Company Registration Number: 4220381

NGG Finance plc

Annual Report and Financial Statements

For the year ended 31 March 2018

NGG Finance plc

Strategic Report

For the year ended 31 March 2018

The Directors present their Strategic Report on NGG Finance plc ('the Company') for the year ended 31 March 2018.

Review of the business

The Company obtains and provides finance to its parent company, National Grid plc, via external borrowings and intercompany balances.

Executive summary

There have been no significant changes in the Company's trading activities during the year, as reported in the profit and loss account. The Company currently has in issue two fixed rate bonds listed on the London Stock Exchange with notional values of £1,000 million and €1,250 million. The consideration received from these bonds in March 2013 was advanced to its immediate parent company, National Grid plc, on the same terms to that of the securities. The Company continues to receive interest on intercompany loan assets with its immediate parent on activities prior to the issue of these current bonds.

There were no significant changes in the Company's external borrowings or intercompany balances.

Results, as detailed below, largely depend on interest received offset by interest payable both of which includes foreign exchange movements on the revaluation of the euro security and the euro intercompany loan.

Results

The Company's profit for the financial year was £5,403,000 (2017: £5,601,000).

Financial position

The financial position of the Company is presented in the balance sheet. Total shareholders' equity at 31 March 2018 was £655,544,000 (2017: £650,141,000) comprising current assets of £2,887,590,000 (2017: £2,846,612,000) less current liabilities of £140,217,000 (2017: £138,085,000) less creditors falling due after more than one year of £2,091,829,000 (2017: £2,058,386,000).

Key performance indicators and principal risks and uncertainties

As the Company is part of a larger group, the management of the Company does not involve the use of key performance indicators, other than the profit or loss for the year, in measuring the development, performance or the position of the Company and the principal risks and uncertainties are integrated with the principal risks of National Grid plc. For information on the development, performance, risks, uncertainties and position of National Grid plc and its subsidiaries ('National Grid'), and of the key performance indicators used, refer to the Strategic Report included in National Grid plc's Annual Report and Accounts 2017/18, which does not form part of this report.

Future developments

The Directors believe the current level of trading activity as reported in the profit and loss account will continue in the foreseeable future with no anticipated significant balance sheet movements.

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

A Morgan
Company Secretary
8 August 2018

NGG Finance plc

Directors' Report

For the year ended 31 March 2018

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

Future developments

Details of future developments have been included within the Strategic Report on page 1.

Dividends

The Company has paid no interim ordinary dividends during the year (2017: £nil) and the Directors do not recommend the payment of a final dividend (2017: £nil).

Financial risk management

The management of the Company and the execution of the Company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the Company's material financial risks, including credit, liquidity, interest rate cash flow and foreign currency risks. Although the Company has a Finance Committee, the financial risk management of the Company is carried out by a central Treasury department operating under policies and guidelines approved by the Directors of National Grid plc. The National Grid Finance Committee, a committee of the National Grid plc Board, is responsible for regular review and monitoring of treasury activity and for approval of specific transactions.

Each year the Board reviews the effectiveness of the internal control systems and risk management processes covering all material systems, including financial and compliance controls, to make sure they remain robust. National Grid has specific internal mechanisms to govern the financial reporting process and the preparation of the Annual Report and Financial Statements. National Grid's financial controls guidance sets out the fundamentals of internal control over financial reporting, which are applied across the National Grid group, including NGG Finance plc. National Grid's financial processes include a range of system, transactional and management oversight controls.

As NGG Finance plc is a subsidiary undertaking of a parent undertaking subject to Disclosure Guidelines and Transparency Rule 7.1 and 7.2, it has used its immediate parent's audit committee as a suitable alternative body and it is not required to comply with the Financial Conduct Authority's requirements to report on compliance with, and application of, the UK Corporate Governance Code.

Treasury Policy

All funding is approved by the National Grid Finance Committee and the use of derivative financial instruments is controlled by policy guidelines set by the National Grid plc Board. The Treasury function will raise all the funding for the Company and its subsidiary, and manages interest rate and foreign exchange risk.

The Treasury function is not operated as a profit centre. Debt and treasury positions are managed in a non-speculative manner, such that all transactions in financial instruments or products are matched to an underlying current or anticipated business requirement of National Grid. As part of its business operations, National Grid is exposed to risks arising from fluctuations in interest rates and exchange rates. National Grid uses derivative financial instruments ('derivatives') to manage exposures of this type and as such they are a useful tool in reducing risk. The policy is not to use derivatives for trading purposes.

Credit risk

The Treasury function seeks to limit counterparty risk by conducting all of its banking and dealing activities with a limited number of major international banks, whose status is kept under review. No exposure is considered to exist in respect of intercompany loans as these are fully recoverable from within the National Grid group.

Financial risk management (continued)

Liquidity risk

The Company finances its operations through a combination of retained profits, external bonds and intercompany loans. This is to ensure that the Company has sufficient long-term and short-term funds available for current operations and future activities.

Interest rate cash flow risk

The Company has both interest bearing intercompany assets and interest bearing external bonds. To the extent that the intercompany loan agreements are entered into carry fixed and floating rates, the exposure to interest rate cash flow risk arises on floating rate loans on which interest is charged based upon sterling LIBOR. The external bonds pay a fixed rate of interest.

Foreign currency risk

To the extent that external bonds and intercompany loan agreements are entered into in currencies different to that of the functional currency, there is an exposure to movements in exchange rates. The Company principally has euro denominated external bonds and intercompany loan assets as at the balance sheet date.

Directors

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

A J Agg	
D C Bonar	(Resigned 30 April 2018)
S W Grant	(Appointed 27 July 2017)
S C Humphreys	
A M Lewis	(Appointed 13 November 2017)
W J Jackson	(Resigned 27 July 2017)
A K Mead	
A S Wiltshire	(Resigned 13 November 2017)

Directors' indemnity

National Grid has arranged, in accordance with the Companies Act 2006 and the Articles, qualifying third-party indemnities against financial exposure that Directors may incur in the course of their professional duties. Equivalent qualifying third-party indemnities were, and remain, in force for the benefit of those Directors who stood down from the Board in prior financial years for matters arising when they were Directors of the Company. Alongside these indemnities, National Grid places Directors' and Officers' liability insurance cover for each Director.

Going concern

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

Disclosure of information to auditors

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given in accordance with the provisions of section 418 of the Companies Act 2006.

Auditors

At the 2017 Annual General meeting of National Grid plc, the Company's ultimate parent company, Deloitte LLP were appointed as external auditor to the group. Accordingly, Deloitte LLP were appointed auditor of the Company replacing PricewaterhouseCoopers LLP for the year ended 31 March 2018.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the 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 financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

A Morgan
Company Secretary
8 August 2018

Registered office:
1-3 Strand
London
WC2N 5EH

Registered in England and Wales
Company registration number: 4220381

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NGG FINANCE PLC

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of NGG Finance plc (the 'Company'):

- **give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its profit for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the summary of significant accounting policies (note 1); and
- the related notes 2 to 13.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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 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 (the 'FRC's') 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 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 matter that we identified in the current year was the recoverability of receivables from the immediate parent company.
Materiality	The materiality that we used in the current year was £6.5 million which was determined on the basis of 1% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of 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.

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 not provide a separate opinion on these matters.

Recoverability of receivables from the immediate parent company	
Key audit matter description	Receivables from immediate parent company are stated in the balance sheet at £796 million due within one year and £2,092 million due after more than one year. The recoverability of these receivables has been identified as key to the continuing viability of the Company and its ability repay its borrowings. Refer additionally to notes 7, 8 and 10.
How the scope of our audit responded to the key audit matter	We assessed intercompany receivables from the immediate parent company for recoverability against the retained earnings, profit for the year and current assets of the counterparty. In addition, we analysed if the counterparty has sufficient equity balance, earnings income and current assets to settle their obligation by reviewing the audited financial statements of the immediate parent company for the year ended 31 March 2018.
Key observations	Based on the work performed we concluded that receivables from the immediate parent company are appropriately recorded.

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:

Materiality	£6.5 million
Basis for determining materiality	1% of net assets
Rationale for the benchmark applied	We determined materiality based on net assets as this is the key metric used by management, investors and lenders, with shareholder value being driven by total assets value movements.

We agreed with the directors that we would report to the directors all audit differences in excess of £0.33 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

The directors are responsible for the other information. The other information comprises the 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.

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 Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, including obtaining and reviewing supporting documentation, concerning the Company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team how and where fraud might occur in the financial statements and any potential indicators of fraud. We considered a number of fraud risks factors including but not limited to consideration of whether related parties with dominant influence exist and whether internal or external incentives and pressures to manipulate the results of the Company are present; and
- obtaining an understanding of the legal and regulatory frameworks that the Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the

Company. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, and tax legislation.

Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by 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 Company and its 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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.

We have nothing to report in respect of this matter.

Other matters

Auditor tenure
Following the recommendation of the Audit Committee of National Grid Plc, 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).

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.

Douglas King FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
8 August 2018

NGG Finance plc

Profit and loss account

For the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Operating charges		(33)	(33)
Operating loss	2	(33)	(33)
Interest receivable and similar income	4	143,987	182,520
Interest payable and similar charges	5	(137,284)	(175,486)
Profit before tax		6,670	7,001
Tax	6	(1,267)	(1,400)
Profit for the financial year		5,403	5,601

The results reported above relate to continuing activities.

There have been no other comprehensive income/losses during either the current or prior year other than as disclosed in the profit and loss account and therefore no separate statement of comprehensive income has been presented.

NGG Finance plc

Balance sheet

As at 31 March 2018

	Note	2018 £'000	2017 £'000
Current assets			
Debtors (amounts falling due within one year)	8	**795,669**	788,132
Debtors (amounts falling due after more than one year)	8	**2,091,829**	2,058,386
Cash at bank and in hand		**92**	94
Total current assets		**2,887,590**	2,846,612
Creditors (amounts falling due within one year)	9	**(140,217)**	(138,085)
Net current assets		**2,747,273**	2,708,527
Creditors (amounts falling due after more than one year)	9	**(2,091,829)**	(2,058,386)
Net assets		**655,544**	650,141
Equity			
Share capital	11	**1,925**	1,925
Share premium account		**431,325**	431,325
Profit and loss account		**222,294**	216,891
Total shareholders' equity		**655,544**	650,141

The financial statements on pages 11 to 21 were approved by the Board of Directors on 8 August 2018 and were signed on its behalf by:

S Grant

S W Grant
Director

NGG Finance plc
Company registration number: 4220381

NGG Finance plc

Statement of changes in equity

For the year ended 31 March 2018

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Total shareholders' equity £'000
At 1 April 2016	1,925	431,325	211,290	644,540
Profit for the financial year	-	-	5,601	5,601
At 31 March 2017	1,925	431,325	216,891	650,141
Profit for the financial year	-	-	5,403	5,403
At 31 March 2018	**1,925**	**431,325**	**222,294**	**655,544**

1 Summary of significant accounting policies

NGG Finance plc is a public company, limited by shares. The nature of the Company's principal activities is set out in the Strategic Report on page 1. The Company is incorporated and domiciled in England with its registered office at 1-3 Strand, London, WC2N 5EH.

(a) Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements 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 Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken.

These financial statements 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 and presented in pounds sterling, which is the currency of primary economic environment in which the Company operates. The 2016 comparative financial information has also been prepared on this basis.

These 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 for it to do so, for at least one year from the date the financial statements are signed. The Directors are not aware of any material uncertainties related to events or conditions that may cast 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.

These financial statements are presented in the format as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

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;
- disclosure in respect of transactions with National Grid plc and its subsidiaries;
- disclosure in respect of capital management; and
- the effects of new but not yet effective IFRSs.

The preparation of financial statements may require 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 income and expenses during the reporting period. Actual results could differ from these estimates.

There are no sources of estimation uncertainty or critical areas of judgement that are considered to have a significant effect on the amounts recognised in the financial statements

The balance sheet has been prepared in accordance with the Company's accounting policies approved by the Board and described below:

1 Summary of significant accounting policies (continued)

(b) Tax

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

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

The calculation of the total tax charge involves a degree of estimation and judgement, and management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(c) Foreign currency transactions and balances

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

(d) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date. An equity instrument is any contract that includes a residual interest in the assets of the Company after deducting all of 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.

Loans receivable are initially recognised at fair value plus transaction costs and subsequently held at amortised cost using the effective interest method. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with gains and losses when the loans are derecognised or impaired, are recognised in the profit and loss account.

Borrowings, which include interest-bearing loans and overdrafts, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the profit and loss account using the effective interest method.

2 Operating loss

	2018 £'000	2017 £'000
Operating loss is stated after charging:		
Services provided by the Company's auditor		
Audit fees of Company	**31**	31

Disclosure of non-audit fees is not required as these have been disclosed in the consolidated financial statements of National Grid plc.

3 Directors and employees

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements. During the year there were 5 Directors (2017: 5) who exercised share options in or received ordinary shares as part of long term incentive plans of the ultimate parent company, National Grid plc.

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

4 Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable from immediate parent company	**112,004**	108,188
Exchange gains on revaluation of foreign currency denominated intercompany loan and bank account	**31,983**	74,332
	143,987	182,520

5 Interest payable and similar charges

	2018 £'000	2017 £'000
External interest payable	**105,325**	101,128
Exchange losses on revaluation of foreign currency denominated borrowings	**31,959**	74,358
	137,284	175,486

6 Tax

	2018 £'000	2017 £'000
Current tax:		
UK corporation tax	**1,267**	1,400

The tax charge for the year is equivalent to (2017: equivalent to) the standard rate of corporation tax in the UK of 19% (2017: 20%).

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.

7 Financial risk factors

The activities of the Company expose it to a variety of financial risks including currency risk, interest rate risk, credit risk, liquidity risk and capital risk. The Company's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks.

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.

The Company has exposure to the following risks, which are described in more detail below:

- currency risk;
- interest rate risk;
- credit risk;
- liquidity risk; and
- capital risk.

(a) Currency risk

The Company can obtain financing in various currencies and is exposed to foreign exchange risk arising from these, primarily with respect to the Euro.

The following table sets out the net asset position by currency:

	2018				2017			
	Sterling £'000	**Euro £'000**	**US dollar £'000**	**Total £'000**	**Sterling £'000**	**Euro £'000**	**US dollar £'000**	**Total £'000**
Cash and cash equivalents	-	-	92	92	-	-	94	94
Intercompany receivable	1,749,419	1,138,079	-	2,887,498	1,743,770	1,102,748	-	2,846,518
Borrowings	(1,040,506)	(1,131,942)	-	(2,172,448)	(1,040,012)	(1,097,923)	-	(2,137,935)
Other liabilities	(59,598)	-	-	(59,598)	(58,297)	-	(239)	(58,536)
Net asset position	649,315	6,137	92	655,544	645,461	4,825	(145)	650,141

An estimate of the Company sensitivity to a 10% change in the Euro exchange rate results in a £558,000 (2017: £439,000) impact in the profit and loss account and net assets. This movement has an equal and opposite effect if the sensitivity increases or decreases by the same amount.

(b) Interest rate risk

Interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's 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.

7 Financial risk factors (continued)

(b) Interest rate risk (continued)

The following table sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk:

	2018 £'000	2017 £'000
Fixed interest rate borrowings		
In one year or less	**80,619**	79,549
In greater than five years	**2,091,829**	2,058,386
	2,172,448	2,137,935

The following table sets out the net asset position by interest rate risk:

	2018				2017			
	Fixed-rate £'000	Floating-rate £'000	Other £'000	Total £'000	Fixed-rate £'000	Floating-rate £'000	Other £'000	Total £'000
Cash and cash equivalents	-	92	-	92	-	94	-	94
Intercompany receivable	2,184,631	702,867	-	2,887,498	2,147,605	698,913	-	2,846,518
Borrowings	(2,172,448)	-	-	(2,172,448)	(2,137,935)	-	-	(2,137,935)
Other liabilities	-	-	(59,598)	(59,598)	-	-	(58,536)	(58,536)
Net asset position	12,183	702,959	(59,598)	655,544	9,670	699,007	(58,536)	650,141

An estimate of the Company sensitivity to 0.5% change in UK interest rates results in a £3,515,000 (2017: £3,495,000) impact in the profit and loss account and net assets. This movement has an equal and opposite effect if the sensitivity increases or decreases by the same amount.

(c) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to intercompany receivables.

As at 31 March 2018 and 31 March 2017, the Company had a number of exposures to individual counterparties. In accordance with the Company's treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. Management does not expect any significant losses from non-performance by these counterparties. There are netting agreements in place with some counterparties: these had no effect on the credit exposure.

The Company does not believe there is any credit risk in relation to the amounts owed by/to the parent company and the amounts owed to fellow subsidiary undertakings.

7 Financial risk factors (continued)

(d) Liquidity risk

The Company determines 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. 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 £'000	1 - 2 years £'000	2 – 3 years £'000	More than 3 years £'000	Total £'000
Non-derivative financial liabilities					
Borrowings	-	-	(1,097,369)	(1,000,000)	(2,097,369)
Interest payments on borrowings [i]	(102,888)	(102,982)	(102,762)	(5,512,401)	(5,821,033)
Other non-interest bearing liabilities	(58,264)	-	-	-	(58,264)
Total as at 31 March 2018	(161,152)	(102,982)	(1,200,131)	(6,512,401)	(7,976,666)

At 31 March 2017	Less than 1 year £'000	1 - 2 years £'000	2 – 3 years £'000	More than 3 years £'000	Total £'000
Non-derivative financial liabilities					
Borrowings	-	-	-	(2,065,223)	(2,065,223)
Interest payments on borrowings [i]	(101,754)	(101,721)	(101,814)	(5,549,271)	(5,854,560)
Other non-interest bearing liabilities	(57,032)	-	-	-	(57,032)
Total as at 31 March 2017	(158,786)	(101,721)	(101,814)	(7,614,494)	(7,976,815)

[i] The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle.

(e) Capital risk

The Company's objective when managing capital is to safeguard its ability to continue as a going concern and to maintain an efficient mix of debt and equity funding, thus achieving an optimal capital structure and cost of capital. The Company regularly reviews the capital structure as appropriate in order to achieve these objectives.

8 Debtors

	2018 £'000	2017 £'000
Amounts falling due within one year		
Amounts owed by immediate parent company	**795,669**	788,132
Amounts falling due after more than one year		
Amounts owed by immediate parent company	**2,091,829**	2,058,386

In March 2013, the Company issued two fixed rate bonds listed on the London Stock Exchange with notional values of £1,000 million and €1,250 million. The consideration received was advanced to its immediate parent company, National Grid plc on the same terms to that of the securities. Other amounts owed by immediate parent company of £702,867,000 (2017: £698,913,000) are repayable on demand and earn interest receivable at a rate based on GBP LIBOR plus 20 basis points. The fair value of the amounts owed by immediate parent company approximates to their book values.

9 Creditors

	2018 £'000	2017 £'000
Amounts falling due within one year		
Borrowings (note 10)	**80,619**	79,549
Amounts owed to fellow subsidiary undertakings	**59,564**	58,263
Amounts owed to immediate parent company	**-**	239
Other creditors	**34**	34
	140,217	138,085

The fair value of creditors equates to their book value.

	2018 £'000	2017 £'000
Amounts falling due after more than one year		
Borrowings (note 10)	**2,091,829**	2,058,386

10 Borrowings

The following table analyses the total borrowings:

	2018 £'000	2017 £'000
Current:		
Bonds	**80,619**	79,549
	80,619	79,549
Non-current		
Bonds	**2,091,829**	2,058,386
Total	**2,172,448**	2,137,935

	2018 £'000	2017 £'000
Total borrowings are repayable as follows:		
Less than 1 year	**80,619**	79,549
Between 2 to 3 years	**1,095,399**	-
Between 3 to 4 years	**-**	1,062,450
Between 4 to 5 years	**-**	-
More than 5 years - other than by instalments	**996,430**	995,936
	2,172,448	2,137,935

10 Borrowings (continued)

The fair value of borrowings at 31 March 2018 was £2,380,012,000 (2017: £2,342,330,000). Where market values were available, fair value of borrowings (Level 1) was £2,380,012,000 (2017: £2,342,330,000). The notional amount at maturity of the debt portfolio is £2,097,369,000 (2017: £2,065,223,000).

The Company has in issue two fixed rate bonds as listed on the London Stock Exchange as follows:

Issuer	Description of instrument (original notional amount)	Maturity	First callable date
NGG Finance plc	GBP £1,000 million 5.625% Fixed Rate Instrument	2073	2025
NGG Finance plc	EURO 1,250 million 4.25% Fixed Rate Instrument	2076	2020

11 Share capital

	2018 £'000	2017 £'000
Allotted, called up and fully paid		
1,925,000 (2017: 1,925,000) ordinary shares of £1 each	**1,925**	1,925

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.

12 Related party transactions

The Company is exempt under FRS 101.8(k) from disclosing transactions with National Grid plc and its subsidiary undertakings where all of the voting rights are held within the group. There were no related party transactions with other companies.

13 Ultimate parent company

The ultimate and immediate parent and controlling company is National Grid plc. The largest and smallest group which includes the Company and for which consolidated financial statements are prepared is headed by National Grid plc which is registered in England and Wales.

Copies of these consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.