Company Registration Number: 4220381

NGG Finance plc

Annual Report and Financial Statements

For the year ended 31 March 2017

NGG Finance plc

Strategic Report

For the year ended 31 March 2017

The Directors present their Strategic Report on the Company for the year ended 31 March 2017.

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. As previously reported, 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. There were no other 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 £5,601,000 (2016: £6,122,000).

Financial position

The financial position of the Company is presented in the balance sheet. Total shareholders' equity at 31 March 2017 was £650,141,000 (2016: £644,540,000) comprising current assets of £2,846,612,000 (2016: £2,761,216,000) less current liabilities of £138,085,000 (2016: £134,188,000) less creditors falling due after more than one year of £2,058,386,000 (2016: £1,982,488,000).

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 2016/17, 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
26 July 2017

NGG Finance plc

Directors' Report

For the year ended 31 March 2017

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2017.

Future developments

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

Dividends

The Directors do not recommend the payment of a dividend (2016: £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.

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 fully recoverable from within the National Grid group.

Liquidity risk

The Company finances its operations through a combination of retained profits, new share issues, 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.

Financial risk management (continued)

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
S C Humphreys
W J Jackson
A K Mead
A S Wiltshire

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.

Auditors

Subject to approval at the 2017 Annual General meeting of National Grid plc, the Company's ultimate parent company, Deloitte LLP will be appointed as external auditor to the group. Accordingly, PricewaterhouseCoopers LLP will not be seeking re-appointment as auditor of the Company at the conclusion of their current term of office in compliance with mandatory rotation requirements. There were no circumstances connected with the resignation of PricewaterhouseCoopers LLP as external auditor which should be brought to the attention of members or creditors of the Company.

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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are 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.

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

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

A Morgan
Company Secretary
26 July 2017

Registered office:
1-3 Strand
London
WC2N 5EH

Registered in England and Wales
Company registration number: 4220381

Independent auditors' report to the members of

NGG Finance plc

Report on the financial statements

Our opinion

In our opinion, NGG Finance plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the 'Annual Report'), comprise:

- the balance sheet as at 31 March 2017;
- the profit and loss account for the year then ended;
- the statement of changes in equity for the year then ended: and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, 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 addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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 no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of

NGG Finance plc (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

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

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether these reports include the disclosures required by applicable legal requirements.

Michael Timar (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 July 2017

NGG Finance plc

Profit and loss account

For the year ended 31 March 2017

	Notes	2017 £'000	2016 £'000
Operating charges		**(33)**	(36)
Operating loss	2	**(33)**	(36)
Interest receivable and similar income	4	**182,520**	192,114
Interest payable and similar charges	5	**(175,486)**	(184,426)
Profit before tax		**7,001**	7,652
Tax	6	**(1,400)**	(1,530)
Profit for the financial year		**5,601**	6,122

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 2017

	Note	2017 £'000	2016 £'000
Fixed asset investment	7	**-**	-
Current assets			
Debtors (amounts falling due within one year)	9	**788,132**	778,638
Debtors (amounts falling due after more than one year)	9	**2,058,386**	1,982,488
Cash at bank and in hand		**94**	90
Total current assets		**2,846,612**	2,761,216
Creditors (amounts falling due within one year)	10	**(138,085)**	(134,188)
Net current assets		**2,708,527**	2,627,028
Total assets less current liabilities		**2,708,527**	2,627,028
Creditors (amounts falling due after more than one year)	10	**(2,058,386)**	(1,982,488)
Net assets		**650,141**	644,540
Equity			
Share capital	13	**1,925**	1,925
Share premium account		**431,325**	431,325
Profit and loss account		**216,891**	211,290
Total shareholders' equity		**650,141**	644,540

The financial statements on pages 7 to 18 were approved by the Board of Directors on 26 July 2017 and were signed on its behalf by:

W J Jackson

W J Jackson
Director

NGG Finance plc
Company registration number: 4220381

NGG Finance plc

Statement of changes in equity

For the year ended 31 March 2017

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Total shareholders' equity £'000
At 1 April 2015	1,925	431,325	205,168	638,418
Profit for the financial year	-	-	6,122	6,122
At 31 March 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**

1 Summary of significant accounting policies

NGG Finance plc is a public company, limited by shares. 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 on the going concern basis 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 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 significant estimates 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) Fixed asset investments

Investments in subsidiary undertakings were stated at cost less any provisions for impairment.

Investments were reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments were 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

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 both current and deferred tax.

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

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

Deferred tax is provided using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

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

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

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

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

1 Summary of significant accounting policies (continued)

(d) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing on the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(e) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences 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 carried at amortised cost using the effective interest method less any allowance for estimated impairments. 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 losses when the loans are impaired is recognised using the effective interest method 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

	2017	2016
	£'000	£'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 (2016: 4) 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 (2016: none).

4 Interest receivable and similar income

	2017 £'000	2016 £'000
Interest receivable from immediate parent company	**108,188**	106,359
Exchange gains on revaluation of foreign currency denominated intercompany loan and bank account	**74,332**	85,755
	182,520	192,114

5 Interest payable and similar charges

	2017 £'000	2016 £'000
External interest payable	**101,128**	98,673
Exchange losses on revaluation of foreign currency denominated borrowings	**74,358**	85,753
	175,486	184,426

6 Tax

	2017 £'000	2016 £'000
Current tax:		
UK corporation tax	**1,400**	1,671
Total current tax	**1,400**	1,671
Deferred tax:		
Origination and reversal of timing differences	**-**	(141)
Total deferred tax	**-**	(141)
Total tax charge	**1,400**	1,530

The tax charge for the year is equivalent to (2016: equivalent to) the standard rate of corporation tax in the UK of 20% (2016: 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.

Continuing focus on tax reform during 2016/17, specifically the Organisation for Economic Co-Operation and Development's Base Erosion and Profit Shifting ('BEPS') project to address mismatches in international rules resulted in draft legislation on areas such as interest deductibility being issued during the year. The Directors will continue to monitor developments and assess the potential impact for the Company of these and any further initiatives.

Whilst the UK remains part of the EU, the evolution of the application of EU tax competition regulations continues to create uncertainty over tax legislation and at this stage it is not possible to quantify any potential impact on the financial statements.

7 Fixed asset investment

The Company's subsidiary undertaking, NGG Finance (No 1) Limited was placed into liquidation on 10 December 2014 and was officially dissolved on 19 February 2016.

8 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:

	2017				2016			
	Sterling £'000	Euro £'000	US dollar £'000	Total £'000	Sterling £'000	Euro £'000	US dollar £'000	Total £'000
Cash and cash equivalents	-	-	94	94	-	-	90	90
Intercompany receivable	1,743,770	1,102,748	-	2,846,518	1,737,506	1,023,620	-	2,761,126
Borrowings	(1,040,012)	(1,097,923)	-	(2,137,935)	(1,039,551)	(1,020,053)	-	(2,059,604)
Other liabilities	(58,297)	-	(239)	(58,536)	(56,863)	-	(209)	(57,072)
Net asset position	645,461	4,825	(145)	650,141	641,092	3,567	(119)	644,540

An estimate of the Company sensitivity to a 10% change in the Euro exchange rate results in a £439,000 (2016: £324,000) 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.

8 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:

	2017 £'000	2016 £'000
Fixed interest rate borrowings		
In one year or less	**79,549**	77,116
In greater than five years	**2,058,386**	1,982,488
	2,137,935	2,059,604

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

	2017				2016			
	Fixed-rate £'000	Floating-rate £'000	Other £'000	Total £'000	Fixed-rate £'000	Floating-rate £'000	Other £'000	Total £'000
Cash and cash equivalents	-	94	-	94	-	90	-	90
Intercompany receivable	2,147,605	698,913	-	2,846,518	2,066,816	694,310	-	2,761,126
Borrowings	(2,137,935)	-	-	(2,137,935)	(2,059,604)	-	-	(2,059,604)
Other liabilities	-	-	(58,536)	(58,536)	-	-	(57,072)	(57,072)
Net asset position	9,670	699,007	(58,536)	650,141	7,212	694,400	(57,072)	644,540

An estimate of the Company sensitivity to 0.5% change in UK interest rates results in a £3,495,000 (2016: £3,472,000) 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 2017 and 31 March 2016, 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.

8 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 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)

At 31 March 2016	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	-	-	-	(1,990,426)	(1,990,426)
Interest payments on borrowings [i]	(98,222)	(98,375)	(98,343)	(5,458,246)	(5,753,186)
Other non-interest bearing liabilities	(55,936)	-	-	-	(55,936)
Total as at 31 March 2016	(154,158)	(98,375)	(98,343)	(7,448,672)	(7,799,548)

[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 and maintains or adjusts the capital structure as appropriate in order to achieve these objectives.

9 Debtors

	2017 £'000	2016 £'000
Amounts falling due within one year		
Amounts owed by immediate parent company	788,132	778,638
Amounts falling due after more than one year		
Amounts owed by immediate parent company	2,058,386	1,982,488

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 £698,913,000 (2016: £694,310,000) 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.

10 Creditors

	2017 £'000	2016 £'000
Amounts falling due within one year		
Borrowings (note 11)	79,549	77,116
Amounts owed to fellow subsidiary undertakings	58,263	56,827
Amounts owed to immediate parent company	239	209
Other creditors	34	36
	138,085	134,188

The fair value of creditors equates to their book value.

	2017 £'000	2016 £'000
Amounts falling due after more than one year		
Borrowings (note 11)	2,058,386	1,982,488

11 Borrowings

The following table analyses the total borrowings:

	2017 £'000	2016 £'000
Current:		
Bonds	79,549	77,116
	79,549	77,116
Non-current		
Bonds	2,058,386	1,982,488
Total	2,137,935	2,059,604

	2017 £'000	2016 £'000
Total borrowings are repayable as follows:		
Less than 1 year	79,549	77,116
Between 3 to 4 years	1,062,450	-
Between 4 to 5 years	-	987,046
More than 5 years - other than by instalments	995,936	995,442
	2,137,935	2,059,604

11 Borrowings (continued)

The fair value of borrowings at 31 March 2017 was £2,342,330,000 (2016: £2,146,857,000). Where market values were available, fair value of borrowings (Level 1) was £2,342,330,000 (2016: £2,146,857,000). The notional amount at maturity of the debt portfolio is £2,065,223,000 (2016: £1,990,426,000).

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

12 Provision for liabilities and charges

Deferred tax	2017 £'000	2016 £'000
Other net temporary differences – financial instruments	-	-
Deferred tax liability	-	-
At 1 April	-	141
Credited to profit and loss account	-	(141)
At 31 March	-	-

At the balance sheet date there were no deferred tax assets or liabilities (2016: £nil).

13 Share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
1,925,000 ordinary shares of £1 each	**1,925**	1,925

14 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.

15 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.