nationalgrid

23 November 2016

National Grid Gas plc
Report for the six months ended 30 September 2016

Good results and performance on track

- All businesses continuing to deliver good financial and operational performance
- Continued delivery of capital programme cost savings with renewed focus on Gas Transmission

Portfolio development

- On track to complete sale of Gas Distribution to National Grid Gas Distribution Limited

Financial results for continuing operations

Six months ended 30 September	Adjusted results[1]			Statutory results		
£m (unaudited)	2016	2015[2]	% change	2016	2015[2]	% change
Revenue	522	530	(2)	522	530	(2)
Operating profit	149	151	(1)	149	151	(1)
Profit before tax	66	79	(16)	50	79	(37)
Capital investment	132	111	19			

Outlook

- On track to deliver another year of good returns
- Continued resilience from ramping up of asset health activity
- Ongoing focus on delivering a safe and reliable service to our customers

1. 'Adjusted results' and a number of other terms and performance measures used in this document are not defined within accounting standards or may be applied differently by other organisations. For clarity, definitions of these terms have been provided on page 6.
2. Comparative amounts have been re-presented for discontinued operations, see note 4 to the interim statements.

STRATEGIC AND OPERATIONAL REVIEW

Good performance in the first half of the year

In the first half of the year, National Grid Gas plc (the Company) delivered solid operational performance with high standards of network availability and reliability.

During the summer, Gas Transmission successfully managed unseasonably high flows into Scotland, at a time when critical compressors were out of service for planned maintenance. The business accelerated maintenance and repair work to bring an important pipeline back online a month earlier than scheduled. The actions taken will also provide Gas Transmission with a higher level of resilience in its network heading into the winter.

Gas Transmission investment was £25m higher than the prior period. The business maintains its drive for outperformance under its regulatory arrangements.

Gas Distribution is on track to deliver its regulatory outputs, and continuing to deliver efficiencies in the repex programme. For the full year the business expects to deliver a good outturn under annual revenue incentive schemes, with a slight increase over the previous year.

Proposed majority sale of Gas Distribution business

In November 2015, National Grid announced the potential sale of a majority stake in the Gas Distribution business. Significant progress has been made on separating the Gas Distribution business from the rest of the Group and on 1 October 2016, the gas distribution transporter licence was transferred to National Grid Gas Distribution Limited. The external sale of the majority stake in Gas Distribution is expected to complete in early 2017. Following completion, the National Grid Board expects to return substantially all of the net proceeds to shareholders.

The trade and assets of the Gas Distribution business form part of these financial statements. As part of the preparation for the external sale, National Grid Gas plc has approved the sale of the trade and assets of the Gas Distribution business to a separate statutory entity owned by National Grid plc, National Grid Gas Distribution Limited. This sale was approved by the Board on 30 September 2016 and took place on 1 October 2016. As part of the plan to sell the Gas Distribution business, the Company also transferred the majority of its shareholding in Xoserve Limited to National Grid Gas Distribution Limited. Further details have been provided in the discontinued operations disclosure (note 4) in the interim financial statements.

In preparation for the majority sale of the Gas Distribution business, the Company completed a public bond tender in September 2016 to restructure its financing portfolio. The Company re-purchased both external and internal fixed rate and RPI linked debt with a carrying value of £1,308m at a fair market value of £1,827m. The cash loss arising of £519m is offset by an unrealised gain of £162m resulting from the release of historic fair value hedge adjustments designated against the repurchased fixed rate debt. These costs have been treated as exceptional.

Regulatory developments

On 12th May 2016, Ofgem confirmed that they would not undertake a Mid-Period Review (MPR) for UK Gas Distribution.

On 18 August 2016, Ofgem announced its “minded to” position for the MPR for the RIIO-T1 price control. The areas covered by the MPR related to specific outputs with eight year allowances in Gas Transmission. Ofgem proposed some adjustment to allowances with changes expected to be implemented from April 2018.

The Company ramped up asset health activity to meet regulatory requirements, or Network Output Measures. Gas Transmission investment increased as a large pipeline replacement project under the Humber estuary (Feeder 9) moved towards construction, while Gas Distribution invested £268m and delivered close to 900km (circa 560 miles) of mains replacement in the period.

Maintained strong safety and reliability for customers

The Company targets world class safety performance, measured as a lost time injury frequency rate of 0.10 or better for both directly employed staff and contractors (i.e. less than 0.1 lost time injuries per 100,000 hours worked in a 12-month period) and after the first six months is on track to achieve this target again at the full year. National Grid remains focused on maintaining and improving this good level of performance going into the winter period and as workload increases across all businesses.

This encouraging safety performance has been achieved throughout a period of significant network investment activity, and the business has also maintained a very good level of reliability over this period.

Business continues to deliver efficiency savings to create value under regulatory arrangements

To maximise the benefit of regulatory arrangements, the Company continues to focus on improving the efficiency and effectiveness of its operations through innovation and an ongoing performance improvement agenda. Alongside value for money, customers also need safe and reliable networks and good customer service, which sets out the foundation for the critical, non-financial success factors for the long-term performance of the Company.

Access to innovative, low cost funding options enabled by a strong balance sheet

After another period of significant investment in new assets, the Company's balance sheet remains robust, with strong investment grade credit ratings from Moody's, Standard & Poor's and Fitch.

Board changes

As reported in the National Grid Gas plc Annual Report and Accounts 2015/16, Mark Ripley stepped down from the Board of Directors on 24 June 2016 and was succeeded by Christopher Bennett effective from 25 June 2016. Christopher Murray subsequently resigned from the Board on 27 July 2016 and Nicola Shaw was appointed to the Board on the same date.

Following the Company's sale of the Gas Distribution business to National Grid Gas Distribution Limited on 1 October 2016, Julian Allsopp and Chris Train resigned as directors.

REVIEW OF OPERATIONS

Six months ended 30 September	Adjusted operating profit		Capital investment	
(£m)	2016	2015[1]	2016	2015[1]
Gas Transmission	**72**	73	**116**	91
Other activities	**77**	78	**16**	20
	149	151	**132**	111
Discontinued operations[2]	**391**	429	**284**	293
	540	580	**416**	404

1. Comparative amounts have been re-presented for discontinued operations, see note 4 to the interim statements.
2. Includes both Gas Distribution business and Xoserve Limited.

Gas Transmission

Operating profit in Gas Transmission for the first six months of the year was in line with the same period last year. Excluding the impact of timing, operating profit was up £7m, with higher net revenues reflecting RPI, MOD adjustments and higher base allowances. Overall, costs were slightly lower.

Capital investment of £116m was £25m higher than the prior period, driven by an increase in asset health spend to deliver RIIO Network Output Measures and with the Feeder 9 project, a pipeline replacement under the Humber estuary, moving into construction phase.

The Gas Transmission business expects to deliver its regulatory outputs at a level of totex above the associated regulatory allowance for this year. As a result, the business expects totex incentive performance to adversely affect achieved returns for the year as a whole. Totex for the first half of the year was approximately £180m compared to around £150m in the first half of 2015/16.

For the full year the business expects to deliver a good incentive performance, close to the level achieved in the prior year, while legacy incentives continue to reduce in line with the agreed profile.

On 18 August 2016, Ofgem announced its “minded to” position for the MPR for the RIIO-T1 price control. As expected, the scope of this MPR was narrow with no change to key financial parameters of the framework. The areas covered by the MPR related to specific outputs with eight year allowances in Gas Transmission. Ofgem proposed that allowances are adjusted for specific outputs that are no longer required (specifically, two pipeline projects in the South West that were anticipated at the start of RIIO) resulting in a reduction of £169m of totex allowances. These changes are expected to take effect from April 2018.

In the Winter Outlook published on 14 October 2016, National Grid confirmed that it expects there to be sufficient gas supplies available to meet demand for winter 2016/17 from a wide range of supply sources.

Gas Distribution

Operating profit in Gas Distribution at £386m was down £36m for the first six months of the year, compared to the first six months of the prior year, including adverse timing of £19m. Excluding timing, operating profit was £17m lower reflecting increased depreciation and flat controllable and other costs.

Capital investment was £268m, £18m lower than the comparable prior period reflecting lower workload.

The Gas Distribution business expects to deliver its regulatory outputs for the year for a level of totex below the associated regulatory allowance. This reflects continued delivery of efficiencies in the repex programme. Following a very strong performance in 2015/16, the business expects to deliver a similarly strong level of totex incentive performance for this year as a whole. Totex for the first half of the year was approximately £450m compared to £480m in the first half of 2015/16.

For the full year the business expects to deliver a good outturn under annual revenue incentive schemes, broadly in line with the previous year.

Other activities

Other activities includes National Grid Metering and corporate activities. National Grid Metering continues to provide installation and maintenance services to energy suppliers in the regulated market in Great Britain, maintaining around 13.4 million domestic, industrial and commercial meters. National Grid Metering operating profit is in line with the prior period.

APPENDIX: BASIS OF PRESENTATION AND DEFINITIONS

BASIS OF PRESENTATION

Adjusted and Statutory Results
Unless otherwise stated, all financial commentaries in this release are given on an adjusted basis.

In considering the financial performance of our businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax and profit for the year attributable to equity shareholders into two components. The first of these components is referred to as an adjusted profit measure, also known as a business performance measure. This is the principal measure used by management to assess the performance of the underlying business. Adjusted results exclude exceptional items and remeasurements. These items are reported collectively as the second component of the financial measures.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments to the extent that hedge accounting is not achieved or is not fully effective. Commentary provided in respect of results after exceptional items and remeasurements is described as ‘statutory’.

Adjusted profit measures have limitations in their usefulness compared with the comparable total profit measures as they exclude important elements of our financial performance. However, we believe that by presenting our financial performance in two components it is easier to read and interpret financial performance between periods, as adjusted profit measures are more comparable having removed the distorting effect of the excluded items. Those items are more clearly understood if separately identified and analysed.

DEFINITIONS

Capital investment
‘Capital investment’ or ‘investment’ refer to additions to plant, property and equipment and intangible assets, and equity contributions to joint ventures.

MOD
In November 2015, Ofgem ran the financial models that calculate substantial elements of the revenue allowances for National Grid Gas Limited regulated businesses. The outcome of these model runs (known as the ‘MOD adjustments’) were in line with National Grid Gas’s expectations.

Net revenue
‘Net revenue’ is revenue less pass-through costs, such as payments to other UK network owners, and system balancing costs. Pass-through costs are fully recoverable from our customers and are recovered through separate charges that are designed to recover those costs with no profit. Any over- or under-recovery of these costs is returned to, or recovered from, our customers.

Timing
Under the Company’s regulatory frameworks, the majority of the revenues that the Company is allowed to collect each year are governed by a regulatory price control. If the Company collects more than this allowed level of revenue, the balance must be returned to customers in subsequent years, and if it collects less than this level of revenue it may recover the balance from customers in subsequent years. These variances between allowed and collected revenues give rise to “over and under-recoveries”. In addition, a number of costs are pass-through costs, and are fully recoverable from customers. Any timing differences between costs of this type being incurred and their recovery through revenues are also included in over and under-recoveries. Timing differences also include an estimation of the difference between revenues earned under revenue incentive mechanisms and any associated revenues collected. Timing balances and movements exclude any adjustments associated with changes to controllable cost (totex) allowances or adjustments under the totex incentive mechanism.

Identification of these timing differences enables a better comparison of performance from one period to another. Opening balances of under and over-recoveries have been adjusted where appropriate to correspond with regulatory filings and calculations.

Totex
Under the RIIO regulatory arrangements the Company is incentivised to deliver efficiencies against cost targets set by the regulator. In total, these targets are set in terms of a regulatory definition of combined total operating and capital expenditure, also termed “totex”. The definition of totex differs from the total combined regulated controllable operating costs and regulated capital expenditure as reported in this statement according to IFRS accounting principles. Key differences are capitalised interest, capital contributions, exceptional costs, costs covered by other regulatory arrangements and unregulated costs.

CAUTIONARY STATEMENT

This announcement contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements. These statements include information with respect to National Grid Gas plc's (the Company's) financial condition, its results of operations and businesses, strategy, plans and objectives. Words such as 'aims', 'anticipates', 'expects', 'should', 'intends', 'plans', 'believes', 'outlook', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of the Company's future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond the Company's ability to control or estimate precisely, such as changes in laws or regulations, including any arising as a result of the United Kingdom's exit from the European Union, announcements from and decisions by governmental bodies or regulators (including the timeliness of consents for construction projects); the timing of construction and delivery by third parties of new generation projects requiring connection; breaches of, or changes in, environmental, climate change and health and safety laws or regulations, including breaches or other incidents arising from the potentially harmful nature of its activities; network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure, due to adverse weather conditions including the impact of major storms as well as the results of climate change, due to counterparties being unable to deliver physical commodities, or due to the failure of or unauthorised access to or deliberate breaches of the Company's IT systems and supporting technology; performance against regulatory targets and standards and against the Company's peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, including those related to investment programmes and internal transformation and remediation plans; and customers and counterparties (including financial institutions) failing to perform their obligations to the Company. Other factors that could cause actual results to differ materially from those described in this announcement include fluctuations in exchange rates, interest rates and commodity price indices; restrictions and conditions (including filing requirements) in the Company's borrowing and debt arrangements, funding costs and access to financing; regulatory requirements for the Company to maintain financial resources in certain parts of its business and restrictions on some subsidiaries' transactions such as paying dividends, lending or levying charges; inflation or deflation; the delayed timing of recoveries and payments in the Company's regulated businesses and whether aspects of its activities are contestable; the funding requirements and performance of the Company's pension scheme and other post-employment benefit schemes; the failure to attract, train or retain employees with the necessary competencies, including leadership skills, and any significant disputes arising with the Company's employees or the breach of laws or regulations by its employees; the failure to respond to market developments, including competition for onshore transmission; the need to grow the Company's business to deliver its strategy, as well as incorrect or unforeseen assumptions or conclusions (including unanticipated costs and liabilities) relating to business development activity, including assumptions in connection with the Company's proposed sale of a majority stake in its gas distribution business and with joint ventures. For further details regarding these and other assumptions, risks and uncertainties that may impact the Company, please read the Strategic Report section and the 'Risk factors' on pages 24 to 25 of the Company's most recent Annual Report and Accounts. In addition, new factors emerge from time to time and the Company cannot assess the potential impact of any such factor on its activities or the extent to which any factor, or combination of factors, may cause actual future results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this announcement.

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated income statement

for the six months ended 30 September

	Notes	2016 £m	2015[1] £m re-presented
Continuing operations			
Revenue	2(a)	**522**	530
Operating costs		**(373)**	(379)
Operating profit	2(b)	**149**	151
Finance income	5	**-**	1
Finance costs			
Before exceptional items and remeasurements	5	**(83)**	(73)
Exceptional items and remeasurements	3	**(16)**	-
Total finance costs	5	**(99)**	(73)
Profit before tax from continuing operations			
Before exceptional items and remeasurements	2(b)	**66**	79
Exceptional items and remeasurements	3	**(16)**	-
Total profit before tax from continuing operations	2(b)	**50**	79
Tax from continuing operations			
Before exceptional items and remeasurements	6	**(20)**	(22)
Exceptional items and remeasurements	3	**27**	-
Total tax from continuing operations		**7**	(22)
Profit after tax from continuing operations			
Before exceptional items and remeasurements		**46**	57
Exceptional items and remeasurements	3	**11**	-
Profit after tax from continuing operations		**57**	57
Discontinued operations			
Profit for the period from discontinued operations			
Before exceptional items and remeasurements	4	**276**	308
Exceptional items and remeasurements	4	**(274)**	-
Total profit for the period from discontinued operations	4	**2**	308
Profit for the period		**59**	365
Attributable to:			
Equity shareholders of the parent		**57**	362
Non-controlling interests		**2**	3
		59	365

1. Comparative amounts have been re-presented for discontinued operations, see note 4 to the interim statements.

Consolidated statement of comprehensive income
for the six months ended 30 September

	2016 £m	2015[1] £m re-presented
Profit for the period	**59**	365
Other comprehensive (loss)/income:		
Items that will or may be reclassified subsequently to profit or loss		
Net losses on cash flow hedges	**(44)**	(5)
Transferred to profit or loss on cash flow hedges	**5**	6
Tax on items that may be reclassified subsequently to profit or loss	**7**	-
Total items that will be reclassified subsequently to profit or loss	**(32)**	1
Other comprehensive (loss)/income for the period, net of tax	**(32)**	1
Total comprehensive income for the period	**27**	366
Total comprehensive income attributable to:		
Equity shareholders of the parent	**25**	363
Non-controlling interests	**2**	3
	27	366
Total comprehensive income arises from:		
Continuing operations	**33**	59
Discontinued operations	**(6)**	307
	27	366

1. Comparative amounts have been re-presented for discontinued operations, see note 4 to the interim statements.

Consolidated statement of financial position

	Notes	30 September 2016 £m unaudited	31 March 2016 £m audited
Non-current assets			
Intangible assets		**143**	252
Property, plant and equipment		**4,364**	12,654
Other non-current assets		**5,609**	5,627
Derivative financial assets	7	**1,004**	1,014
Total non-current assets		**11,120**	19,547
Current assets			
Inventories and current intangible assets		**20**	26
Trade and other receivables		**318**	446
Financial and other investments	9	**989**	137
Derivative financial assets	7	**68**	66
		1,395	675
Assets classified as held for sale	4	**8,770**	-
Total current assets		**10,165**	675
Total assets		**21,285**	20,222
Current liabilities			
Borrowings	9	**(1,064)**	(1,842)
Derivative financial liabilities	7	**(107)**	(39)
Trade and other payables		**(474)**	(819)
Current tax liabilities		**(33)**	(34)
Provisions		**(19)**	(55)
		(1,697)	(2,789)
Liabilities directly associated with the assets held for sale	4	**(6,350)**	-
Total current liabilities		**(8,047)**	(2,789)
Non-current liabilities			
Borrowings	9	**(5,328)**	(7,261)
Derivative financial liabilities	7	**(345)**	(527)
Other non-current liabilities		**(179)**	(1,047)
Deferred tax liabilities		**(382)**	(1,548)
Provisions		**(51)**	(127)
Total non-current liabilities		**(6,285)**	(10,510)
Total liabilities		**(14,332)**	(13,299)
Net assets		**6,953**	6,923
Equity			
Share capital		**45**	45
Share premium account		**204**	204
Retained earnings		**5,461**	5,401
Cash flow hedge reserve		**(93)**	(61)
Other equity reserves		**1,332**	1,332
Shareholders' equity		**6,949**	6,921
Non-controlling interests		**4**	2
Total equity		**6,953**	6,923

Consolidated statement of changes in equity

	Share capital £m	Share premium account £m	Retained earnings £m	Cash flow hedge reserve £m	Other equity reserves £m	Total share-holders' equity £m	Non-controlling interests £m	Total equity £m
Changes in equity for the period:								
At 1 April 2016	45	204	5,401	(61)	1,332	6,921	2	6,923
Profit for the period	-	-	57	-	-	57	2	59
Total other comprehensive loss for the period	-	-	-	(32)	-	(32)	-	(32)
Total comprehensive income/(loss) for the period	-	-	57	(32)	-	25	2	27
Share-based payment	-	-	3	-	-	3	-	3
At 30 September 2016	**45**	**204**	**5,461**	**(93)**	**1,332**	**6,949**	**4**	**6,953**

	Share capital £m	Share premium account £m	Retained earnings £m	Cash flow hedge reserve £m	Other equity reserves £m	Total share-holders' equity £m	Non-controlling interests £m	Total equity £m
Changes in equity for the period:								
At 1 April 2015	45	204	4,908	(56)	1,332	6,433	2	6,435
Profit for the period	-	-	362	-	-	362	3	365
Total other comprehensive income for the period	-	-	-	1	-	1	-	1
Total comprehensive income for the period	-	-	362	1	-	363	3	366
Other movements in non-controlling interests	-	-	3	-	-	3	(1)	2
Share-based payment	-	-	4	-	-	4	-	4
At 30 September 2015	**45**	**204**	**5,277**	**(55)**	**1,332**	**6,803**	**4**	**6,807**

Consolidated cash flow statement
for the six months ended 30 September

	Notes	2016 £m	2015[1] £m re-presented
Cash flows from operating activities from continuing operations			
Total operating profit	2(b)	**149**	151
Adjustments for:			
Depreciation, amortisation and impairment		**129**	133
Share-based payment charge		**3**	4
Changes in working capital		**(23)**	27
Changes in provisions		**(16)**	(3)
Loss on disposal of property, plant and equipment		**-**	5
Cash generated from operations		**242**	317
Tax paid		**(95)**	(67)
Net cash inflow from operating activities from continuing operations		**147**	250
Net cash inflow from operating activities from discontinued operations		**451**	586
		598	836
Cash flows from investing activities from continuing operations			
Purchases of intangible assets		**(18)**	(22)
Purchases of property, plant and equipment		**(114)**	(96)
Disposals of property, plant and equipment		**1**	-
Interest received		**-**	1
Net movements in financial and other investments		**(852)**	208
Net cash flow used in investing activities from continuing operations		**(983)**	91
Net cash flow used in investing activities from discontinued operations		**(306)**	(280)
		(1,289)	(189)
Cash flows from financing activities from continuing operations			
Net movements in short-term borrowings and derivatives		**7**	(582)
Interest paid		**(41)**	(34)
Net cash flow used in financing activities from continuing operations		**(34)**	(616)
Net cash flow used in financing activities from discontinued operations		**733**	(38)
		699	(654)
Net increase/(decrease) in cash and cash equivalents		**8**	(7)
Net cash and cash equivalents at start of period		**(8)**	1
Net cash and cash equivalents at end of period[2]	9	**-**	(6)

1. Comparative amounts have been re-presented for discontinued operations, see note 4 to the interim statements.
2. Net of bank overdrafts of nil (30 September 2015: £6m).

Notes

1. Basis of preparation and new accounting standards, interpretations and amendments

The half year financial information covers the six month period ended 30 September 2016 and has been prepared under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and IFRS as adopted by the European Union, in accordance with International Accounting Standard 34 'Interim Financial Reporting' and the Disclosure and Transparency Rules of the Financial Conduct Authority. The half year financial information is unaudited but has been reviewed by the auditors and their report is attached to this document.

The half year financial information does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 March 2016, which were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and as adopted by the EU, and have been filed with the Registrar of Companies. The auditors' report on these statutory accounts was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

There are no new standards, interpretations and amendments, issued by the IASB and by the IFRS Interpretations Committee (IFRIC), that have had a material impact on the Group's results. The half year financial information has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 March 2017 and consistent with those applied in the preparation of the accounts for the year ended 31 March 2016.

In preparing this half year financial information, the areas of judgement made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2016, with exception to those disclosed below.

Having made enquiries and reassessed the principal risks, the Directors consider that the Company and its subsidiary undertakings have adequate resources to continue in business, and that it is therefore appropriate to adopt the going concern basis in preparing the half year financial information.

Re-presentation of half year results and disclosures

The Group classifies businesses as held for sale where it is highly probable that their value to the Group will be recovered principally through their sale, rather than through continuing operations. Where these businesses represent a separate major line of business, the business has been classified as a discontinued operation.

National Grid Gas plc has approved the sale of the trade and assets of the Gas Distribution business to a separate statutory entity owned by National Grid plc, National Grid Gas Distribution Limited. This sale was approved by the Board on 30 September 2016 and took place on 1 October 2016. As part of the plan to sell the Gas Distribution business, the Company transferred the majority of its shareholding in Xoserve Limited to National Grid Gas Distribution Limited. As a result, both the Gas Distribution business and Xoserve Limited have been re-presented as discontinued operations.

Discontinued operations, assets and disposal groups classified as held for sale

Cash flows and operations that relate to a major line of the business or geographical region that has been sold or is classified as held for sale are shown separately from continuing operations. Finance income or costs are included in discontinued operations only in respect of financial assets or liabilities classified as held for sale or derecognised on sale.

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered or settled principally through a sale transaction rather than through continuing use. In accordance with IFRS 5 (Assets held for sale and discontinued operations), this condition is regarded as being met only when the sale is highly probable and the assets or businesses are available for immediate sale in their present condition or is a subsidiary acquired exclusively with a view to resale. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. As at the 30 September, the Board determined that assets subject to the Gas Distribution sale should be classified as held for sale.

On 1 October 2016, the Company transferred a majority of its shareholding in Xoserve Limited to National Grid Gas Distribution Limited, resulting in the Company retaining a minority interest of 11%. An entity that is committed to a sale plan involving a loss of control of a subsidiary should classify all the assets and liabilities of the subsidiary as held for sale. Therefore, the assets and liabilities of Xoserve Limited are classified as held for sale as at 30 September 2016.

The results of Xoserve Limited and Gas Distribution are presented as discontinued operations and the financial position is presented as held for sale.

Immediately prior to classification as held for sale, the carrying amounts of relevant assets and liabilities are measured in accordance with applicable IFRSs. On classification as held for sale and subsequent remeasurement, assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. The measurement basis of deferred tax assets and liabilities, assets arising from employee benefits, financial instruments and contractual rights under insurance contracts does not change following classification as held for sale. No depreciation is charged on assets and disposal groups classified as held for sale.

In preparing this half year financial information, the areas of judgement made by management in applying the National Grid Gas plc's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2016.

2. Segmental analysis

We present revenue and the results of the business analysed by operating segment, based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between operating segments. The Board is National Grid Gas plc's chief operating decision-making body (as defined by IFRS 8 'Operating segments') and assesses the performance of operations principally on the basis of operating profit before exceptional items and remeasurements.

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

Gas Transmission	The gas transmission network in Great Britain and UK Liquified Natural Gas (LNG) storage activities.
Gas Distribution (discontinued)	Four of the eight regional networks of Great Britain's gas distribution system.

Other activities relate to the gas metering business which provides regulated gas metering activities in the UK, together with corporate activities.

Sales between operating segments are priced having regard to the regulatory and legal requirements to which the businesses are subject. All of the Company's sales and operations take place within the UK.

(a) Revenue

Six months ended 30 September	2016 Total sales £m	2016 Sales between segments £m	2016 Sales to third parties £m	2015[1] re-presented Total sales £m	2015[1] re-presented Sales between segments £m	2015[1] re-presented Sales to third parties £m
Operating segments						
Gas Transmission	**422**	**(48)**	**374**	435	(58)	377
Other activities	**152**	**(4)**	**148**	156	(3)	153
Continuing operations	**574**	**(52)**	**522**	591	(61)	530
Discontinued operations	**949**	**(31)**	**918**	981	(34)	947

1. Comparative amounts have been re-presented for discontinued operations, see note 4 to the interim statements.

(b) Operating profit

Six months ended 30 September	Before exceptional items and remeasurements 2016 £m	Before exceptional items and remeasurements 2015[1] £m re-presented	After exceptional items and remeasurements 2016 £m	After exceptional items and remeasurements 2015[1] £m re-presented
Operating segments				
Gas Transmission	**72**	73	**72**	73
Other activities	**77**	78	**77**	78
Continuing operations	**149**	151	**149**	151
Discontinued operations	**391**	429	**329**	429
Reconciliation to profit before tax from continuing operations:				
Operating profit	**149**	151	**149**	151
Finance income	**-**	1	**-**	1
Finance costs	**(83)**	(73)	**(99)**	(73)
Profit before tax from continuing operations	**66**	79	**50**	79
Profit/(loss) before tax from discontinued operations	**345**	386	**(75)**	386

1. Comparative amounts have been re-presented for discontinued operations, see note 4 to the interim statements.

2. Segmental analysis continued

(c) Capital expenditure

	Net book value[1]		Capital expenditure[2]		Depreciation and amortisation[3]	
	Sep-16 £m	Mar-16 £m	**Sep-16 £m**	Sep-15 £m	**Sep-16 £m**	Sep-15 £m
Operating segments						
Gas Transmission	**4,168**	4,140	**116**	91	**(88)**	(90)
Other activities	**339**	343	**16**	20	**(41)**	(43)
Continuing operations	**4,507**	4,483	**132**	111	**(129)**	(133)
Discontinued operations	**8,527**	8,423	**284**	293	**(154)**	(146)
Continuing operations:						
By asset type:						
Property, plant and equipment	**4,364**	4,364	**114**	89	**(115)**	(120)
Non-current intangible assets	**143**	119	**18**	22	**(14)**	(13)
	4,507	4,483	**132**	111	**(129)**	(133)

1. Represents position at 30 September 2016 and 31 March 2016 respectively.
2. Represents additions to plant, property and equipment, and non-current intangibles, in the six months ended 30 September 2016 and 30 September 2015 respectively.
3. Represents the amounts recorded in the six months ended 30 September 2016 and 30 September 2015 respectively.

3. Exceptional items and remeasurements

Exceptional items and remeasurements are items of income and expenditure that, in the judgment of management, should be disclosed separately on the basis that they are important to an understanding of our financial performance and may significantly distort the comparability of financial performance between periods. Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective.

Six months ended 30 September	**2016 £m**	2015 £m
Continuing operations		
Included within finance costs:		
Remeasurements		
Net losses on derivative financial instruments[1]	**16**	-
Total included within profit before tax	**16**	-
Included within tax:		
Deferred tax credit arising on the reduction in the UK tax rate[2]	**(24)**	-
Tax on remeasurements	**(3)**	-
	(27)	-
Total exceptional items and remeasurements after tax	**(11)**	-
Analysis of exceptional items and remeasurements after tax:		
Exceptional items after tax	**(24)**	-
Remeasurements after tax	**13**	-
Total	**(11)**	-

1. Remeasurements - net losses on derivative financial instruments comprise gains and losses arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt.
2. A reduction in the UK corporation tax rate to 17% from 1 April 2020 was enacted during the year, resulting in a deferred tax credit (note 6).

4. Discontinued operations and assets held for sale

National Grid plc made an announcement, as part of the interim results release in November 2015, that it was commencing a process for the potential sale of a majority stake in the Gas Distribution business comprising four of the eight regional networks of Great Britain's gas distribution system.

The trade and assets of the Gas Distribution business form part of these interim statements. As part of the preparation for the external sale, National Grid Gas plc has approved the sale of the trade and assets of the Gas Distribution business to a separate statutory entity indirectly wholly owned by National Grid plc, National Grid Gas Distribution Limited. This sale was approved by the Board on 30 September 2016 and took place on 1 October 2016.

As at 30 September, the disposal of the Gas Distribution business was deemed highly probable and as such the assets and liabilities of the business have been presented as held for sale following board approval of the decision to dispose of this operation. The assets and liabilities of the Gas Distribution business were held at the lower of carrying amount and fair value less costs to sell at the date of held for sale classification on 30 September 2016.

On 1 October 2016, the Company transferred a majority of its shareholding in Xoserve Limited to National Grid Gas Distribution Limited, resulting in the Company retaining a minority interest of 11%. Under IFRS 5, an entity that is committed to a sale plan involving a loss of control of a subsidiary should classify all the assets and liabilities of the subsidiary as h eld for sale, regardless of whether the entity retains a non-controlling interest. The transfer of the majority of the Company's shareholding in Xoserve Limited to National Grid Gas Distribution Limited is part of the overall plan to sell the Gas Distribution business (a separate major line of business).

Accordingly, the results of Gas Distribution business and Xoserve Limited are both presented as a discontinued operations. The segmental analysis in note 2 has also been re-presented to show these both as discontinued operations.

The major classes of assets and liabilities of the Gas Distribution business disposal group and the Xoserve Limited as at 30 September 2016 are as follows:

	£m
Assets classified as held for sale	
Intangible assets	**94**
Property, plant and equipment	**8,433**
Other non-current assets	**34**
Inventories and current intangible assets	**6**
Trade and other receivables	**200**
Cash and cash equivalents	**3**
Total assets of the disposal group	**8,770**
Liabilities directly associated with assets classified as held for sale	
Borrowings	**(4,050)**
Derivative financial liabilities	**(4)**
Other non-current liabilities	**(886)**
Deferred tax liabilities	**(1,063)**
Current tax liabilities	**(1)**
Provisions	**(96)**
Trade and other payables	**(250)**
Total liabilities of the disposal group	**(6,350)**
Total net assets of the disposal group	**2,420**
Total net debt of the disposal group	**(4,051)**

All derivative liabilities are classified as Level 2 in respect of the fair value measurement. Please see note 7 for further details on the classification. The estimated fair value of total borrowings using market values at 30 September 2016 is £4,270m.

4. Discontinued operations and assets held for sale (continued)

The results of the Gas Distribution business and Xoserve Limited are presented in this interim financial information as a discontinued operation. Comparative figures have been represented.

For the six months ended 30 September	2016 £m	2015 £m
Revenue	**918**	947
Expenses	**(589)**	(518)
Operating profit	**329**	429
Net finance costs	**(404)**	(43)
(Loss)/profit before tax from discontinued operations	**(75)**	386
Tax credit/(charge)	**77**	(78)
Profit after tax from discontinued operations	**2**	308

Exceptional items and remeasurements included in the table above include:

For the six months ended 30 September	2016 £m	2015 £m
Included within operating profit:		
Exceptional items - Costs associated with disposal of discontinued operations	**62**	-
Included within finance costs:		
Exceptional items - Cancellation of debt associated with discontinued operations[1]	**357**	-
Remeasurements - Net losses on derivative financial instruments	**1**	-
Total included within profit before tax	**420**	-
Included within tax:		
Exceptional credit arising on items not included in profit before tax:		
Deferred tax credit arising on the reduction in the UK tax rate	**(60)**	-
Deferred tax on exceptional items and remeasurements		
Tax on exceptional items and remeasurements	**(86)**	-
Total included within tax	**(146)**	-
Total exceptional items and remeasurements after tax	**274**	-

1. In preparation for the majority sale of the Gas Distribution business, the Company completed a public bond tender in September 2016 to restructure its financing portfolio. The Company re-purchased external and internal fixed rate and RPI linked debt with a carrying value of £1,308m at a fair market value of £1,827m. The cash loss arising of £519m is offset by an unrealised gain of £162m resulting from the release of historic fair value hedge adjustments designated against the repurchased fixed rate debt. Consistent with the presentation of sale preparation costs, these costs have been treated as exceptional.

5. Finance income and costs

Six months ended 30 September	2016 £m	2015[1] £m re-presented
Interest income on financial instruments	-	1
Finance income	**-**	1
Interest expense on financial instruments	**(83)**	(72)
Unwinding of discount on provisions	**(1)**	(1)
Other interest	**(1)**	(1)
Less: interest capitalised	**2**	1
Finance costs before exceptional items and remeasurements	**(83)**	(73)
Exceptional items and remeasurements		
Net losses on derivative financial instruments included in remeasurements	**(16)**	-
Exceptional items and remeasurements included within finance costs	**(16)**	-
Finance costs	**(99)**	(73)
Net finance costs from continuing operations	**(99)**	(72)

1. Comparative amounts have been re-presented for discontinued operations, see note 4 to the interim statements.

6. Tax

The tax charge for the period from continuing operations, excluding tax on exceptional items and remeasurements, is £20m (2015: £22m). The effective tax rate of 28.6% (2015: 26.8%) for the period is based on the best estimate of the annual income tax rate expected for the full year, excluding tax on exceptional items and remeasurements.

The Finance (No.2) Act 2015 enacted reductions in the UK corporation tax rate from 20% to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. A further reduction to 17% with effect from 1 April 2020 was enacted in the Finance Act 2016. Deferred taxes at the reporting date have been measured using these enacted tax rates and reflected in these financial statements, resulting in a deferred tax credit. This credit is presented as exceptional, reflecting its nature (see note 3).

7. Fair value measurement

Carrying values and fair values of certain financial assets and liabilities
Certain of the Company's financial instruments are measured at fair value. The following table categorises these financial assets and liabilities by the valuation methodology applied in determining their fair value using the fair value hierarchy described on page 74 of the Annual Report and Accounts 2015/16.

	30 September 2016				31 March 2016			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Derivative financial instruments	**-**	**1,071**	**1**	**1,072**	-	1,080	-	1,080
		1,071	**1**	**1,072**	-	1,080	-	1,080
Liabilities								
Derivative financial instruments	**-**	**(366)**	**(86)**	**(452)**	-	(493)	(73)	(566)
Total	**-**	**705**	**(85)**	**620**	-	587	(73)	514

Financial assets and liabilities in the consolidated statement of financial position are either held at fair value or the carrying value if it approximates to fair value, with the exception of borrowings, which are held at amortised cost.

The estimated fair value of total borrowings using market values at 30 September 2016 is £8,232m (31 March 2016: £10,267m).

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. Level 3 derivative financial instruments include currency swaps where the currency forward curve is illiquid and inflation-linked swaps where the inflation curve is illiquid. In valuing these instruments a third party valuation is obtained to support each reported fair value.

As disclosed in note 3, gains/losses on our recurring financial instruments are recorded in remeasurements in the consolidated income statement.

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

Six months ended 30 September	**2016**[2] **£m**	2015[2] £m
+20 basis point change in Limited Price Inflation (LPI) market curve[1]	**(38)**	(29)
-20 basis point change in LPI market curve[1]	**37**	28

1. A reasonably possible change in assumption of other level 3 derivative financial instruments is unlikely to result in a material change in fair values.
2. Tax rates applied above: Derivative financial instruments 20% (2015: 20%).

Movements in the six months to 30 September for derivative financial instruments measured using level 3 valuation methods are presented below:

	2016[1] **£m**	2015[1] £m
At 1 April	**(73)**	(68)
Net (losses)/gains for the period	**(12)**	3
Settlements	**-**	(1)
At 30 September	**(85)**	(66)

1. Losses of £12m (2015: gains of £3m) are attributable to derivative financial instruments held at the end of the reporting period.

8. Reconciliation of net cash flow to movement in net debt

Six months ended 30 September	2016 £m	2015 £m
Increase/(decrease) in cash and cash equivalents	**8**	(7)
Increase/(decrease) in financial investments	**852**	(207)
(Increase)/decrease in borrowings and related derivatives	**(1,322)**	582
Net interest paid on the components of net debt	**623**	71
Change in net debt resulting from cash flows	**161**	439
Changes in fair value and exchange movements	**(57)**	(4)
Net interest charge on the components of net debt	**(486)**	(113)
Movement in net debt (net of related derivative financial instruments) in the period	**(382)**	322
Net debt (net of related derivative financial instruments) at start of period	**(8,452)**	(8,520)
Net debt (net of related derivative financial instruments) at end of period	**(8,834)**	(8,198)

9. Net debt

	30 September 2016 £m	31 March 2016 £m
Cash and cash equivalents	**3**	-
Bank overdrafts	**(3)**	(7)
Net cash and cash equivalents	**-**	(7)
Financial and other investments	**989**	137
Borrowings (excluding bank overdrafts)	**(10,439)**	(9,096)
Derivatives	**616**	514
Total net debt[1]	**(8,834)**	(8,452)

1. Total net debt excluding assets and liabilities held for sale at 30 September 2016 total £4,783m.

10. Commitments and contingencies

At 30 September 2016 there were commitments for future capital expenditure contracted but not provided for £640 million (31 March 2016: £561 million).

We also have other commitments relating primarily to energy purchase commitments, operating leases and contingencies in the form of certain guarantees and letters of credit. These commitments and contingencies are described in further detail on page 66 of the Annual Report and Accounts 2015/16.

Litigation and claims

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

11. Post balance sheet events

During October 2016, National Grid Gas plc sold its Gas Distribution business and associated assets to National Grid Gas Distribution Limited, a fellow National Grid Group undertaking for consideration of £11.7bn.

Also during October 2016, the Company sold 78 properties to fellow National Grid group undertakings, recognising a gain on disposal of £109m. As a result of the sale, a provision was recognised for the demolition costs of gas holders totalling £105m, in relation to the properties.

As at 31 March and 30 September 2016, the Company was a participating member of the National Grid UK Pension Scheme. As part of an internal reorganisation, in June 2016, National Grid plc announced its plans to create three separate and independent sections within the pension scheme (a process known as 'sectionalisation'). Upon sectionalisation (which is expected to occur on or after 1 January 2017), the pension liabilities relating to employees of the Gas Distribution business will transfer to a new section of the scheme within National Grid Gas Distribution Limited.

12. Related party transactions

Related party transactions in the six months ended 30 September 2016 were the same in nature to those disclosed on page 67 of the Annual Report and Accounts 2015/16. There were no related party transactions in the period that have materially affected the financial position or performance of the Group, other than those already reported in note 11.

13. Principal risks and uncertainties

The principal risks and uncertainties which could affect National Grid Gas plc for the remaining six months of the financial year are consistent with those disclosed for the year ended 31 March 2016 on pages 24 and 25 of the National Grid Gas plc Annual Report and Accounts 2015/16. Our overall risk management process is designed to identify, manage, and mitigate our business risks, including financial risks.

The principal risks and uncertainties included in the National Grid Gas plc Annual Report and Accounts 2015/16 are as follows:

- Failure to identify and execute the right opportunities to deliver our growth strategy;
- Failure to secure satisfactory regulatory outcomes/failure to influence future energy policy;
- Failure to secure skills and leadership capacity (including effective succession planning) required to deliver our vision and strategy;
- Failure to deliver appropriate information systems and data integrity;
- We experience a catastrophic/major cyber security breach;
- We experience catastrophic asset failure; and
- Failure to effectively respond to the threats and opportunities presented by emerging technology, particularly the challenge of adapting our networks to meet the challenges of increasing distributed energy resources.

The risks and uncertainties associated with the United Kingdom exiting the EU have been considered by the Board. The Board continues to monitor the potential impact of the referendum result on the future performance and position of the Group but does not currently believe there will be a material adverse impact on the Group's results or financial position in the current financial year.

Statement of Directors' Responsibilities

The half year financial information is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half year report in accordance with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Conduct Authority.

The Directors confirm that the financial information has been prepared in accordance with IAS 34 as issued by the International Accounting Standards Board and as adopted by the European Union, and that the half year report herein includes a fair review of the information required by DTR 4.2.7.

The Directors of National Grid Gas plc are as listed on page 33 of the National Grid Gas plc Annual Report and Accounts for the year ended 31 March 2016 with the exception of the following changes to the Board:

- Christopher Bennett appointed 25 June 2016
- Mark Ripley resigned 24 June 2016
- Christopher Murray resigned 27 July 2016
- Nicola Shaw appointed 27 July 2016
- Julian Allsopp resigned 1 October 2016
- Chris Train resigned 1 October 2016

By order of the Board

……………………..	……………………..
Nicola Shaw	Alan Foster
23 November 2016	23 November 2016
Chair	Chief Financial Officer

Independent review report to National Grid Gas plc

Report on the condensed consolidated interim financial statements

Our conclusion
We have reviewed National Grid Gas plc's condensed consolidated interim financial statements (the "interim financial statements") in the half year report for the six months ended 30 September 2016 of National Grid Gas plc. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What we have reviewed
The interim financial statements comprise:

- the consolidated interim statement of financial position as at 30 September 2016;
- the consolidated interim income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated interim cash flow statement for the period then ended;
- the consolidated interim statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the half year report for the six months ended 30 September 2016 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors
The half year report for the six months ended 30 September 2016, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half year report for the six months ended 30 September 2016 in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the half year report for the six months ended 30 September 2016 based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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 a review of interim financial statements involves
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half year report for the six months ended 30 September 2016 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
23 November 2016

The maintenance and integrity of the National Grid plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.