NGG Finance plc

Annual Report and Financial Statements

For the year ended 31 March 2015

NGG Finance plc

Strategic Report

For the year ended 31 March 2015

The Directors present their Strategic Report on the Company for the year ended 31 March 2015.

Review of the business

The Company holds an investment in another National Grid plc subsidiary, NGG Finance (No 1) Limited, and obtains and provides finance to its parent company and fellow subsidiary companies via intercompany balances.

Executive summary

There have been no significant changes in the Company's trading activities during the year, as reported in the consolidated income statement. The Company has in issue two fixed rate bonds listed on the London Stock Exchange and financial investments comprising loans advanced to its immediate parent company, National Grid plc.

Results, as detailed below, largely depend on finance income offset by finance costs which include foreign exchange movements on the revaluation of a euro security and a euro intercompany loan.

Results

The consolidated profit for the financial year was £5,863,000 (2014: £5,735,000).

Financial position

The consolidated financial position is presented in the consolidated statement of financial position. Total equity at 31 March 2015 was £638,418,000 (2014: £632,555,000) comprising total assets of £2,663,397,000 (2014: £2,812,134,000) less total liabilities of £2,024,979,000 (2014: £2,179,579,000).

Key performance indicators and principal risks and uncertainties

As the Company is part of a larger group, the management of the Company does not involve the use of key performance indicators, other than the profit or loss for the year, in measuring the development, performance or the position of the Company and the principal risks and uncertainties are integrated with the principal risks of National Grid plc. For information on the development, performance, risks, uncertainties and position of National Grid plc and its subsidiaries ('National Grid'), and of the key performance indicators used refer to the Strategic Report included in National Grid's Annual Report and Accounts 2014/15, which does not form part of this report.

Future developments

The Directors believe the current level of trading activity as reported in the consolidated income statement will continue in the foreseeable future with no further anticipated significant movements in the statement of financial position.

Approved by the Board and signed on its behalf by:

H Rayner

H M Rayner
Secretary
7 August 2015

NGG Finance plc

Directors' Report

For the year ended 31 March 2015

The Directors present their report and the audited consolidated financial statements of the Company and its subsidiary ('the Group') for the year ended 31 March 2015.

Future developments

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

Dividends

The Directors do not recommend the payment of a dividend (2014: £nil).

Financial risk management

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

Treasury policy

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

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

Credit risk

The Treasury function seeks to limit counterparty risk by conducting all of its banking and dealing activities with a limited number of major international banks, whose status is kept under review. No material exposure is considered to exist in respect of intercompany loans.

Liquidity risk

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

Interest rate cash flow risk

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

Foreign exchange risk

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

Directors

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

D C Bonar
M C Cooper
E D Fraser
S C Humphreys
W J Jackson (Appointed 10 September 2014)
A S Wiltshire

Directors' indemnity

National Grid has arranged, in accordance with the Companies Act 2006 and the Articles of Association, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties. Alongside these indemnities, National Grid places Directors' and Officers' liability insurance for each Director.

Going concern

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

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 Strategic Report and Directors' 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 consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, UK GAAP). 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 European Union 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.

NGG Finance plc

Directors' Report (continued)

For the year ended 31 March 2015

Statement of Directors' Responsibilities (continued)

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 subsidiary and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors, whose names are listed on page 3, 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 European Union 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 Directors' report and 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 shareholders to assess the Company's position and performance, business model and strategy.

Approved by the Board and signed on its behalf by:

H Rayner

H M Rayner
Secretary
7 August 2015

Registered office:
1-3 Strand
London
WC2N 5EH

Registered in England and Wales
Company registration number: 4220381

Independent auditors' report

to the Members of NGG Finance plc

Report on the financial statements

Our opinion

In our opinion:

- NGG Finance plc's 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 2015 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 1 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

NGG Finance plc's financial statements comprise:

- the Consolidated statement of financial position as at 31 March 2015;
- the Company balance sheet as at 31 March 2015;
- the Consolidated income statement for the year then ended;
- the Consolidated cash flow statement for the year then ended;
- the Consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (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.

Independent auditors' report

to the Members of NGG Finance plc (continued)

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 3, 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 and Financial Statements 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.

Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 August 2015

NGG Finance plc

Consolidated income statement

For the years ended 31 March

	Notes	2015 £'000	2014 £'000
Operating costs		**(31)**	(30)
Operating loss	4	**(31)**	(30)
Finance income	5	**230,524**	130,595
Finance costs	5	**(223,053)**	(123,172)
Profit before tax		**7,440**	7,393
Taxation	6	**(1,577)**	(1,658)
Profit for the year		**5,863**	5,735

The Company has no recognised gains and losses other than the profit for the year stated above and therefore no consolidated statement of comprehensive income has been presented.

NGG Finance plc

Consolidated statement of changes in equity

For the years ended 31 March

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
At 1 April 2013	1,925	431,325	193,570	626,820
Profit for the year	-	-	5,735	5,735
At 31 March 2014	1,925	431,325	199,305	632,555
Profit for the year	-	-	5,863	5,863
At 31 March 2015	**1,925**	**431,325**	**205,168**	**638,418**

NGG Finance plc

Consolidated statement of financial position

As at 31 March

	Notes	2015 £'000	2014 £'000
Non-current assets			
Financial investments	7	**1,895,294**	2,022,000
Total non-current assets		**1,895,294**	2,022,000
Current assets			
Financial investments	7	**768,021**	790,056
Cash at bank and in hand		**82**	78
Total current assets		**768,103**	790,134
Total assets		**2,663,397**	2,812,134
Current liabilities			
Borrowings	10	**(127,186)**	(155,240)
Trade and other payables	9	**(31)**	(30)
Amounts owed to fellow subsidiary undertakings		**(2,327)**	(2,034)
Total current liabilities		**(129,544)**	(157,304)
Non-current liabilities			
Borrowings	10	**(1,895,294)**	(2,022,000)
Deferred tax liabilities	11	**(141)**	(275)
Total non-current liabilities		**(1,895,435)**	(2,022,275)
Total liabilities		**(2,024,979)**	(2,179,579)
Net assets		**638,418**	632,555
Equity			
Called up share capital	12	**1,925**	1,925
Share premium account		**431,325**	431,325
Retained earnings		**205,168**	199,305
Total equity		**638,418**	632,555

The consolidated financial statements set out on pages 7 to 20, were approved by the Board of Directors on 7 August 2015 and were signed on its behalf by:

W J Jackson

W J Jackson
Director

NGG Finance plc

Consolidated cash flow statement

For the years ended 31 March

	2015 £'000	2014 £'000
Cash flows from operating activities		
Total operating loss	(31)	(30)
Adjustments for:		
Increase in amounts owed to fellow subsidiary undertakings	31	30
Cash flows generated from operations	-	-
Net cash flow from operating activities	-	-
Cash flows from investing activities		
Decrease in amounts owed to a fellow subsidiary undertaking	(2)	(3)
Interest received from parent company	123,612	-
Net cash from/(used in) investing activities	123,610	(3)
Cash flows from financing activities		
Interest paid	(123,612)	(1)
Net cash flow used in financing activities	(123,612)	(1)
Net decrease in cash and cash equivalents	(2)	(4)
Exchange movements	6	(8)
Net cash and cash equivalents at start of year	78	90
Net cash and cash equivalents at end of year	82	78

1 Accounting policies

(a) Basis of preparation of consolidated financial statements under IFRS

The Company's principal activities involve obtaining and providing finance to its parent company and fellow National Grid subsidiary undertakings via intercompany balances. 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 have been prepared on the going concern basis and 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 European Union (EU). They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ending 31 March 2015 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the EU IAS regulation. The 2014 comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on an historical cost basis and 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.

The Board of Directors of NGG Finance plc is the Company's chief operating decision making body (as defined by IFRS 8). The Directors consider that the Company has one operating segment and therefore no further detailed segmental analysis is deemed appropriate. This is based on the information the Board of Directors uses internally for the purpose of evaluating performance of operations. The performance of operations is assessed principally on the basis of profit before tax.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary, NGG Finance (No 1) Limited.

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, subsidiaries, joint ventures and associates into line with those used by the Company in its consolidated financial statements under IFRS. Intercompany transactions are eliminated.

(c) 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.

1 Accounting policies (continued)

(d) Taxation

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

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

The 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.

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

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

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

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

1 Accounting policies (continued)

(e) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date.

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.

Borrowings, which include interest-bearing 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.

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.

(f) Cash and cash equivalents

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

2 New IFRS accounting standards and interpretations adopted in 2014/15

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 2015. 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 2015.

- IFRIC 21 'Levies';
- amendments to IAS 32 'Financial Instruments: Presentation' in respect of offsetting financial assets and financial liabilities;
- amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 27 'Separate Financial Statements' in respect of investment entities;
- amendments to IAS 36 'Impairment of Assets' in respect of recoverable amount disclosures for non-financial assets; and
- amendments to IAS 39 'Financial Instruments: Recognition and Measurement', in respect of novation of derivatives and continuation of hedge accounting.

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', effective for periods beginning after 1 January 2018. We are assessing the likely impact of this standard on the Company's financial statements.

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.

3 Directors and employees

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid plc subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements. During the year there were 5 Directors (2014: 4) who exercised share options in or received ordinary shares as part of long term incentive plans of the ultimate parent company, National Grid plc.

There were no employees of the Company during the year (2014: none).

4 Operating loss

	2015 £'000	2014 £'000
Operating loss is stated after charging:		
Audit fees	**26**	26
Fees payable to the Company's auditors and its associates for other services:		
Tax services	**5**	4

5 Finance income and costs

	2015 £'000	2014 £'000
Interest income on financial investments held at amortised cost	**102,694**	108,852
Exchange gains on revaluation of foreign currency denominated borrowings	**127,824**	21,743
Exchange gains on revaluation of foreign currency denominated bank accounts	**6**	-
Interest income and similar income	**230,524**	130,595
Interest expense on financial liabilities held at amortised cost	**(95,207)**	(101,439)
Exchange losses on revaluation of foreign currency denominated intercompany loan	**(127,846)**	(21,725)
Exchange losses on revaluation of foreign currency denominated bank accounts	**-**	(8)
Interest expense and other finance costs	**(223,053)**	(123,172)
Net finance income	**7,471**	7,423

6 Taxation

Tax charged to the income statement

	2015 £'000	2014 £'000
Current tax:		
UK corporation tax	1,711	1,862
Total current tax	1,711	1,862
Deferred tax:		
Origination and reversal of timing differences	(148)	(162)
Deferred tax impact of change in UK tax rate	14	(42)
Total deferred tax	(134)	(204)
Total tax charge	1,577	1,658

The tax charge for the year is higher (2014: lower) than the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are explained below:

	2015 £'000	2014 £'000
Profit before tax	7,440	7,393
Profit before tax multiplied by UK corporation tax rate of 21% (2014: 23%)	1,563	1,700
Effect of:		
Deferred tax impact of change in UK tax rate	14	(42)
Total tax charge for the year	1,577	1,658

Taxation as a percentage of profit before tax

	%	%
Effective income tax rate	21.2	22.4

Factors that may affect future tax charges

A reduction in the corporation tax rate to 19% from April 2017 and a further reduction to 18% from April 2020 was announced in the 2015 Summer Budget. These reductions in tax rates have not been substantively enacted and have therefore not been reflected in these financial statements. A reliable estimate of the impact on deferred tax balances cannot presently be made on the basis that it is unclear when the deferred tax balances will reverse.

7 Financial investments

	2015 £'000	2014 £'000
Non-current		
Loans owed by parent company	1,895,294	2,022,000
Current		
Loans owed by parent company	768,021	790,056

The fair value of loans owed by parent company approximates to their book value.

8 Financial risk factors

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

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

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

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

(a) Currency risk

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

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

	2015				2014			
	Sterling £'000	Euro £'000	US dollar £'000	Total £'000	Sterling £'000	Euro £'000	US dollar £'000	Total £'000
Cash and cash equivalents	-	-	82	82	-	-	78	78
Financial investments	1,730,386	932,929	-	2,663,315	1,737,746	1,074,310	-	2,812,056
Borrowings	(1,091,820)	(930,458)	(202)	(2,022,480)	(1,104,057)	(1,073,003)	(180)	(2,177,240)
Trade and other liabilities	(2,499)	-	-	(2,499)	(2,339)	-	-	(2,339)
Net asset position	636,067	2,471	(120)	638,418	631,350	1,307	(102)	632,555

(b) Interest rate risk

Interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints.

8 Financial risk factors (continued)

(b) Interest rate risk (continued)

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

	2015 £'000	2014 £'000
Fixed interest rate borrowings		
In one year or less	**74,185**	103,708
In greater than five years	**1,895,294**	2,022,000
	1,969,479	2,125,708
Non-interest bearing	**53,001**	51,532
	2,022,480	2,177,240

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

	2015				2014			
	Fixed-rate £'000	Floating -rate £'000	Other £'000	Total £'000	Fixed-rate £'000	Floating-rate £'000	Other £'000	Total £'000
Cash and cash equivalents	-	82	-	82	-	78	-	78
Financial investments	1,975,086	688,229	-	2,663,315	2,128,906	683,150	-	2,812,056
Borrowings	(1,969,479)	-	(53,001)	(2,022,480)	(2,125,708)	-	(51,532)	(2,177,240)
Trade and other liabilities	-	-	(2,499)	(2,499)	-	-	(2,339)	(2,339)
Net asset position	5,607	688,311	(55,500)	638,418	3,198	683,228	(53,871)	632,555

(c) Credit risk

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

As at 31 March 2015 and 2014, the Company had a number of exposures to individual counterparties. In accordance with the Company's treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. Management does not expect any significant losses from non-performance by these counterparties. There are netting agreements in place with some counterparties: these had no effect on the credit exposure.

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

8 Financial risk factors (continued)

(d) Liquidity risk

The Company determines liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding requirements for at least a 24 month period and maintain adequate liquidity for a continuous 12 month period. The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the reporting date:

At 31 March 2015	Less than 1 year £'000	1 - 2 years £'000	2 – 3 years £'000	More than 3 years £'000	Total £'000
Non-derivative financial liabilities					
Borrowings	(53,001)	-	-	(1,904,167)	(1,957,168)
Interest payments on borrowings [i]	(94,763)	(94,561)	(94,707)	(5,343,167)	(5,627,198)
Other non-interest bearing liabilities	(31)	-	-	-	(31)
Total as at 31 March 2015	(147,795)	(94,561)	(94,707)	(7,247,334)	(7,584,397)

At 31 March 2014	Less than 1 year £'000	1 - 2 years £'000	2 – 3 years £'000	More than 3 years £'000	Total £'000
Non-derivative financial liabilities					
Borrowings	(51,532)	-	-	(2,032,746)	(2,084,278)
Interest payments on borrowings [i]	(100,142)	(100,233)	(100,019)	(5,761,470)	(6,061,864)
Other non-interest bearing liabilities	(30)	-	-	-	(30)
Total as at 31 March 2014	(151,704)	(100,233)	(100,019)	(7,794,216)	(8,146,172)

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

(e) Capital risk

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

9 Trade and other payables

	2015 £'000	2014 £'000
Other payables	31	30

10 Borrowings

The following table analyses the total borrowings:

	2015 £'000	2014 £'000
Current:		
Amounts owed to parent company	202	180
Amounts owed to a fellow subsidiary undertaking	52,799	51,352
Bonds	74,185	103,708
	127,186	155,240
Non-current		
Bonds	1,895,294	2,022,000
Total	2,022,480	2,177,240
Total borrowings are repayable as follows:		
Less than 1 year	127,186	155,240
More than 5 years - other than by instalments	1,895,294	2,022,000
	2,022,480	2,177,240

The fair value of borrowings at 31 March 2015 was £2,231,096,000 (2014: £2,237,175,000). Where market values were available, fair value of borrowings (Level 1) was £2,178,095,000 (2014: £2,185,643,000). Where market values were not available, fair value of borrowings (Level 2) was £53,001,000 (2014: £51,532,000). The notional amount at maturity of the debt portfolio is £1,957,167,000 (2014: £2,084,277,000).

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

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

11 Deferred tax liabilities

	2015 £'000	2014 £'000
Other net temporary differences – financial instruments	141	275
Deferred tax liability	141	275
At 1 April	275	479
Credited to income statement	(134)	(204)
At 31 March	141	275

At the reporting date there were no material current deferred tax assets or liabilities (2014: £nil).

12 Share capital

	2015 £'000	2014 £'000
Allotted, called up and fully paid		
1,925,000 ordinary shares of £1 each	**1,925**	1,925

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

13 Related party transactions and ultimate parent company

The Company has entered into a number of financing transactions with its parent company, National Grid plc during the year. These include the following material transactions:

- The Company's financial investments consist of loans receivable from National Grid plc. The non-current loans consist of a euro loan and sterling loan both of which have fixed interest rates and repayment dates in 2020 and 2025 respectively. The current loan is repayable on demand and bears interest at commercial rates. Details of the amounts of investment income and outstanding balances at 31 March can be found in notes 5 and 7 to the consolidated financial statements

In addition to its transactions and balances with National Grid plc, the Company also has a non interest bearing loan which is payable on demand with a fellow National Grid subsidiary undertaking, National Grid Holdings One plc details of which can be found in note 10 to the consolidated financial statements.

There were no related party transactions with companies where not all of the voting rights are held by National Grid plc and its subsidiary undertakings.

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

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

NGG Finance plc

Company balance sheet

As at 31 March

	Notes	2015 £'000	2014 £'000
Fixed assets			
Fixed asset investment	3	**-**	-
Current assets			
Debtors: amounts falling due within one year	4	**768,021**	790,056
Debtors: amounts falling due after more than one year	4	**1,895,294**	2,022,000
Cash at bank and in hand		**82**	78
		2,663,397	2,812,134
Creditors: amounts falling due within one year	5	**(129,544)**	(157,304)
Net current assets		**2,533,853**	2,654,830
Total assets less current liabilities		**2,533,853**	2,654,830
Creditors: amounts falling due after more than one year	5	**(1,895,294)**	(2,022,000)
Provisions for liabilities			
Deferred taxation	7	**(141)**	(275)
Net assets		**638,418**	632,555
Capital and reserves			
Called up share capital	8	**1,925**	1,925
Share premium account	9	**431,325**	431,325
Profit and loss account	9	**205,168**	199,305
Total shareholders' funds	10	**638,418**	632,555

The Company financial statements set out on pages 21 to 25, were approved by the Board of Directors on 7 August 2015 and were signed on its behalf by:

W J Jackson

W J Jackson
Director

1 Company accounting policies

(a) Basis of preparation of individual financial statements under UK GAAP

These individual financial statements of the Company have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006. They have been prepared on an historical cost basis, except for the revaluation of financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The 2014 comparative financial information has also been prepared on this basis.

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 exemptions in FRS 8 'Related Party Disclosures' from disclosing transactions with other members of the National Grid plc group of companies.

In accordance with exemptions under FRS 29 'Financial Instruments: Disclosures', 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.

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.

(b) Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value-in-use.

(c) 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 tax 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.

1 Company accounting policies (continued)

(d) Foreign currencies

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

(e) Financial instruments

The Company's accounting policies under UK GAAP, namely FRS 25 'Financial Instruments: Presentation', FRS 26 'Financial Instruments: Measurement' and FRS 29 'Financial Instruments: Disclosures', 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 note 1 to the consolidated financial statements. The Company is taking the exemption for financial instrument disclosures, because IFRS 7 disclosures are given in note 8 to the consolidated financial statements.

2 Directors and employees

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements.

During the year there were 5 Directors (2014: 4) who exercised share options in or received ordinary shares as part of long term incentive plans of the ultimate parent company, National Grid plc.

There were no employees of the Company during the year (2014: none).

3 Fixed asset investment

	Shares in a subsidiary undertaking £'000
Cost:	
At 1 April 2014 and 31 March 2015	1
Provision:	
At 1 April 2014 and 31 March 2015	1
Net book value:	
At 1 April 2014 and 31 March 2015	-

During the year the Company's subsidiary NGG Finance (No. 1) Limited was identified as a company no longer required by the National Grid group. As a result the Directors approved and implemented a number of steps to enable its subsidiary to enter liquidation.

3 Fixed asset investment (continued)

As a result on 18 September 2014 the company acquired 458,746 ordinary shares of £1 each for a market value of £1. NGG Finance (No.1) Limited entered liquidation on 10 December 2014.

The fixed asset investment as at 31 March 2015 represents 100% of the ordinary share capital of NGG Finance (No 1) Limited, a company registered in England and Wales which is in liquidation.

4 Debtors

	2015 £'000	2014 £'000
Amounts falling due within one year		
Amounts owed by parent company	768,021	790,056
Amounts falling due after more than one year		
Amounts owed by parent company	1,895,294	2,022,000

5 Creditors

	2015 £'000	2014 £'000
Amounts falling due within one year		
Borrowings (note 6)	127,186	155,240
Amounts owed to a fellow subsidiary undertaking	2,327	2,034
Other creditors	31	30
	129,544	157,304
Amounts falling due after more than one year		
Borrowings (note 6)	1,895,294	2,022,000

6 Borrowings

The following table analyses the total borrowings, excluding bank overdrafts:

	2015 £'000	2014 £'000
Current:		
Amounts owed to immediate parent company	202	180
Amounts owed to a fellow subsidiary undertaking	52,799	51,352
Bonds	74,185	103,708
	127,186	155,240
Non-current		
Bonds	1,895,294	2,022,000
Total	2,022,480	2,177,240
Total borrowings are repayable as follows:		
Less than 1 year	127,186	155,240
More than 5 years other than by instalments	1,895,294	2,022,000
	2,022,480	2,177,240

The notional amount of borrowings outstanding as at 31 March 2015 was £1,957,167,000 (2014: £2,084,277,000).

7 Provisions for liabilities

	2015 £'000	2014 £'000
Deferred taxation		
Other short term timing differences	141	275
Deferred tax liability	141	275
At 1 April	275	479
Credited to profit and loss account	(134)	(204)
At 31 March	141	275

8 Called up share capital

	2015 £'000	2014 £'000
Allotted, called up and fully paid		
1,925,000 ordinary shares of £1 each	1,925	1,925

9 Reserves

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 April 2013	1,925	431,325	193,570	626,820
Profit for the year	-	-	5,735	5,735
At 31 March 2014	1,925	431,325	199,305	632,555
Profit for the year	-	-	5,863	5,863
At 31 March 2015	**1,925**	**431,325**	**205,168**	**638,418**

As the Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006, no separate statement of recognised gains and losses has been presented.

10 Reconciliation of movements in total shareholders' funds

	2015 £'000	2014 £'000
Profit for the financial year	5,863	5,735
Net increase in shareholders' funds	5,863	5,735
Opening shareholders' funds	632,555	626,820
Closing shareholders' funds	638,418	632,555

11 Ultimate parent company

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

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