	67

- 1. The changes shown are a change in the annual pension or other post-retirement benefit service charge and change in the defined benefit obligations.
- 2. A change in the discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans.
- The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.
- 4. This change has been applied to both the pre 1 April 2014 and post 1 April 2014 rate of increase in salary assumption.

#### Pensions and other post-retirement benefits assumptions

Sensitivities have been prepared to show how the defined benefit obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 2018. In preparing sensitivities the potential impact has been calculated by applying the change to each assumption in isolation and assuming all other assumptions remain unchanged. This is with the exception of RPI in the UK where the corresponding change to increases to pensions in payment, increases to pensions in deferment and increases in salary is recognised.

supplementary information continued

#### 33. Sensitivities continued

#### (b) Sensitivities on financial instruments

We are further required to show additional sensitivity analysis under IFRS 7 and these are shown separately in the subsequent table due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

Our financial instruments are sensitive to changes in market variables, being UK and US interest rates, the UK RPI and the dollar to sterling exchange rate. The changes in market variables impact the valuation of our borrowings, deposits, derivative financial instruments and commodity contract derivatives. The analysis illustrates the sensitivity of our financial instruments to reasonably possible changes in market variables.

The following main assumptions were made in calculating the sensitivity analysis for continuing operations:

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2018 and 2017 respectively,
- the statement of financial position sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity; and
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in interest rates are recorded in the income statement as they are designated using the spot rather than the forward translation method. The impact of movements in the dollar to sterling exchange rate are recorded directly in equity.

	20	18	2017		
	Income statement £m	Other equity reserves £m	Income statement £m	Other equity reserves £m	
Financial risk (post-tax)¹:					
UK RPI change of 0.5% <sup>2</sup>	30	-	28	_	
UK interest rates change of 0.5%	43	26	64	35	
US interest rates change of 0.5%	39	17	61	22	
US dollar exchange rate change of 10%3	48	479	46	604	

<sup>1.</sup> Excludes sensitivities to the Further Acquisition Agreement derivative. Further details on sensitivities are provided in note 30(f).

2. Excludes sensitivities to LPI curve. Further details on sensitivities are provided in note 30(f).

Additional sensitivities in respect to commodity price risk and to our derivative fair values are as follows:

	2018		2017	
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
Commodity risk¹ (post-tax):				
10% increase in commodity prices	23	23	28	28
10% decrease in commodity prices	(23)	(23)	(29)	(29)
Assets and liabilities carried at fair value (pre-tax) <sup>2</sup> :				
10% fair value change in derivative financial instruments <sup>3</sup>	60	60	(52)	(52)
10% fair value change in commodity contract derivative liabilities	(5)	(5)	(6)	(6)

The other equity reserves impact does not reflect the exchange translation in our US subsidiaries' net assets. It is estimated this would change by £1,040 million (2017: £988 million) in the opposite direction if the dollar exchange rate changed by 10%.

Represents potential impact on fair values of commodity contract derivatives only.
 Excludes sensitivities to the Further Acquisition Agreement derivative. Further details on sensitivities are provided in note 30(f).

<sup>3.</sup> The effect of a 10% change in fair value assumes no hedge accounting.

#### 34. Additional disclosures in respect of guaranteed securities

We have three debt issuances (including preferred shares) that are listed on a US national securities exchange and are guaranteed by other companies in the Group. These guaranters commit to honour any liabilities should the company issuing the debt have any financial difficulties. In order to provide debt holders with information on the financial stability of the companies providing the guarantees, we are required to disclose individual financial information for these companies. We have chosen to include this information in the Group financial statements rather than submitting separate stand-alone financial statements.

The following condensed consolidating financial information, comprising statements of comprehensive income, statements of financial position and cash flow statements, is given in respect of National Grid Gas plc (subsidiary guarantor), which became joint full and unconditional guarantor on 11 May 2004 with National Grid plc (parent guarantor) of the 6.625% Guaranteed Notes due 2018 issued in June 1998 by British Transco Finance Inc., then known as British Gas Finance Inc. (issuer of notes). These Guaranteed Notes will be repaid on 1 June 2018.

Condensed consolidating financial information is also provided in respect of Niagara Mohawk Power Corporation as a result of National Grid plc's guarantee, dated 29 October 2007, of Niagara Mohawk's 3.6% and 3.9% issued preferred shares. National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation are 100% owned and National Grid plc's guarantee of Niagara Mohawk Power Corporation's preferred shares is full and unconditional pursuant to Rule 3-10(i)(8) (i) and (ii) of Regulation S-X. The guarantees of National Grid Gas plc and National Grid plc are joint and several.

The following financial information for National Grid plc, National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation on a condensed consolidating basis is intended to provide investors with meaningful and comparable financial information, and is provided pursuant to various rules including Rule 3-10 of Regulation S-X in lieu of the separate financial statements of each subsidiary issuer of public debt securities.

This financial information should be read in conjunction with the other disclosures in these financial statements.

Summary statements of comprehensive income are presented, on a consolidated basis, for the three years ended 31 March 2018. Summary statements of comprehensive income of National Grid plc and National Grid Gas plc are presented under IFRS measurement principles, as modified by the inclusion of the results of subsidiary undertakings on the basis of equity accounting principles.

The summary statements of financial position of National Grid plc and National Grid Gas plc include the investments in subsidiaries recorded on the basis of equity accounting principles for the purposes of presenting condensed consolidating financial information under IFRS. The summary statements of financial position present these investments within non-current financial and other investments.

The consolidation adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between National Grid plc, National Grid Gas plc, British Transco Finance Inc., Niagara Mohawk Power Corporation and other subsidiaries.

- supplementary information continued

#### 34. Additional disclosures in respect of guaranteed securities continued

### Summary statements of comprehensive income for the year ended 31 March 2018 - IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Continuing operations							
Revenue	-	2,416	-	1,430	11,495	(91)	15,250
Operating costs:							
Depreciation and amortisation	_	(190)	_	(245)	(1,095)	-	(1,530)
Payroll costs	-	(318)	-	(122)	(1,208)	-	(1,648)
Purchases of electricity	_	(537)	-	_	(748)	-	(1,285)
Purchases of gas	_	(166)	-	_	(1,377)	-	(1,543)
Rates and property tax	_	(183)	-	(94)	(780)	-	(1,057)
Balancing Service Incentive Scheme	_	-	-	_	(1,012)	-	(1,012)
Payments to other UK network owners	_	-	-	-	(1,043)	-	(1,043)
Other operating costs	_	(397)	_	(331)	(2,002)	91	(2,639)
	_	(1,791)	-	(792)	(9,265)	91	(11,757)
Total operating profit	-	625	-	638	2,230	-	3,493
Net finance income/(costs)	889	(100)	-	(174)	(1,360)	-	(745)
Dividends receivable	950	-	-	-	-	(950)	-
Interest in equity accounted affiliates	1,672	-	_	8	(40)	(1,680)	(40)
Profit before tax	3,511	525	-	472	830	(2,630)	2,708
Tax	40	321	-	(103)	626	-	884
Profit after tax from discontinued operations	-	-	-	17	(58)	-	(41)
Profit for the year	3,551	846	_1	386	1,398	(2,630)	3,551
Amounts recognised in other comprehensive income from continuing operations <sup>2</sup>	371	1	_	272	604	(877)	371
Total comprehensive income for the year	3,922	847	_	658	2,002	(3,507)	3,922
Attributable to:							
Equity shareholders	3,922	847	-	658	2,002	(3,507)	3,922
Non-controlling interests	-	-	-	-	-	-	-
	3,922	847	_	658	2,002	(3,507)	3,922

<sup>1.</sup> Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc. 2. Includes other comprehensive income relating to interest in equity accounted affiliates.

### 34. Additional disclosures in respect of guaranteed securities continued

### Summary statements of comprehensive income for the year ended 31 March 2017 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Continuing operations							
Revenue	-	2,388	_	1,376	11,435	(164)	15,035
Operating costs:							
Depreciation and amortisation	_	(193)	_	(256)	(1,032)	-	(1,481)
Payroll costs	_	(326)	_	(114)	(1,138)	-	(1,578)
Purchases of electricity	_	(511)	_	_	(586)	_	(1,097)
Purchases of gas	_	(140)	_	(67)	(1,012)	-	(1,219)
Rates and property tax	_	(188)	_	(101)	(753)	-	(1,042)
Balancing Service Incentive Scheme	_	-	_	_	(1,120)	-	(1,120)
Payments to other UK network owners	_	_	_	_	(1,008)	_	(1,008)
Other operating costs	_	(435)	_	(394)	(2,617)	164	(3,282)
	_	(1,793)	-	(932)	(9,266)	164	(11,827)
Total operating profit	_	595	_	444	2,169	_	3,208
Net finance income/(costs)	8,177	(101)	_	(253)	(8,910)	_	(1,087)
Dividends receivable	_	_	_	_	8,100	(8,100)	-
Interest in equity accounted affiliates	(401)	-	-	-	63	401	63
Profit before tax	7,776	494	_	191	1,422	(7,699)	2,184
Tax	19	(181)	-	16	(228)	-	(374)
Profit after tax from discontinued operations	_	-	-	4,633	1,351	-	5,984
Profit for the year	7,795	313	_1	4,840	2,545	(7,699)	7,794
Amounts recognised in other comprehensive income from continuing operations <sup>2</sup>	578	_	_	114	177	(291)	578
Amounts recognised in other comprehensive income from discontinued operations <sup>2</sup>	42	_	_	51	(62)	11	42
Total comprehensive income for the year	8,415	313	_	5,005	2,660	(7,979)	8,414
Attributable to:							
Equity shareholders	8,415	313	_	5,005	2,661	(7,979)	8,415
Non-controlling interests	_	_	_	_	(1)	_	(1)
	8,415	313	-	5,005	2,660	(7,979)	8,414

<sup>1.</sup> Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc. 2. Includes other comprehensive income relating to interest in equity accounted affiliates.

- supplementary information continued

#### 34. Additional disclosures in respect of guaranteed securities continued

### Summary statements of comprehensive income for the year ended 31 March 2016 - IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc re-presented¹ £m	Other subsidiaries re-presented¹ £m	Consolidation adjustments¹ £m	National Grid consolidated £m
Continuing operations							
Revenue	_	2,027	_	1,244	10,069	(128)	13,212
Operating costs:							
Depreciation and amortisation	_	(162)	_	(255)	(894)	-	(1,311)
Payroll costs	_	(260)	_	(115)	(962)	-	(1,337)
Purchases of electricity	_	(484)	_	_	(828)	-	(1,312)
Purchases of gas	_	(86)	_	(75)	(806)	-	(967)
Rates and property tax	_	(155)	_	(101)	(643)	-	(899)
Balancing Service Incentive Scheme	_	-	_	_	(907)	-	(907)
Payments to other UK network owners	_	-	_	_	(971)	-	(971)
Other operating costs	_	(433)	_	(173)	(1,805)	128	(2,283)
	_	(1,580)	_	(719)	(7,816)	128	(9,987)
Total operating profit	_	447	-	525	2,253	-	3,225
Net finance income/(costs)	701	(87)	-	(132)	(1,437)	-	(955)
Dividends receivable	_	-	_	_	620	(620)	-
Interest in equity accounted affiliates	1,843	-	_	33	59	(1,876)	59
Profit before tax	2,544	360	-	426	1,495	(2,496)	2,329
Tax	47	(141)	-	(56)	(277)	-	(427)
Profit after tax from discontinued operations	_	-	-	735	(43)	-	692
Profit for the year	2,591	219	_2	1,105	1,175	(2,496)	2,594
Amounts recognised in other comprehensive income from continuing operations <sup>3</sup>	502	(1)	-	8	426	(433)	502
Amounts recognised in other comprehensive income from discontinued operations <sup>3</sup>	71	-	_	(13)	153	(140)	71
Total comprehensive income for the year	3,164	218	_	1,100	1,754	(3,069)	3,167
Attributable to:							
Equity shareholders	3,164	218	_	1,100	1,751	(3,069)	3,164
Non-controlling interests	_	-	-	_	3	_	3
	3,164	218	-	1,100	1,754	(3,069)	3,167

<sup>1.</sup> Amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.
2. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.
3. Includes other comprehensive income relating to interest in equity accounted affiliates.

### 34. Additional disclosures in respect of guaranteed securities continued

### Statements of financial position as at 31 March 2018 - IFRS

	Parent guarantor	Issuer c	of notes	Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	-	691	_	-	4,753	_	5,444
Other intangible assets	-	3	-	107	789	-	899
Property, plant and equipment	-	6,148	-	4,433	29,272	-	39,853
Other non-current assets	-	3	_	94	18	_	115
Amounts owed by subsidiary undertakings	350	-	-	3,426	2,593	(6,369)	-
Pension assets	-	231	-	412	766	-	1,409
Financial and other investments	21,708	30	_	101	12,340	(31,112)	3,067
Derivative financial assets	18	2	-	591	708	-	1,319
Total non-current assets	22,076	7,108	_	9,164	51,239	(37,481)	52,106
Current assets							
Inventories and current intangible assets	_	36	_	22	283	_	341
Trade and other receivables	1	515	_	276	2,006	_	2,798
Current tax assets	_	_	_	_	307	(193)	114
Amounts owed by subsidiary undertakings	11,254	130	220	708	11,253	(23,565)	_
Financial and other investments	938	15	_	863	878	_	2,694
Derivative financial assets	308	7	_	46	_	44	405
Cash and cash equivalents	_	4	_	271	54	_	329
Total current assets	12,501	707	220	2,186	14,781	(23,714)	6,681
Total assets	34,577	7,815	220	11,350	66,020	(61,195)	58,787
Current liabilities						, . ,	
Borrowings	(781)	(51)	(218)	(675)	(2,722)	_	(4,447)
Derivative financial liabilities	(187)	(36)	_	(68)	(66)	(44)	(401)
Trade and other payables	(62)	(318)	_	(347)	(2,726)	_	(3,453)
Amounts owed to subsidiary undertakings	(11,809)	_	_	(624)	(11,132)	23,565	_
Current tax liabilities	_	(202)	_	(26)	(88)	193	(123)
Provisions	_	(23)	_	(66)	(184)	_	(273)
Total current liabilities	(12,839)	(630)	(218)	(1,806)	(16,918)	23,714	(8,697)
Non-current liabilities							<u>-</u> _
Borrowings	(773)	(2,087)	_	(3,635)	(15,683)	_	(22,178)
Derivative financial liabilities	(41)	(18)	_	(157)	(444)	_	(660)
Other non-current liabilities	_	(281)	_	(181)	(855)	_	(1,317)
Amounts owed to subsidiary undertakings	(2,091)	_	_	(500)	(3,778)	6,369	_
Deferred tax liabilities	(1)	(626)	_	(441)	(2,568)	_	(3,636)
Pensions and other post-retirement benefit obligations	=	(765)	_	_	(907)	_	(1,672)
Provisions	_	(248)	_	(129)	(1,402)	_	(1,779)
Total non-current liabilities	(2,906)	(4,025)	_	(5,043)	(25,637)	6,369	(31,242)
Total liabilities	(15,745)	(4,655)	(218)	(6,849)	(42,555)	30,083	(39,939)
Net assets	18,832	3,160	2	4,501	23,465	(31,112)	18,848
Equity							
Share capital	452	133	_	45	182	(360)	452
Share premium account	1,321	2,194	_	204	9,032	(11,430)	1,321
Retained earnings	21,599	830	2	2,929	14,217	(17,978)	21,599
Other equity reserves	(4,540)	3	_	1,323	18	(1,344)	(4,540)
Shareholders' equity	18,832	3,160	2	4,501	23,449	(31,112)	18,832
	,3=	-,	_	-,	-,•	( ··· · · · · · · · · · · · · · · · · ·	-,
Non-controlling interests	-		_		16	-	16
Total equity	18,832	3,160	2	4,501	23,465	(31,112)	18,848

- supplementary information continued

### 34. Additional disclosures in respect of guaranteed securities continued

### Statements of financial position as at 31 March 2017 - IFRS

	Parent guarantor	Issuer c	of notes	Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation <sup>1</sup> £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries¹ £m	Consolidation adjustments £m	National Grid consolidated¹ £m
Non-current assets							
Goodwill	_	763	-	-	5,333	-	6,096
Other intangible assets	-	-	-	125	798	-	923
Property, plant and equipment	-	6,553	-	4,358	28,914	-	39,825
Other non-current assets	_	5	-	9	55	-	69
Amounts owed by subsidiary undertakings	342	-	239	3,426	2,576	(6,583)	-
Pension assets	_	223	-	45	335	_	603
Financial and other investments	17,689	31	-	95	12,429	(27,061)	3,183
Derivative financial assets	149	2	-	813	603	- (22.24.1)	1,567
Total non-current assets	18,180	7,577	239	8,871	51,043	(33,644)	52,266
Current assets							
Inventories and current intangible assets	_	38	_	20	345	-	403
Trade and other receivables	_	494	_	360	1,874	-	2,728
Current tax assets	_		_	-	317	-	317
Amounts owed by subsidiary undertakings	12,734	505	6	1,965	12,083	(27,293)	
Financial and other investments	5,471	29	_	1,835	1,406	- (40.4)	8,741
Derivative financial assets	202	13	_	51	174	(194)	246
Cash and cash equivalents	1,090	4 000	-	(9)	54	(07.407)	1,139
Total current assets	19,497	1,083	6	4,222	16,253	(27,487)	13,574
Total assets	37,677	8,660	245	13,093	67,296	(61,131)	65,840
Current liabilities	(1.100)	(55)	(5)	(000)	(0.400)		(F. 400)
Borrowings	(1,120)	(55)	(5)	(833)	(3,483)	- 104	(5,496)
Derivative financial liabilities	(533)	(42)	-	(185)	(581)	194	(1,147)
Trade and other payables	(46)	(311)	-	(342)	(2,646)	07,000	(3,345)
Amounts owed to subsidiary undertakings  Current tax liabilities	(12,012)		-	(2,151)	(13,130) 61	27,293	(107)
	(3)	(156)	_	(9)		_	(107)
Provisions Tatal automat liabilities				(184)	(232)		(416)
Total current liabilities	(13,714)	(564)	(5)	(3,704)	(20,011)	27,487	(10,511)
Non-current liabilities	(4.060)	(0.045)	(000)	(0.070)	(4E 447)		(00 140)
Borrowings  Derivative financial liabilities	(1,262)	(2,345)	(239)	(3,879)	(15,417)	_	(23,142)
	(272)	(26)	_	(234)	(714)	_	(1,246)
Other non-current liabilities	(2.059)	(324)	_	(204) (756)	(842)	6,583	(1,370)
Amounts owed to subsidiary undertakings  Deferred tax liabilities	(2,058)	(1,178)	_	(369)	(3,769) (2,929)	,	(4,479)
	(3)	(889)	_	(509)	(1,647)	-	(2,536)
Pensions and other post-retirement benefit obligations Provisions	_	(298)	_	(104)	(1,770)		(2,172)
Total non-current liabilities			(330)		(27,088)	6 593	
Total liabilities	(3,595)	(5,060) <b>(5,624)</b>	(239)	(5,546)		6,583	(34,945)
	(17,309)		(244)	(9,250)	(47,099)	34,070	(45,456)
Net assets	20,368	3,036	ı	3,843	20,197	(27,061)	20,384
Equity Share copital	440	140		45	100	(276)	440
Share capital	449 1,324	149 2,431	_	45 204	182 8,033	(376) (10,668)	449 1,324
Share premium account							
Retained earnings Other equity reserves	22,582	456	1	2,268	11,914 52	(14,639)	22,582
Shareholders' equity	(3,987) <b>20,368</b>	3,036		1,326 <b>3,843</b>	20,181	(1,378) ( <b>27,061</b> )	(3,987) <b>20,368</b>
	20,308	3,030		3,043			
Non-controlling interests	_				16		16
Total equity	20,368	3,036	1	3,843	20,197	(27,061)	20,384

<sup>1.</sup> Consistent with the presentation of the Group balance sheet we have re-presented commodity derivatives from current and non-current receivables and payables to derivative financial assets and liabilities.

#### 34. Additional disclosures in respect of guaranteed securities continued

#### **Cash flow statements**

	Parent guarantor	Issuer	of notes	Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Year ended 31 March 2018							
Net cash flow from operating activities – continuing operations	35	662	_	888	3,125	-	4,710
Net cash flow from operating activities – discontinued operations	_	_	_	(98)	(109)	-	(207)
Net cash flow from/(used in) investing activities – continuing operations	4,660	(473)	15	656	(1,759)	(862)	2,237
Net cash flow from/(used in) investing activities – discontinued operations	_	_	_	_	-	-	_
Net cash flow (used in)/from financing activities – continuing operations	(5,785)	(189)	(15)	(1,041)	(1,148)	862	(7,316)
Net cash flow (used in)/from financing activities – discontinued operations	_	-	_	(125)	(106)	-	(231)
Net increase/(decrease) in cash and cash equivalents in the year	(1,090)	_	_	280	3	_	(807)
Year ended 31 March 2017							
Net cash flow from operating activities – continuing operations	53	757	_	918	2,592	-	4,320
Net cash flow from operating activities – discontinued operations	_	_	_	450	459	-	909
Net cash flow from/(used in) investing activities – continuing operations	4,181	(469)	15	215	(1,118)	(6,458)	(3,634)
Net cash flow from/(used in) investing activities – discontinued operations	-	_	-	5,618	(6,298)	-	(680)
Net cash flow (used in)/from financing activities – continuing operations	(3,146)	(288)	(15)	(8,322)	3,771	6,458	(1,542)
Net cash flow (used in)/from financing activities – discontinued operations	-	-	-	1,120	491	-	1,611
Net increase/(decrease) in cash and cash equivalents in the year	1,088	-	_	(1)	(103)	_	984
Year ended 31 March 2016							
Net cash flow from operating activities – continuing operations	57	580	_	599	3,056	-	4,292
Net cash flow from operating activities – discontinued operations	-	-	-	1,144	(68)	-	1,076
Net cash flow from/(used in) investing activities – continuing operations	502	(440)	13	56	(1,721)	(1,869)	(3,459)
Net cash flow from/(used in) investing activities – discontinued operations	-	_	-	(562)	(15)	-	(577)
Net cash flow (used in)/from financing activities – continuing operations	(555)	(148)	(13)	(1,185)	(1,173)	1,869	(1,205)
Net cash flow (used in)/from financing activities – discontinued operations	_	_	-	(63)	(60)	_	(123)
Net (decrease)/increase in cash and cash equivalents in the year	4	(8)	-	(11)	19	-	4

Cash dividends were received by National Grid plc from subsidiary undertakings amounting to £950 million during the year ended 31 March 2018 (2017: £6,006 million; 2016: £930 million).

### Maturity analysis of parent Company borrowings

	2018 £m	2017 £m
Total borrowings are repayable as follows:		
Less than 1 year	781	1,120
In 1 to 2 years	438	515
In 2 to 3 years	-	425
In 3 to 4 years	335	-
In 4 to 5 years	-	322
More than 5 years	-	_
	1,554	2,382

### 35. Post balance sheet events

As set out in note 15, on 1 May 2018, the Group announced that it had entered into an agreement with Quadgas Investments BidCo Limited regarding the potential sale of its remaining 25% equity interest in Quadgas HoldCo Limited, the holding company for Cadent Gas Limited. Refer to notes 4 and 15 for details on the accounting implications on the results for the year ended 31 March 2018 in relation to this agreement.

### Company accounting policies

We are required to include the stand-alone balance sheet of our ultimate parent Company, National Grid plc, under the Companies Act 2006. This is because the publicly traded shares are actually those of National Grid plc (the Company) and the following disclosures provide additional information to shareholders.

#### A. Basis of preparation

National Grid plc is the Parent Company of the National Grid Group which is engaged in the transmission and distribution of electricity and gas in Great Britain and northeastern US. The Company is a public limited company, limited by shares. The Company is incorporated and domiciled in England, with its registered office at 1–3 Strand, London, WC2N 5EH.

The financial statements of National Grid plc for the year ended 31 March 2018 were approved by the Board of Directors on 16 May 2018. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly these individual financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the EU, but makes amendments where necessary in order to comply with the provisions of the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken.

These individual financial statements of the Company have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006. They have been prepared on an historical cost basis, except for the revaluation of financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The 2017 comparative financial information has also been prepared on this basis.

These individual financial statements have been prepared on a going concern basis, which presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. As the Company is part of a larger group it participates in the Group's centralised treasury arrangements and so shares banking arrangements with its subsidiaries. The Company is expected to continue to generate positive cash flows or be in a position to obtain finance via intercompany loans to continue to operate for the foreseeable future.

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

In accordance with the exemption permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account or statement of comprehensive income.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements of the Company in accordance with FRS 101:

- a cash flow statement and related notes;
- disclosures in respect of transactions with wholly-owned subsidiaries;
- · disclosures in respect of capital management; and
- the effects of new but not yet effective IFRSs.

The exemption from disclosing key management personnel compensation has not been taken as there are no costs borne by the Company in respect of employees, and no related costs are recharged to the Company.

As the consolidated financial statements of National Grid plc, which are available from the registered office, include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 in respect of certain disclosures required by IFRS 13 'Fair value measurement' and the disclosures required by IFRS 7 'Financial instruments: Disclosures'. The Company intends to apply the above exemptions in the financial statements for the year ending 31 March 2018.

There are no critical areas of judgement that are considered to have a significant effect on the amounts recognised in the financial statements. Key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the valuation of financial instruments and derivatives.

The balance sheet has been prepared in accordance with the Company's accounting policies approved by the Board and described below:

#### B. Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value-in-use.

#### C. Tax

Current tax for the current and prior periods is provided at the amount expected to be paid or recovered using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on temporary differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the temporary differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is provided for using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### D. Foreign currencies

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

#### E. Financial instruments

The Company's accounting policies are the same as the Group's accounting policies under IFRS, namely IAS 32 'Financial Instruments: Presentation', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures'. The Company applies these policies only in respect of the financial instruments that it has, namely investments, derivative financial instruments, debtors, cash at bank and in hand, borrowings and creditors.

The policies are set out in notes 14, 16, 18, 19, 20 and 21 to the consolidated financial statements. The Company is taking the exemption for financial instruments disclosures, because IFRS 7 disclosures are given in notes 30 and 33 to the consolidated financial statements.

#### F. Hedge accounting

The Company applies the same accounting policy as the Group in respect of fair value hedges and cash flow hedges. This policy is set out in note 16 to the consolidated financial statements.

### G. Parent Company guarantees

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due by certain subsidiary undertakings primarily to third parties. Such guarantees are accounted for by the Company as insurance contracts. In the event of default or non performance by the subsidiary, a liability is recorded in accordance with IAS 37 with a corresponding increase in the carrying value of the investment.

#### H. Share awards to employees of subsidiary undertakings

The issuance by the Company to employees of its subsidiaries of a grant over the Company's options represents additional capital contributions by the Company to its subsidiaries. An additional investment in subsidiaries results in a corresponding increase in shareholders' equity. The additional capital contribution is based on the fair value of the option at the date of grant, allocated over the underlying grant's vesting period. Where payments are subsequently received from subsidiaries, these are accounted for as a return of a capital contribution and credited against the Company's investments in subsidiaries. The Company has no employees.

#### I. Dividends

Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

#### J. Directors' remuneration

Full details of Directors' remuneration are disclosed on pages 63 to 79.

# Company balance sheet

as at 31 March

		2018	2017
	Notes	£m	£m
Fixed assets			
Investments	1	9,896	8,880
Current assets			
Debtors (amounts falling due within one year)	2	11,563	12,936
Debtors (amounts falling due after more than one year)	2	368	491
Investments	5	938	5,471
Cash at bank and in hand		-	1,090
Total current assets		12,869	19,988
Creditors (amounts falling due within one year)	3	(12,839)	(13,714)
Net current assets		30	6,274
Total assets less current liabilities		9,926	15,154
Creditors (amounts falling due after more than one year)	3	(2,906)	(3,595)
Net assets		7,020	11,559
Equity			
Share capital	7	452	449
Share premium account		1,321	1,324
Cash flow hedge reserve		2	11
Other equity reserves		353	337
Profit and loss account	8	4,892	9,438
Total shareholders' equity		7,020	11,559

The Company's profit after tax for the year was £930 million (2017: £8,197 million). The financial statements of the Company on pages 180 to 183 were approved by the Board of Directors on 16 May 2018 and were signed on its behalf by:

**Sir Peter Gershon** Chairman **Andrew Bonfield** Finance Director

National Grid plc

Registered number: 4031152

# Company statement of changes in equity

for the years ended 31 March

	Share capital £m	Share premium account £m	Cash flow hedge reserve £m	Other equity reserves £m	Profit and loss account £m	Total shareholders' equity £m
At 1 April 2016	447	1,326	17	302	2,880	4,972
Profit for the year	_	-	-	-	8,197	8,197
Other comprehensive loss for the year						
Transferred from equity in respect of cash flow hedges (net of tax)	-	_	(6)	-	_	(6)
Total comprehensive (loss)/income for the year	-	-	(6)	-	8,197	8,191
Other equity movements						
Scrip dividend-related share issue <sup>1</sup>	2	(2)	-	-	-	-
Purchase of treasury shares	_	-	_	-	(189)	(189)
Issue of treasury shares	-	-	-	-	18	18
Purchase of own shares	-	-	-	-	(5)	(5)
Share awards to employees of subsidiary undertakings	-	_	_	35	_	35
Equity dividends	-	-	-	-	(1,463)	(1,463)
At 31 March 2017	449	1,324	11	337	9,438	11,559
Profit for the year	-	-	-	-	930	930
Other comprehensive loss for the year						
Transferred from equity in respect of cash flow hedges (net of tax)	-	-	(9)	-	-	(9)
Total comprehensive (loss)/income for the year	-	-	(9)	_	930	921
Other equity movements						
Scrip dividend-related share issue <sup>1</sup>	3	(3)	-	-	-	-
Purchase of treasury shares	_	-	_	-	(1,017)	(1,017)
Issue of treasury shares	_	-	-	-	33	33
Purchase of own shares	_	-	_	-	(5)	(5)
Share awards to employees of subsidiary undertakings	_	-	-	16	-	16
Equity dividends	-	_	-	_	(4,487)	(4,487)
At 31 March 2018	452	1,321	2	353	4,892	7,020

<sup>1.</sup> Included within the share premium account are costs associated with scrip dividends.

### **Notes to the Company financial statements**

#### 1. Fixed asset investments

At 31 March 2018	9,896
Additions	1,016
At 31 March 2017	8,880
Additions	35
At 1 April 2016	8,845
	Shares in subsidiary undertakings £m

During the year there was a capital contribution of £16 million (2017: £35 million) which represents the fair value of equity instruments granted to subsidiaries' employees arising from equity-settled employee share schemes. In addition on 12 July 2017, the Company acquired a further 180,868 ordinary shares of £1 each in National Grid (US) Holdings Limited for a total consideration of £1,000 million.

The Company's direct subsidiary undertakings as at 31 March 2018 were as follows: National Grid Holdings One plc; National Grid (US) Holdings Limited; and NGG Finance plc.

The names of indirect subsidiary undertakings, joint ventures and associates are included in note 32 to the consolidated financial statements.

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

#### 2. Debtors

	2018 £m	2017 £m
Amounts falling due within one year		
Derivative financial instruments (see note 4)	308	202
Amounts owed by subsidiary undertakings	11,254	12,734
Prepayments and accrued income	1	-
	11,563	12,936
Amounts falling due after more than one year		
Derivative financial instruments (see note 4)	18	149
Amounts owed by subsidiary undertakings	350	342
	368	491

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

#### 3. Creditors

	2018 £m	2017 £m
Amounts falling due within one year		
Borrowings (see note 6)	781	1,120
Derivative financial instruments (see note 4)	187	533
Amounts owed to subsidiary undertakings	11,809	12,012
Corporation tax payable	_	3
Other creditors	62	46
	12,839	13,714
Amounts falling due after more than one year		
Borrowings (see note 6)	773	1,262
Derivative financial instruments (see note 4)	41	272
Amounts owed to subsidiary undertakings	2,091	2,058
Deferred tax	1	3
	2,906	3,595
Amounts owed to subsidiary undertakings falling due after more than one year are repayable as follows:		
In 2 to 3 years	1,095	-
In 3 to 4 years	_	1,062
More than 5 years	996	996
	2,091	2,058

The carrying values stated above are considered to represent the fair values of the liabilities. A reconciliation of the movement in deferred tax in the year is shown below:

At 31 March 2018	1
Credited to equity	(2)
At 31 March 2017	3
Credited to equity	(1)
At 1 April 2016	4
	Deferred tax £m

#### 4. Derivative financial instruments

The fair values of derivative financial instruments are:

	2018		2018			2017	
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m	
Amounts falling due within one year	308	(187)	121	202	(533)	(331)	
Amounts falling due after more than one year	18	(41)	(23)	149	(272)	(123)	
	326	(228)	98	351	(805)	(454)	

For each class of derivative the notional contract<sup>1</sup> amounts are as follows:

	2018 £m	2017 £m
Interest rate swaps	(2,501)	(2,801)
Cross-currency interest rate swaps	(3,613)	(3,995)
Foreign exchange forward contracts	(13,929)	(17,134)
	(20,043)	(23,930)

<sup>1.</sup> The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the balance sheet date.

#### 5. Investments

	2018 £m	2017 £m
Investments in short-term money funds	919	4,981
Managed investments in bonds	10	100
Restricted balances – collateral	9	390
	938	5,471

#### 6. Borrowings

The following table analyses the Company's total borrowings:

	2018 £m	2017 £m
Amounts falling due within one year		
Bank overdrafts	_	1
Bank loans	230	-
Bonds	551	22
Commercial paper	_	1,097
	781	1,120
Amounts falling due after more than one year		
Bonds	773	1,262
	1,554	2,382

The maturity of total borrowings is disclosed in note 34 to the consolidated financial statements. There are no differences in the maturities as calculated under IFRS or FRS 101 'Reduced Disclosure Framework'.

The notional amount of borrowings outstanding as at 31 March 2018 was £1,531 million (2017: £2,357 million). Further information on significant borrowings can be found on the debt investors section of our website.

#### 7. Share capital

The called-up share capital amounting to £452 million (2017: £449 million) consists of 3,637,747,827 ordinary shares of 12<sup>204</sup>/<sub>473</sub> pence each (2017: 3,942,983,447 ordinary shares of 11<sup>17</sup>/<sub>43</sub> pence each). For further information on share capital, refer to note 25 to the consolidated financial statements.

### 8. Shareholders' equity and reserves

At 31 March 2018 the profit and loss account reserve stood at £4,892 million (2017: £9,438 million) of which £86 million (2017: £86 million) related to gains on intra-group transactions which was not distributable to shareholders. The Company bore no employee costs in either the current or prior year.

For further details of dividends paid and payable to shareholders, refer to note 8 to the consolidated financial statements.

#### 9. Parent Company guarantees

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due by certain subsidiary undertakings primarily to third parties. At 31 March 2018, the sterling equivalent amounted to  $\mathfrak{L}2,398$  million (2017:  $\mathfrak{L}2,404$  million). The guarantees are for varying terms from less than one year to open-ended.

In addition, as part of the sectionalisation of the National Grid UK Pension Scheme on 1 January 2017, a guarantee of £1 billion has been provided to Section A. This payment is contingent on insolvency or on failure to pay pensions obligations to Section A and can be claimed against National Grid plc, National Grid Holdings One plc or Lattice Group Limited (up to £1 billion in total). Refer to note 23 of the consolidated financial statements.

#### 10. Audit fees

The audit fee in respect of the parent Company was £25,000 (2017: £29,230). Fees payable to Deloitte for non-audit services to the Company are not required to be disclosed as they are included within note 3 to the consolidated financial statements.