National Grid Electricity Transmission plc
Annual Report and Accounts 2015/16

Company number 2366977

Contents

Overview

About National Grid Electricity Transmission plc

National Grid Electricity Transmission plc (National Grid Electricity Transmission) is a subsidiary of National Grid plc (National Grid), based in the UK, where we own and operate the regulated electricity transmission network. We operate but do not own the Scottish networks. Our networks comprise approximately 7,200 kilometres (4,470 miles) of overhead line, 1,500 kilometres (932 miles) of underground cable and 338 substations. We play a vital role in connecting millions of people safely, reliably and efficiently to the energy they use.

The overall governance of National Grid Electricity Transmission is the responsibility of its Board of Directors. Our Directors are listed on page 29.

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

Financial highlights

	2015/16 £m	2014/15 £m	Percentage change
Operating profit	**1,161**	1,227	(5%)
Adjusted operating profit[1]	**1,161**	1,171	(1%)
Cash generated from operations	**1,474**	1,648	(11%)
Regulated assets[2]	**12,002**	11,339	6%
Return on equity	**13.9%**	14.0%	(1%)

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

Non-financial highlights

	2015/16	2014/15
Number of employees	**3,520**	3,270
Network reliability	**99.999998%**	99.999996%

Our principal operations

We own and maintain the high-voltage electricity transmission network in England and Wales, balancing supply with demand on a minute-by-minute basis. We are also the system operator for the high-voltage electricity transmission networks in Scotland. See pages 18 and 19 for further details.

Strategic Report

Operating environment

Our operating environment is shaped by the energy 'trilemma', being the cost of energy, security of supply and sustainability, which has become the standard way to assess energy systems. As it simply articulates, the trilemma has three distinct objectives that need to be met in providing energy to consumers, but which are often in tension. Regulatory changes are a response to choices that governments make in seeking to appropriately balance these often conflicting objectives.

	The cost of energy System affordability	**Security of supply** Energy supply reliability	**Sustainability** Reducing our impact
Commentary	The cost of the energy we use is an issue for consumers, industry, energy providers, regulators and governments. Consumers expect a reliable energy system that delivers electricity when and where it is needed. They pay for the cost of this infrastructure and improvements to it through the network costs part of their energy bills. The costs are subject to regulatory approval.	The energy system is in a phase of transition from high to low carbon. Coal plants are closing down and being replaced with nuclear, renewables and gas. During the transition, electricity margins need to be monitored and actively managed as we move to a generation mix with greater volumes of intermittent generation.	Evidence shows our climate is changing because of the emission of greenhouse gases resulting from human activity. The bulk of emissions derive from the demand for energy for power, heating and transport.
Developments	The UK Competition and Markets Authority has concluded its investigation into the energy market and set out numerous remedies, including proposals to address locational pricing on the electricity transmission network. In May 2016, Ofgem stated that it will undertake a mid-period review of the RIIO outputs for our transmission business.	Energy security is the UK Government's number one priority on energy. It is reviewing the capacity market and incentives so that market arrangements bring forward a new generation of all technologies at the right time – so that new generation capacity is built. The Government also signed an agreement for a new nuclear power station at Hinkley Point.	Negotiations for a new international agreement on climate change concluded in Paris at the 21st session of the Conference of Parties (COP21) in December 2015. A commitment to have clear goals and a system of governance and review were put in place. The published advice of the Climate Change Committee is that the UK's fifth carbon budget should be a target of 57% reduction on 1990 levels between 2028 and 2032. Legislation is expected to be proposed in summer 2016.
Our response	We are continuing to make a significant investment in Britain's energy system to make sure it is fit and ready to support a low-carbon economy. All network costs are heavily scrutinised through the UK energy regulator Ofgem and are the only part of consumers' bills that are regulated. Ofgem's incentives encourage innovation, so if we are more efficient, consumers share the benefits.	We are supporting the Government by providing analysis through our role as delivery body for Electricity Market Reform (EMR). We have put in place new products to ensure that the System Operator (SO) has the right tools to maintain supplies over winter. We are developing demand side response (DSR) products that reduce reliance on traditional generation sources.	Reducing greenhouse gas emissions forms part of our Company's KPIs (see page 11). We have facilitated the connection of 4.5 GW of solar PV generation at the distribution network level, working with industry to remove barriers to entry and find solutions to network operability issues.

What we do - Electricity

The electricity industry connects generation sources to homes and businesses through transmission and distribution networks. Companies that pay to use transmission networks buy electricity from generators and sell it to consumers.

The UK electricity industry has five main sectors.

1. Generation

Generation is the production of electricity from fossil fuel and nuclear power stations, as well as renewable sources such as wind and solar. We do not own or operate any electricity generation.

2. Interconnectors

Transmission grids are often interconnected so that energy can flow from one country or region to another. This helps provide a safe, secure, reliable and affordable energy supply for citizens and society across the region. Interconnectors also allow power suppliers to sell their energy to customers in other countries.

Great Britain is linked via interconnectors with France, Ireland, Northern Ireland and the Netherlands. National Grid, through a separate company held outside of National Grid Electricity Transmission plc, owns part of the interconnectors with France and the Netherlands. It is also now entering the construction phase for two new interconnectors, between the UK and Belgium and the UK and Norway.

National Grid, through a separate company held outside of National Grid Electricity Transmission plc, sells capacity on its UK interconnectors through auctions.

3. Transmission

Transmission systems generally include overhead lines, underground cables and substations. They connect generation and interconnectors to the distribution system.

We own and operate the transmission network in England and Wales. We operate but do not own the Scottish networks.

National Grid is also working in a joint venture with Scottish Power Transmission to construct an interconnector to reinforce the GB transmission system between Scotland and England and Wales.

4. Distribution

Distribution systems carry lower voltages than transmission systems over networks of overhead lines, underground cables and substations. They take over the role of transporting electricity from the transmission network, and deliver it to consumers at a voltage they can use.

We do not own or operate electricity distribution networks.

5. Supply

The supply of electricity involves the buying of electricity and selling it on to customers. It also involves customer services, billing and the collection of customer accounts.

We do not sell electricity to consumers.

System Operator

As System Operator (SO) for England and Wales, we coordinate and direct electricity flows onto and over the transmission system, balancing generation supply and user demand. Where necessary, we pay sources of supply and demand to increase or decrease their generation or usage.

We have the same role for the two high-voltage electricity transmission networks in Scotland and we are also the SO for the offshore electricity transmission regime.

Our charges for SO services in the UK are subject to a price control approved by Ofgem. System users pay us for connection, for using the system and balancing services.

As electricity transmission SO, our price control includes incentives to minimise the costs and associated risks of balancing the system through buying and selling energy, as well as procuring balancing services from industry participants.

Our business model

Our business

Our strategy is to be a recognised leader in the development and operation of safe, reliable and sustainable energy infrastructure, to meet the needs of our customers and communities and to generate value for our shareholders.

We own and operate electricity transmission infrastructure in the UK. We have one principal operation, being Electricity Transmission.

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

Our business operates as a regulated monopoly. Our regulator, Ofgem, safeguards customers' interests by setting the level of charges we are allowed to pass on and the standard of performance we must achieve.

Our value proposition

We are a long-term, asset-based business. Our operations are regulated, which means we create value for our stakeholders through predictable revenue streams and cash flows.

Revenue

Most of our revenue is set in accordance with our regulatory agreements. This is referred to as our 'allowed revenue' and is calculated based on a number of factors. These include:

- investment in network assets;
- performance against incentives;
- return on equity and cost of debt; and
- customer satisfaction scores.

You can find more information about calculating our allowed revenue under our regulatory agreement on pages 6 and 7.

Our allowed revenue gives us a level of certainty over future revenues if we continue to meet safety and reliability targets, as well as the efficiency and innovation targets included in the RIIO licence agreements in our regulated business.

Cash flow

Our ability to convert revenue to cash is an important factor in the ongoing reinvestment in our business. Securing low-cost funding, carefully managing our cash flows and efficient development of our networks are essential to maintaining strong sustainable returns for our ultimate shareholders. Cash generation is underpinned by agreeing appropriate regulatory arrangements.

Investment

We invest efficiently in our network to deliver strong regulated asset growth over the long term. This drives additional future revenues, which in turn generates additional cash flows and allows us to continue reinvesting in our network and providing sustainable dividends to our ultimate shareholders.

This approach is critical to the sustainability of our business. By challenging our investment decisions, we continue to deliver reliable, cost-effective networks that benefit our customers. The way in which our investment is funded is also an important part of our business. The long-term, sustainable nature of our assets and our credit ratings help us secure efficient funding from a variety of sources.

Our stakeholders

Our stakeholders include customers, the communities in which we operate, employees, shareholders, the UK Government and Ofgem.

We create value for our customers and communities by:

- operating safely, reliably and sustainably;
- focusing on affordability to reduce the impact on customer bills;
- delivering essential services that meet the needs of our customers;
- providing emergency services;
- engaging with the communities in which we operate; and
- aiming to improve customer satisfaction at all times.

We create value for our shareholders by:

- making sure our regulatory frameworks maintain an acceptable balance between risk and return;
- operating within our regulatory frameworks as efficiently as possible;
- maximising incentives to make the most of our allowed returns;
- careful cash flow management and securing low-cost funding;
- disciplined investment in our networks and non-regulated assets; and
- protecting our reputation (including a focus on compliance across all areas of our business).

Using our knowledge and expertise, we engage widely in the energy policy debate to help guide future policy direction. We also work with Ofgem to help them develop the frameworks within which we can meet the changing energy needs of the communities we serve.

The foundations of our business model

Our people, being a responsible business, and encouraging innovation are at the heart of our business model and are reflected in our strategy.

Our people

Our business is built on our people. We work hard to make sure that we keep them as safe as possible as well as providing an inclusive culture and encouraging development. See pages 16 and 17 for further details.

Being a responsible business

Doing the right thing is a responsibility we take seriously. Our environmental, financial and social responsibilities are fundamental to the way we work and how we manage our impact on the communities in which we operate. See pages 18 and 19 for our principal operations.

Innovation

Thinking differently and challenging the norms allow our people to develop innovative and more efficient ways of delivering our services and maintaining our networks. See pages 18 and 19 for our principal operations.

What we do - Regulation

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

How we make money from our regulated assets

Our licence, established under the Electricity Act 1989, as amended (the Act), requires us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of electricity in Great Britain. It also gives us statutory powers, such as the right to bury our cables under public highways and the ability to use compulsory powers to purchase land to enable the conduct of our business.

Ofgem has established price control mechanisms that set the amount of revenue our regulated business can earn. Price control regulation is designed to ensure our interests, as a monopoly, are balanced with those of our customers. Ofgem allows us to charge reasonable, but not excessive, prices giving us a future level of revenue sufficient to meet our statutory duties and licence obligations, and also to make a reasonable return on our investment.

The price control includes a number of mechanisms to achieve its objectives, including financial incentives designed to encourage us to:

- efficiently deliver by investment and maintenance the network outputs that customer and stakeholders require, including reliable supplies, new connections and infrastructure capacity;
- Innovate in order to continuously improve the services we give our customers, stakeholders and community; and
- Efficiently balance the transmission networks to support the wholesale markets.

Our business operates under two separate price controls. These comprise of one covering our role as Transmission Owner (TO) and the other for our role as System Operator (SO). While both price controls may have differing terms, they are based on a consistent regulatory framework.

The value of our regulated assets is calculated based on the terms of our regulatory agreement. The value of regulated assets is also increased for inflation.

Allowed revenue is calculated based on a number of factors:

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

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

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

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

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

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

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

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

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

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

RIIO price controls

In 2013, Ofgem introduced a regulatory framework called RIIO (revenue = incentives + innovation + outputs), with the first price control agreed under the new framework lasting for eight years. The building blocks of the RIIO price control are broadly similar to the historical price controls used in the UK. However, there are some significant differences in the mechanics of the calculations.

How is revenue calculated?

Under RIIO the outputs we deliver are clearly articulated and are integrally linked to the calculation of our allowed revenue. These outputs have been determined through an extensive consultation process, which has given stakeholders a greater opportunity to influence the decisions.

The five output categories are:

- **Safety:** ensuring the provision of a safe energy network
- **Reliability (and availability):** promoting networks capable of delivering long-term reliability, as well as minimising the number and duration of interruptions experienced over the price control period, and ensuring adaptation to climate change
- **Environmental impact:** encouraging companies to play their role in achieving broader environmental objectives, specifically facilitating the reduction of carbon emissions, as well as minimising their own carbon footprint
- **Customer and stakeholder satisfaction:** maintaining high levels of customer satisfaction and stakeholder engagement, and improving service levels
- **Customer connections:** encouraging networks to connect customers quickly and efficiently

Within each of these output categories are a number of primary and secondary deliverables, reflecting what our stakeholders want us to deliver over the coming price control period. The nature and number of these deliverables varies according to the output category, with some being linked directly to our allowed revenue, some linked to legislation, and others having only a reputational impact.

Ofgem, using information we have submitted, along with independent assessments, determines the efficient level of expected costs necessary to deliver them. Under RIIO this is known as totex, which is a component of total allowable expenditure, and is the sum of what was defined in previous price controls as operating expenditure (opex) and capital expenditure (capex).

A number of assumptions are necessary in setting these outputs, such as certain prices or the volumes of work that will be needed. Consequently, there are a number of uncertainty mechanisms within the RIIO framework that can result in adjustments to totex if actual prices or volumes differ from the assumptions. These mechanisms protect us and our customers from windfall gains and losses.

Where we under or over-spend the allowed totex for reasons that are not covered by uncertainty mechanisms, there is a sharing factor. This means the under or over-spend is shared between us and customers through an adjustment to allowed revenues in future years. This sharing factor provides an incentive for us to provide the outputs efficiently, as we are able to keep a portion of savings we make, with the remainder benefiting our customers.

This sharing factor is one of the ways that RIIO has given innovation more prominence. Innovation includes traditional areas such as new technologies, as well as the broader challenge of finding new ways of working to deliver outputs more efficiently. This broader challenge has an impact on everyone in our business.

Allowed revenue to fund totex costs are split between fast and slow money – a concept under RIIO, based on a specified percentage that is fixed for the duration of the price control. Fast money represents the amount of totex we are able to recover in the next available year. Slow money is added to our RAV – effectively the regulatory IOU. For more details on the sharing factors under RIIO, please see the table on the next page.

In addition to fast money, in each year we are allowed to recover a portion of the RAV (regulatory depreciation) and a return on the outstanding RAV balance. The asset lives for regulatory depreciation in electricity transmission spans 45 years across the RIIO period.

The incentive mechanisms can increase or decrease our allowed revenue and result from our performance against various measures related to our outputs. RIIO has incentive mechanisms that encourage us to align our objectives with those of our customers and other stakeholders. For example, performance against our customer satisfaction targets can have a positive or negative effect of up to 1% of allowed annual revenues. Most of our incentives affect our revenues two years after the year of performance.

The RIIO controls for our transmission business were introduced on 1 April 2013 and the first price control period lasts for eight years. During the eight year period our regulator included a provision for a potential mid-period review, with scope driven by:

- changes to outputs that can be justified by clear changes in government policy; and
- the introduction of new outputs that are needed to meet the needs of consumers and other network users.

Under the RIIO controls, we are required to deliver agreed outputs for consumers and are funded to cover the costs of delivering these. The eight year price control includes a number of uncertainty mechanisms to take account of that some outputs and funding cannot be set with certainty at the start of the period. One of these uncertainty mechanisms is the review of outputs.

In May 2016, Ofgem decided to launch a mid-period review of the RIIO outputs for our transmission business. The scope of this review is narrow with no changes to key financial parameters. Ofgem will now run a consultation process this summer, with any changes to be implemented in April 2017.

Allowed returns

The cost of capital allowed under RIIO is as follows:

Cost of equity (post-tax real)	7.0%
Cost of debt (pre-tax real)	iBoxx 10 year simple trailing average index (2.55% for 2015/16)
Notional gearing	60.0%
Vanilla WACC*	4.33%

*Vanilla WACC=cost of debt x gearing + cost of equity x (1-gearing).

The sharing factor means that any over and under-spend is shared between the business and the consumers. The shared figures displayed in the table below are the sharing factors that apply to Electricity Transmission:

	Transmission Operator	System Operator
Fast[1]	15.00%	72.10%
Slow[2]	85.00%	27.90%
Sharing	46.89%	46.89%

1. *Fast money allows network companies to recover a percentage of total expenditure within a one year period.*
2. *Slow money is where costs are added to RAV and, therefore, revenues are recovered slowly (e.g. over 20 years) from both current and future consumers.*

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

Our vision and strategy

Our vision is to connect you to your energy today, trusted to meet your energy needs tomorrow.

Our strategy is to be a recognised leader in the development and operation of safe, reliable and sustainable energy infrastructure, to meet the needs of our customers and communities and to generate value for our stakeholders. Our strategic objectives set out what we believe we need to do to achieve our vision and strategy. Further information on all our KPIs is provided on page 11.

Strategic objective	Description	How we deliver	Relevant KPIs
Deliver operational excellence	Achieve world-class levels of safety, reliability, security and customer service.	Our customers, communities and other stakeholders demand safe, reliable and secure supply of their energy. This is reflected in our regulatory contracts where we are measured and rewarded on the basis of meeting our commitments to customers and other stakeholders. Pursuing excellence in all our operational processes will allow us to manage our assets efficiently, deliver network improvements quickly and provide services that meet the changing demands of our customers.	Employee Injury Frequency Rate (IFR) Network reliability Customer satisfaction
Engage our people	Create an inclusive, high-performance culture by developing all our employees.	It is through the hard work of our employees that we will achieve our vision, respond to the needs of our stakeholders and create a competitive advantage. Encouraging engaged and talented teams that are in step with our strategic objectives is vital to our success. Our presence within the communities we serve, the people we work with and our opportunities to grow both individually and as a business are all important to making National Grid a great place to work.	Employee engagement index
Stimulate innovation	Promote new ideas to work more efficiently and effectively.	Our commitment to innovation allows us to run our networks more efficiently and effectively and achieve our regulatory incentives. Across our business, we explore new ways of thinking and working to benefit every aspect of what we do. Embedding innovation and new technology into our operations helps us deliver continuous improvements in the quality and cost of our services.	Network reliability
Engage externally	Work with external stakeholders to shape UK and EU energy policy.	Policy decisions by Ofgem, Government and others directly affect our business. We engage widely in the energy policy debate, so our position and perspective can influence future policy direction. We also engage with Ofgem to help them provide the right mechanisms so we can deliver infrastructure that meets the changing needs of our customers and stakeholders.	Customer satisfaction
Embed sustainability	Integrate sustainability into our decision-making to create value, preserve natural resources and respect the interests of our communities.	Our long-term sustainability strategy sets our ambition to deliver these aims and to embed a culture of sustainability within our organisation. That culture will allow us to make decisions that balance affordability with helping to protect and preserve natural resources and benefit the communities in which we operate. National Grid remains committed to its targets of a 45% reduction in Scope 1 and Scope 2 greenhouse gas emissions by 2020 and 80% by 2050.	Greenhouse gas emissions
Drive growth	Grow our core businesses and develop future new business options.	We continue to maximise value from our network, while exploring and evaluating opportunities for growth. Making sure our business maintains the appropriate mix of growth and cash generation is necessary to meet the expectations of our ultimate shareholders. We review investment opportunities carefully and will only invest where we can reasonably expect to earn acceptable returns. Combining this disciplined approach with operational and procurement efficiencies gives us the best possible opportunity to drive strong returns and meet our commitments to investors.	Regulated asset growth Return on equity

How our strategy creates value

Our vision and strategic objectives explain what is important to us, so we can meet our commitments and deliver value.

Customer and community value

Safety and reliability – we strive to provide reliable networks safely, which is essential to safeguard our customers, employees and the communities in which we operate.

Affordability – we strive to provide services efficiently, which helps to reduce the amount of money customers have to pay for their energy.

Customer service – providing essential services that meet the needs of our customers and communities is a crucial part of the value they expect from us.

Sustainability – we strive to protect the environment and preserve resources for current and future generations.

Community engagement – we listen to the communities we serve and work hard to address concerns about the development of our networks. Our employees volunteer for community-based projects and we support educational initiatives in schools.

Stakeholder value

Regulatory frameworks – operating within sound regulatory frameworks provides stability. Making sure these frameworks maintain a balance between risk and return underpins our investment proposition.

Reputation – our approach to safety and our reliability record underpin our reputation. These are crucial factors that enable positive participation in regulatory discussions and the pursuit of new business opportunities.

Efficient operations – efficient capital and operational expenditure allows us to deliver network services at a lower cost and reduces working capital requirements.

Maximising incentives – if we perform well against our incentives, and deliver the outputs our customers and regulatory stakeholders require, we can make the most of our allowed returns.

Funding and cash flow management – securing low-cost funding and carefully managing our cash flows help us maintain strong returns for our investors.

Disciplined investment – we can increase our revenue and earnings by investing in both regulated and non-regulated assets. This helps us deliver attractive returns for our ultimate shareholders.

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Delivering our strategy - key performance indicators (KPIs)

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

Strategic element	Regulatory output[1]	KPI and definition	Our performance
Deliver operational excellence	**Safety**	**Employee lost time injury frequency rate (IFR)** Injuries resulting in employees taking time off work per 100,000 hours worked on a 12 month basis. Our ambition is to achieve a world-class safety performance of below 0.1.	**2015/16: 0.09 (target: 0.1)** 2014/15: 0.11 (target: 0.1)
	Reliability	**Network reliability[2]** Reliability of Electricity Transmission network as a percentage against the target set by Ofgem.	**2015/16: 99.999998% (target: 99.9999%)** 2014/15: 99.999996% (target: 99.9999%)
Engage our people	**Stakeholder satisfaction**	**Employee engagement index[3]** Employee engagement index calculated using responses to National Grid's annual employee survey. Target is to increase the level of engagement compared with previous year.	**2015/16: 76%** 2014/15: 75%
Engage externally	**Customer satisfaction**	**Customer satisfaction** Our score in customer satisfaction surveys. We measure customer satisfaction using RIIO related metrics agreed with Ofgem.	**2015/16: 7.5** (target: 6.9[4]) 2014/15: 7.4 (target: 6.9[4])
Embed sustainability	**Environmental impact**	**Greenhouse gas emissions** Percentage reduction in greenhouse gas emissions.	% reduction against 1990 baseline **2015/16: 50% reduction** 2014/15: 55% reduction National Grid Target 2015/16 and 2014/15: 45% reduction by 2020 and 80% reduction by 2050.
Drive growth		**Regulated asset growth** Maintaining efficient growth in the total Regulated Asset Value (RAV) base.	**2015/16: 6%** 2014/15: 4%
		Return on equity (RoE) RoE against the allowed return set by the regulator for the current price control.	**2015/16: 13.9%** 2014/15: 14.0%

[1] See pages 6 to 8 for explanation of regulatory outputs.
[2] Network reliability is also a KPI for our 'Stimulate innovation' strategic objective.
[3] Index represents performance for National Grid.
[4] 6.9 represents our baseline target as set by Ofgem, for reward or penalty under RIIO.

Greenhouse gas emissions

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

National Grid measures and reports its greenhouse gas emissions in accordance with the World resources institute (WRI)/ World business council for sustainable development (WBCSD) Greenhouse Gas Protocol: Corporate Accounting and Reporting Standard (Revised Edition) for all six Kyoto gases using the operational control approach for emissions accounting.

Those Scope 1 and 2 emissions are independently assured against the international standard ISO 14064-3 Greenhouse Gas assurance protocol. A copy of this statement of assurance is available on the National Grid website. See page 21 of the National Grid plc Annual Report and Accounts for further information.

Financial review

We have delivered another year of strong financial performance.

Use of adjusted profit measures

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

The first of these components is referred to as an adjusted profit measure. This is the principal measure used by management to assess the performance of the underlying business. Adjusted results exclude exceptional items and remeasurements. These items are reported as the second component of the financial measures. Note 3 to the consolidated financial statements explains in detail the items which are excluded from our adjusted profit measures.

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

The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented.

Management uses adjusted profit measures as the basis for monitoring financial performance. These measures are also used by National Grid in communicating financial performance to its investors in external presentations and announcements of financial results.

Internal financial reports, budgets and forecasts are primarily prepared on the basis of adjusted profit measures, although planned exceptional items, such as significant restructurings, are also reflected in budgets and forecasts. We separately monitor and disclose the excluded items as a component of our overall financial performance.

Reconciliations of adjusted profit measures

Reconciliation of adjusted operating profit to total operating profit

Adjusted operating profit is presented on the face of the income statement under the heading operating profit before exceptional items.

	Years ended 31 March	
	2016	2015
	£m	£m
Adjusted operating profit	**1,161**	1,171
Exceptional items	**-**	56
Total operating profit	**1,161**	1,227

Reconciliation of adjusted operating profit to adjusted earnings and earnings

	Years ended 31 March	
	2016	2015
	£m	£m
Adjusted operating profit	**1,161**	1,171
Adjusted net finance costs	**(127)**	(146)
Adjusted profit before tax	**1,034**	1,025
Adjusted taxation	**(213)**	(218)
Adjusted earnings	**821**	807
Exceptional items after tax	**94**	(3)
Remeasurements after tax	**(9)**	(34)
Earnings	**906**	770

Reconciliation of adjusted profit excluding timing differences to total operating profit

Adjusted profit excluding timing differences is discussed below.

	Years ended 31 March	
	2016	2015
	£m	£m
Adjusted operating profit excluding timing differences	**1,166**	1,260
Timing differences	**(5)**	(89)
Adjusted operating profit	**1,161**	1,171
Exceptional items	**-**	56
Total operating profit	**1,161**	1,227

Consolidated income statement commentary

Revenue
Revenue for the year ended 31 March 2016 increased by £266 million to £3,979 million. This increase was driven principally by higher allowed offshore transmission owner revenues, increased connections income and higher terminations income.

Operating costs
Operating costs for the year ended 31 March 2016 of £2,818 million were £289 million higher than the prior year. This increase in costs was predominantly due to increases in pass-through costs, together with increases in our operating costs and higher termination costs.

There were no exceptional items included within operating profit for the year ended 31 March 2016, compared to £56 million in the prior year, relating to the settlement of a legal claim.

Net finance costs
For the year ended 31 March 2016, net finance costs before exceptional items and remeasurements decreased by £19m to £127 million. This was mainly due to effective risk management of the financing portfolio.

Finance cost remeasurements for the year ended 31 March 2016 have fallen by £94m, resulting in a loss of £12 million. This is primarily the result of one-off exceptional debt redemption costs incurred in the year to 31 March 2015 of £63 million not being repeated and remeasurements losses on derivatives financial instruments.

Taxation
The tax charge on profits before exceptional items and remeasurements was £5 million lower than the prior year. This was in part due to a reduction in the UK tax rate from 21% to 20%.

Exceptional tax for the year ended 31 March 2016 included an exceptional deferred tax credit of £94 million arising from a reduction in the UK corporation tax rate from 20% to 19% applicable from 1 April 2017 and a further reduction to 18% from 1 April 2020.

Consolidated statement of financial position commentary

Intangible assets
Intangible assets increased by £31 million to £205 million as at 31 March 2016. This increase primarily relates to software additions of £58 million, partially offset by software amortisation of £28 million.

Property, plant and equipment
Property, plant and equipment increased by £599 million to £11,736 million as at 31 March 2016. This was principally due to capital expenditure of £1,026 million relating to the renewal and extension of our regulated networks, offset by £362 million of depreciation in the year.

Inventories and trade and other receivables
Inventories and trade and other receivables have increased by £21 million to £320 million at 31 March 2016. This was partly driven by a transfer of plant and equipment into inventory of £30 million offset by the settlement of amounts owed by fellow subsidiaries of the National Grid Group.

Trade and other payables
Trade and other payables have decreased by £52 million to £928 million mainly due to a decrease in amounts owing to fellow subsidiaries of National Grid.

Deferred tax liabilities
The net deferred tax liability increased by £18 million to £809 million. This was primarily due to deferred tax charges on actuarial gains, offset by a credit on accelerated tax depreciation.

Provisions and other non-current liabilities
Provisions (both current and non-current) and other non-current liabilities increased by £27 million to £467 million as at 31 March 2016. Total provisions decreased by £6 million in the year. Utilisation of the provisions totalled £7 million, which largely related to the restructuring of UK operations as mentioned in the annual report in 2014/15 as well as the utilisation of the environmental provision. Other non-current liabilities increased by £33 million principally due to more customer funded work.

Net debt
Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and derivative financial assets and liabilities. See note 20 to the accounts for further analysis of net debt.

Net pensions obligations

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

Net scheme liability	**£m**
As at 1 April 2015	(410)
Current service cost	(27)
Net interest cost	(14)
Curtailments and settlements – other	(6)
Actuarial gains/(losses)	
on plan assets	64
on plan liabilities	43
Employer contributions	80
As at 31 March 2016	(270)

The principal movements in net obligations during the year include net actuarial gains of £107 million and employer contributions of £80 million. The overall movement in the deficit was a reduction of £140 million.

Further information on our pensions benefit obligations can be found in notes 17 and 23 to the consolidated financial statements.

Off balance sheet items

There were no significant off balance sheet items other than the contractual obligations shown in note 24 (b) to the consolidated financial statements, and the commitments and contingencies discussed in note 21.

Cash flow statement commentary

Cash inflows and outflows are presented to allow users to understand how they relate to the day-to-day operations of the business (operating activities); the money that has been spent or earned on assets in the year, including acquisitions of physical assets or other businesses (investing activities); and the cash raised from debt or share issues and other loan borrowings or repayments (financing activities).

Reconciliation of cash flow to net debt

	2016 £m	2015 £m
Cash generated from operations	**1,474**	1,648
Net capital expenditure	**(942)**	(956)
Business net cash flow	**532**	692
Net interest paid	**(167)**	(230)
Tax paid	**(132)**	(143)
Dividends paid	**(310)**	(655)
Other	**(18)**	(173)
Increase in net debt	**(95)**	(509)
Opening net debt	**(6,924)**	(6,415)
Closing net debt	**(7,019)**	(6,924)

Cash flows from our operations are largely stable when viewed over the longer term. Our electricity transmission operations are subject to a multi-year regulatory agreement. We have largely stable intra-year cash flows. For the year ended 31 March 2016 cash flow from operations decreased by £174 million to £1,474 million.

Adjusted operating profit before depreciation and amortisation was £6 million higher year on year. Working capital changes declined by £118 million from the prior year due to movements on intercompany balances with other National Grid companies. Cash inflows relating to exceptional items were £57 million lower in comparison to the prior year due to reduction in reorganisation costs and the inflow of one-off receipts relating to a legal settlement (see note 3 to the consolidated financial statements).

Net capital expenditure

Net capital expenditure in the year of £942 million was £14 million lower than the prior year.

Dividends paid

Dividends paid in the year ended 31 March 2016 amounted to £310 million.

Other

Other principally relates to non-cash movements due to changes in fair values of financial assets and liabilities, interest accretions, accruals and foreign exchange movements arising on net debt held in currencies other than sterling.

Earnings

Timing and Regulated Revenue Adjustments

Our allowed revenues are set in accordance with our regulatory price control. We calculate the tariffs we charge our customers based on the estimated volume of energy we expect will be delivered during the coming period. The actual volumes delivered will differ from this estimate. Therefore, our total actual revenue will be different from our total allowed revenue. These differences are commonly referred to as timing differences.

If we collect more than the allowed level of revenue, the balance must be returned to customers in subsequent periods, and if we collect less than the allowed level of revenue we may recover the balance from customers in subsequent periods.

The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are finalised. Our operating profit for the year includes a total estimated in-year over-recovery of £5 million (2014/15: £89 million under-recovery). Our closing balance at 31 March 2016 was £171 million under-recovery (2014/15: under-recovery of £164 million). All other things being equal, the majority of that balance would normally be recoverable from customers next year.

In addition to the timing adjustments described to the left, following the start of the RIIO price controls outperformance against allowances as a result of the totex mechanism, together with changes in output-related allowances included in the original price control, will almost always be adjusted in future revenue recoveries, typically starting in two years' time.

Our current IFRS revenues and earnings will therefore include these amounts that will need to be repaid or recovered in future periods. Such adjustments will form an important part of the continuing difference between reported IFRS results and underlying economic performance based on our regulatory obligations.

For our business as a whole, regulated revenue adjustments totalled to an over-recovery of £171 million in the year. This is based on our estimates of work carried out in line with allowances, in expectation of future allowances, or work avoided altogether, either as a result of National Grid finding innovative solutions or the need being permanently removed.

Our people

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

Safeguarding the future

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

In the UK, engineering companies are projected to need 182,000 people with engineering skills each year until 2022, according to the 2016 Engineering UK Report – yet the estimated shortfall is 69,000 annually.

A particular concern has been the low number of young women interested in engineering. Our initiatives include our residential work experience week, which in 2015 extended to around 100 young people, balanced 50/50 between girls and boys. 99% of the students said that the experience increased their interest in engineering, while 69% of the female students said that it persuaded them to follow a career in the energy industry.

We are helping schools, parents and children see engineering as a modern, dynamic, desirable career with a great future. Our employees act as education ambassadors who volunteer their time for a range of activities in the classroom and at science and engineering fairs, most notably on STEM enrichment, careers education and our work experience programmes.

We also offer summer internships in the UK, as well as 12 month industrial placements to undergraduates in their penultimate year. These programmes offer students the opportunity to experience our Company before deciding to join the organisation as graduates.

Building skills and expertise

Providing high-quality development opportunities for our employees is essential for us to construct, maintain and operate our electricity and gas networks safety and reliably. This year, our Academy has delivered 154,025 days of technical, safety, leadership and personal effectiveness training across our global National Grid workforce.

In January 2016, we inducted 75 high-potential employees onto our accelerated development programme; designed to enhance our leadership succession planning.

We have also developed our performance leadership programme, designed to help strengthen our performance leadership capability for leaders who manage functions or organisations.

Promoting an inclusive and diverse workforce

Our inclusion and diversity activities include attraction and recruitment, development, leadership, role modelling and cultural change.

A number of UK leaders were paired with mentors representing a range of diverse characteristics, allowing them to increase their knowledge of a particular area of diversity. Feedback was very positive and a further wave of the programme is planned.

We support six employee resource groups in the UK that encompass inclusion and diversity. These groups are chaired by senior business leaders, so they can shape change within the business and the communities we serve, while providing professional development to the members.

In addition to our well-established Springboard and Spring Forward programmes for women, we are introducing a programme targeted at other under-represented groups – mainly ethnic minorities.

Externally, we continue to be recognised as an employer of choice and work in partnership with a number of organisations that promote inclusion and diversity.

National Grid employees were named as the EY Young Energy Professional of the year 2015; a finalist in the Black British business awards; and one of six women profiled in the EY Women in Power and Energy Index 2015.

At the end of 2015, we were one of the first FTSE organisations to publish UK gender pay data.

We have signed up to the Living Wage Foundation. We have committed to making sure our employees and those of our new suppliers are paid at least the Living Wage and have also pledged to take this further than the accreditation requires, including a commitment that our apprentices, interns and graduates at National Grid are also paid at least the Living Wage.

The table below shows the breakdown by gender at different levels of the organisation. We have included information relating to subsidiary directors, as this is required by the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We define 'senior management' as those managers who are at the same level, or one level below, our Executive Committee. It also includes those who are directors of subsidiaries, or who have responsibility for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company, and are employees of the Company.

	Financial year ending 31 March 2016				
	Male	Female	Total	% Male	% Female
Our Board	6	2	8	75	25
Senior Management	33	6	39	85	15
Whole Company	2,819	701	3,520	80	20

Health and wellbeing

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

We have a leading role in the Business in the Community Workwell campaign that is focusing on mental wellbeing in the workplace, and also an alumni network supporting the Time to Change campaign.

More than 670 of our employees have pledged to support this campaign, and others have shared their personal stories, encouraging colleagues to talk about mental health. During 2015/16, we have trained more than 250 employees on mental health first aid.

Initiatives designed to improve employees understanding of good nutrition have included a nutritional challenge. Our wellbeing kiosks were used more than 16,000 times by our employees during 2015/16, recording data such as blood pressure and weight.

Our employee engagement survey results continue to show that employees have a good awareness of our wellbeing programmes.

Volunteering

Our employees continue to share their skills, time and expertise through skills-based volunteering and fundraising activities.

Employees provided more than 14,000 hours of support to community projects. They participated in a number of fundraising activities to help our employee chosen charity partnership with Macmillan Cancer Support reach its fundraising target. Their efforts helped us exceed our target, raising more than £600,000, which provided 3,121 emergency fuel grants to people affected by cancer. We also raised more than £17,000 for Special Olympics Great Britain by organising a summer games event and supported the organisation's Athletes Leadership Programme.

Human rights

Respect for human rights is incorporated into our employment practices and our values, which include respecting others and valuing diversity. 'Always Doing the Right Thing' is our guide to ethical business conduct – the way in which we conduct ourselves allows us to build trust with the people we work with. We earn this trust by doing things in the right way, building our reputation as an ethical company that our stakeholders want to do business with, and that our employees want to work for. Although we do not have a specific policy relating to human rights, our procurement policies integrate sustainability into the way we do business throughout our supply chain, so that we create value, preserve natural resources and respect the interests of the communities we serve and from which we procure goods and services. Through National Grid's Global Supplier Code of Conduct, we expect our suppliers to keep to all laws relating to their business, as well as adhere to the principles of the United Nations Global Compact, the United Nations Declaration of Human Rights and the International Labour Organization.

Principal Operations – Electricity Transmission

Overview

We own and operate the electricity transmission network in England and Wales, with day-to-day responsibility for balancing supply and demand. Our networks comprise approximately 7,200 kilometres (4,470 miles) of overhead line, 1,500 kilometres (932 miles) of underground cable and 338 substations.

This year we've seen significant regulatory developments. Ofgem launched a consultation on extending competition in electricity transmission. We support this work and recognise that introducing competition is a good way to deliver value for consumers, if the right conditions are met. We outlined this in our response and will continue to use our experience to make sure a thorough assessment is undertaken before any change is finalised.

We have also been working alongside DECC and Ofgem to consider how to evolve the current SO model, to make it more flexible and more independent while remaining cost effective. In doing so, it is vital that there is no disruption to the pivotal role National Grid plays as system operator in keeping the energy market working.

In May 2016, Ofgem announced a mid-period review of the RIIO-T1 price control looking at specific output measures for our transmission business. The scope of this review is narrow with no changes to key financial parameters. Ofgem will now run a consultation process this summer, with any changes to be implemented by April 2017.

Market Context

Although demand for electricity is generally increasing around the world, in the UK it is expected to remain broadly flat over the next five to ten years.

Changes in the sources and characteristics of generation connecting to our network, such as wind and nuclear generation, mean we need to respond by developing the way we balance and operate our network to accommodate these sources.

Over the last two years, some generators have delayed their connection dates to the network and this means our future investment profile for electricity transmission is flatter than in previous years. However, we are ready to respond to connection dates when we need to. We will continue to renew our network to deliver the network reliability our customers require as efficiently as possible.

What we've achieved in 2015/16

The overall reliability of supply for our transmission system in 2015/16 was 99.999998%

We have delivered an excellent safety performance; our safest year on record. Our lost time injury rate reduced by over 60% and our high potential incident rate fell by nearly 10%. We have focused on our key risk areas, such as safe driving and working at height and continue to work with our contractors to share best practice in safety management.

Following a seven year period of consultation, community engagement and planning applications we received a development consent order (DCO) for the construction of a new transmission circuit to connect the new nuclear power station at Hinkley Point. To connect the power station to the network we will be removing existing pylons and constructing new overhead lines, undergrounding and using the award-winning T-Pylon.

We were granted a £12 million award from this year's Network Innovation Competition (NIC) which will be used to convert a substation at Deeside into an off-grid research facility. This will replicate a live substation and allow us to test the effects of future low-carbon generation on the network with no risk to security of supply. Once complete this will be the first facility of its kind in Europe.

Working with the stakeholder advisory group we have identified and recommended four projects to receive funding from the Visual Impact Provision project. These projects are in National Parks and Areas of Outstanding Natural Beauty across England and Wales and we have now started feasibility studies to review the existing overhead lines and develop proposals that will help further enhance these areas.

The North West Coast Connection Project continues to progress and maintain engagement with a broad range of stakeholders. This includes holding community information events along the preferred route corridor and meeting government officials, local authorities and focus groups to build support for the statutory formal consultation.

We have developed a mobile application which allows our operations teams to provide instant feedback on supplier performance. This is designed to save time, improve supplier performance and reduce costs in our supply chain, helping to deliver further value for consumers.

We have piloted a new approach to circuit breakers aiming to halve the time and cost of our replacements over the RIIO-T1 period. Completing additional condition assessments and interface engineering allows our new high voltage circuit breakers to be installed on top of existing structures, saving more than four weeks of time. We expect this new innovative approach to reduce our RIIO-T1 costs by more than £100m.

Principal movements (2014/15 – 2015/16)

	Adjusted operating profit £m
2014/15 adjusted operating profit	1,171
Timing[1]	94
Net regulated income[2]	(81)
Regulated controllable operating costs[3]	(28)
Depreciation and amortisation[4]	(14)
Other	19
2015/16 adjusted operating profit	**1,161**

1 In year over-recovery of £5 million compared with an under-recovery in the prior year of £89 million. The estimated closing under-recovered value at 31 March 2016 is £171 million.

2 Regulated revenues (excluding pass through costs) decrease driven by a decrease in regulatory allowances, reflecting a one off benefit in the prior year from a legal settlement and a reduction associated with the impact of sharing RIIO year one efficiencies with customers through MOD adjustments, partially offset by higher post vesting connections and termination revenues.

3 Increased costs driven by increase in maintenance expenditure, business change and preparation costs.

4 Depreciation and amortisation is higher as a result of continued investment.

Priorities for the year ahead

- **Change:** prepare for the potential challenge of increased competition in the transmission market, making sure we can deliver for our customers in both competitive and monopoly markets.
- **Programme delivery**: increase the amount of work we can deliver, and reduce our costs through improving processes.
- **Operational efficiency:** continue our drive for efficiency so we can improve productivity.
- **Project delivery:** complete delivery of key projects such as the London Power Tunnels and Western Link.
- **Safety:** maintain our world class safety performance.

System Operator

As System Operator (SO) we are responsible for making sure Britain's electricity is transported safely and efficiently from where it is produced to where it is consumed, when it is needed. We make sure that supply and demand are balanced in real time and we facilitate the connection of assets to the transmission system.

Market context

Sources of energy are changing. In electricity, an increase in renewable generation such as wind, solar and tidal power, together with a decrease in more conventional generation such as coal and gas, is leading to greater variability and uncertainty.

This makes our role in matching supply and demand more challenging, so we work with the market to make sure we have appropriate tools in place to balance the transmission system.

We work with our customers and stakeholders to shape the future of the energy market, providing analysis and insight into the changing nature of energy. We also facilitate changes to the market frameworks to accommodate new technologies and ways of working, while considering how the role of the SO should evolve over time.

The SO is at the forefront of this debate helping to find solutions with industry.

What we have delivered in 2015/16

We continue to play a leading role in helping develop the UK's future energy strategy, and that of Europe. Our approach includes working with customers and stakeholders on initiatives such as the development of new demand side services in the form of the Power Responsive programme, our Future Energy Scenarios reports, and System Operability Framework workshops and webinars.

Building on customer and stakeholder feedback, we have reviewed our operations and restructured our organisation to deliver what our customers need. Our customer survey process has been improved, so we can better understand our performance and develop action plans to improve the services we deliver.

We continue to balance the UK's energy needs in real time. We contracted additional balancing services of 2.4 GW for the 2015/16 winter period to be available to help manage periods of peak demand. This includes 133 MW from demand side balancing reserve arrangements.

In our role as Electricity Market Reform delivery body we facilitated the market capacity auction, which secured over 46 GW of capacity at a final clearing price of £18 per kW per year.

Priorities for the year ahead

We will continue to find better ways to provide timely, cost effective and innovative solutions to balance supply and demand for electricity.

- **Market developments:** We will continue to work with Ofgem and DECC as they develop proposals to help meet the energy challenges of the future, including options for greater SO independence and ensuring there is no disruption to the vital role of the SO. We will work closely with our stakeholders as proposals for roles and responsibilities of the SO become clearer.
- **Customers and stakeholders:** An overview of the key risks is provided on page 22, together with examples of the relevant controls and mitigating actions we are taking.
- **Delivering energy:** We will continue to support the evolution of market frameworks in the UK and Europe to enable new types of generation and demand to come forward in response as the energy landscape changes.

Internal control and risk management

The National Grid Electricity Transmission Board is committed to protecting and enhancing our reputation and assets, while safeguarding the interests of our stakeholders. It has overall responsibility for the Group's system of risk management and internal control.

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

The National Electricity Transmission Board oversees risk management, and, as part of this role, it sets and monitors the amount of risk the Company is prepared to seek or accept at any given time in pursuing our strategic objectives (our 'risk appetite'). The Board also regularly monitors and reviews the system of internal controls and risk management arrangements; you can read more about this on page 23.

This year National Grid plc, our ultimate parent company, refined our risk management processes as a result of changes to guidance in the UK Corporate Governance Code 2014 (the Code). The changes were fully adopted by National Grid Electricity Transmission, and most notably, the Company now specifically test the impact of principal risks on a reasonable worst case basis, alone and in clusters, over a five-year assessment period. The aim of this is to establish their impact on the company's ability to continue operating and meet its liabilities over the assessment period. The reason for selecting a five-year assessment period and the results of this exercise are described in our viability statement on page 23.

Risk management approach

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

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

All of the National Grid plc business functions participate in the bottom-up risk management process, including National Grid Electricity Transmission. Each function identifies the main risks to achieving their objectives and the actions being taken to manage and monitor them. They assess each risk by considering the potential 'worst case credible' financial and reputational impacts and how likely the risk is to materialise. The risks identified are collated in risk registers and are reported at functional and regional levels of both the Company and the National Grid plc Group. The risk registers also describe the adequacy of our existing risk controls.

An important feature of the risk management process is that each business function owns and is responsible for managing its particular risks. A central risk management team acts as an advisory function and also provides an independent challenge and review. This team partners with the business functions through nominated risk liaisons and collaborates with assurance teams and specialists, like internal audit and compliance management, to sense check risk information.

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

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

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

Our principal risks

Accepting that it is not possible to identify, anticipate or eliminate every risk that may arise and that risk is an inherent part of doing business, the risk management process aims to provide reasonable assurance that we understand and manage the main uncertainties that we face in delivering our objectives.

This includes consideration of inherent risks, which exist because of the nature of day-to-day operations in our industry, and financial risks, which exist because of our financing activities. An overview of the principal risks we face is provided on pages 183 to 186 within the National Grid plc Annual Report and Accounts. An overview of our key financial risks is incorporate within the notes to our consolidated financial statements in pages 72 to 76.

Our corporate risk profile contains the principal risks that the National Grid Electricity Transmission Board considers to be the main ones currently faced by the Company as we endeavour to achieve our strategic objectives. An overview of the key risks is provided on page 21, together with examples of the relevant controls and mitigating actions we are taking.

Our principal risks (continued)

Strategic objective	Risk description	Example of mitigations
Drive growth	Failure to identify and execute the right opportunities to deliver our growth strategy. Failure to grow our core business and have viable options for new business over the longer term would adversely affect National Grid's credibility and jeopardise the achievement of intended financial returns. Our ability to achieve our ambition for growth is subject to a wide range of external uncertainties, including the availability of potential investment targets and attractive financing and the impact of competition for onshore transmission; and internal uncertainties, such as the performance of our operating businesses and our business planning model assumptions.	We regularly monitor and analyse market conditions, competitors and their potential strategies, the advancement and proliferation of new energy technologies. We are also looking to access new sources of finance and capabilities through partnering. We have internal processes for reviewing and approving investments in new businesses, disposals of existing ones and organic growth investment opportunities. These processes are reviewed regularly to make sure our approach supports our short and long-term strategies. We undertake due diligence exercises on investment or partnering opportunities and carry out post-investment reviews to make sure we learn lessons for the future.
	Sustained deflation in the UK. Sustained deflation in the UK would result in a loss of inflationary indexation of UK RIIO networks' RAV.	The primary measures we have to manage this risk include our business planning process (five-year plan approved each year by the National Grid Board), financing strategies (including hedging policies approved by the National Grid Finance Committee) and regulatory strategies.
Engage externally	Failure to secure satisfactory regulatory outcomes/ failure to influence future energy policy. Policy decisions by Ofgem, Government and others directly affect our business. We must engage widely in the energy policy debate, making sure our position and perspective help to shape future policy direction.	We strive to maintain a good understanding of the regulatory agenda and emerging issues, so that robust, public interest aligned responses can be selected and developed in good time. Our reputation as a competent operator of important national infrastructure is critical to our ability to do this.
Engage our people	Failure to secure skills and leadership capacity (including effective succession planning) required to deliver our vision and strategy. It is through the high-quality work of our employees that we will achieve our vision, respond to the changing needs of our stakeholders and create a competitive advantage. Obtaining and fostering an engaged and talented team that has the knowledge, training, skills and experience to deliver on our strategic objectives is vital to our success. We must attract, integrate and retain the talent we need at all levels of the business.	Strategic workforce planning allows us to effectively inform our strategic resourcing plans. Our entry level talent development schemes (graduate training and apprenticeships) are a potential source of competitive advantage in the market place. Improvements to our talent processes mean that we are now much better at identifying talent and accelerating development of future leaders (e.g. our Accelerated Development Programme). The rigour of our succession planning and development planning process has been improved, particularly at senior levels and is now being applied deeper into the organisation. We are involved in a number of initiatives to help secure the future engineering talent required see page 16. We continue to promote inclusion and diversity. We monitor employee engagement and formally solicit employee opinions via a Group-wide employee survey annually.

Strategic objective	Risk description	Example of mitigations
Deliver operational excellence	Failure to deliver appropriate information systems and data integrity. The Company is increasingly reliant on technology to support and maintain our business-critical processes. We must be able to rely on the performance of these systems and the underlying data to demonstrate the value of our business to our shareholders, meet our obligations under our regulatory agreements, and comply with agreements with bond holders and other providers of finance.	Over the financial year we have implemented improved project management practices for IS projects. We have taken action to bring back in-house knowledge of critical systems, processes and data. Globally, our Information Management Framework is being rolled out to improve data management. Data and its effective management is also central to our compliance action plan, which is being rolled out across the National Grid Group.
	We experience a catastrophic/major cyber security breach. Due to the nature of our business we recognise that our critical national infrastructure (CNI) systems may be a potential target for cyber threats. We must protect our business assets and infrastructure and be prepared for any malicious attack.	We use industry best practices as part of our cyber security policies, processes and technologies. Our cyber security programme is a global programme of work which started in 2010 and continues to be modified and updated to this day. This programme is intended to reduce the risk that a cyber threat could adversely affect the Company's business resilience. We continually invest in cyber strategies that are commensurate with the changing nature of the security landscape. This includes collaborative working with DECC and the Centre for Protection of National Infrastructure (CPNI) on key cyber risks and development of an enhanced CNI security strategy.
	Catastrophic asset failure. Safety is paramount. Some of the assets that we own and operate are inherently hazardous and process safety incidents, while extremely unlikely, may occur.	We continue to commit significant resources and financial investment to maintain the integrity of our assets and we strive to continuously improve our key process safety controls. We continue to implement our Group-wide process safety management system to ensure a robust and consistent framework of risk management exists across our higher hazard asset portfolio. We have a mature insurance strategy that uses a mix of self-insurance, captives and direct (re)insurance placements. This provides some financial protection in respect of property damage, business interruption and liability risks. Periodically, independent surveys of key assets are undertaken, which provide risk engineering knowledge and best practices to the Group with the aim to further reduce our exposure to hazard risks.
	We fail to effectively respond to the threats and opportunities presented by emerging technology, particularly the challenge of adapting our network to meet the challenges of increasing distributed energy resources.	We have relaunched our dedicated Group Technology Team within the Strategy Function. We undertake biannual reviews and briefings of emerging trends and developments and their implications for the Company with the Board.

Our internal control process

We have a number of processes to support our internal control environment. These processes are managed by dedicated specialist teams. Oversight of these activities is provided through regular review and reporting to the appropriate Board committees as outlined in the Corporate Governance section on pages 24 to 27.

Reviewing the effectiveness of our internal control

Each year the National Grid Electricity Transmission Board reviews the effectiveness of our internal control process, including financial reporting, to make sure it remains robust. The latest review covered the financial year to 31 March 2016 and the period to the approval of this Annual Report and Accounts. It included:

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

The Board evaluated the effectiveness of management's processes for monitoring and reviewing internal control and risk management. It noted that no significant failings or weaknesses had been identified by the review and confirmed that it was satisfied the systems and processes were functioning effectively. The National Grid risk management and internal control processes comply with the UK Corporate Governance Code.

Internal control over financial reporting

National Grid's financial processes include a range of system, transactional and management oversight controls. In addition, National Grid Electricity Transmission prepares detailed monthly management reports that include analysis of their results along with comparisons to relevant budgets, forecasts and prior year results. These are presented to, and reviewed by, senior management within the Finance function.

The reviews are supplemented by quarterly performance reviews, attended by the Chief Executive and Finance Director of National Grid. These reviews consider historical results and expected future performance and involve senior management from both operational and financial areas of the business. The Chief Financial Officer presents a consolidated financial report at each National Grid Electricity Transmission Board meeting. In addition, the National Grid Electricity Transmission Audit Committee also monitor, review and report on the Company's Annual Report and Accounts to the Board.

Viability statement

The Board's consideration of the longer-term viability of the Company is an extension of our business planning process, which includes financial forecasting, a robust risk management assessment and regular budget reviews. This activity is strengthened by the Company's culture of review and challenge.

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

Our business plan considers the significant solvency and liquidity risks involved in delivering our business model in light of our strategic priorities. The business plan models upside and downside scenarios derived from the risks and opportunities identified, and determines the impact these would have on our results and financial position over the five year period. We have set out the details of the principal risks facing our Company on pages 21 to 22, described in relation to our ability to deliver our strategic objectives. We identify our principal risks through a robust assessment that includes a continuous cycle of bottom up reporting and review, and top down feedback.

Our business model calls for significant capital investment to maintain and expand our network infrastructure. To deliver this, our business plan highlights that we may need to access capital markets to raise additional funds from time to time. We have a long and successful history in this regard. Our business plan also models various KPI's used by lenders in assessing a company's credit worthiness. These models indicate that we should continue to have access to capital markets at commercially acceptable interest rates throughout the five year period.

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

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

Alan Foster
Director

Corporate Governance

Corporate Governance Statement

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

Governance framework

The Board of the Company is collectively responsible for its governance, and oversees its effective oversight of the Company and its business and compliance with all relevant laws and regulations, including compliance with its Electricity Transmission Licence. The operational and financial management of the Company's businesses is undertaken by committees, in compliance with business separation obligations.

Board composition

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

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

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

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

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

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

Director induction and development

Director training on the duties and responsibilities of directors has been made available to new and existing directors and reference material has been placed in the online document library. A schedule of head office and operational site visits has been implemented throughout the year providing the opportunity for directors to meet local management teams and discuss aspects of the business with employees. A number of director briefings have taken place, and reference materials have been placed in the online document library. To further strengthen and refresh the Board's knowledge and understanding of the Company and external business and regulatory environment, Board meetings regularly include updates and presentations on specific aspects of the business.

How our Board operates

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

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

Board performance evaluation

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

- Board composition, expertise and dynamics
- Relationship with the plc Board and the Business Executive

- Time management
- Board support
- Board Committees
- Strategic and operational oversight
- Risk management and internal control
- Succession planning and human resource management
- Priorities for change

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

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

Board membership and attendance

Six Board meetings were scheduled during the last financial year, although the Board may meet more frequently as required. Board membership and attendance at meetings are set out below. Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2016.

	Attendance
Chris Murray[1] (Chair)	1 of 1
Nick Winser[2] (Chair)	1 of 1
John Pettigrew[3] (Chair)	5 of 5
Andy Agg	6 of 6
Alan Foster[4]	2 of 2
Malcolm Cooper[5]	4 of 4
Mark Ripley	5 of 6
Mike Calviou[6]	2 of 2
Cordi O'Hara[7]	4 of 4
David Wright	5 of 6
Catherine Bell (SID)	6 of 6
Clive Elphick (SID)	6 of 6

1. Appointed 11 February 2016
2. Resigned 1 July 2015
3. Resigned 11 February 2016
4. Appointed 1 January 2016
5. Resigned 1 January 2016
6. Resigned 24 September 2015
7. Appointed 24 September 2015

Board remuneration

The Directors of the Company are not separately remunerated in that capacity with the exception of the SIDS. The remuneration of any Director, who is also a member of the Board of National Grid, is determined by the Remuneration Committee of the Board of National Grid, as set out in its annual report and accounts. The remuneration of other Directors is determined in accordance with National Grid's remuneration policies for employees. As required by Section 42c of the Electricity Act 1989, the Company has provided to Ofgem details of the linkages between Directors' remuneration and service standards

Committees

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

Electricity Transmission Executive Committee

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

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

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

		Attendance
Ian Galloway (Chair)	ETO Business Entity Chair	6 of 7
Ian Cartwright	Delegate – Director Capital Delivery	7 of 7
David Wright	Director of Electricity Transmission Asset Management	5 of 5
Mark Brackley	Head of Electricity Network Development Process	7 of 7
Jenny Dillon	Lead Finance Business Partner	7 of 7

The ETEC has a number of sub-committees dealing with matters such as investment, safety and coordination of operations.

System Operator Executive Committee

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

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

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

1. *Appointed Chair October 2015*
2. *Resigned October 2015*
3. *Appointed October 2015*
4. *Appointed October 2015*

Business Separation Compliance Committee

The Business Separation Compliance Committee of the Board is responsible for overseeing the duties and tasks of the Business Separation Compliance Officer and for overseeing compliance with the business separation licence conditions for business separation between the Company and National Grid Offshore Limited. Membership of the Committees is by appointment of the Board and comprises all directors of the licensee. The Business Separation Compliance Officer and Compliance Officer are in attendance. Following Nick Winser's departure from the business in July 2015, Chairmanship of the committee passed to Catherine Bell, SID and existing member of the Committee. Two meetings took place during the last financial year.

Finance Committee

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

Audit Committee

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

Membership of this Committee is comprised of three Board directors: the two SIDs and an executive director. Following Nick Winser's departure from the business in July 2015, Chairmanship of the Committee passed to Clive Elphick, SID of the Company and an existing member of the Committee. In addition to the members of the Committee, individuals such as representatives of the external auditors, Head of UK Audit, representatives of the Assurance function, UK Chief Financial Officer and other representatives of the finance function, UK General Counsel and Company Secretary (or his/her nominee) may be invited to attend by the Committee and would normally attend each meeting. Other Directors, representatives of the business and external advisers may be invited to attend as and when considered appropriate by the Committee and in respect of the items that are relevant to them. Four meetings took place during the last financial year. Committee membership and attendance at meetings is set out below. Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2016.

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

1. *Appointed Chair 1 July 2015*
2. *Resigned 1 July 2015*
3. *Resigned 1 January 2016*
4. *Appointed 1 January 2016*

Internal (corporate) audit

The Company does not have a separate internal audit function. This function is provided by National Grid's Corporate Audit function. The National Grid Corporate Audit function provides independent, objective, assurance to the National Grid Electricity Transmission Audit Committee, Safety, Environment and Health Committee (SEH) and Executive Committees on whether our existing control and governance frameworks are operating effectively in order to meet National Grid's strategic objectives. Assurance work is conducted and managed in accordance with the IIA international standards for the Professional Practice of Internal Auditing and Code of Ethics.

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

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

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

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

Auditors' independence and objectivity

As highlighted in National Grid's Annual Report and Accounts for 2015/16 the independence of the external auditors is essential to the provision of an objective opinion on the true and fair view presented in the financial statements.

Auditor independence and objectivity is safeguarded by a number of control measures, including limiting the nature and value of non-audit services performed by the external auditors, ensuring that employees of the external auditors who have worked on the audit in the past two years are not appointed to senior financial positions within National Grid, and the rotation of the lead engagement partner at least every five years. A new lead engagement partner was appointed for National Grid Electricity Transmission plc for 2015/16 financial year.

Business separation

Business Separation Compliance Committee
The Board's Business Separation Compliance Committee is responsible for overseeing the duties and tasks of the Compliance Officer and EMR Compliance Officer and for overseeing compliance with the licence conditions for business separation between the Company and National Grid's competitive businesses operating or bidding for activities in carbon capture and storage, interconnectors or offshore transmission. Membership of the Committee is by Board appointment and comprises all Directors of the Company. The Compliance Officer and EMR Compliance Officer are in attendance. Following Nick Winser's departure from the business in July 2015, Chairmanship of the Committee passed to Catherine Bell, Sufficiently Independent Director, an existing Committee member. Two meetings took place during the last financial year.

Special Condition 2B of our electricity transmission licence applies where the Company has received an application in relation to a possible connection in an area outside its transmission area, for example, in Scotland. The condition requires the Company to treat connection applications confidentially and where an alternative application is received for connection in England and Wales, it requires that each application is dealt with by separate and independent teams.

Our policy in respect of Special Condition 2B is set out in the Company's Compliance Statement.

We have taken the following specific actions to comply with the requirements of Special Condition 2B:

- established a process where separate teams would be used in the event of an alternate application being received; and appointed a Compliance Officer, who reports to the Company's Board of Directors

Special Condition 2N Electricity Market Reform (EMR) of our electricity transmission licence requires the Company to maintain separation sufficient to ensure that no commercial advantage is given to any of the National Grid competitive businesses operating or bidding for activities in carbon capture and storage, interconnectors or offshore transmission; and also places information sharing restrictions on any confidential information arising through the Company's operation of the EMR functions.

Our policy in respect of compliance with Special Condition 2N is set out in the Company's Compliance Statement.

We have taken the following specific actions to comply with the requirements of Special Condition 2N:

- Appointed a Compliance Officer and a Single Responsible Director who report on compliance to the Compliance Committee and the Company's Board of Directors
- Put in place specific legal, managerial and functional architectures to ensure separation
- Put in place specific policies and procedures to ensure that the Company does not give any unfair commercial advantage to any of its affiliates and that confidential information relating to EMR is kept confidential
- Put in place specific restrictions on premises, use of systems and transfer of employees between the Company and the competitive businesses
- Established and maintained an employee Code of Conduct to ensure employees are aware of their obligations to protect confidential Information relating to EMR.

Special Condition 2O (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities (RSPA)) of our electricity transmission licence requires the Company to maintain separation sufficient to ensure that no commercial advantage is given to any of the National Grid competitive businesses operating or bidding for activities in carbon capture and storage, interconnectors or offshore transmission; sets out the Company's obligations for business conduct required in performing the RSPA; and also places information sharing restrictions on any confidential information arising through the Company's operation of the RSPA.

Our policy in respect of compliance with Special Condition 2O is set out in the Company's Compliance Statement.

We have taken the following specific actions to comply with the requirements of special Condition 2O:

- Appointed a Compliance Officer and a Single Appointed Director who report on compliance to the Compliance Committee and the Company's Board of Directors
- Put in place specific legal, managerial and functional architectures to ensure separation
- Put in place specific policies and procedures to ensure that the Company does not give any unfair commercial advantage to any of its affiliates and that confidential information relating to RSPA is kept confidential
- Put in place specific restrictions on premises, use of systems and transfer of employees between the Company and the competitive businesses.
- Established and maintained an employee Code of Conduct to ensure employees are aware of their obligations to protect confidential Information relating to RSPA.

Directors' Report

The Directors present their report and the audited consolidated financial statements of the Company for the year ended 31 March 2015. In accordance with the requirements of the Companies Act 2006 the following sections describe the matters that are required for inclusion in the Directors' Report and were approved by the Board. Further details of matters required to be included in the Directors' Report are incorporated by reference into this report, as detailed below.

Directors

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

Andy Agg	
Catherine Bell (SID*)	
Mike Calviou	Resigned 24 September 2015
Malcolm Cooper	Resigned 1 January 2016
Clive Elphick (SID*)	
Alan Foster	Appointed 1 January 2016
Chris Murray	Appointed 11 February 2016
Cordi O'Hara	Appointed 24 September 2015
John Pettigrew	Resigned 11 February 2016
Mark Ripley	
Nick Winser	Resigned 1 July 2015
David Wright	

**sufficiently independent director*

The Company has arranged, in accordance with the Companies Act 2006 and the Articles, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties. Equivalent qualifying third party indemnities were, and remain, in force for the benefit of those Directors who stood down from the Board during the year ended 31 March 2016. Alongside these indemnities, the Company places Directors' and Officers' liability insurance cover for each Director.

Principal activities and business review

A full description of the Company's principal activities, business, key performance indicators and principal risks and uncertainties is contained in the Strategic Report on pages 2 to 23 which is incorporated by reference into this report.

Material interests in shares

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

Dividends

An interim dividend of £310 million was paid during the year (2014/15: £655 million interim dividend). The Directors have not proposed a final dividend.

Share capital

Share capital remains unchanged. See note 19 to the consolidated financial statement for further details.

Research and development

Expenditure on research and development was £11 million during the year (2014/15: £10 million).

Financial instruments

Details on the use of financial instruments and financial risk management are included in note 24 to the consolidated financial statements.

Future developments

Details of future developments are contained in the Strategic Report.

Employee involvement

Details of how the Company involves its employees are contained in the Strategic Report on pages 16 and 17 which is incorporated by reference into this report.

Audit information

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

Annual General Meeting

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

Going concern

Having made enquiries and reviewed management's assessment of the going concern assumption, the Directors consider it appropriate to prepare the financial statements on a going concern basis. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. More detail on our financial risks, including liquidity and solvency, is provided in note 24 to the consolidated financial statements. There have been no major changes to the Group's significant liquidity and solvency risks in the year. Although not assessed over the same period, the viability of the Group has been assessed on page 23.

By order of the Board

Alan Foster
Director
24 June 2016
National Grid Electricity Transmission plc
1-3 Strand, London WC2N 5EH
Registered in England and Wales Number 2366977

Introduction to the financial statements

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

Some of this additional information highlight ‘Our strategy in action’, drawing out the key elements of our business model (set out in the Strategic Report on pages 2 to 23), and showing how the disclosures reflect this strategy.

Notes

Notes to the financial statements provide additional information required by statute, accounting standards or other regulations to assist in a more detailed understanding of the primary financial statements. In many notes we have included an accounting policy that describes how the transactions or balance in that note have been measured, recognised and disclosed. The basis of preparation section provides details of accounting policies that apply to transactions and balances in general.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, including the consolidated financial statements and the Company financial statements, the Directors' Report, and the Strategic Report, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (comprising Financial Reporting Standard 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland', and applicable law). In preparing the consolidated financial statements, the Directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company on a consolidated and individual basis and of the profit or loss of the Company on a consolidated basis for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the consolidated financial statements comply with IFRS as issued by the IASB and IFRS adopted by the EU and, with regard to the Company financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated financial statements and Company financial statements on a going concern basis unless it is inappropriate to presume that the Company, on a consolidated and individual basis, will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company on a consolidated and individual basis, and to enable them to ensure that the consolidated financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation and the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors, whose names are listed on page 29, confirms that:

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

On behalf of the Board

Alan Foster
Director
24 June 2016

Independent Auditors' report

to the Members of National Grid Electricity Transmission plc

Report on the financial statements

Our opinion

In our opinion:

- National Grid Electricity Transmission plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2016 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note Statement of directors' responsibilities to the financial statements, the group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the group financial statements comply with IFRSs as issued by the IASB.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

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

The financial reporting framework that has been applied in the preparation of the group financial statements is IFRSs as adopted by the European Union, and applicable law. The financial reporting framework that has been applied in the preparation of the company financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

Basis of preparation

(for National Grid Electricity Transmission)

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

This section also shows areas of judgement and key sources of estimation uncertainty in these financial statements. In addition, we summarise new EU endorsed accounting standards, amendments and interpretations and whether these are effective in 2016 or later years, explaining how significant changes are expected to affect our reported results.

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

These consolidated financial statements were approved for issue by the Board of Directors on 24 June 2016.

These consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations as issued by the International Accounting Standards Board (IASB) and IFRS as adopted by the EU. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ending 31 March 2016 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the EU IAS Regulation. The 2015 comparative financial information has also been prepared on this basis.

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

The consolidated financial statements have been prepared on a going concern basis following the assessment made by the Directors as set out on page 29.These consolidated financial statements are presented in pounds sterling, which is also the functional currency of the Company. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period (see accounting policy C). Actual results could differ from these estimates.

A. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to affect the returns of an entity to which it is exposed or to which it has rights.

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

B. Foreign currencies

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

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the adoption of hedge accounting requires inclusion in other comprehensive income - note 10.

C. Areas of judgement and key sources of estimation uncertainty

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

The area of judgement that has the most significant effect on the amounts recognised in the financial statements is detailed below:

- the categorisation of certain items as exceptional items and remeasurements and the definition of adjusted earnings – note 3.

IFRS provides certain options available within accounting standards. Choices we have made, and continue to make, include the following:

- **Presentational formats**: we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented separately on the face of the income statement.
- **Customer contributions:** contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.
- **Financial instruments:** we normally opt to apply hedge accounting in most circumstances where this is permitted.

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

- review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – notes 7 and 8.
- estimation of liabilities for pensions and other post-retirement benefits – notes 17 and 23.
- valuation of financial instruments and derivatives – notes 10 and 24.
- revenue recognition and assessment of unbilled revenue – note 1.
- environmental and decommissioning provisions – note 18.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analysis in note 25..

Recent accounting developments

New IFRS accounting standards and interpretations adopted in 2015/16

The following standards, interpretations and amendments, issued by the IASB and by the IFRS Interpretations Committee (IFRIC), are effective for the year ended 31 March 2016. None of the pronouncements has had a material impact on the Company's consolidated results or assets and liabilities for the year ended 31 March 2016.

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

New IFRS accounting standards and interpretations not yet adopted

The Company enters into a significant number of transactions that fall within the scope of IFRS 9 'Financial instruments' and IFRS 16 'Leases' effective for periods beginning after 1 January 2018 and 1 January 2019 respectively, subject to EU endorsement. We are assessing the likely impact of this standard on the Company's financial statements.

IFRS 15 'Revenue from Contracts with Customers' was issued by the IASB in May 2014. Subject to EU endorsement, it is effective for accounting periods beginning on or after 1 January 2018. The new standard provides enhanced detail on the principle of recognising revenue to reflect the transfer of goods and services to customers at a value which the Company expects to be entitled to receive.

The National Grid Group has completed an initial impact assessment of the new standard by completing a survey of all businesses identifying the likely impact of IFRS 15. This was a tailored questionnaire based on the known impacts of the new standard on power and utility companies. Whilst no material differences were identified as part of the questionnaire process, further follow up work will be required to determine the impact, if any, on certain revenue items including, but not limited to, variable consideration contracts, take or pay arrangements and performance obligations where multiple goods or services are provided in individual contracts.

Other standards and interpretations or amendments thereto which have been issued, but are not yet effective, are not expected to have a material impact on the Company's consolidated financial statements.

Consolidated income statement

for the years ended 31 March

	Notes	**2016 £m**	**2016 £m**	2015 £m	2015 £m
Revenue	1(a)		**3,979**		3,713
Exceptional other income	3		**-**		43
Operating costs	2		**(2,818)**		(2,529)
Operating profit					
Before exceptional items	1(b)	**1,161**		1,171	
Exceptional items	3	**-**		56	
Total operating profit	1(b)		**1,161**		1,227
Finance income	4		**1**		10
Finance costs					
Before exceptional items and remeasurements	4	**(128)**		(156)	
Exceptional items and remeasurements	3, 4	**(12)**		(106)	
Total finance costs	4		**(140)**		(262)
Profit before tax					
Before exceptional items and remeasurements		**1,034**		1,025	
Exceptional items and remeasurements	3	**(12)**		(50)	
Total profit before tax			**1,022**		975
Tax					
Before exceptional items and remeasurements	5	**(213)**		(218)	
Exceptional items and remeasurements	3, 5	**97**		13	
Total tax	5		**(116)**		(205)
Profit after tax					
Before exceptional items and remeasurements		**821**		807	
Exceptional items and remeasurements	3	**85**		(37)	
Profit for the year attributable to owners of the parent			**906**		770

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2016 £m	2015 £m
Profit for the year		**906**	770
Other comprehensive income/(loss):			
Items that will never be reclassified to profit or loss			
Remeasurements of net retirement benefit obligations	17	**107**	61
Tax on items that will never be reclassified to profit or loss	5	**(24)**	(13)
Total items that will never be reclassified to profit or loss		**83**	48
Items that may be reclassified subsequently to profit or loss			
Net gain/(loss) in respect of cash flow hedges		**6**	(90)
Transferred to profit or loss in respect of cash flow hedges		**22**	8
Tax on items that may be reclassified subsequently to profit or loss	5	**(7)**	16
Total items that may be reclassified subsequently to profit or loss		**21**	(66)
Other comprehensive income/(loss) for the year, net of tax		**104**	(18)
Total comprehensive income for the year attributable to owners of the parent		**1,010**	752

Consolidated statement of financial position

as at 31 March

	Notes	2016 £m	2015 £m
Non-current assets			
Intangible assets	7	**205**	174
Property, plant and equipment	8	**11,736**	11,137
Derivative financial assets	10	**449**	402
Total non-current assets		**12,390**	11,713
Current assets			
Inventories	11	**61**	30
Trade and other receivables	12	**259**	269
Financial and other investments	9	**426**	478
Derivative financial assets	10	**35**	39
Current tax asset		**6**	5
Cash and cash equivalents	13	**2**	3
Total current assets		**789**	824
Total assets		**13,179**	12,537
Current liabilities			
Borrowings	14	**(1,221)**	(1,611)
Derivative financial liabilities	10	**(74)**	(98)
Trade and other payables	15	**(928)**	(980)
Provisions	18	**(11)**	(15)
Total current liabilities		**(2,234)**	(2,704)
Non-current liabilities			
Borrowings	14	**(5,973)**	(5,512)
Derivative financial liabilities	10	**(663)**	(625)
Other non-current liabilities	16	**(381)**	(348)
Deferred tax liabilities	5	**(809)**	(791)
Pensions benefit obligations	17	**(270)**	(410)
Provisions	18	**(75)**	(77)
Total non-current liabilities		**(8,171)**	(7,763)
Total liabilities		**(10,405)**	(10,467)
Net assets		**2,774**	2,070
Equity			
Share capital	19	**44**	44
Retained earnings		**2,798**	2,115
Cash flow hedge reserve		**(68)**	(89)
Total equity		**2,774**	2,070

The consolidated financial statements set out on pages 37 to 74 were approved by the Board of Directors and authorised for issue on 24 June 2016 They were signed on its behalf by:

Chris Murray Chairman

Alan Foster Director

National Grid Electricity Transmission plc
Registered number: 2366977

Consolidated statement of changes in equity

for the years ended 31 March

	Called up share capital £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
At 31 March 2014	44	(23)	1,946	1,967
Profit for the year	-	-	770	770
Total other comprehensive income/(loss) for the year	-	(66)	48	(18)
Total comprehensive income/(loss) for the year	-	(66)	818	752
Equity dividends	-	-	(655)	(655)
Share-based payment	-	-	6	6
At 31 March 2015	44	(89)	2,115	2,070
Profit for the year	-	-	906	906
Total other comprehensive income for the year	-	21	83	104
Total comprehensive income for the year	-	21	989	1,010
Equity dividends	-	-	(310)	(310)
Share-based payment	-	-	3	3
Tax on share based payments	-	-	1	1
At 31 March 2016	**44**	**(68)**	**2,798**	**2,774**

Cash flow hedge reserve

The cash flow hedge reserve on interest rate swap contracts will be continuously transferred to the income statement until the borrowings are repaid. The amount due to be released from reserves to the income statement next year is £27m, with the remainder due to be released with the same maturity profile as borrowings due after more than one year.

Consolidated cash flow statement

for the years ended 31 March

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Total operating profit	1 (b)	**1,161**	1,227
Adjustments for:			
Exceptional items	3	**-**	(56)
Depreciation and amortisation		**390**	375
Share-based payment charge		**3**	3
Changes in working capital		**(48)**	69
Changes in pension obligations		**(47)**	(58)
Changes in provisions		**(8)**	(23)
Loss/(gain) on disposal of property, plant and equipment		**23**	(2)
Cash flows relating to exceptional items		**-**	113
Cash flows generated from operations		**1,474**	1,648
Tax paid		**(132)**	(143)
Net cash inflow from operating activities		**1,342**	1,505
Cash flows from investing activities			
Purchases of intangible assets		**(58)**	(46)
Purchases of property, plant and equipment		**(887)**	(914)
Disposals of property, plant and equipment		**3**	4
Interest received		**1**	11
Net disposals/(purchases) of short-term financial investments		**52**	(153)
Net cash flow used in investing activities		**(889)**	(1,098)
Cash flows from financing activities			
Proceeds from loans received		**600**	642
Repayment of loans		**(110)**	(169)
Net (settlement of)/proceeds from short-term borrowings and derivatives		**(467)**	14
Interest paid		**(167)**	(230)
Dividends paid to shareholders		**(310)**	(655)
Net cash flow used in financing activities		**(454)**	(398)
Net (decrease)/increase in cash and cash equivalents	20(a)	**(1)**	9
Cash and cash equivalents at the start of the year		**3**	(6)
Net cash and cash equivalents at the end of the year	13	**2**	3

1. Segmental analysis

This note sets out the financial performance for the year split into the different parts of the business (operating segments). We monitor and manage the performance of these operating segments on a day-to-day basis.

Our strategy in action

We work with our regulators to obtain robust regulatory agreements that balance the risks we face with the opportunity to deliver reasonable returns for our investors. Our regulated business earns revenue for the transmission services it has provided during the year. The revenue recognised may differ from the revenue allowed under our regulatory agreements and any such timing differences are adjusted against future prices.

Revenue primarily represents the sales value derived from the transmission of electricity, together with the sales value derived from the provision of other services to customers during the year. It excludes value added (sales) tax and intra-group sales.

Revenue includes an assessment of unbilled energy and transportation services supplied to customers between the date of the last meter reading and the year end, but not invoiced at year end. This is estimated based on historical consumption and weather patterns.

Where revenue exceeds the maximum amount permitted by regulatory agreement, adjustments will be made to future prices to reflect this over-recovery, no liability is recognised, as such an adjustment relates to the provision of future services. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

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 of Directors is National Grid Electricity Transmission plc.'s chief operating decision-making body (as defined by IFRS 8 'Operating Segments') and assesses the performance of operations principally on the basis of operating profit before exceptional items and remeasurements (see note 3). The following table describes the main activities for the operating segment:

Electricity Transmission	High voltage electricity transmission networks in Great Britain.

Other activities relate to other commercial operations not included within the above segment and corporate activities. There have been no changes to our reporting structure for the year ended 31 March 2016.

All of the Group's sales and operations take place within the UK.

(a) Revenue

	2016 Total sales £m	2015 Total sales £m
Operating segment		
Electricity Transmission	**3,977**	3,712
Other activities	**2**	1
	3,979	3,713

All sales are to third parties.

Analysis of revenue by major customer:	**2016 £m**	2015 £m
Customer A	**697**	705
Customer B	**512**	470
Customer C	**392**	455
Customer D	**388**	440
Customer E	**536**	412

No other single customer contributed 10% or more to the Group's revenue in either 2016 or 2015.

1. Segmental analysis (continued)

(b) Operating profit/(loss)

A reconciliation of the operating segment's measure of total profit before tax is provided below. Further details of the exceptional items and remeasurements are provided in note 3.

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Operating segment				
Electricity Transmission	**1,173**	1,182	**1,173**	1,238
Other activities	**(12)**	(11)	**(12)**	(11)
	1,161	1,171	**1,161**	1,227
Reconciliation to profit before tax:				
Operating profit	**1,161**	1,171	**1,161**	1,227
Finance income	**1**	10	**1**	10
Finance costs	**(128)**	(156)	**(140)**	(262)
Profit before tax	**1,034**	1,025	**1,022**	975

(c) Capital expenditure and depreciation

	Capital expenditure		Depreciation and amortisation	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Operating segment				
Electricity Transmission	**1,084**	1,072	**390**	375
	1,084	1,072	**390**	375
By asset type				
Property, plant and equipment	**1,026**	1,026	**362**	355
Intangible assets	**58**	46	**28**	20
	1,084	1,072	**390**	375

2. Operating costs

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

	Before exceptional items and remeasurements		Exceptional items and remeasurements		Total	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Depreciation and amortisation	**390**	375	**-**	-	**390**	375
Payroll costs	**151**	141	**-**	-	**151**	141
Rates	**85**	83	**-**	-	**85**	83
Balancing Service Incentive Scheme	**907**	874	**-**	-	**907**	874
Payments to other UK network owners	**970**	801	**-**	-	**970**	801
Research and Development expenditure	**10**	10	**-**	-	**10**	10
Operating leases	**15**	15	**-**	-	**15**	15
Inventory consumed	**22**	4	**-**	-	**22**	4
Other	**268**	239	**-**	(13)	**268**	226
	2,818	2,542	**-**	(13)	**2,818**	2,529

(a) Payroll costs

	2016 £m	2015 £m
Wages and salaries	**168**	155
Social security costs	**20**	21
Pension costs (note 17)	**39**	33
Share-based payment	**3**	6
Severance costs (excluding pension costs)	**3**	1
	233	216
Less: payroll costs capitalised	**(82)**	(75)
	151	141

(b) Number of employees, including Directors

	31 March 2016 Number	**Monthly average 2016 Number**	31 March 2015 Number	Monthly average 2015 Number
Electricity Transmission	**3,520**	**3,406**	3,270	3,273

The vast majority of employees are either directly or indirectly employed in the transmission of electricity.

(c) Key management compensation

	2016 £m	2015 £m
Salaries and short-term employee benefits	**3**	4
Post-retirement benefits	**1**	4
Share-based payment	**2**	1
Termination benefits (note 2(d))	**-**	-
	6	9

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

2. Operating costs (continued)

(d) Directors' emoluments

The aggregate amount of emoluments paid (excluding social security, pensions and share-based payments) to Directors of the company in respect of qualifying services for 2016 was £1,447,307 (2015: £1,470,019).

Four of the directors exercised share options during 2016 including the highest paid director (2015: Eight of the directors exercised share options).

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

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

The aggregate emoluments for the highest paid Director were £441,239 for 2016 (2015: £508,018); and total accrued annual pension at 31 March 2016 for the highest paid Director was £71,618 (2015: £71,250).

There was no loss of office payments to Directors in 2016 (2015: £155,393).

(e) Auditors' remuneration

	2016 £m	2015 £m
Audit services		
Audit of the parent Company’s individual and consolidated financial statements	**0.2**	0.2
Other services supplied		
Fees payable to the Company's auditors for audit related assurance services	**0.3**	0.3

Fees payable to the Company's auditors for audit related assurance services represent fees payable for services in relation to engagements which are required to be carried out by the auditors. In particular this includes fees for audit reports on regulatory returns. These fees have been subject to approval by the Audit Committee.

3. Exceptional items and remeasurements

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

Our financial performance is analysed into two components: business performance, which excludes exceptional items and remeasurements; and exceptional items and remeasurements. Business performance is used by management to monitor financial performance as it is considered that it improves the comparability of our reported financial performance from year to year. Business performance subtotals are presented on the face of the income statement or in the notes to the financial statements.

Management utilises an exceptional items framework that has been discussed and approved by the National Grid Electricity Transmission Audit Committee. This follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the Group’s control and how frequently such an event typically occurs. In determining the facts and circumstances management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, precedent for similar items, number of periods over which costs will be spread or gains earned and the commercial context for the particular transaction.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and significant debt redemption costs as a consequence of transactions such as significant disposals or issues of equity.

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

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

3. Exceptional items and remeasurements (continued)

	2016 £m	2015 £m
Included within operating profit:		
Exceptional items:		
Legal settlements (i)	**-**	56
	-	56
Included within finance costs:		
Exceptional items:		
Debt redemption costs (ii)	**-**	(63)
Remeasurements:		
Net losses on derivative financial instruments (iii)	**(12)**	(43)
	(12)	(106)
Total included within profit before tax	**(12)**	(50)
Included within tax:		
Exceptional credits arising on items not included in profit before tax:		
Deferred tax credit arising on the reduction in UK corporation tax rate (iv)	**94**	3
Tax on exceptional items (i) & (ii)	**-**	1
Tax on remeasurements (iii)	**3**	9
	97	13
Total exceptional items and remeasurements after tax	**85**	(37)
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	**94**	(3)
Total remeasurements after tax	**(9)**	(34)
Total	**85**	(37)

Further details of operating exceptional items in respect of the prior year

(i) During the year ended 31 March 2015, the Group received £113m for settlement of legal claims relating to equipment procured in prior years. £13m was credited to operating costs, £43m was recognised as other income and £57m was credited to plant and machinery within tangible fixed assets. There were no similar items for the year ended 31 March 2016.

(ii) Represents costs arising from a liability management programme. We reviewed and restructured the Group debt portfolio following the commencement of the RIIO price controls in 2013 and the slow down in our planned UK capital investment programme as the industry assessed the impact of EMR. This resulted in a bond repurchase programme with a notional value of £169m.

Remeasurements

(iii) Remeasurements - net losses on derivative financial instruments comprise gains and losses arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt.

Items included within tax

(iv) The Finance No. 2 Bill 2015 resulted in a reduction in the UK corporation tax rate from 20% to 19% for the year beginning 1 April 2017, with a further reduction from 19% to 18% for the year beginning 1 April 2020.

The Finance Act 2013 enacted reductions in the UK corporation tax rate from 23% to 21% from 1 April 2014, and from 21% to 20% from 1 April 2015. These reductions have resulted in decreases to UK deferred tax liabilities in these periods.

4. Finance income and costs

This note details the interest income generated by our financial assets and interest expense incurred on our financial liabilities. It also includes the expected return on pension assets, which is offset by the interest payable on pension obligations and presented on a net basis. In reporting business performance, we adjust net financing costs to exclude any net gains or losses on derivative financial instruments included in remeasurements. In addition, the prior year debt redemption costs have been treated as exceptional (see note 3).

	2016 £m	2015 £m
Finance income		
Interest income on financial instruments:	**1**	10
	1	10
Finance costs		
Net interest on pension obligations	**(14)**	(19)
Interest expense on finance liabilities held at amortised cost:		
Bank loans and overdrafts	**(8)**	(5)
Other borrowings	**(211)**	(247)
Derivatives	**18**	24
Unwinding of discount on provisions	**(4)**	(3)
Less: interest capitalised (i)	**91**	94
	(128)	(156)
Exceptional items:		
Debt redemption costs	**-**	(63)
Remeasurements:		
Net gains/(losses) on derivative financial instruments included in remeasurements (ii):		
Ineffectiveness on derivatives designated as:		
Fair value hedges (iii)	**18**	10
Cash flow hedges	**(6)**	(7)
Derivatives not designated as hedges or ineligible for hedge accounting	**(24)**	(46)
	(12)	(106)
	(140)	(262)
Net finance costs	**(139)**	(252)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 3.3% (2015: 3.9%). Capitalised interest qualifies for a current year tax deduction with tax relief claimed of £18m (2015: £20m).

(ii) Includes a net foreign exchange gain on financing activities of £27m (2015: £61m). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

(iii) Includes a net gain on instruments designated as fair value hedges of £12m (2015: £102m gain), and a net gain of £6m (2015: £87m loss) arising from fair value adjustments to the carrying value of debt.

5. Tax

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

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

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

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

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

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

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

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

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

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

Tax charged/(credited) to the income statement

	2016 £m	2015 £m
Tax before exceptional items and remeasurements	**213**	218
Exceptional tax on items not included in profit before tax (note 3)	**(94)**	(3)
Tax on other exceptional items and remeasurements (note 3)	**(3)**	(10)
Tax on total exceptional items and remeasurements (note 3)	**(97)**	(13)
Total tax charge	**116**	205

Tax as a percentage of profit before tax

	2016 %	2015 %
Before exceptional items and remeasurements	**20.6**	21.3
After exceptional items and remeasurements	**11.4**	21.0

The tax charge for the year can be analysed as follows:	**2016 £m**	2015 £m
Current tax		
Corporation tax at 20% (2015: 21%)	**151**	152
Corporation tax adjustment in respect of prior years	**(22)**	(7)
Total current tax	**129**	145
Deferred tax		
Deferred tax	**(35)**	54
Deferred tax adjustment in respect of prior years	**22**	6
Total deferred tax	**(13)**	60
Total tax charge	**116**	205

5. Tax (continued)

Tax (credited)/charged to other comprehensive income and equity

	2016 £m	2015 £m
Current tax		
Share-based payment	**(1)**	(3)
Deferred tax		
Cash flow hedges	**7**	(16)
Share-based payment	**-**	(1)
Remeasurements of net retirement benefit obligations	**24**	13
	30	(7)
Analysed as:		
Total tax recognised in the statement of other comprehensive income	**31**	(3)
Total tax relating to share-based payment recognised directly in equity	**(1)**	(4)
	30	(7)

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

	Before exceptional items and remeasure-ments 2016 £m	After exceptional items and remeasure-ments 2016 £m	Before exceptional items and remeasure-ments 2015 £m	After exceptional items and remeasure-ments 2015 £m
Profit before tax				
Before exceptional items and remeasurements	**1,034**	**1,034**	1,025	1,025
Exceptional items and remeasurements	**-**	**(12)**	-	(50)
Profit before tax	**1,034**	**1,022**	1,025	975
Profit before tax multiplied by UK corporation tax rate of 20% (2015: 21%)	**207**	**204**	215	205
Effect of:				
Adjustments in respect of prior years	**-**	**-**	(1)	(1)
Expenses not deductible for tax purposes	**7**	**7**	7	7
Impact of share-based payment	**(1)**	**(1)**	(3)	(3)
Deferred tax impact of change in UK tax rate	**-**	**(94)**	-	(3)
Total tax charge	**213**	**116**	218	205
	%	**%**	%	%
Effective tax rate	**20.6**	**11.4**	21.3	21.0

Factors that may affect future tax charges

The Finance Act 2015 (No.2) (the Act) was enacted on 18 November 2015. The Act reduced the main rate of UK corporation tax to 19% with effect from 1 April 2017 and 18% from 1 April 2020 and deferred tax balances have been calculated at 18%.

The Budget in March this year announced a further reduction in the corporate tax rate to 17% from 1 April 2020, from the previously enacted 18%. This has not been substantively enacted as at the reporting date. As the change to 17% had not been substantively enacted at the reporting date its effects are not included in these financial statements. The overall effect of that change, if it had applied to the deferred tax balances at the reporting date, would be to reduce the deferred tax liability by an additional £45m and reduce the tax expense for the period by £45m.

5. Tax (continued)

Tax included within the statement of financial position

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

Deferred tax (assets)/liabilities

	Accelerated tax depreciation £m	Share-based payment £m	Pensions £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2014	-	(4)	(102)	(6)	(6)	(118)
Deferred tax liabilities at 31 March 2014	852	-	-	-	1	853
At 1 April 2014	852	(4)	(102)	(6)	(5)	735
Charged/(credited) to income statement	50	(1)	8	-	3	60
(Credited)/charged to other comprehensive income	-	(1)	13	(16)	-	(4)
At 31 March 2015	902	(6)	(81)	(22)	(2)	791
Deferred tax assets at 31 March 2015	-	(6)	(81)	(22)	(3)	(112)
Deferred tax liabilities at 31 March 2015	902	-	-	-	1	903
At 1 April 2015	902	(6)	(81)	(22)	(2)	791
(Credited)/charged to income statement	(23)	-	9	-	1	(13)
Charged to other comprehensive income	-	-	24	7	-	31
At 31 March 2016	**879**	**(6)**	**(48)**	**(15)**	**(1)**	**809**
Deferred tax assets at 31 March 2016	-	(6)	(48)	(15)	(2)	(71)
Deferred tax liabilities at 31 March 2016	879	-	-	-	1	880
At 31 March 2016	**879**	**(6)**	**(48)**	**(15)**	**(1)**	**809**

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £809m (2015: £791m).

6. Dividends

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

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

The following table shows the dividends paid to equity shareholders:

	2016 pence (per ordinary share)	**2016 £m**	2015 pence (per ordinary share)	2015 £m
Ordinary dividends				
Interim dividend paid in the year	**70.89**	**310**	149.79	655

7. Intangible assets

Intangible assets relate to software, which is written down (amortised) over the length of period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment.

Intangible assets are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

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

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

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

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

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

	Software £m
Cost at 1 April 2014	286
Additions	46
Reclassifications between categories (i)	(6)
Cost at 31 March 2015	326
Additions	58
Reclassifications between categories (i)	1
Cost at 31 March 2016	385
Accumulated amortisation at 1 April 2014	(126)
Amortisation charge for the year	(20)
Reclassifications between categories (i)	(6)
Accumulated amortisation at 31 March 2015	(152)
Amortisation charge for the year	(28)
Accumulated amortisation at 31 March 2016	(180)
Net book value at 31 March 2016	**205**
Net book value at 31 March 2015	174

(i). Reclassifications represents amounts transferred (to)/from property, plant and equipment (see note 8).

8. Property, plant and equipment

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

Our strategy in action

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

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

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

Property, plant and equipment includes assets in which the Group's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets.

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

Contributions received post 1 July 2009 are recognised in revenue immediately, except where the contributions are consideration for a future service, in which case they are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided. No depreciation is provided on freehold land or assets in the course of construction.

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

Depreciation periods	**Years**
Freehold and leasehold buildings	up to 50
Plant and Machinery	
- Electricity Transmission plant	15 to 60
Motor vehicles and office equipment	up to 7

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are, depending on their magnitude, recognised as an exceptional item within operating profit in the income statement.

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

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

Impairments are recognised in the income statement and material impairments may be disclosed separately.

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

8. Property, plant and equipment (continued)

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2014	490	11,043	2,836	86	14,455
Additions	3	63	956	4	1,026
Disposals	-	(18)	(1)	(3)	(22)
Reclassifications between categories (i)	62	500	(556)	-	6
Other movements (ii)	-	(57)	-	-	(57)
Cost at 31 March 2015	555	11,531	3,235	87	15,408
Additions	4	54	960	8	1,026
Disposals	-	(32)	(23)	(1)	(57)
Reclassifications between categories (i & iii)	111	995	(1,231)	95	(30)
Other movements (ii)	-	(7)	-	-	(7)
Cost at 31 March 2016	670	12,541	2,941	189	16,341
Accumulated depreciation at 1 April 2014	(75)	(3,801)	-	(66)	(3,942)
Depreciation charge for the year	(15)	(330)	-	(10)	(355)
Disposals	-	18	-	2	20
Reclassifications between categories (i)	(2)	2	-	6	6
Accumulated depreciation at 31 March 2015	(92)	(4,111)	-	(68)	(4,271)
Depreciation charge for the year	(7)	(347)	-	(8)	(362)
Disposals	-	28	-	-	28
Accumulated depreciation at 31 March 2016	(99)	(4,430)	-	(76)	(4,605)
Net book value at 31 March 2016	**571**	**8,111**	**2,941**	**113**	**11,736**
Net book value at 31 March 2015	463	7,420	3,235	19	11,137

(i) Reclassifications represents amounts transferred between categories and from/(to) intangible assets (see note 7).
(ii) Credit relating to settlement of legal claims relating to equipment procurement of £7m (2015: £57m, see note 3).
(iii) Transfers from Assets in the course of construction of £29m were made to inventory (see note 11).

	2016 £m	2015 £m
Information in relation to property, plant and equipment:		
Capitalised interest included within cost	**1,225**	1,134
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	**7**	7
Non-current liabilities	**346**	308

9. Financial and other investments

Financial and other investments includes two main categories. Assets classified as available-for-sale typically represent investments in short-term money funds and quoted investments in equities or bonds of other companies. The second category is loans and receivables which includes bank deposits with a maturity of greater than three months, and cash balances that cannot be readily used in operations, principally collateral pledged for certain borrowings.

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

Available-for-sale financial investments are recognised at fair value plus directly related incremental transaction costs, and are subsequently carried at fair value in the statement of financial position. Changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Investment income is recognised using the effective interest method and taken through interest income in the income statement.

Loans receivable and other receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, are recognised in the income statement.

Subsequent to initial recognition, the fair values of financial assets measured at fair value that are quoted in active markets are based on bid prices. When independent prices are not available, fair values are determined by using valuation techniques that are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

	2016	2015
	£m	£m
Current		
Loans and receivables - amounts due from fellow subsidiaries	**1**	1
Loans and receivables - restricted cash balances (i)	**425**	443
Available-for-sale investments (ii)	**-**	34
Total financial and other investments	**426**	478

(i) Comprises collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £425m (2015: £442m) and secured bank accounts with charges in favour of the UK pension schemes Trustees of £nil (2015: £1m).

(ii) Refers to assets held within security accounts with charges in favour of the UK pension scheme Trustees of £nil (2015: £34m).

Available-for-sale investments are recorded at fair value. Due to their short maturities, the carrying value of loans and receivables approximates their fair value.

10. Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, equity or other indices. In accordance with the National Grid Board approved policies, derivatives are transacted to manage our exposure to fluctuations in interest rate and foreign exchange rate on borrowings and other contractual cash flows. Specifically, we use derivatives to manage these risks from our financing portfolio to optimise the overall cost of accessing the debt capital markets. These derivatives are analysed below.

Derivative financial instruments are initially recognised at fair value and subsequently remeasured at fair value at each reporting date. Changes in fair values are recorded in the period they arise, either in the income statement or other comprehensive income depending on the applicable accounting standards. Where the fair value of a derivative is positive it is carried as a derivative asset, and where negative as a derivative liability.

We calculate fair value of the financial derivatives by discounting all future cash flows by the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. Analysis of these derivatives and the various methods used to calculate their respective fair values is detailed below and in note 24.

10. Derivative financial instruments (continued)

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

	2016			2015		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Interest rate swaps	**424**	**(376)**	**48**	400	(347)	53
Cross-currency interest rate swaps	**53**	**(145)**	**(92)**	39	(152)	(113)
Foreign exchange forward contracts	**7**	**(3)**	**4**	2	(37)	(35)
Inflation linked swaps	**-**	**(213)**	**(213)**	-	(187)	(187)
Total	**484**	**(737)**	**(253)**	441	(723)	(282)

The maturity of derivative financial instruments is as follows:

	2016			2015		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Current	**35**	**(74)**	**(39)**	39	(98)	(59)
In 1 - 2 years	**-**	**(96)**	**(96)**	9	(27)	(18)
In 2 - 3 years	**-**	**(24)**	**(24)**	-	(96)	(96)
In 3 - 4 years	**-**	**(2)**	**(2)**	-	(30)	(30)
In 4 - 5 years	**-**	**-**	**-**	-	(34)	(34)
More than 5 years	**449**	**(541)**	**(92)**	393	(438)	(45)
Non-current	**449**	**(663)**	**(214)**	402	(625)	(223)
Total	**484**	**(737)**	**(253)**	441	(723)	(282)

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

	2016 £m	2015 £m
Interest rate swaps	**(3,731)**	(3,731)
Cross-currency interest rate swaps	**(1,236)**	(1,336)
Foreign exchange forward contracts	**(312)**	(449)
Inflation linked swaps	**(631)**	(622)
Total	**(5,910)**	(6,138)

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

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

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

Fair value hedges

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

	2016 £m	2015 £m
Cross-currency interest rate/interest rate swaps	**22**	10

10. Derivative financial instruments (continued)

Cash flow hedges

Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates or are in a foreign currency. Interest rate and cross-currency swaps are maintained, and designated as cash flow hedges, where they qualify, to manage this exposure. Fair value changes on designated cash flow hedges are initially recognised directly in the cash flow hedge reserve, as gains or losses recognised in equity and any ineffective portion is recognised immediately in the income statement. Amounts are transferred from equity and recognised in the income statement as the income or expense is recognised on the hedged item.

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

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

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

	2016 £m	2015 £m
Cross-currency interest rate/interest rate swaps	**(94)**	(106)
Foreign exchange forward contracts	**4**	(35)
Inflation linked swaps	**(65)**	(47)
Cash flow hedges	**(155)**	(188)

Derivatives not in a formal hedge relationship

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

	2016 £m	2015 £m
Cross-currency interest rate/interest rate swaps	**28**	36
Inflation linked swaps	**(148)**	(140)
Derivatives not in a formal hedge relationship	**(120)**	(104)

Discontinuation of hedge accounting

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement in the same periods in which the previously hedged item affects net profit or loss. For fair value hedges, the cumulative adjustment recorded to the carrying value of the hedged item at the date hedge accounting is discontinued is amortised to the income statement using the effective interest method.

Embedded derivatives

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are closely related to those instruments or contracts. Consequently these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument.

11. Inventories

Inventories represent assets that we intend to use in order to generate revenue in future periods, either by selling the asset itself or by using it to fulfil a service to a customer (consumables) or to maintain our network.

Inventories, which comprise raw materials, spares and consumables, are stated at cost, calculated on a weighted average basis, less provision for damage and obsolescence.

Cost comprises direct materials and those costs that have been incurred in bringing the inventories to their present location and condition.

	2016 £m	2015 £m
Raw materials, spares and consumables	**61**	30

The above table includes a £16m provision for obsolescence against raw materials and consumables at 31 March 2016 (2015: £16m).

12. Trade and other receivables

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

Trade, loan and other receivables are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected.

Trade receivables are non-interest bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade and other receivables approximates to their book value. All other receivables are recorded at amortised cost. The provision as at 31 March 2016 was £2m (2015: £1m).

	2016 £m	2015 £m
Trade receivables	**50**	47
Amounts owed by fellow subsidiaries of National Grid plc	**10**	40
Prepayments and accrued income	**190**	178
Other receivables	**9**	4
	259	269

Provision for impairment of receivables	2016 £m	2015 £m
At 1 April	**1**	-
Charge for the year, net of recoveries	**1**	1
As at 31 March	**2**	1

Trade receivables past due but not impaired

	2016 £m	2015 £m
Up to 3 months past due	**8**	17
3 to 6 months past due	**1**	-
Over 6 months past due	**1**	-
	10	17

For further information on our wholesales and retail credit risk, refer to note 24(a).

13. Cash and cash equivalents

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

Net cash and cash equivalents reflected in the cash flow statement are net of bank overdrafts, which are reported in borrowings.

The carrying amounts of cash and cash equivalents and bank overdrafts approximate their fair values.

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

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 24(d).

	2016 £m	2015 £m
Cash at bank and short-term deposits	**2**	3
Net cash and cash equivalents	**2**	3

The carrying amounts of net cash and cash equivalents approximate to their fair value.

14. Borrowings

We borrow money primarily in the form of bonds and bank loans. These are for a fixed term and may have fixed or floating interest rates or are linked to the Retail Price Index (RPI). As indicated in note 10, we use derivatives to manage risks associated with interest rates and foreign exchange.

Our strategy in action

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

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

	2016 £m	2015 £m
Current		
Bank loans	**296**	71
Bonds	**58**	175
Borrowings from fellow subsidiaries of National Grid plc	**1**	1
Borrowings from the ultimate parent company	**866**	1,364
	1,221	1,611
Non-current		
Bank loans	**819**	412
Bonds	**5,154**	5,100
	5,973	5,512
Total	**7,194**	7,123

Total borrowings are repayable as follows:	**2016 £m**	2015 £m
Less than 1 year	**1,221**	1,611
In 1 - 2 years	**518**	200
In 2 - 3 years	**527**	516
In 3 - 4 years	**219**	515
In 4 - 5 years	**410**	218
More than 5 years		
by instalments	**604**	-
other than by instalments	**3,695**	4,063
	7,194	7,123

14. Borrowings (continued)

The fair value of borrowings at 31 March 2016 was £8,168m (2015: £8,354m). Where market values were available, fair value of borrowings (Level 1) was £3,324m (2015: £3,930m). Where market values are not available, fair value of borrowings (Level 2) was £4,845m (2015: £4,424m), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio as at 31 March 2016 was £6,959m (2015: £6,882m).

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £96m (2015: £71m) in respect of cash received under collateral agreements.

At 31 March 2016, we had committed credit facilities of £765m (2015: £820m) of which £765m was undrawn (2015: £820m undrawn). All of the unused facilities at 31 March 2016 and at 31 March 2015 were held as back up to commercial paper and similar borrowings.

In addition to the above the Group has a bank loan agreement totalling £1,500m with the European Investment Bank (EIB), of which £900m is currently undrawn.

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

15. Trade and other payables

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

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

	2016 £m	2015 £m
Trade payables	**617**	596
Amounts owed to fellow subsidiaries of National Grid plc	**56**	115
Deferred income	**154**	113
Social security and other taxes	**83**	104
Other payables	**18**	52
	928	980

Due to their short maturities, the fair value of trade and other payables (excluding deferred income) approximates to their book value. All trade and other payables are recorded at amortised cost.

16. Other non-current liabilities

Other non-current liabilities includes deferred income which will not be recognised as income until after 31 March 2017. It also includes payables that are not due until after that date.

	2016 £m	2015 £m
Deferred income	**371**	330
Other payables	**10**	18
	381	348

The fair value of other payables approximates to their book value. All other non-current liabilities are recorded at amortised cost.

17. Pensions

Many of National Grid Electricity Transmission's employees are members of the National Grid Electricity Group of the Electricity Supply Pension Scheme, which is a defined benefit scheme or The National Grid YouPlan (YouPlan) which is a defined contribution trust. YouPlan was launched in 2013 and under the rules of the plan, National Grid double matches contributions to YouPlan up to a maximum of 6% of employee salary. YouPlan is the qualifying scheme used for automatic enrolment and new hires are enrolled into YouPlan.
The fair value of defined benefit scheme assets and present value of defined benefit obligations are updated annually in accordance with IAS 19 (revised). For further details of the National Grid Electricity Group of the Electricity Supply Pension Scheme and the actuarial assumptions used to value the associated assets and obligations, see note 23.

Below we provide a more detailed analysis of the amounts recorded in the primary financial statements.

For defined contribution plans, the Group pays contributions into a separate fund on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member.

For the defined benefit retirement scheme, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. The Group underwrites both financial and demographic risks associated with this type of scheme.

The cost of providing benefits in a defined benefit scheme is determined using the projected unit method, with actuarial valuations being carried out at each reporting date by a qualified actuary. This valuation method is an accrued benefits valuation method that makes allowance for projected earnings.

The Group's obligation in respect of the defined benefit pension scheme is calculated separately by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities and the fair value of plan assets and any unrecognised past service cost is then deducted. The discount rate used is the yield at the valuation date on high-quality corporate bonds.

The Group takes advice from an independent actuary relating to the appropriateness of any key assumptions applied which include life expectancy of members, expected salary and pension increases, and inflation. It should be noted that comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement and the statement of other comprehensive income and the net liability recognised in the statement of financial position.

Remeasurements of net retirement obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

Risks

The defined benefit pension obligations are exposed to the primary risks outlined below.

Liabilities are calculated using discount rates set with reference to yields on high-quality corporate bonds prevailing in the UK debt market and will fluctuate as yields change. Scheme funds are invested in a variety of asset classes, principally: equities, government securities, corporate bonds and property. Consequently, actual returns will differ from the underlying discount rate adopted and therefore have an impact on the net liability recognised in the statement of financial position.

Changes in inflation will affect both current and future pension payments and are partially mitigated through investment in inflation matching assets and hedging instruments.

Longevity is also a key driver of liabilities and changes in expected mortality will have a direct impact on liabilities. The liabilities are, in aggregate, relatively mature which serves to mitigate this risk to some extent.

The scheme's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made both to the maturity of the liabilities and the funding level of the scheme. A number of further strategies are employed to manage underlying risks, including liability matching asset strategies, diversification of asset portfolios, interest rate hedging and active management of foreign exchange exposure.

Amounts recognised in the statement of financial position

	2016 **£m**	2015 £m
Present value of funded obligations	**(2,781)**	(2,817)
Fair value of scheme assets	**2,556**	2,450
	(225)	(367)
Present value of unfunded obligations	**(45)**	(43)
Net defined benefit liability	**(270)**	(410)
Represented by:		
Liabilities	**(270)**	(410)
	(270)	(410)

17. Pensions (continued)

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

	2016 £m	2015 £m
Included within payroll costs		
Defined contribution scheme costs	**14**	11
Defined benefit scheme costs:		
Current service cost	**27**	23
Contributions from other employers	**(8)**	(11)
Past service credit - redundancies	**(1)**	-
Special termination benefit cost - redundancies	**5**	6
Past service cost - augmentations	**2**	4
	39	33
Included within finance income and costs		
Interest cost	**14**	19
Total included in the income statement	**53**	52
Remeasurements of net retirement benefit obligations	**107**	61
Total included in the statement of other comprehensive income	**107**	61

Reconciliation of the net defined benefit liability

	2016 £m	2015 £m
Opening net defined benefit liability	**(410)**	(510)
Cost recognised in the income statement	**(47)**	(52)
Remeasurement effects recognised in the statement of other comprehensive income	**107**	61
Employer contributions	**80**	91
Closing net defined benefit liability	**(270)**	(410)

	2016 £m	2015 £m
Changes in the present value of defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligations	**(2,860)**	(2,467)
Current service cost	**(27)**	(23)
Interest cost	**(92)**	(103)
Actuarial gains/(losses) - experience	**43**	(13)
Actuarial losses - demographic assumptions	**-**	(7)
Actuarial losses - financial assumptions	**-**	(351)
Past service credit - redundancies	**1**	-
Special termination benefit cost - redundancies	**(5)**	(6)
Past service cost - augmentations	**(2)**	(4)
Employee contributions	**(1)**	(1)
Benefits paid	**117**	115
Closing defined benefit obligations	**(2,826)**	(2,860)
Changes in the fair value of plan assets		
Opening fair value of plan assets	**2,450**	1,957
Interest income	**78**	84
Return on assets greater than assumed	**64**	432
Employer contributions	**80**	91
Employee contributions	**1**	1
Benefits paid	**(117)**	(115)
Closing fair value of plan assets	**2,556**	2,450
Actual return on plan assets	**142**	516
Expected contributions to plans in the following year	**74**	74

18. Provisions

We make provisions when an obligation exists, resulting from a past event and it is probable that cash will be paid to settle it, but the exact amount of cash required can only be estimated. The main estimates relate to environmental remediation costs for various sites we own or have owned and other provisions, including restructuring plans and lease contracts we have entered into that are now loss making.

Our strategy in action

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

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

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

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

The unwinding of the discount is included within the income statement as a financing charge.

	Environmental £m	Other £m	Total provisions £m
At 1 April 2014	74	38	112
Utilised	(1)	(17)	(18)
Unwinding of discount	3	-	3
Unused amounts reversed	(4)	(1)	(5)
At 31 March 2015	72	20	92
Utilised	(2)	(5)	(7)
Unwinding of discount	3	1	4
Unused amounts reversed	(3)	-	(3)
At 31 March 2016	**70**	**16**	**86**

	2016 £m	2015 £m
Current	**11**	15
Non-current	**75**	77
	86	92

Environmental provision

The environmental provision is calculated on an discounted basis and represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Group. Cash flows are expected to be incurred between 2016 and 2060. The undiscounted amount is £94m (2015: £104m), and the real discount rate is 2.0%.

A number of uncertainties affect the calculation of the provision, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. The provision incorporates our best estimate of the financial effect of these uncertainties, but future material changes in any of the assumptions could have a material impact on the calculation of the provision and hence the income statement.

Other provisions

Other provisions include employer liability claims of £7m (2015: £6m). In accordance with insurance industry practice, these estimates are based on experience from previous years and there is therefore no identifiable payment date. Also included are business reorganisation costs of £11m, which are expected to be utilised during 2017. The remainder is expected to be incurred until 2023.

19. Share capital

Ordinary share capital represents the total number of shares issued for which dividends accrue.

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

	Number of shares millions	£m
At 31 March 2015 and 2016 - ordinary shares of 10p each		
Allotted, called-up and fully paid	437	44

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

20. Net Debt

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

The movement in cash and cash equivalents is reconciled to movements in net debt.

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

	2016 £m	2015 £m
(Decrease)/increase in cash and cash equivalents	**(1)**	9
(Decrease)/increase in financial investments	**(53)**	152
Increase in borrowings and related derivatives	**(23)**	(487)
Net interest paid on the components of net debt	**165**	220
Change in net debt resulting from cash flows	**88**	(106)
Changes in fair value of financial assets and liabilities and exchange movements	**18**	(123)
Net interest charge on the components of net debt	**(201)**	(280)
Movement in net debt (net of related derivative financial instruments) in the year	**(95)**	(509)
Net debt (net of related derivative financial instruments) at start of year	**(6,924)**	(6,415)
Net debt (net of related derivative financial instruments) at end of year	**(7,019)**	(6,924)

Composition of net debt

	2016 £m	2015 £m
Cash, cash equivalents and financial investments	**428**	481
Borrowings and bank overdrafts	**(7,194)**	(7,123)
Derivatives	**(253)**	(282)
Total net debt	**(7,019)**	(6,924)

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	**Total Net cash and cash equivalents £m**	Financial investments £m	Borrowings £m	Derivatives £m	**Total £m**
At 1 April 2014	-	(6)	**(6)**	326	(6,551)	(184)	**(6,415)**
Cash flow	3	6	**9**	142	(234)	(23)	**(106)**
Fair value gains and losses and exchange movements	-	-	**-**	-	(24)	(99)	**(123)**
Interest income/(charges)	-	-	**-**	10	(314)	24	**(280)**
At 31 March 2015	3	-	**3**	478	(7,123)	(282)	**(6,924)**
Cash flow	(1)	-	**(1)**	(52)	169	(28)	**88**
Fair value gains and losses and exchange movements	-	-	**-**	-	(21)	39	**18**
Interest income/(charges)	-	-	**-**	-	(219)	18	**(201)**
At 31 March 2016	2	-	**2**	426	(7,194)	(253)	**(7,019)**
Balances at 31 March 2016 comprise:							
Non-current assets	-	-	**-**	-	-	449	**449**
Current assets	2	-	**2**	426	-	35	**463**
Current liabilities	-	-	**-**	-	(1,221)	(74)	**(1,295)**
Non-current liabilities	-	-	**-**	-	(5,973)	(663)	**(6,636)**
	2	**-**	**2**	**426**	**(7,194)**	**(253)**	**(7,019)**

Notes to the consolidated financial statements - supplementary information

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

21. Commitments and contingencies

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

Future capital expenditure	2016 £m	2015 £m
Contracted for but not provided	**1,151**	1,457
Operating lease commitments		
Amounts due:		
Less than 1 year	**12**	12
In 1 - 2 years	**10**	10
In 2 - 3 years	**7**	8
In 3 - 4 years	**7**	6
In 4 - 5 years	**4**	6
More than 5 years	**3**	8
	43	50

Other commitments, contingencies and guarantees
Guarantees in respect of a former associate amounting to £14m (2015: £14m). These are open ended.

Guarantees in the normal course of business and entered into on normal commercial terms amounted to £1,239m (2015: £1,408m). These include guarantees of certain obligations for construction of the HVDC West Coast link amounting to £415m (2015: £555m), expected to expire in 2016.

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.

22. Related party transactions

A related party is a company or individual who also has an interest in us, for example a company that provides a service to us with a Director who holds a controlling stake in that company and who is also a Director of National Grid plc. The related parties identified include joint ventures, associated undertakings, investments and key management personnel.

The following material transactions are with fellow subsidiaries of National Grid plc, a joint venture and a pension plan, and are in the normal course of business.

	Parent		Other related parties		Total	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Income:						
Goods and services supplied (i)	**-**	-	**24**	19	**24**	19
	-	-	**24**	19	**24**	19
Expenditure:						
Services received (ii)	**-**	-	**(198)**	(107)	**(198)**	(107)
Corporate services received	**-**	-	**(13)**	(13)	**(13)**	(13)
Interest paid on borrowings from fellow subsidiaries	**-**	-	**(7)**	(9)	**(7)**	(9)
	-	-	**(218)**	(129)	**(218)**	(129)
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:						
Amounts receivable (iii)	**-**	-	**9**	41	**9**	41
Amounts payable (iv)	**-**	-	**(56)**	(115)	**(56)**	(115)
Advances to fellow subsidiaries (amounts due within one year):						
At 1 April 2015	**-**	2	**1**	1	**1**	3
Repayments	**-**	(2)	**-**	-	**-**	(2)
At 31 March 2016	**-**	-	**1**	1	**1**	1
Borrowings payable to fellow subsidiaries (amounts due within one year):						
At 1 April 2015	**-**	(10)	**(1,365)**	(405)	**(1,365)**	(415)
Advances	**-**	-	**-**	(1,003)	**-**	(1,003)
Repayments	**-**	10	**498**	43	**498**	53
At 31 March 2016	**-**	-	**(867)**	(1,365)	**(867)**	(1,365)
Borrowings payable to fellow subsidiaries (amounts due after one year):						
At 1 April 2015	**-**	-	**-**	(305)	**-**	(305)
Advances	**-**	-	**-**	-	**-**	-
Repayments	**-**	-	**-**	305	**-**	305
At 31 March 2016	**-**	-	**-**	-	**-**	-

(i) Includes £6m in respect of joint ventures (2015: £7m).
(ii) Includes £168m in respect of joint ventures (2015: £69m).
(iii) Includes £1m in respect of joint ventures (2015: £3m).
(iv) Includes £4m in respect of joint ventures (2015: £nil).

Amounts receivable from or payable to related parties in respect of income and expenditure are ordinarily settled one month in arrears. Advances to and borrowings from fellow subsidiaries are repayable on demand and bear interest at commercial rates.

Details of key management compensation are provided in note 2(d) and information relating to pension fund arrangements is disclosed in notes 17 and 23.

23. Actuarial information on pensions

Further details of the defined benefit scheme terms and the actuarial assumptions used to value the associated assets and obligations are set out in this note.

When deciding on these assumptions we take independent actuarial advice. Comparatively small changes in the assumptions applied may have a significant effect on the overall deficit or surplus of a defined benefit scheme.

The National Grid Electricity Group of the Electricity Supply Pension Scheme is funded with assets held in a separate trustee administered fund. The arrangements are managed by a trustee company with a board consisting of company and member appointed directors. The directors are required to manage the arrangements in accordance with local regulations and the arrangements' governing documents, acting on behalf of its beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with us, the qualified actuary certifies the employer's contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable. The last full actuarial valuation was carried out as at 31 March 2013. The 2016 valuation processes have commenced.

The results of the 2013 valuation are shown below:

Latest full actuarial valuation	31 March 2013
Actuary	Aon Hewitt
Market value of scheme assets at latest valuation	£1,900m
Actuarial value of benefits due to members	(£2,708m)
Market value as percentage of benefits	70%
Funding deficit	£808m
Funding deficit (net of tax)	£663m

From April 2014 an annual cap was placed on future increases to the salary used to calculate pensions at the lower of 3% or the annual increase in RPI. This capped salary was applied to all pensionable service from 1 April 2013 onwards. These changes are to ensure our scheme remains affordable and sustainable over the coming years.

The 2013 actuarial valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 33.4% of pensionable earnings (27.5% employers and an average of 5.9% employees; from 1 April 2016 this will be an average of 26.5% by employers and an average of 6.9% by employees). Following the 2013 actuarial valuation, National Grid and the Trustees agreed a recovery plan that will see the funding deficit repaid by 31 March 2027. Under the schedule of contributions a payment of £46m was made in 2014/15 and £47m in 2015/16. Thereafter, annual payments will rise in line with RPI until 2026/27.

As part of the 2013 agreement, National Grid established security arrangements with a charge in favour of the Trustees. At 31 March 2016 the value of this was required to be £150m. This was provided via £150m in a letter of credit. The assets held as security will be paid to the scheme in the event that National Grid Electricity Transmission plc (NGET) is subject to an insolvency event, or ceases to hold a licence granted under the Electricity Act 1989. The assets held as security will be released back to National Grid if the scheme movies into surplus.

National Grid has also agreed to make a payment in respect of the deficit up to a maximum of £500m should certain triggers be breached; namely if NGET ceases to hold the licence granted under the Electricity Act 1989 or NGET’s credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

The scheme closed to new members from 1 April 2006.

Asset allocations

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

	2016 Quoted £m	**2016 Unquoted £m**	**2016 Total £m**	2015 Quoted £m	2015 Unquoted £m	2015 Total £m
Equities	**812**	**159**	**971**	781	153	934
Corporate bonds	**75**	**-**	**75**	221	-	221
Government securities	**98**	**-**	**98**	124	-	124
Property	**90**	**94**	**184**	86	89	175
Liability matching assets (i)	**1,179**	**-**	**1,179**	946	-	946
Other	**48**	**1**	**49**	46	4	50
Total	**2,302**	**254**	**2,556**	2,204	246	2,450

(i). Includes liability-driven investment vehicles.

23. Actuarial information on pensions (continued)

Target asset allocations

The scheme's investment strategy is formulated specifically in order to manage risk, through investment in diversified asset classes, including the use of liability matching assets and where appropriate through the employment of interest rate and inflation hedging instruments. The target asset allocation of the plans as at 31 March 2016 is as follows:

	%
Equities	**38**
Other	**62**
Total	**100**

Actuarial assumptions

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

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

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

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

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

For sensitivity analysis, see note 25.

	2016	2015
	years	years
Assumed life expectations for a retiree at age 65		
Today:		
Males	**24.9**	24.9
Females	**25.6**	25.5
In 20 years:		
Males	**27.2**	27.1
Females	**28.4**	28.2

24. Financial risk management

Our activities expose us to a variety of financial risks including, currency risk, interest rate risk, credit risk, capital risk, and liquidity risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage risks of this type.

This note describes our approach to managing risk, including an analysis of assets and liabilities by currency type and an analysis of interest rate category for our net debt. We are required by accounting standards to also include a number of specific disclosures (such as a maturity analysis of contractual undiscounted cash flows) and have included these requirements below.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committee of the National Grid plc Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The National Grid plc Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

We have exposure to the following risks, which are described in more detail below:
- credit risk
- liquidity risk
- interest rate risk
- currency risk
- capital risk

(a) Credit risk
We are exposed to the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in our commercial business activities. We are exposed to credit risk on our cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Treasury credit risk
Counterparty risk arises from the investment of surplus funds and from the derivative instruments. The Company's limits are managed by the central treasury department of National Grid plc, as explained in the 'Principal risks' on pages 21 and 22.

As at 31 March 2016 and 2015, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Management does not expect any significant losses from non performance by these counterparties.

Wholesale and retail credit risk
Our principal commercial exposure is governed by the credit rules within the regulated Connection and Use of System Code. These set out the level of credit relative to the regulatory asset value (RAV) for each credit rating. We have no retail credit risk. Management does not expect any significant losses of receivables.

Offsetting financial assets and liabilities
The following tables set out our financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present National Grid Electricity Transmission's net exposure.

24. Financial risk management (continued)

(a) Credit risk (continued)

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis.

Amounts which do not meet the criteria for offsetting on the statement of financial position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

National Grid Electricity Transmission has similar arrangements in relation to bank account balances and bank overdrafts; and trade payables and trade receivables which are subject to general terms and conditions. However, these balances are immaterial.

				Related amounts available to be offset but not offset in statement of financial position		
As at 31 March 2016	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	**484**	**-**	**484**	**(307)**	**(96)**	**81**
Liabilities						
Derivative financial instruments	**(737)**	**-**	**(737)**	**307**	**402**	**(28)**
Total	**(253)**	**-**	**(253)**	**-**	**306**	**53**

				Related amounts available to be offset but not offset in statement of financial position		
As at 31 March 2015	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	441	-	441	(239)	(71)	131
Liabilities						
Derivative financial instruments	(723)	-	(723)	239	411	(73)
Total	(282)	-	(282)	-	340	58

24. Financial risk management (continued)

(b) Liquidity risk

Our policy is to determine our liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding requirements for at least a 24 month period and maintain adequate liquidity for a continuous 12 month period.

We believe our contractual obligations, including those shown in commitments and contingencies in note 21 can be met from existing cash and investments, operating cash flows and internal or external financing that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, and financial covenants, such as maintaining current rating levels. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt, and may restrict our ability to draw upon our facilities to access the capital markets.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities, and derivative assets and liabilities as at the reporting date:

At 31 March 2016	**Due within 1 year**	**Due between 1 and 2 years**	**Due between 2 and 3 years**	**Due 3 years and beyond**	**Total**
Non-derivative financial liabilities					
Borrowings	**(1,161)**	**(518)**	**(527)**	**(4,753)**	**(6,959)**
Interest payments on borrowings (i)	**(177)**	**(169)**	**(154)**	**(2,066)**	**(2,566)**
Other non-interest bearing liabilities	**(635)**	**(10)**	**-**	**-**	**(645)**
Derivative financial liabilities					
Derivative contracts - receipts	**62**	**246**	**203**	**130**	**641**
Derivative contracts - payments	**(57)**	**(338)**	**(253)**	**(428)**	**(1,076)**
Total at 31 March 2016	**(1,968)**	**(789)**	**(731)**	**(7,117)**	**(10,605)**

At 31 March 2015	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due 3 years and beyond	Total
Non-derivative financial liabilities					
Borrowings	(1,545)	(200)	(513)	(4,624)	(6,882)
Interest payments on borrowings (i)	(176)	(175)	(170)	(2,251)	(2,772)
Other non-interest bearing liabilities	(648)	(18)	-	-	(666)
Derivative financial liabilities					
Derivative contracts - receipts	96	93	234	247	670
Derivative contracts - payments	(134)	(85)	(344)	(606)	(1,169)
Total at 31 March 2015	(2,407)	(385)	(793)	(7,234)	(10,819)

(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.

(c) Interest rate risk

Interest rate risk arises from our long-term borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk, partially offset by cash held at variable rates. Borrowings issued at fixed rates expose us to fair value interest rate risk.

Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints. We do this by using fixed and floating rate debt and derivative financial instruments including interest rate swaps, options and forward rate agreements. We hold some borrowings on issue that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

The table in note 14 (borrowings) sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

During 2016 and 2015, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2016			
	Fixed rate £m	**Floating rate £m**	**RPI £m**	**Total £m**
Cash	**-**	**2**	**-**	**2**
Financial investments	**-**	**426**	**-**	**426**
Borrowings	**(2,620)**	**(1,280)**	**(3,294)**	**(7,194)**
Pre-derivative position	**(2,620)**	**(852)**	**(3,294)**	**(6,766)**
Derivative effect	**400**	**(543)**	**(110)**	**(253)**
Net debt position (ii)	**(2,220)**	**(1,395)**	**(3,404)**	**(7,019)**

24. Financial risk management (continued)

(c) Interest rate risk (continued)

	2015			
	Fixed rate £m	Floating rate £m	RPI £m	Total £m
Cash	-	3	-	3
Financial investments	34	444	-	478
Borrowings	(2,716)	(1,750)	(2,657)	(7,123)
Pre-derivative position	(2,682)	(1,303)	(2,657)	(6,642)
Derivative effect	727	(965)	(44)	(282)
Net debt position (i)	(1,955)	(2,268)	(2,701)	(6,924)

(i) The impact of 2016/17 (2014: 2015/16) maturing short-dated interest rate derivatives is included.

(d) Currency risk

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

Our policy for managing foreign exchange transaction risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where foreign currency cash flow forecasts are less certain, our policy is to hedge a proportion of such cash flows based on the probability of those cash flows occurring. Instruments used to manage foreign exchange transaction risk include foreign exchange forward contracts and foreign exchange swaps.

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

	2016			
	Sterling £m	**Euro £m**	**Other £m**	**Total £m**
Cash	**2**	**-**	**-**	**2**
Financial investments	**426**	**-**	**-**	**426**
Borrowings	**(5,993)**	**(262)**	**(939)**	**(7,194)**
Pre-derivative position	**(5,565)**	**(262)**	**(939)**	**(6,766)**
Derivative effect	**(1,718)**	**517**	**948**	**(253)**
Net debt position	**(7,283)**	**255**	**9**	**(7,019)**

	2015			
	Sterling £m	Euro £m	Other £m	Total £m
Cash	3	-	-	3
Financial investments	478	-	-	478
Borrowings	(5,840)	(240)	(1,043)	(7,123)
Pre-derivative position	(5,359)	(240)	(1,043)	(6,642)
Derivative effect	(1,972)	630	1,060	(282)
Net debt position	(7,331)	390	17	(6,924)

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

(e) Capital risk management

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 20). Our objectives when managing capital are: to safeguard our ability to continue as a going concern, to remain within regulatory constraints of our regulated operating company and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by regulatory asset value (RAV) gearing calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our regulated business. The RAV gearing ratio at 31 March 2016 was 58% compared with 61% at 31 March 2015. We regularly review and maintain or adjust the capital structure as appropriate in order to manage the level of RAV gearing. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for our business, at around 60%.

24. Financial risk management (continued)

(f) Fair value analysis

The financial instruments included on the statement of financial position are measured at fair value. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

	2016				2015			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Available-for-sale investments	**-**	**-**	**-**	**-**	34	-	-	34
Derivative financial instruments	**-**	**484**	**-**	**484**	-	427	14	441
	-	**484**	**-**	**484**	34	427	14	475
Liabilities								
Derivative financial instruments	**-**	**(613)**	**(124)**	**(737)**	-	(611)	(112)	(723)
Total	**-**	**(129)**	**(124)**	**(253)**	34	(184)	(98)	(248)

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.

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

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

	2016 Level 3 valuation £m	2015 Level 3 valuation £m
At 1 April	**(98)**	(53)
Net losses for the year (i)	**(15)**	(43)
Settlements	**(11)**	(2)
At 31 March	**(124)**	(98)

(i) Losses of £12m (2015: £43m losses) are attributable to assets or liabilities held at the end of the reporting period and have been recognised in finance costs in the income statement.

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

	2016 Income Statement £m	2015 Income Statement £m
+20 basis point change in Limited Price Inflation (LPI) market curve (i)	**(51)**	(48)
-20 basis point change in LPI market curve (i)	**50**	46

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified.

25. Sensitivities on areas of estimation and uncertainty

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are hypothetical, as they are based on assumptions and conditions prevailing at the year end, and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing.

The sensitivities in the table below show the potential impact in the income statement (and consequential impact on net assets) for a range of different variables each of which have been considered in isolation (i.e. with all other variables remaining constant). There are a number of these sensitivities which are mutually exclusive and therefore if one were to happen, another would not, meaning a total showing how sensitive our results are to these external factors is not meaningful.

We are further required to show additional sensitivity analysis for changes in interest and exchange rates and these are shown separately in the table below due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

The sensitivities included in the table below all have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated. For example a 10% increase in unbilled revenue at 31 March 2016 would result in a decrease in the income statement of £16 million and a 10% decrease in unbilled revenue would have the equal but opposite effect.

	2016		2015	
	Income Statement £m	**Net Assets £m**	Income Statement £m	Net Assets £m
One year average change in economic useful lives (pre-tax)				
Depreciation charge on property, plant and equipment	**9**	**9**	9	9
Amortisation charge on intangible assets	**2**	**2**	1	1
Estimated future cash flows in respect of provisions change of 10% (pre-tax)	**9**	**9**	9	9
Assets and liabilities carried at fair value change of 10% (pre-tax)				
Derivative financial instruments (i)	**(25)**	**(25)**	(28)	(28)
Pensions obligations benefit (pre-tax) (ii)				
Discount rate change of 0.5% (iii)	**5**	**243**	4	252
RPI rate change of 0.5% (iv)	**4**	**228**	3	237
Change in long-term rate of increase in salaries change of 0.5% (v)	**1**	**35**	-	37
Change of one year to life expectancy at age 65	**1**	**94**	-	84
Unbilled revenue at 31 March change of 10% (post-tax)	**16**	**16**	16	16
No hedge accounting for our derivative financial instruments (post-tax)	**3**	**(5)**	5	73

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

(ii) The changes shown are a change in the annual pension service charge and change in the defined benefit obligations.

(iii) A change in the discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the scheme.

(iv) The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.

(v) This change has been applied to both the pre 1 April 2015 and post 1 April 2015 rate of increase in salary assumption.

	2016		2015	
	Income Statement £m	**Other equity reserves £m**	Income Statement £m	Other equity reserves £m
Financial risk (post-tax)				
RPI change of 0.5% (i)	**13**	**-**	10	-
Interest rates change of 0.5%	**6**	**44**	10	36
Euro exchange rate change of 10% (ii)	**-**	**24**	-	-

(i) Excludes sensitivities to LPI index. Further details on sensitivities are provided in note 24(f).

(ii) The other equity reserves impact arises from FX hedging instruments and does not reflect the related exchange impact on our contractually committed foreign currency cash flows, which offset this FX sensitivity movement. These foreign cash flows will arise from our capital investment expenditure contracts.

Pensions benefits assumptions

Sensitivities have been prepared to show how the defined benefit obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumptions that were reasonably possible as at 31 March 2016. In preparing sensitivities the potential impact has been calculated by applying the change to each assumption in isolation and assuming all other assumptions remain unchanged. This is with the exception of RPI where the corresponding change to increases to pensions in payment, increases to pensions in deferment and resultant increases in salary is recognised.

Financial instruments assumptions

Our financial instruments are sensitive to changes in market variables, being UK interest rates, the UK RPI and the Euro to sterling exchange rate. The changes in market variables affect the valuation of our borrowings, deposits and derivative financial instruments. The analysis illustrates the sensitivity of our financial instruments to the changes in market variables.

25. Sensitivities on areas of estimation and uncertainty (continued)

Financial instruments assumptions (continued)

The following main assumptions were made in calculating the sensitivity analysis:

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2016 and 2015 respectively;

- the statement of financial position sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;

- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments; and

- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity.

26. Ultimate parent company

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

National Grid Electricity Transmission plc's immediate parent company is National Grid Holdings Limited. The ultimate parent company, and controlling party, is National Grid plc. Both companies are incorporated in Great Britain and are registered in England and Wales. National Grid plc consolidates the financial statements of National Grid Electricity Transmission plc. Copies of the consolidated financial statements of National Grid plc may be obtained from the Company Secretary, 1-3 Strand, London WC2N 5EH, or on our company website. http://investors.nationalgrid.com/

27. Subsidiary undertakings, and joint ventures

While we present consolidated results in these financial statements as if we were one company, our structure is such that there are a number of subsidiaries and joint ventures that contribute to the overall result.

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

	Principal activity	Holding
Elexon Limited	Electricity market Balance and Settlement Code company for Great Britain	100% (i)
NGC Employees Shares Trustee Limited	Trustee of the NGC profit sharing scheme and NGC Employee Trust	100%
National Grid Electricity Group Trustee Limited	Pension nominee company	100%

(i) National Grid Electricity Transmission does not consolidate its wholly owned subsidiary Elexon Limited, as it has no control over Elexon.

All subsidiaries are incorporated in England and Wales.

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

	Principal activity	Holding
NGET/SPT Upgrades Limited	Construction services for the England-Scotland interconnector	50%
Coreso SA (incorporated in Belgium)	Joint venture in relation to a European regional transmission operations coordination centre	22%

Coreso SA is based at 71 Avenue de Cortnbergh, 1000 Bruxelles, Belgium.

Company accounting policies

for the year ended 31 March 2016

We are required to include the stand-alone balance sheet of our parent Company, National Grid Electricity Transmission plc, under the Companies Act 2006, and the statement of changes of equity under Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"). Details of the transition to FRS 102 are disclosed in note 19. The following disclosures provide additional information to stakeholders.

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

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

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

The individual financial statements of the Company have been prepared on a historical cost basis, except for the revaluation of financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The 2015 comparative financial information has also been prepared on this basis.

The individual financial statements have been prepared on a going concern basis following the assessment made by the Directors as set on page 29.

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows.

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

In accordance with exemptions under FRS 102 paragraph 1.12(c), the Company has not presented the financial instruments disclosures required by the standard, as disclosures which comply with the standard are included in the consolidated financial statements.

B. Areas of judgement and key sources of estimation uncertainty

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

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

- review of residual lives, carrying values and impairment charges for other intangible assets and tangible fixed assets – notes 4 and 5.
- estimation of liabilities for pensions and other post-retirement benefits – note 14.
- valuation of financial instruments and derivatives – note 8.
- revenue recognition and assessment of unbilled revenue.
- environmental and decommissioning provisions – note 13.

C. Foreign currencies

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

D. Intangible assets

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

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

E. Tangible fixed assets

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

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

Additions represent the purchase or construction of new assets, extensions to, or significant increases in, the capacity of tangible fixed assets.

Contributions received towards the cost of tangible fixed assets are recognised in revenue immediately, except where the contributions are consideration for a future service, in which case they are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided.

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

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

Depreciation periods	Years
Freehold and leasehold properties	up to 50
Plant and machinery:	
– Electricity Transmission plant	15 to 60
Motor vehicles and office equipment	up to 7

F. Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value in use, where value in use is the present value of the future cash flows expected to be derived from an asset.

G. Impairment of fixed assets

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

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

H. Taxation

Current tax for the current and prior periods is provided at the amount expected to be paid or recovered using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reverse, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

I. Stocks

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

J. Environmental costs

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

K. Revenue

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

The sales value for the transmission of electricity is largely determined from the amount of electricity transmitted in the year and system capacity sold for the year, evaluated at contractually determined prices or recovery rates. The sales value for the provision of balancing services is based on the amount of system balancing costs incurred.

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

L. Pensions

For defined benefit pension schemes, the regular service cost of providing retirement benefits to employees during the period, together with the cost of any benefits relating to past service, are recognised within operating costs.

The interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss account within net interest.

The present value of the defined benefit obligation, less the fair value of the assets of the scheme at the reporting date, is recognised as a liability in the balance sheet.

The difference between the actual and expected returns on scheme assets and the experience gains or losses arising on scheme liabilities, together with gains or losses arising from changes in actuarial assumptions, are charged or credited to other comprehensive income.

M. Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating lease payments are charged to the profit and loss account on a straight-line basis over the term of the lease.

N. Financial instruments

The Company's accounting policies under FRS 102 are the same as the Group's accounting policies under IFRS, namely IAS 32 'Financial Instruments: Presentation', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures'. The Company applies these policies only in respect of the financial instruments that it has, namely investments, derivative financial instruments, debtors, cash at bank and in hand, borrowings and creditors.

The policies are set out in notes 9, 10, 12, 13, 14 and 15 to the consolidated financial statements. The Company is taking the exemption for financial instruments disclosures, because IFRS 7 disclosures are given in the notes to the consolidated financial statements.

O. Hedge accounting

The Company applies the same accounting policy as the Group in respect of fair value hedges and cash flow hedges. This policy is set out in note 10 to the consolidated financial statements.

P. Share-based payments

National Grid issues equity-settled share-based payments to certain employees of the Company.

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

Q. Environmental provision

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

R. Dividends

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

Company balance sheet

as at 31 March

	Notes	2016 £m	2015 £m
Fixed assets			
Intangible assets	4	**204**	174
Tangible assets	5	**11,737**	11,137
		11,941	11,311
Current assets			
Stocks	6	**61**	30
Debtors	7	**265**	275
Derivative financial instruments (amounts falling due within one year)	8	**35**	39
Derivative financial instruments (amounts falling due after more than one year)	8	**449**	402
Investments	9	**426**	478
Cash at bank and in hand		**2**	3
		1,238	1,227
Creditors (amounts falling due within one year)	10	**(2,224)**	(2,693)
Net current liabilities		**(986)**	(1,466)
Total assets less current liabilities		**10,955**	9,845
Creditors (amounts falling due after more than one year)	11	**(7,016)**	(6,485)
Provisions for liabilities	13	**(880)**	(867)
Net assets before pension liability		**3,059**	2,493
Net pension liability	14	**(270)**	(410)
Net assets		**2,789**	2,083
Capital and reserves			
Called up share capital	15	**44**	44
Cash flow hedge reserve		**(68)**	(89)
Profit and loss account		**2,813**	2,128
Total shareholders' equity	17	**2,789**	2,083

The notes on pages 80 to 86 form part of the individual financial statements of the Company, which were approved by the Board of Directors and authorised for issue on 24 June 2016 and were signed on its behalf by:

Chris Murray Chairman

Alan Foster Director

National Grid Electricity Transmission plc
Registered number: 2366977

Company statement of changes in equity

for the years ended 31 March

	Called up share capital £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
At 1 April 2014	44	(23)	1,958	1,979
Profit for the year	-	-	770	770
Total other comprehensive (loss)/income for the year	-	(66)	49	(17)
Total comprehensive (loss)/income for the year	-	(66)	819	753
Equity dividends	-	-	(655)	(655)
Share-based payment	-	-	6	6
At 31 March 2015	44	(89)	2,128	2,083
Profit for the year	-	-	907	907
Total other comprehensive income for the year	-	21	84	105
Total comprehensive income for the year	-	21	991	1,012
Equity dividends	-	-	(310)	(310)
Share-based payment	-	-	3	3
Tax on share-based payment	-	-	1	1
At 31 March 2016	**44**	**(68)**	**2,813**	**2,789**

Cash flow hedge reserve

The cash flow hedge reserve on interest rate swap contracts will be continuously transferred to the income statement until the borrowings are repaid. The amount due to be released from reserves to the income statement next year is £27m, with the remainder due to be released with the same maturity profile as borrowings due after more than one year.

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The Company's profit for the financial year was £907m (2015: £782m).

For further details of dividends paid and payable to shareholders, refer to note 6 in the consolidated financial statements.

Notes to the Company financial statements

1. Auditors' remuneration

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

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

Fees payable to the Company's auditors for audit related assurance services represents fees payable for services in relation to engagements which are required to be carried out by the auditors. In particular this includes fees for audit reports on regulatory returns.

2. Number of employees, including Directors

	2016 Monthly Average number	2015 Monthly Average number
Electricity Transmission	**3,406**	3,273

3. Directors' emoluments

Details of Directors' emoluments are provided in note 2(d) to the consolidated financial statements.

4. Intangible assets

	Software £m
Cost at 1 April 2014	286
Additions	46
Reclassifications between categories (i)	(6)
Cost at 31 March 2015	326
Additions	58
Cost at 31 March 2016	384
Accumulated amortisation at 1 April 2014	(126)
Amortisation charge for the year	(20)
Reclassifications between categories (i)	(6)
Accumulated amortisation at 31 March 2015	(152)
Amortisation charge for the year	(28)
Accumulated amortisation at 31 March 2016	(180)
Net book value at 31 March 2016	**204**
Net book value at 31 March 2015	174

(i) Reclassifications represents amounts transferred to tangible fixed assets.

5. Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2014	490	11,043	2,836	86	14,455
Additions	3	63	956	4	1,026
Disposals	-	(18)	(1)	(3)	(22)
Reclassifications between categories (i)	62	500	(556)	-	6
Other movements (ii)	-	(57)	-	-	(57)
Cost at 31 March 2015	555	11,531	3,235	87	15,408
Additions	5	52	960	9	1,026
Disposals	-	(32)	(23)	-	(55)
Reclassifications between categories (i & iii)	111	997	(1,229)	92	(29)
Other movements (ii)	-	(8)	-	-	(8)
Cost at 31 March 2016	671	12,540	2,943	188	16,342
Accumulated depreciation at 1 April 2014	(75)	(3,801)	-	(66)	(3,942)
Depreciation charge for the year	(15)	(330)	-	(10)	(355)
Disposals	-	18	-	2	20
Reclassifications between categories (i)	(2)	2	-	6	6
Accumulated depreciation at 31 March 2015	(92)	(4,111)	-	(68)	(4,271)
Depreciation charge for the year	(7)	(347)	-	(8)	(362)
Disposals	-	28	-	-	28
Accumulated depreciation at 31 March 2016	(99)	(4,430)	-	**(76)**	(4,605)
Net book value at 31 March 2016	**572**	**8,110**	**2,943**	**112**	**11,737**
Net book value at 31 March 2015	463	7,420	3,235	19	11,137

(i) Reclassifications represents amounts transferred between categories and from/(to) intangible assets (see note 4).
(ii) Credit relating to settlement of legal claims relating to equipment procurement of £7m (2015: £57m) (see note 3 to the consolidated financial statements).
(iii) Transfers from Assets in the course of construction of £29m were made to inventory (see note 6).

The net book value of land and buildings comprised:

	2016 £m	2015 £m
Freehold	**493**	384
Long leasehold (over 50 years)	**11**	7
Short leasehold (under 50 years)	**68**	72
	572	463

The cost of tangible fixed assets at 31 March 2016 included £1,256m (2015: £1,134m) relating to interest capitalised.

Included within creditors (amounts falling due within one year) and creditors (amounts falling due after more than one year) are contributions to the cost of tangible fixed assets amounting to £7m (2015: £7m) and £346m (2015: £308m) respectively.

6. Stocks

	2016 £m	2015 £m
Raw materials, spares and consumables	**61**	30

7. Debtors

	2016 £m	2015 £m
Amounts falling due within one year:		
Trade debtors	**50**	47
Amounts owed by fellow subsidiary undertakings	**10**	40
Other debtors	**15**	10
Prepayments and accrued income	**190**	178
	265	275

8. Derivative financial instruments

The fair value of derivative financial instruments are:

	2016			2015		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Amounts falling due in one year	**35**	**(74)**	**(39)**	39	(98)	(59)
Amounts falling due after more than one year	**449**	**(663)**	**(214)**	402	(625)	(223)
	484	**(737)**	**(253)**	441	(723)	(282)

Further information relating to the recognition and measurement of derivative financial instruments is included in note 10 of the consolidated financial statements.

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

	2016 £m	2015 £m
Interest rate swaps	**(3,731)**	(3,731)
Cross-currency interest rate swaps	**(1,236)**	(1,336)
Foreign exchange forward currency	**(312)**	(449)
Inflation linked swaps	**(631)**	(622)
	(5,910)	(6,138)

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

9. Investments

	2016 £m	2015 £m
Loans and receivables - amounts due from fellow subsidiaries	**1**	1
Loans and receivables - restricted cash balances (i)	**425**	443
Available-for-sale investments (ii)	**-**	34
	426	478

Investment in subsidiaries of £0.2m (2015: £0.3m) are included within fixed assets. The names of the subsidiary undertakings are included in note 27 to the consolidated financial statements.

(i) Comprises collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £425m (2015: £442m) and secured bank accounts with charges in favour of the UK pension schemes Trustees of £nil (2015: £1m).

(ii) Refers to assets held within security accounts with charges in favour of the UK pension scheme Trustees of £nil (2015: £34m).

10. Creditors (amounts falling due within one year)

	2016 £m	2015 £m
Borrowings (note 12)	**1,221**	1,611
Derivative financial instruments (note 8)	**74**	98
Trade creditors	**511**	461
Amounts owed to fellow subsidiary undertakings	**56**	120
Social security and other taxes	**83**	104
Other creditors	**9**	44
Accruals and deferred income	**270**	255
	2,224	2,693

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

	2016 £m	2015 £m
Borrowings (note 12)	**5,973**	5,512
Derivative financial instruments (note 8)	**663**	625
Other creditors	**11**	18
Deferred income	**369**	330
	7,016	6,485

Deferred income mainly comprises contributions to capital projects.

12. Borrowings

The following table analyses the company's total borrowings:

	2016 £m	2015 £m
Amounts falling due within one year:		
Bank loans	**296**	71
Bonds	**58**	175
Borrowings from fellow subsidiary undertakings	**1**	1
Borrowings from ultimate parent company	**866**	1,364
	1,221	1,611
Amounts falling due after more than one year:		
Bank loans	**819**	412
Bonds	**5,154**	5,100
	5,973	5,512
Total borrowings	**7,194**	7,123

	2016 £m	2015 £m
Total borrowings are repayable as follows:		
Less than 1 year	**1,221**	1,611
In 1 - 2 years	**518**	200
In 2 - 3 years	**527**	516
In 3 - 4 years	**219**	515
In 4 - 5 years	**410**	218
More than 5 years by instalments	**604**	-
More than 5 years other than by instalments	**3,695**	4,063
	7,194	7,123

The notional amount outstanding of the Company's debt portfolio at 31 March 2016 was £6,959m (2015: £6,882m).

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

13. Provisions for liabilities

	Deferred tax £m	Environ-mental £m	Other £m	Total £m
At 1 April 2015	774	72	21	867
Credited to the profit and loss account	(12)	(1)	-	(13)
Transferred to reserves	31	-	-	31
Released to income statement (unused)	-	(3)	-	(3)
Unwinding of discount	-	4	-	4
Utilised	-	(2)	(4)	(6)
At 31 March 2016	**793**	**70**	**17**	**880**

Details of the environmental provision and other provisions are shown in note 18 to the consolidated financial statements.

Deferred tax
Deferred tax provided in the financial statements comprises:

	2016 £m	2015 £m
Accelerated capital allowances	**863**	885
Other timing differences	**(70)**	(111)
	793	774

14. Pensions

National Grid Electricity Transmission's employees are members of either the National Grid Electricity Group of the Electricity Supply Pension Scheme (the Scheme) which is a defined benefit pension scheme or The National Grid YouPlan which is a defined contribution trust. Further details of the Scheme and the actuarial assumptions used to value the associated assets and pension obligations are provided in notes 17 and 23 to the consolidated financial statements.

Amounts recognised in the balance sheet of the Company are as follows:

	2016 £m	2015 £m
Present value of funded obligations	**(2,781)**	(2,817)
Fair value of plan assets	**2,556**	2,450
	(225)	(367)
Present value of unfunded obligations	**(45)**	(43)
Net pension liability	**(270)**	(410)
Changes in the present value of defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligations	**2,860**	2,467
Current service cost	**27**	23
Interest cost	**92**	103
Actuarial (losses)/gains - experience	**(43)**	13
Actuarial losses - demographic assumptions	**-**	7
Actuarial (losses)/gains - financial assumptions	**-**	351
Cost of service cost in respect of redundancies	**4**	6
Employee contributions	**1**	1
Past service cost in respect of augmentations	**2**	4
Benefits paid	**(117)**	(115)
Closing defined benefit obligations	**2,826**	2,860
Changes in the fair value of scheme assets		
Opening fair value of plan assets	**2,450**	1,957
Interest income on plan assets	**78**	99
Return on plan assets greater than discount rate	**64**	417
Employer contributions	**80**	91
Employee contributions	**1**	1
Benefits paid	**(117)**	(115)
Closing fair value of scheme assets	**2,556**	2,450

15. Called-up share capital

	Number of shares 2016 millions	Number of shares 2015 millions	**2016 £m**	2015 £m
At 31 March 2015 and 2016 - ordinary shares of 10p each				
Allotted, called-up and fully paid	**437**	437	**44**	44

16. Commitments and contingencies

(a) Future capital expenditure

	2016 £m	2015 £m
Contracted for but not provided	**1,151**	1,457

(b) Operating lease commitments

	2016 £m	2015 £m
Amounts due:		
Less than 1 year	**12**	12
In 1 - 2 years	**10**	10
In 2 - 3 years	**7**	8
In 3 - 4 years	**7**	6
In 4 - 5 years	**4**	6
More than 5 years	**3**	8
	43	50

(c) Other commitments, contingencies and guarantees
Guarantees in respect of a former associate amounting to £14m (2015: £14m). These are open ended.

Guarantees in the normal course of business and entered into on normal commercial terms amounted to £1,239m (2015: £1,408m). These include guarantees of certain obligations for construction of the HVDC West Coast link amounting to £415m (2015: £555m), which expired in 2016.

17. Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements under UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 was 1 April 2014. Set out below are the changes in accounting policies which reconcile total equity as at 1 April 2014 and 31 March 2015 between UK GAAP as previously reported and FRS 102. There were no reconciling items in respect of profit for the financial year ended 31 March 2015 between UK GAAP as previously reported and FRS 102.

Total equity	1 April 2014 £m	31 March 2015 £m
UK GAAP as previously reported	1,991	2,096
Adjustments for:		
Pension liability (i)	(17)	(19)
Deferred tax impact of adjustments		
Pension liability (i)	3	4
Share based payments	2	2
FRS 102	1,979	2,083

(i) The projected unit valuation method has been used to assess the schemes' liabilities, including those related to death-in-service and incapacity benefits. Under old UK GAAP the calculation method for the future service element of the liability for death-in-service and incapacity benefits differed from the approach under FRS 102.

Glossary and definitions

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

BSIS
The Balancing Services Incentive Scheme, an incentive arrangement applicable to the Company's electricity transmission arrangements.

Delivery Body
Under the Energy Act 2013, and secondary legislation which came into force in August 2014, National Grid Electricity Transmission's system operator function became the EMR Delivery Body. In this role National Grid Electricity Transmission provides independent evidence and analysis to the UK Government to inform its decisions on the key rules and parameters to achieve the Government's policy objectives under EMR. National Grid Electricity Transmission also administers the capacity mechanism, including running the annual capacity auctions, manages the allocation of contracts for difference to low carbon generators and reports to the Government annually on performance against the Government's delivery plan.

Electricity Market Reform (EMR)
An energy policy initiative, introduced by the Energy Act 2013, designed to provide greater financial certainty to investors in both low carbon and conventional generation in order to meet environmental targets and maintain security of supply, and to do so at the lowest cost to consumers.

EU
European Union

FRS
UK Financial Reporting Standard.

GAAP
Generally accepted accounting principles.

GHG
Greenhouse gas.

GW
Gigawatt, 10^9 watts.

GWh
Gigawatt hours.

HSE
Health and Safety Executive.

IAS
International Accounting Standard.

IASB
International Accounting Standards Board.

IFRIC
The International Financial Reporting Interpretations Committee, which provides guidance on how to apply accounting standards.

IFRS
International Financial Reporting Standard.

KPI
Key Performance Indicator.

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

National Grid
National Grid plc, the ultimate parent company of National Grid Electricity Transmission plc and its controlling party.

Ofgem
The Office of Gas and Electricity Markets.

Regulatory asset value (RAV)
The value ascribed by Ofgem to the capital employed in the licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historic costs, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for effects inflation.

Regulated controllable operating costs
Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

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

RoE
A performance metric measuring returns from the investment of shareholders' funds. It is a financial ratio of a measure of earnings divided by an equity base.

UK regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.

RPI
UK Retail Prices Index

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

TW
Terawatt, 10^{12} watts.

TWh
Terawatt hours.

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