Annual Report and Accounts 2014/15
National Grid Gas plc

Company number 2006000

Contents

Overview

About National Grid Gas plc

National Grid Gas plc (National Grid Gas) is a subsidiary of National Grid plc (National Grid), based in the UK, where we own and operate regulated gas transmission and distribution networks and provide gas metering services. We play a vital role in connecting millions of people safely, reliably and efficiently to the energy they use.

The overall management and governance of National Grid Gas is the responsibility of its Board of Directors. Strategic direction is determined by our ultimate parent company, National Grid. Our Directors are listed on page 32.

More information on the management structure of National Grid can be found in the National Grid Annual Report and Accounts 2014/15 and on National Grid's website at www.nationalgrid.com.

Financial highlights

	2014/15 £m	2013/14 £m	Percentage change
Operating profit	**1,355**	1,359	-%
Adjusted operating profit[1]	**1,412**	1,469	(4)%
Cash generated from operations	**1,860**	1,874	(1)%
Regulated assets[2]	**14,063**	14,062	-%
Return on equity:			
Gas Transmission	**14.2%**	12.8%	11%
Gas Distribution	**12.9%**	13.0%	(1)%

1. See page 12 for further details.
2. See page 5 for further details.

Non-financial highlights

	2014/15	2013/14
Number of employees	**5,895**	5,876
Network reliability:		
Gas Transmission	**100%**	100%
Gas Distribution	**99.999%**	99.999%

Our principal operations

We own and operate the gas national transmission system and four of the eight regional gas distribution networks in Great Britain. Other activities include National Grid Metering and Xoserve. See pages 17 to 21.

Strategic Report

Operating environment

Economic environment

The UK economy has been recovering steadily in the past year, with 2.6% economic growth, falling unemployment and falling inflation. Growth in the fourth quarter of 2014, however, dropped to 0.5% as sluggish Eurozone growth depressed exports and wider geo-political events increased the perceived risk of investment. Below, we highlight our main market drivers and the impact they have on our business.

Market driver	Impact
Energy policy	
Sustainability, security of supply and affordability underpin EU policy Against a difficult economic and financial background, the EU's energy policy is underpinned by sustainability, security of supply and affordability. In October 2014 the EU heads of state agreed the EU's 2030 Climate Change and Energy Framework. This includes a 40% reduction target for carbon emissions, alongside other objectives for renewables, energy efficiency and interconnections. Negotiations for a new international agreement on climate change continued at the twentieth session of the Conference of Parties (COP20) in Lima in December 2014. Nations are looking to the Paris worldwide conference in 2015 as the next opportunity to work out a new climate change deal. Finally, the creation of a 'genuine energy union' was highlighted as one of the main priorities of the new European Commission, which took office in November 2014.	**Policy decisions can affect our investment needs and compliance obligations** Greater levels of market integration, interconnection and renewable generation are fundamental to achieving the EU's policy objectives. While European developments present challenges, the significant level of investment required will create opportunities for growth.
Energy policies are attracting investment and there is significant political focus on reducing costs for consumers Energy policy continues to evolve from the Climate Change Act 2008, which commits the Government to reducing greenhouse gas emissions to at least 80% lower than a 1990 baseline by 2050. The Energy Act 2013 implements the main aspects of reform to the energy market, and puts in place measures to attract the investment needed. The run up to the General Election in May 2015 saw a sharp focus on the costs of energy and the competitiveness of energy markets.	**National Grid is central to the delivery of market reform and active on driving down costs** National Grid has been performing its role as delivery body for the Government on market reform. The focus on the cost of energy is important to National Grid. We are working hard to highlight to our stakeholders how the RIIO regulatory framework is helping us to reduce costs for consumers while creating incentives for vital investment.

Market driver	Impact
Regulation **Infrastructure investment needs must be balanced with affordability** Ofgem acknowledge that there is a significant need for infrastructure investment. However, affordability continues to be a primary concern. Severe weather in recent years has also highlighted the potential need for additional investment in network resilience. Ofgem and policymakers are beginning to ask utilities to put plans in place to strengthen their networks ability to withstand the effects of severe weather.	**We must accommodate customers' cost concerns and also provide safe, up-to-date systems** We must accommodate our customers' affordability concerns while fulfilling our obligations to provide safe and reliable services and upgrading our systems. Investment is required for new connections, to meet the challenges of changing supply and demand patterns, and to replace ageing infrastructure.
Ofgem wants greater efficiency and innovation The regulatory focus during the year has been on the new RIIO price controls which give greater focus to incentives and innovation than the previous regulatory regime.	**This is driving them to favour more market competition** Ofgem has stated its intent to retain the option of using greater competition for certain large onshore projects.
Ofgem is reviewing the arrangements for planning and delivering Britain's transmission networks We are facing new challenges from an ageing infrastructure and a changing energy mix. Technical developments and innovation also mean that there could be opportunities to coordinate and integrate those investments.	**We need to make sure the network is planned in an economic, efficient and coordinated way** Ofgem has proposed enhancing our role as System Operator (SO) so that the SO has a greater role in system planning. No organisation is currently responsible for taking an overarching view of system development, so opportunities for coordination can potentially be missed. We are working with Ofgem to develop the framework for how the system will be planned and how assets will be managed.

What we do - Gas

The gas industry connects producers, processors, storage, transmission and distribution network operators, as well as suppliers to industrial, commercial and domestic users.

The UK energy industry has four main sectors.

1. Production and importation

Gas used in the UK is mainly sourced from gas fields in the North and Irish seas, piped from Europe and imported as liquefied natural gas (LNG).

There are seven gas reception terminals, three LNG importation terminals and three interconnectors connecting Great Britain via undersea pipes with Ireland, Belgium and the Netherlands. Importers bring LNG from the Middle East, the Americas and other places.

We do not produce gas.

2. Transmission

The transmission system includes pipes, compressor stations and storage facilities, including LNG storage. They connect production through terminals to the distribution systems.

Gas enters the transmission system through importation and reception terminals and interconnectors and may include gas previously held in storage.

Compressor stations located along the network play a vital role in keeping large quantities of gas flowing through the system, particularly at times of high demand.

The gas transmission system has to be kept constantly in balance, which is achieved by buying, selling and using stored gas. This means that, under normal circumstances, demand can be met.

We are the sole owner and operator of gas transmission infrastructure in Great Britain.

3. Distribution

Gas leaves the transmission system and enters the distribution networks at high pressure. It is then transported through a number of reducing pressure tiers until it is finally delivered to consumers.

There are eight regional distribution networks, four of which are owned by National Grid Gas. Our distribution networks deliver gas to around 10.9 million consumers.

4. Supply

Pipeline shippers bring gas from producers to suppliers, who in turn sell it to customers.

We do not supply gas, however we own National Grid Metering, which provides meters and metering services to supply companies, under contract.

Customers pay the supplier for the cost of gas and for its transportation. We transport the gas through our network on behalf of shippers, who pay us transportation charges.

System operator

As system operator we are responsible for the high pressure gas National Transmission System (NTS) in Great Britain. We have responsibility for the residual balancing activities on the NTS and for keeping the physical system within safe operating limits.

Our price control, set by Ofgem, includes incentives that aim to maintain and improve our daily operational efficiency and are subject to renegotiation at set intervals.

What we do - Regulation

Our business operates as a regulated monopoly. We have one economic regulator for our business, 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 licences, established under the Gas Act 1986, as amended (the Act), require us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas in Great Britain. They also give us statutory powers, such as the right to bury our pipes 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 that can be earned by our business. 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: continuously improve the cost and effectiveness of our services; manage and operate our networks efficiently; deliver high quality services to our customers and wider stakeholder community; and invest in the development of the network in a manner that ensures long-term security of supply.

Our Gas Transmission (GT) and Gas Distribution (GD) businesses operate under six separate price controls in the UK. These comprise two for our GT operations, one as Transmission Owner (TO) and one as System Operator (SO); and one for each of our four regional gas distribution networks. While each of the six price controls may have differing terms, they are based on a consistent regulatory framework.

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 agreements set 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 agreements, 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 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

On 1 April 2013, Ofgem introduced a new regulatory framework called RIIO (revenue = incentives + innovation + outputs), which lasts for eight years.

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 these decisions. The clarity around outputs should lead to greater transparency in how we deliver them.

The six key 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.
- **Social obligations (Gas Distribution only):** extending the gas network to communities that are fuel poor where it is efficient to do so and introducing measures to address carbon monoxide poisoning incidents.

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. Using information submitted by us along with independent assessments, Ofgem determines the efficient level of expected costs necessary to deliver them. Under RIIO this is known as totex, short for total expenditure.

A number of assumptions are necessary in setting these outputs, such as certain prices or the volumes of work that will be needed. As a result, to protect us and our customers from windfall gains and losses, 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, i.e. the under or over-spend is shared between us and customers through an adjustment to allowed revenues in a future year. This sharing factor provides an incentive for us to provide the outputs efficiently as we are able to keep a portion of the savings, 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 will have an impact on everyone in our business.

Totex is then split between fast and slow money, based on specified percentages. Fast money represents the amount of totex that we are able to recover in the current year. Slow money is added to our regulated asset value (RAV). In addition to fast money, in each year we are allowed to collect against depreciation costs and earn an allowed return on our RAV.

We are also permitted to collect additional revenues related to non-controllable costs and incentives.

The incentive mechanisms can increase or decrease our allowed revenue and result from our performance against various measures related to our outputs. RIIO includes incentive mechanisms as a way to provide further incentives 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. Incentives will normally affect our revenues two years after the year of performance.

Key RIIO financial metrics

The cost of capital allowed under RIIO is as follows:

	Transmission	Distribution
Cost of equity (post-tax real)	6.8%	6.7%
Cost of debt (pre-tax real)	iBoxx 10 year simple trailing average index (2.92% for 2013/14)	
Notional gearing	62.5%	65.0%
Vanilla WACC*	4.38%	4.24%

*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 consumers.

Gas Distribution	North West	East of England	West Midlands	London
	Replacement expenditure: Stepped decline from 50% in 2013/14 to 0% in 2020/21 in seven equal instalments of 7.14% per annum			
Fast[1]	73.90%	73.37%	75.05%	76.53%
	Replacement expenditure: Stepped increase from 50% in 2013/14 to 100% in 2020/21 in seven equal instalments of 7.14% per annum			
Slow[2]	26.10%	26.63%	24.95%	23.47%
Sharing	63.04%			

Gas Transmission	Transmission Operator	System Operator
Fast[1]	Baseline[3] 35.6%, Uncertainty 10%	62.60%
Slow[2]	Baseline[3] 64.4%, Uncertainty 90%	37.40%
Sharing	44.36%	

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.
3 The Baseline is the expenditure that is funded through ex ante allowances whereas the Uncertainty adjusts the allowed expenditure automatically where the level outputs delivered differ from the baseline level, or if triggered by an event.

For further details, see page 166 of the National Grid annual report and accounts.

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.

We own and operate gas transmission and distribution infrastructure in the UK. Our principal operations are:

- UK Gas Transmission
- UK Gas Distribution
- Other activities

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 transmission and distribution businesses operate as regulated monopolies. Regulators safeguard customers' interests by setting the level of charges we are allowed to pass on.

We have one regulator for our business: Ofgem.

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. These cash flows are then reinvested to provide future additional growth.

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 agreements on pages 5 and 6.

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.

Investment

We invest efficiently in our networks to deliver strong regulated asset growth over the long term. This allows us to continue generating growth and growth in our regulated asset base. This in turn generates additional cash flows and allows us to continue reinvesting in our networks 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.

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 shareholders. Cash generation is underpinned by agreeing appropriate regulatory arrangements.

Our stakeholders

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

We create value for our customers and communities by:

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

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.

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 15 and 16 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 17 to 21 for further details.

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 17 to 21 for further details.

Our vision and strategy

The National Grid vision sets out our intentions and aspirations at the highest level. Our strategic objectives set out what we believe we need to achieve to deliver our vision and be recognised as a leader in the development and operation of safe, reliable and resilient energy infrastructure.

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 will 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 our regulators to help them provide the right mechanisms so we can deliver infrastructure that meets the changing needs of our 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 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 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 existing portfolio, while exploring and evaluating opportunities for growth. Making sure our portfolio of businesses maintains the appropriate mix of growth and cash generation is necessary to meet the expectations of our 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.

Emergency services – we provide telephone call centres, coordinate the response to gas emergencies, and respond to severe weather events.

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.

Shareholder value

Regulatory frameworks – operating within sound regulatory frameworks provides stability. Ensuring 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 important 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.

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 Gas performance.

Strategic element	KPIs and definition	Our performance	
Deliver operational excellence	**Employee lost time injury frequency rate (IFR)**[1] Injuries resulting in employees taking time off work per 100,000 hours worked on a 12 month basis.	**2014/15: 0.09 (Target: 0.1)** 2013/14: 0.06 (Target: 0.1)	
	Network reliability[1] Reliability of gas network as a percentage against the target set by Ofgem.	**Transmission:** **2014/15: 100% (Target: 100%)** 2013/14: 100% (Target: 100%)	**Distribution**: **2014/15: 99.999% (Target: 99.999%)** 2013/14: 99.999% (Target: 99.999%)
Engage our people	**Employee engagement index**[2] 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.	**2014/15: 75%** 2013/14: 71%	
Engage externally	**Customer satisfaction** Our score in customer satisfaction surveys. Ofgem set a baseline target.	Transmission: **2014/15: 7.6 out of 10 (Target: 6.9[3])** 2013/14: 7.2 out of 10 (Target: 6.9[4])	Distribution: **2014/15: –[4] (Target: 8.3[3])** 2013/14: 8.2 out of 10 (Target – Improve)
Embed sustainability	**Greenhouse gas emissions** Percentage reduction in greenhouse gas emissions.	% reduction against 1990 baseline **2014/15: 68% reduction** 2013/14: 66% reduction 2014/15 and 2013/14 National Grid Target: 45% reduction by 2020 and 80% reduction by 2050	
Drive growth	**Regulated asset growth**[5] Maintaining efficient growth in the total Regulated Asset Value (RAV) base.	**2014/15: 0.0%** 2013/14: 2.0%	
	Return on equity (RoE) RoE against the allowed return set by the regulator for the current price control period.	**Transmission** **2014/15: 14.2%** 2013/14: 12.8%	**Distribution** **2014/15: 12.9%** 2013/14: 13.0%

1 Network reliability is also a KPI for our 'stimulate innovation' strategic objective.
2 Index represents performance for National Grid.
3 Figures represent our baseline targets set by Ofgem for reward or penalty under RIIO.
4 Under RIIO-GD1, our customer satisfaction results are now reported on an annual basis, rather than quarterly, which was how we reported them under our previous price control. We will publish the results on our website in the summer as part of our commitment to our stakeholders, and in our Annual Report and Accounts for 2015/16.
5 Transmission and Distribution combined.

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 if 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	
	2015	2014
	£m	£m
Adjusted operating profit	**1,412**	1,469
Exceptional items	**(57)**	(110)
Total operating profit	**1,355**	1,359

Reconciliation of adjusted operating profit to adjusted earnings and earnings

	Years ended 31 March	
	2015	2014
	£m	£m
Adjusted operating profit	**1,412**	1,469
Adjusted net finance costs	**(264)**	(299)
Adjusted profit before tax	**1,148**	1,170
Adjusted taxation	**(275)**	(283)
Adjusted profit	**873**	887
Attributable to non-controlling interests	**(4)**	(1)
Adjusted earnings	**869**	886
Exceptional items	**(64)**	177
Remeasurements	**(13)**	13
Earnings	**792**	1,076

Reconciliation of adjusted profit before excluding timing differences to total operating profit

Adjusted profit excluding timing differences is discussed below.

	Years ended 31 March	
	2015	2014
	£m	£m
Adjusted operating profit excluding timing differences	**1,417**	1,461
Timing differences	**(5)**	8
Adjusted operating profit	**1,412**	1,469
Exceptional items	**(57)**	(110)
Total operating profit	**1,355**	1,359

Consolidated income statement commentary

Revenue
Revenue for the year ended 31 March 2015 increased by £44 million to £3,077 million as a result of increases to allowed revenue.

Operating costs
Operating costs for the year ended 31 March 2015 of £1,722 million were £48 million higher than the prior year. This increase in costs was predominantly due to inflation, some organisation change costs and a provision for additional asset protection costs.

Exceptional items included in our operating costs for the year ended 31 March 2015 reduced by £53 million to £57 million. Exceptional costs in 2014/15 relate to pension deficit costs of £98 million partially offset by sale of surplus land to National Grid Property of £41 million.

Net finance costs
For the year ended 31 March 2015, net finance costs before exceptional items and remeasurements of £264 million were £35 million lower than the prior year.

Exceptional finance costs for the year ended 31 March 2015 included a loss of £26 million on financial remeasurements, relating to net gains and losses on derivative financial instruments, and costs of £31 million following the review and restructure of the debt portfolio. This resulted in a bond repurchase programme with a notional value of £127 million.

Taxation
The tax charge on profits before exceptional items and remeasurements was £8 million lower than 2013/14. This was mainly due to the lower profit before tax and reduction in the tax rate in the current year, partially offset by a higher tax charge in the current year in respect of earlier periods.

Exceptional tax for 2014/15 primarily relates to a £21 million tax credit on exceptional items and a £13 million tax credit on remeasurements.

Consolidated statement of financial position commentary

The consolidated statement of financial position sets out all the Group's assets and liabilities at the year end, analysed between the net assets we have for use in the business and those held for sale. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

Intangible assets
Intangibles increased by £18 million to £250 million as at 31 March 2015. This increase primarily relates to software additions of £70 million, offset by software amortisation of £60 million.

Property, plant and equipment
Property, plant and equipment increased by £167 million to £12,440 million as at 31 March 2015. This was due to capital expenditure of £674 million on the renewal and extension of our regulated networks, offset by £489 million of depreciation in the year, reclassifications of £8 million and net disposals of £10 million.

Other non-current assets
Other non-current assets, which comprise of an interest-free loan to our immediate parent company, National Grid Gas Holding Limited, remained the same at £5,610 million.

Inventories and current intangible assets, and trade and other receivables
Inventories and current intangible assets, and trade and other receivables have increased by £77 million to £511 million at 31 March 2015. This increase is principally due to increase in amounts owed to fellow subsidiaries of £18 million, and an increase in prepayments and accrued income of £43 million.

Trade and other payables
Trade and other payables have increased by £77 million to £911 million. This was primarily due to an increase in amounts owed to fellow subsidiaries of £79 million, partially offset by a decrease in trade payables of £26 million.

Current and deferred tax liabilities
Current tax liabilities have increased by £7 million to £34 million as at 31 March 2015. The net deferred tax liability increased by £55 million to £1,654 million, mainly as a result of an increase in accelerated tax depreciation.

Provisions and other non-current liabilities
Provisions (both current and non-current) and other non-current liabilities decreased by £33 million to £1,257 million as at 31 March 2015. Total provisions decreased by £26 million in the year. The underlying movements include additions of £33 million primarily, offset by utilisation of £45 million and releases of £21 million. Other non-current liabilities decreased by £7 million.

Other balance sheet items

Pensions
We operate pension arrangements on behalf of our employees the majority of whom are members of the defined benefits section of the National Grid UK Pension Scheme which is closed to new entrants. Membership of the defined contribution section of the National Grid Pension Scheme is offered to all new employees.

Liabilities and assets of the scheme are not recognised in the financial statements of National Grid Gas as there is neither a contractual arrangement nor a stated policy under which the Company is charged for cost of providing pensions.

Other off balance sheet arrangements
There were no other significant off balance sheet arrangements.

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	**2015 £m**	2014 £m
Cash generated from operations	**1,860**	1,874
Net capital expenditure	**(691)**	(549)
Business net cash flow	**1,169**	1,325
Net interest paid	**(187)**	(198)
Tax paid	**(192)**	(189)
Dividends paid	**(700)**	(600)
Other	**(170)**	(109)
Net debt (increase)/decrease	**(80)**	229
Opening net debt	**(8,440)**	(8,669)
Closing net debt	**(8,520)**	(8,440)

Cash generated from operations
Cash flows from our operations are largely stable when viewed over the longer term. Our gas transmission and gas distribution operations are subject to a multi-year price control agreements with Ofgem.

For the year ended 31 March 2015, cash flow from operations decreased by £14 million to £1,860 million. Adjusted operating profit before depreciation, amortisation and impairment was £14 million higher year on year. Changes in working capital improved by £23 million over the prior year, principally due to the milder weather than expected which drives lower volumes than forecasted. Offsetting these improvements, cash outflows relating to exceptional items were £61 million higher.

Net capital expenditure
Net capital expenditure in the year of £691 million was £142 million higher than the prior year.

Dividends paid
Dividends paid in the year ended 31 March 2015 amounted to £700 million. This was £100 million higher than 2013/14.

Other movements in net debt
Other cash flows principally include changes in fair values of financial assets and liabilities, interest accruals, dividends from joint ventures and movements in treasury shares.

Earnings

Timing and Regulated Revenue Adjustments
Our allowed revenues are set in accordance with our regulatory price controls. We calculate the tariffs we charge our customers based on the estimated volume of energy and cost 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 final. Our operating profit for the year includes a total estimated in-year under-collection of £5 million (2013/14: £8 million over-collection). Our closing balance at 31 March 2015 was £13 million under-recovery (2014: over-recovery of £10 million). All other things being equal, the majority of that balance would normally be recoverable from customers starting in the year ending 31 March 2016.

In addition to the timing adjustments described above, 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 regulated business as a whole, regulated revenue adjustments totalled to an over-recovery of £44 million in the year (2013/14: £87 million). 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 Gas finding innovative solutions or the need being permanently removed.

Our people

If we are to achieve our strategic goals, we need to make sure our employees have the right skills and capabilities.

Building skills and expertise

During 2014/15 we have worked on boosting the capabilities of our employees in the areas of performance excellence, stakeholder engagement, customer focus and contract management. We see these capabilities as being crucial in helping us improve our performance and meet regulatory and customer expectations.

More than 900 employees have attended National Grid's Performance Excellence programmes; more than 650 employees have attended its stakeholder engagement and customer focus programmes; and around 250 employees have attended its contract management programmes.

We remain committed to investing in our people, providing the training and other support necessary for them to build, maintain and operate our networks safely and reliably, and this year we provided more than one million learner hours of training across the National Grid business.

Safeguarding the future

There is a significant skills challenge facing the engineering profession. Research by EngineeringUK has highlighted a need for 1.82 million engineers, technicians and crafts people over the period 2012-2022. Around 60% of all new jobs in this period will need science, technology, engineering and maths (STEM) qualifications, yet not enough school children succeed in these areas.

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 work experience programmes.

Our careers education programmes include Careers Lab, an initiative we developed that was taken up by the charity Business in the Community in November 2014. It links working professionals from a range of sectors with schools to bring the world of work to life for secondary school children. A further initiative is the 'Engineer Your Future' exhibition at London's Science Museum, which opened in December 2014 and explores engineering challenges through interactive games and digital experiences.

During 2014/15 we have expanded our residential work experience programme (balanced 50/50 between girls and boys) to include a non-residential programme for students aged 16-19 who are in sixth form or college and do not have an existing relationship with an employer.

During 2014/15 National Grid invested nearly £900,000 in its education outreach, bringing benefits to 70 schools and around 9,000 students who receive at least one-hour of STEM/careers experience with our education ambassadors. National Grid expects this to grow considerably through Careers Lab.

We offer summer internships and also 12 month industrial placements to undergraduates in their penultimate year. These programmes offer students the opportunity to experience the culture, working and ethical practices of National Grid before they make the all-important decision to join the organisation as graduates.

Volunteering

Our employees continue to support our local communities, sharing their time and expertise on a range of skills-based volunteering and fundraising activities.

National Grid raised over £500,000 for good causes and provided over 9,000 hours of support to community projects in the UK. Our support of City Year now includes a new mentoring programme in Birmingham and we launched 'Good Leaders', a programme that shares our leadership expertise with the charity sector.

Health and wellbeing

Among our programmes for 2014/15 National Grid has worked to address the stigma and discrimination associated with mental health. We signed the UK Government-led 'Time to Change' pledge and have trained a further 92 employees in mental health first aid. National Grid has also helped more than 4,000 employees and service providers' staff understand their 'heart age' and run a weight-loss campaign that raised £4,000 for Macmillan Cancer Support.

Promoting an inclusive and diverse workforce

We aim to develop and operate our business with an inclusive and diverse culture, with equal opportunity to all in recruitment, career development, training and reward. This applies to all employees regardless of race, gender identity, nationality, age, disability, sexual orientation, religion and background. Our policies support the attraction and retention of the best people, improve effectiveness, deliver superior performance and enhance our success.

National Grid was recognised as a Times Top 50 Employer for Women for 2015 and reached the Gold level in our benchmarking with both Race for Opportunity and Opportunity Now during 2014. Both these campaigns also recognised National Grid as a Top 10 private sector employer. National

Grid's Employee Resource Groups (ERGs) continue to support its business goals and participate in events that encourage students to consider careers needing STEM qualifications.

The table below shows the breakdown by gender at different levels of the organisation. We have included information relating to 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 the Executive Committee.

	Financial year ending 31 March 2015				
	Male	Female	Total	% Male	% Female
Our Board	9	2	11	82	18
Senior Management	44	10	54	81	19
Whole Company	4,398	1,497	5,895	75	25

Human rights

Respect for human rights is incorporated into our employment practices and our values. See pages 9 and 10 for more information.

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 18 of the National Grid Annual Report and Accounts for further information.

Principal Operations

Overview

Our regulated business delivered a strong financial performance in the second year of RIIO. We aim to create value for our stakeholders by focusing on performance and making sure our processes are as efficient as they can be.

We have also established a new organisational structure to give stakeholders a clearer picture of how our activities are organised and delivered.

We have responded to concerns about the cost of energy and the security of the UK's energy. In evidence to Parliamentary inquiries we have explained our role, the services we provide and what those services cost. We have also been working with stakeholders in Europe to plan for the future impact of European Union energy policy on our business.

Principal risks

We identify, monitor and manage risks at various levels within our Company. The key risks our business faces are organised into a regional risk profile which is regularly reviewed by the UK senior leadership of National Grid. The main risk themes currently featured in this profile are:

- the risk of changes to the complex political and regulatory agenda for UK and European policy development and their potential implications for our business;
- challenges associated with making sure the data required to deliver business processes and regulatory requirements is complete, accurate and consistent;
- the impact of changes in our business structure and processes on our ability to continue to perform under RIIO; and
- continued management of safety, security and network resilience.

Principal Operations - Gas Transmission

What we do

We own and operate the gas national transmission system in Great Britain, with day-to-day responsibility for balancing supply and demand. Our network comprises approximately 7,660 kilometres (4,760 miles) of high pressure pipe and 24 compressor stations. In 2014/15 the gas throughput across the system was over 80 billion cubic metres.

Market Context

The UK's gas market and sources of gas are changing. Domestic demand has fallen over the last five years and a significant increase is not expected in future years. The UK continental shelf (UKCS) now makes up less than half our total gas supply, with the remainder coming from Norway, continental Europe, or further afield via shipped imports of Liquefied Natural Gas (LNG).

Overall, supply capacity now exceeds peak demand by more than 25%, giving our customers significant flexibility over which sources of gas they choose to meet demand. Newer sources of supply, such as LNG importation terminals and storage sites, can respond to demand more quickly than traditional UKCS supplies. Our network therefore needs to be able to respond to changing day-to-day supply and demand patterns.

We also need to prepare for an uncertain energy landscape in the long-term. UK reliance on imported gas supplies will vary depending on the level of gas supply from the UKCS and the development of indigenous gas sources.

We are working closely with our customers and stakeholders to meet these operational challenges. We are focused on continuing to develop our network and services to meet their needs safely, reliably and efficiently.

What we've achieved in 2014/15

We delivered a strong safety performance, particularly in our operations business where we have achieved 24 months (from April 2013) without a single lost time injury suffered by our employees or contractors.

We reached record levels of compressor availability in our network. Operational availability was at 100% several times during the winter, with an average of 96%. This is a rise of 7% on the average for winter 2013/14. It follows targeted investment in our fleet of compressors and improvements to our planning process, maintenance and repair methods.

We received £5.7 million from Ofgem following a successful bid in the Network Innovation Competition for designing and building a robotic device that can inspect below-ground pipework at high pressure installations. The device will help us to better assess asset condition, so we can focus expenditure where it is needed, benefiting gas consumers.

To meet the stricter environmental limits imposed by the Industrial Emissions Directive (IED), our larger gas turbines will need modifying or replacing. We have sought feedback from our stakeholders on the impact of the IED, adapting our proposed solutions in response. This has helped us develop investment options to make sure the network can meet the future needs of our customers and operate as efficiently as possible.

Results

The results for the Gas Transmission segment for the years ended 31 March 2015 and 2014 were as follows:

	Years ended 31 March	
	2015	2014
	£m	£m
Revenue and other operating income	**1,023**	943
Operating costs excluding exceptional items	**(584)**	(524)
Adjusted operating profit	**439**	419
Exceptional items	**(85)**	(57)
Operating profit	**354**	362

Principal movements (2013/14 – 2014/15)

	£m
2013/14 adjusted operating profit	419
Timing (1)	3
Net regulated income (2)	42
Regulated controllable operating costs (3)	(8)
Other	(17)
2014/15 adjusted operating profit	**439**

1 - In year estimated under-recovery of £18 million compared with a prior year estimated under-recovery of £21 million. The estimated closing under-recovered value at 31 March 2015 is £29 million.

2 - Increase in regulated revenues reflecting gas permit income and higher LNG Storage revenue.

3 - Cost increase due to business change costs, inflation and systems operation costs.

Priorities for the year ahead

Safety: Sustain and improve our safety performance by implementing a new safety culture improvement programme across Gas Transmission.

Reliability: Build on improvements we have made this year in compressor availability, extending this across other critical assets in our networks to further improve the service we deliver to our customers.

Efficiency: Drive continuous improvement through our end-to-end processes and deliver greater value for customers and further efficiencies. Where we create additional capacity, we will look to insource some maintenance work and increase specialist pipeline services for customers.

Innovation: Use the innovation opportunities available through the Network Innovation Competition and Network Innovation Allowance funding. This will help us to create value for customers and the industry, and to achieve our RIIO-T1 commitments.

Emissions compliance projects: Continue work on existing emissions compliance projects and secure funding for continued works over the remainder of the RIIO-T1 period and beyond.

Principal Operations - Gas Distribution

What we do

We own and operate four of the eight regional gas distribution networks in Great Britain. Our networks comprise approximately 131,000 kilometres (82,000 miles) of pipeline. We transport gas from the gas national transmission system to around 10.9 million consumers on behalf of 37 shippers.

Gas consumption in our networks was 260 TWh in 2014/15 compared with 264 TWh in 2013/14.

We manage the national gas emergency number (0800 111 999). This service, along with the enquiries lines, appliance repair helpline and meter enquiry service, handled nearly 2.4 million calls during 2014/15.

Market Context

We manage our networks to keep our customers safe and warm. We are incentivised through RIIO to operate efficiently and deliver services that our customers and stakeholders value.

Ofgem is able to make comparisons across all eight networks. It establishes outputs they are expected to deliver so that we all maintain a safe and reliable network; make a positive contribution to sustainability and protect the environment; provide connections to supply new consumers and support new gas entry points into the network; meet their social obligations; and provide an agreed standard of service to consumers and other stakeholders.

We collaborate with the industry on issues that are common to all networks and customers, such as innovation, safety and the future of networks to deliver outcomes that customers value.

Gas remains an important part of the current and future energy mix and we are working with our customers and stakeholders to develop our networks to accommodate gas from new sources, such as bio-methane.

What we've achieved during 2014/15

We believe we are making progress towards our ambition to be the best gas distribution business in Britain by 2017. We understand where we need to focus to deliver our RIIO outputs and deliver better customer service.

We are investing in our networks to make sure we meet customer and stakeholder needs. This includes replacing approximately 1,450 kilometres of old metal pipelines with more durable materials as part of our mains replacement programme developed with the HSE and Ofgem. In London, we have replaced around 300 kilometres of iron mains, including projects in Battersea and around the City.

We have also completed ten commercial bio-methane connections, more than any other UK gas distribution network, including the first 100% food waste plant and the first commercial sewerage connection with Severn Trent Water.

Overall, we have delivered successfully against our targets to deliver world class levels of safety performance across our combined field workers and contractor workforce. In terms of cable strikes and injuries to members of the public, although we have missed our targets, we have increased our efforts to make improvements. We have used innovative technology that has helped reduce excavation volumes, so we can minimise disruption. We have also been helping stakeholders such as landowners and the construction industry understand how we protect pipelines and how they can operate safely around them.

During 2014/15 we were recognised by Ofgem as the best performing Gas Distribution network in understanding our customer and stakeholder needs for the previous year. Our focus in this area has seen over 1,200 fuel poor customers benefiting from an alternative, more affordable method of heating their homes since we have connected them to our gas networks.

However, against a backdrop of increased customer complaints across the industry, our volumes have also increased. To help improve this, a particular focus this year has been on simplifying the process for customers who want to connect to our networks by improving our website experience and providing them with a single point of contact.

We have invested in new mobile technology for our field workforce to increase productivity and provide our supervisors with real time customer information. This has also helped improve employee engagement scores and the desire to drive better outcomes for our customers; our field force now compares favourably with top quartile industry benchmarks in this area.

Results

The results for the Gas Distribution segment for the years ended 31 March 2015 and 2014 were as follows:

	Years ended 31 March	
	2015	2014
	£m	£m
Revenue and other operating income	**1,868**	1,897
Operating costs excluding exceptional items	**(1,042)**	(993)
Adjusted operating profit	**826**	904
Exceptional items	**29**	(53)
Total operating profit	**855**	851

Principal movements (2013/14 – 2014/15)

	£m
2013/14 adjusted operating profit	904
Timing[1]	(16)
Net regulated income[2]	(11)
Regulated controllable operating costs[3]	(22)
Depreciation and amortisation[4]	(15)
Other	(14)
2014/15 adjusted operating profit	**826**

1 - In year over-recovery of £13 million compared with an over-recovery in the prior year of £29 million. The estimated closing over-recovered value at 31 March 2015 is £16 million.

2 - Revenues decreased reflecting the profiling of allowed revenues.

3 - Increased costs primarily due to business change costs, inflation and system operation costs.

4 - Higher average asset values due to the capital investment programme.

Priorities for the year ahead

Improve our safety performance by further reducing cable strikes, injuries to members of the public and preventing third party encroachment. This will continue to be an important area of focus.

Continue to use innovative technology to deliver better services that reduce the impact on customers' bills and minimise disruption caused by our work.

Improve our customers' experience of planned replacement work projects by working with our partners to improve our processes, data capture and how we communicate and engage with our customers.

Continue to work with the Government and industry on setting out the vision for the future role of gas in the UK's energy mix and policies that support this role, while considering how domestic smart meters can create value for customers.

Motivate and equip our workforce with the tools and knowledge they need to deliver the services and outcomes our customers value, while increasing productivity.

Principal Operations - Other activities

Other activities include National Grid Metering and Xoserve.

National Grid Metering

National Grid Metering (NGM) provides installation and maintenance services to energy suppliers in the regulated market in Great Britain. It maintains an asset base of around 14.1 million domestic, industrial and commercial meters.

The domestic traditional gas metering business continues to operate in its role as the National Metering Manager, pending the start of the smart metering mass roll-out. This role means customers have a point of contact if they require a meter up until the start of the smart metering roll-out. The tariff caps agreed with Ofgem, which took effect on 1 April 2014, will continue to apply until at least the end of the transition to smart metering.

Customer satisfactions scores for NGM remain positive for both its domestic and industrial and commercial businesses, but we continue to work with our customers on areas for improvement. In our industrial and commercial business we have implemented new software that allows remote customer self-serve access for some services and is expected to improve efficiency. We are also responding to the rapidly changing non-domestic sector by exploring additional products and services.

Xoserve

Xoserve delivers transactional services on behalf of all the major gas network transportation companies in Great Britain, including National Grid. Xoserve is jointly owned by National Grid Gas, as majority shareholder, and the other gas distribution network companies. Xoserve celebrated its 10 year anniversary as a company on 1 May 2015.

Results

The results for other activities for the years ended 31 March 2015 and 2014 were as follows:

	Years ended 31 March	
	2015	2014
	£m	£m
Revenue and other operating income	**356**	365
Operating costs	**(209)**	(219)
Adjusted operating profit	**147**	146
Exceptional items	**(1)**	-
Total operating profit	**146**	146

Internal control and risk management

National Grid Gas 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 Grid Gas Board is committed to protecting and enhancing our reputation and assets, while safeguarding the interests of our ultimate shareholders. It has responsibility for the Company's system of risk management and internal control. National Grid Gas is also responsible for providing oversight of the risk management and internal control activities within the Company.

Risk management approach

National Grid's group-wide corporate risk management process provides a framework through which we 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 business functions participate in the bottom-up risk management process. They identify 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 we identify are collated in risk registers and are reported at functional and regional levels of the 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.

Regional senior management regularly review and debate the outputs of the bottom-up process and agree the prioritisation of the risks. The main risks for National Grid Gas are highlighted in regional risk profiles and reported to the Chief Executive through quarterly performance reports.

The main strategic uncertainties or 'principal risks' for National Grid Gas are developed through top-down discussions with the National Grid Executive leadership team. These risks are reported and debated with the National Grid Executive Committee and National Grid Audit Committee every six months. The National Grid Gas Audit Committee monitors the effectiveness of the risk management process during the year through the triannual reports it receives.
The National Grid Board participates in an annual interactive risk workshop to make sure that the principal risks remain closely aligned to the strategic aims and that no important risks (or combination of risks) are being overlooked. In addition, the National Grid Board considers emerging risks (uncertainties that are still developing and sit outside the principal risks profile) together with the strategy team's annual long-term update. The outcomes from each level of the risk review process are fed back to the relevant teams and incorporated as appropriate into the next cycle of the ongoing process.

Internal 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 Gas Audit Committee, the Safety, Environment and Health Committee (SEH) and the Executive Committee, as to whether the organisation's existing control and governance frameworks are operating effectively in order to meet National Grid's strategic objectives.

Audit work is delivered by employees 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 2014/15 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. The current National Grid Gas plc lead engagement partner has held the position for four years.

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. An overview of the key inherent risks we face is provided on pages 173 to 176 within the National Grid Annual Report and Accounts. Examples include:

- aspects of the work we do could potentially harm employees, contractors, members of the public or the environment;
- we may suffer a major network failure or interruption, or may not be able to carry out critical operations due to the failure of infrastructure, data or technology or a lack of supply;
- changes in law or regulation or decisions by governmental bodies or regulators could materially adversely affect us;
- current and future business performance may not meet our expectations or those of our regulators and stakeholders;
- changes in interest rates could materially impact earnings or our financial condition;
- our results of operations could be affected by inflation or deflation;
- we may be required to make significant contributions to fund pension and other post-retirement benefits;
- an inability to access capital markets at commercially acceptable interest rates could affect how we maintain and grow our businesses; and
- customers and counterparties may not perform their obligations

Our corporate risk profile contains the principal risks that the National Grid 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 below, together with examples of the relevant controls and mitigating actions we are taking.

Principal risks

Strategic objective	Risk description	Example of mitigations
Drive growth	Failure to identify and execute the right opportunities to deliver our growth strategy. Failure to sufficiently grow our core business and have viable options for new business over the longer term would negatively 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; 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.
Engage externally	Inability 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 continue to maintain strong relationships with Government, engage in consultations, and develop comprehensive stakeholder communications plans. The Board is also continuing to monitor the increasing public debate around the cost, availability, security and sustainability of energy supplies.
Engage our people	Inability to secure the business capacity, appropriate leadership capability and employee engagement levels 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.	We have identified the core capabilities that align with our strategic ambition. We have filled key leadership roles with a mix of internal and external hires. We are involved in a number of initiatives to help secure the future engineering talent required. We continue to develop our succession plans for key roles, including leadership. We continue to actively 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 achieve levels of financial performance required to meet regulatory requirements. The Company operates under a complex regulatory regime and we must maintain the performance levels required. Failure to achieve the agreed returns could damage our reputation and threaten future growth opportunities and regulatory arrangements.	The operating model implemented in 2013 to support our performance under RIIO is now established and we continue to roll out our Performance Excellence framework across the business. We monitor network reliability and customer satisfaction as KPIs, as described on page 11.
	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 ultimate shareholders, and to meet our obligations under our regulatory agreement, and comply with the agreement with bond holders and other providers of finance.	We are implementing a global information management framework focusing on data integrity and security. We completed a data assurance programme last year and actions to improve our data quality and integrity processes based on the results are being managed by the business functions.
	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. 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.
	Failure to prevent a significant process safety event. Safety is paramount. Some of the assets owned and operated by National Grid are inherently hazardous and process safety incidents, whilst extremely unlikely, can occur. Our objective is to be an industry leader in managing the process safety risks from our assets to protect our employees, contractors and the communities in which we operate. We operate in compliance with local legislation and regulation. In addition we identify and adopt good practices for safety management.	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 the National Grid Group-wide process safety management system to ensure a robust and consistent framework of risk management exists across our higher hazard asset portfolio. We are developing a suite of risk models to assess the risk of specific asset types and support targeted investment to reduce risk. We monitor a mix of leading and lagging process safety indicators and test the effectiveness of our controls with periodic audits.

Our internal control process

We have a number of processes to support our internal control environment. These processes are managed by dedicated specialist teams, as described to the right. 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 27 to 30.

Reviewing the effectiveness of our internal control

Each year the National Grid 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 2015 and the period to the approval of this Annual Report and Accounts. It included:

- the Certificate of Assurance for noting following approval by the Audit Committee to provide overall assurance around the effectiveness of National Grid's risk management and internal controls systems;
- where appropriate, assurance from our committees, with particular reference to the reports received from the Audit, and Safety, Environment and Health Committees on reviews undertaken at their meetings; and
- assurances about the certifications required under Sarbanes-Oxley as a result of National Grid's US reporting obligations.

The National Grid risk management and internal control processes comply with the Turnbull guidance on internal control and the requirements of the UK Corporate Governance Code.

National Grid has reviewed the new UK Corporate Governance Code, published in September 2014 against its risk management and internal control systems and processes. Refinements in these systems and processes will be implemented, as appropriate, over the coming year.

Internal control over financial reporting

National Grid has specific internal mechanisms to govern the financial reporting process and the preparation of the Annual Report and Accounts. The financial controls guidance sets out the fundamentals of internal control over financial reporting, which are applied across National Grid, including National Grid Gas.

The financial processes within National Grid include a range of system, transactional and management oversight controls. In addition, National Grid Gas 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 our Finance function.

These reviews are supplemented by quarterly performance reviews, attended by the Chief Executive and Finance Director of National Grid which consider historical results and expected future performance and involve senior management from both operational and financial areas of the business.

The Finance Director presents a consolidated financial report at each National Grid Gas Board meeting.

The Strategic Report was approved by the Board of Directors on 1 July 2015 and signed on its behalf by:

Andy Agg
Director

Corporate Governance

Corporate Governance Statement

National Grid Gas 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 2012 (the Code) during the year being reported on. National Grid Gas 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 responsible for its governance, and oversees its compliance with all relevant laws and regulations, including compliance with its Gas Transporter Licences. The operational and financial management of the Company's businesses is undertaken by committees, in compliance with business separation obligations set out in its licenses.

Board composition

The Board has undergone significant change during the last financial year. In accordance with the relevant Licence conditions, the Company appointed two non-executive directors (NEDS), (also termed sufficiently independent directors (SIDs)) to the Board of the Company. Dr Catherine Bell and Dr Clive Elphick, were appointed with effect from 1 April 2014. Additionally a review of the Board membership was undertaken, and in consultation with its shareholder, the Board appointed three new directors in October 2014. These directors were appointed from the senior management within the business. Paul Whittaker stepped down from the Board on 30 September 2014.

Looking ahead to the next financial year the Company will see a change in Chairmanship of the Board. As previously announced in the National Grid plc Annual Report and Accounts for 2013/2014, Nick Winser will be leaving the Company during July 2015. Following Nick's departure John Pettigrew will assume the role of non-independent Chairman of the Board. Following the resignation of Emma Fitzgerald as a director of the Company the Board are engaged in discussion regarding a successor to this role. The Board of the Company will make further appointments 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

Following Catherine and Clive's appointment to the Board, a comprehensive induction programme was arranged, which had been tailored to Catherine and Clive's background and experience.

To strengthen the Board's knowledge and understanding of the Company, Board meetings regularly include updates and presentations on specific aspects of the business.

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 in accordance with guidelines concerning the content, timeliness and preferred presentation of papers to ensure Directors are briefed appropriately.

Board performance evaluation

A board evaluation of the current governance structure affecting the Company has been scheduled to take place during the first quarter of the next financial year. The evaluation process will be undertaken by an external provider who specialises in operational subsidiary board evaluations within a regulatory framework. The timing of the review will enable the Board to reflect on the changes that have been implemented during 2014/2015, allow the sufficiently independent directors to reflect on their role a year after their appointment, and allow the change in Chairmanship to build and develop the Board for the future.

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 2015.

	Attendance
Nick Winser (chair)	6 of 6
John Pettigrew	5 of 6
Andy Agg	6 of 6
Malcolm Cooper	6 of 6
Paul Whittaker *(Resigned 30 September 2014)*	3 of 3
Emma Fitzgerald *(Resigned 30 April 2015)*	6 of 6
Julian Allsopp	5 of 6
Mark Ripley *(Appointed 1 October 2014)*	3 of 3
Mike Calviou *(Appointed 1 October 2014)*	3 of 3
Neil Pullen *(Appointed 1 October 2014)*	3 of 3
Catherine Bell (SID) *(Appointed 1 April 2014)*	5 of 6
Clive Elphick (SID) *(Appointed 1 April 2014)*	6 of 6

Committees

The Board has established a number of committees and sub-committees which assist it in its activities. In November 2014 the Board established an Audit Committee comprising of the sufficiently independent directors, the Chairman of the Board and a further Board director. Other committees include the Distribution Executive Committee, the Gas Transmission Executive Committee, the Compliance Committees, 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.

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 33f of the Gas Act 1986, the Company has provided to Ofgem details of the linkages between Directors' remuneration and service standards.

Distribution Executive Committee

The Distribution Executive Committee acts within National Grid's overall corporate governance framework and delegated authorities and is responsible for directing the affairs and operational and financial management of the Distribution business. Membership of this committee, which comprises two Directors of the Company, and senior managers of the Distribution business, and their attendance at meetings during 2014/15, is set out below. Attendance is expressed as number of meetings attended out of number eligible to attend, and includes attendance by a nominated deputy.

		Attendance
Jeremy Bending[1]	Director Network Strategy	2 of 2
David Parkin[2]	Director of Network Strategy	4 of 4
Julian Allsopp	Company Director and Lead Finance Business Partner	6 of 6
Emma Fitzgerald (Chair)[3]	Director, Gas Distribution	4 of 6
Ed Syson	Director of Operations	6 of 6
Jonathan Callighan	Head of Gas Distribution Strategic Partnerships	6 of 6
Ann Marie Ward	Head of Customer Operations	6 of 6
Richard Court	Head of Stakeholder Delivery	6 of 6
Kevin Leadbetter[4]	Head of Emergency Response & Repair Process	1 of 1
Hilary Buxton[5]	Replace & Extend Process Manager and Head of Emergency Response & Repair Process (ER&R)	6 of 6
Chris Bennett	Head of UK RIIO Delivery	4 of 6
David Smith[6]	Operate & Maintain Process Manager	6 of 6
Karen Clayton[7]	UK General Counsel & Company Secretary	2 of 3
Mark Tomlinson/ Karen Gillespie[8]	UK Solicitor	2 of 3
Carrie Dunn[9]	HR Business Partner	5 of 5
Keri Handford[10]	HR Business Partner	1 of 1

[1] *Resigned August 2014*
[2] *Appointed August 2014*
[3] *Replaced by Chris Train on 30 April 2015*
[4] *Resigned June 2014*
[5] *Appointed ER&R process manager June 2014*
[6] *Appointed April 2014*
[7] *Resigned September 2014*
[8] *Attended as delegate pending appointment of UK legal counsel*
[9] *Resigned December 2014*
[10] *Appointed February 2015*

The Distribution Executive Committee has a number of sub-committees dealing with matters such as investment governance and coordination of operations.

Gas Transmission Executive Committee

During the year the Transmission Executive Committee was split into the Gas Transmission Executive Committee (GTEC) and the Electricity Transmission Executive Committee (ETEC). The Purpose of GTEC is to direct the affairs of the Gas Transmission Owner business on behalf of its Board and 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 Gas 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 (DoA) limits.

Additionally the Committee carries assurance responsibilities for the Gas 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.

GTEC acts within National Grid's overall corporate governance framework and delegated authorities and is responsible for the operational and financial management of the Gas Transmission business. Membership of this committee, which comprises at least two Directors of the Company, senior managers of the Gas Transmission business and certain other senior managers, and their attendance at meetings during 2014/15, is set out below. Attendance is expressed as number of meetings attended out of number eligible to attend, and includes attendance by a nominated deputy.

		Attendance
Neil Pullen (Chair)	Director of Gas Transmission Asset Management	4 of 4
Darren Elsom	Head of Network Engineering	4 of 4
Sara Habib	Head of GTO Business Improvement	4 of 4
Vicki Flindall	Lead Finance Business Partner	4 of 4
Chris Bennett	Head of UK RIIO Delivery	4 of 4
Andy Malins	Head of Gas System Operation	4 of 4
Mark Ripley	Director UK Regulation	2 of 4
Richard Smith	Head of Network Strategy	4 of 4
David Salisbury	Head of Data and Technology	4 of 4
Mike Elmer[1]	Head of Gas Transmission and ISS	1 of 1
Karl Yates[2]	Head of Gas and ISS	3 of 3
Mark Tomlinson	Business Partner	4 of 4
Alan Rankin[2]	Group Head of Process Safety	2 of 3
Susi Wykes[3]	HR Business Partner	1 of 1

[1] *Resigned January 2015.*
[2] *Appointed January 2015.*
[3] *Appointed March 2015.*

The Gas Transmission Executive Committee has a number of sub-committees dealing with matters such as investment governance 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. Three meetings took place prior to a change in committee membership. Following this six meetings have taken place. Membership of this committee Directors of the Company, senior managers of the Transmission business and certain other senior managers, and their attendance at meetings during 2014/15 is set out below. Attendance is expressed as number of meetings attended out of number eligible to attend, and includes attendance by a nominated deputy.

		Attendance
Mike Calviou (Chair)	Director of UK Transmission Network Services	6 of 6
Cordi O'Hara	Director of Market Operations	5 of 6
Nicola Pitts	Head of Process – Operate the System	6 of 6
Darren Pettifer	Lead Finance Business Partner	5 of 6
Mark Ripley	Director UK Regulation	6 of 6
Mark Tomlinson	Legal Business Partner	1 of 6
George Mayhew	Corporate Affairs Director	2 of 6
Janine Freeman	Head of EU Public Affairs	5 of 6
Tina Sands	Head of UK IS	4 of 6
Huma Ali	HR Business Partner	3 of 3

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 GTEC.

Compliance Committees

The Compliance Committees of the Board are responsible for overseeing the duties and tasks of the Business Separation Compliance Officer and for overseeing compliance with the business separation licence conditions. The Compliance Committees comprises both executive and sufficiently independent directors. There are separate Compliance Committees to deal with DN and NTS licence obligations.

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

In November 2014 the Board established an 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 four Board directors: the Chairman, a director and two sufficiently independent directors. Two meetings took place during the last financial year. Committee 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 2015.

	Attendance
Nick Winser (chair)	2 of 2
Malcolm Cooper	2 of 2
Catherine Bell	2 of 2
Clive Elphick	2 of 2

Group holding company

During the year John Pettigrew was also an Executive Director of National Grid. Through his participation at the Boards of both companies, the Board of National Grid Gas is well placed to identify and facilitate understanding of the views of its shareholder.

Business separation

Special Condition 10B of our National Transmission System (NTS) gas transporter licence requires that the Company maintains managerial and operational systems such that:

- the Distribution Network (DN) businesses do not gain unfair commercial advantage by reason of the way the Company conducts its NTS business, as required by Standard Special Condition A6; and
- cross-subsidy between the NTS business and the DN businesses is avoided, as required by Standard Special Condition A35.

Our policy on business separation is set out in the Company's Compliance Statement.

We have taken the following specific actions to comply with the requirements of Special Condition 10B:

- established separate management committees for the gas transmission and gas distribution businesses, as described above;
- appointed separate Compliance Committees for each of the gas transmission business and the gas distribution business, as described above. Each Compliance Committee reports directly to the Board of National Grid Gas and also to the Audit Committee of National Grid; and
- appointed a Business Separation Compliance Officer, who reports to the Compliance Committees and twice yearly to the Audit Committee of National Grid.

Standard Special Condition A33 of our gas distribution transporter licence requires that the Company maintains managerial and operational systems such that:

- it's affiliate metering business does not have access to confidential information unless it is made available on an equal basis in accordance with the provisions of Standard Special Condition A33; and
- it manages and operates the transportation business in a way calculated to ensure it does not restrict, prevent or distort competition.

Our policy on business separation is set out in the Company's Compliance Statement.

We have taken the following specific actions to comply with the requirements of Standard Special Condition A33:

- established separate management for the gas distribution business and metering businesses; and
- appointed a Compliance Officer, who reports to the Directors of the licensee through the established Compliance Committee.

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	
Julian Allsopp	
Catherine Bell (SID)*	Appointed 1 April 2014
Mike Calviou	Appointed 1 October 2014
Malcolm Cooper	
Clive Elphick (SID)*	Appointed 1 April 2014
Emma Fitzgerald	Resigned 30 April 2015
John Pettigrew	
Neil Pullen	Appointed 1 October 2014
Mark Ripley	Appointed 1 October 2014
Paul Whittaker	Resigned 30 September 2014
Nick Winser	

**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 2015. 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, businesses, key performance indicators and principal risks and uncertainties is contained in the Strategic Report on pages 2 to 26, which are incorporated by reference into this report.

Material interests in shares

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

Dividends

During the year, interim dividends totalling £700 million were paid (2013/14: £600 million interim dividend). The Directors have not proposed a final dividend.

Share capital

Share capital remains unchanged. See note 20 to the consolidated financial statement for further details.

Research and development

Expenditure on research and development was £11 million during the year (2013/14: £6 million).

Financial instruments

Details on the use of financial instruments and financial risk management are included in note 25 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 15 and 16, which are 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 National Grid Gas's Annual General Meeting for 2015 will be issued separately to the shareholder.

Going concern

Having made enquiries and reviewed management's assessment of the going concern assumption, the Directors have a reasonable expectation that National Grid Gas has adequate resources to continue in operational existence for the next financial year and the foreseeable future. For this reason, the Directors are satisfied that, at the time of approving the financial statements, it is appropriate to continue to adopt the going concern basis in preparing the consolidated and individual financial statements of the Company. More detail on our financial risks, including liquidity and solvency, is provided in note 25 to the consolidated financial statements. There have been no major changes to the Group's significant liquidity and solvency risks in the year.

On behalf of the Board

Andy Agg
Director
1 July 2015
National Grid Gas plc,
1-3 Strand, London WC2N 5EH
Registered in England and Wales Number 2006000

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 26) 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 consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the 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 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 33, 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 shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

Andy Agg
Director
1 July 2015

Independent Auditors' report

to the Members of National Grid Gas plc

Report on the financial statements

Our opinion

In our opinion:

- National Grid Gas 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 the Statement of Directors' responsibilities , 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

National Grid Gas 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 and the consolidated statement of comprehensive income 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;
- the basis of preparation, recent accounting developments and company accounting policies; and
- the notes to the financial statements, which include 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; and
- the information given in the Corporate Governance Statement set out on pages 27 to 30 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of 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.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the company. 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 34, 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 Accounts 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.

Stephen R Snook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
1 July 2015

Basis of preparation

(for National Grid Gas)

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 2015 or later years, explaining how significant changes are expected to affect our performance.

National Grid Gas plc's principal activities involve the transmission and distribution of gas 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 1 July 2015.

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 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 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 32.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 see note 11.

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.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- the categorisation of certain items as exceptional items, remeasurements and the definition of adjusted earnings – note 3.
- energy purchase contracts classification as being for normal purchase, sale or usage – note 22

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 8 and 9.
- estimation of liabilities for pensions and other post-retirement benefits – notes 4 and 24.
- valuation of financial instruments and derivatives – notes 11 and 25.
- revenue recognition and assessment of unbilled revenue – note 1.
- environmental and decommissioning provisions – note 19.

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 26.

Recent accounting developments

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 1 'Presentation of financial statements'
- 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.

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 2017. 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	2015 £m	2015 £m	2014 £m	2014 £m
Revenue	1 (a)		**3,077**		3,033
Operating costs	2		**(1,722)**		(1,674)
Operating profit					
Before exceptional items	1 (b)	**1,412**		1,469	
Exceptional items	3	**(57)**		(110)	
Total operating profit	1 (b)		**1,355**		1,359
Finance income	5		**5**		4
Finance costs					
Before exceptional items and remeasurements	5	**(269)**		(303)	
Exceptional items and remeasurements	3, 5	**(57)**		16	
Total finance costs	5		**(326)**		(287)
Profit before tax					
Before exceptional items and remeasurements		**1,148**		1,170	
Exceptional items and remeasurements	3	**(114)**		(94)	
Total profit before tax			**1,034**		1,076
Tax					
Before exceptional items and remeasurements	6	**(275)**		(283)	
Exceptional items and remeasurements	3, 6	**37**		284	
Total tax	6		**(238)**		1
Profit after tax					
Before exceptional items and remeasurements		**873**		887	
Exceptional items and remeasurements	3	**(77)**		190	
Profit for the year			**796**		1,077
Attributable to:					
Equity shareholders of the parent			**792**		1,076
Non-controlling interests			**4**		1
			796		1,077

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2015 £m	2014 £m
Profit for the year		**796**	1,077
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss			
Net losses in respect of cash flow hedges		**(35)**	(25)
Transferred to profit or loss on cash flow hedges		**9**	13
Tax on items that may be reclassified subsequently to profit or loss	6	**4**	2
Total items that may be reclassified subsequently to profit or loss		**(22)**	(10)
Other comprehensive income for the year, net of tax		**(22)**	(10)
Total comprehensive income for the year		**774**	1,067
Attributable to:			
Equity shareholders of the parent		**770**	1,066
Non-controlling interests		**4**	1
		774	1,067

The value of derivatives held to hedge cash flows is impacted by changes in expected interest rates and in exchange rates. The net loss for the year was £35m (2014: £25m loss).

Consolidated statement of financial position

as at 31 March

	Notes	**2015 £m**	2014 £m
Non-current assets			
Intangible assets	8	**250**	232
Property, plant and equipment	9	**12,440**	12,273
Other non-current assets	10	**5,610**	5,610
Derivative financial assets	11	**988**	642
Total non-current assets		**19,288**	18,757
Current assets			
Inventories and current intangible assets	12	**26**	24
Trade and other receivables	13	**485**	410
Financial and other investments	14	**384**	441
Derivative financial assets	11	**70**	63
Cash and cash equivalents	15	**1**	-
Total current assets		**966**	938
Total assets		**20,254**	19,695
Current liabilities			
Borrowings	16	**(2,191)**	(2,497)
Derivative financial liabilities	11	**(133)**	(99)
Trade and other payables	17	**(911)**	(834)
Current tax liabilities		**(34)**	(27)
Provisions	19	**(39)**	(74)
Total current liabilities		**(3,308)**	(3,531)
Non-current liabilities			
Borrowings	16	**(7,158)**	(6,711)
Derivative financial liabilities	11	**(481)**	(279)
Other non-current liabilities	18	**(1,047)**	(1,054)
Deferred tax liabilities	6	**(1,654)**	(1,599)
Provisions	19	**(171)**	(162)
Total non-current liabilities		**(10,511)**	(9,805)
Total liabilities		**(13,819)**	(13,336)
Net assets		**6,435**	6,359
Equity			
Share capital	20	**45**	45
Share premium account		**204**	204
Retained earnings		**4,908**	4,812
Cash flow hedge reserve		**(56)**	(34)
Other reserves		**1,332**	1,332
Shareholders' equity		**6,433**	6,359
Non-controlling interests		**2**	-
Total equity		**6,435**	6,359

These consolidated financial statements set out on pages 37 to 74 were approved by the Board of Directors and authorised for issue on 1 July 2015. They were signed on its behalf by:

Mark Ripley Director

Andy Agg Director

National Grid Gas plc
Registered number: 2006000

Consolidated statement of changes in equity

	Called-up share capital £m	Share premium account £m	Retained earnings £m	Cash flow hedge reserve £m	Other reserves £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
As at 1 April 2013	45	204	4,323	(24)	1,332	5,880	-	5,880
Profit for the year	-	-	1,076	-	-	1,076	1	1,077
Total other comprehensive loss for the year	-	-	-	(10)	-	(10)	-	(10)
Total comprehensive income for the year	-	-	1,076	(10)	-	1,066	1	1,067
Equity dividends	-	-	(600)	-	-	(600)	-	(600)
Other movements in non-controlling interests	-	-	-	-	-	-	(1)	(1)
Share-based payment	-	-	6	-	-	6	-	6
Tax on share-based payment	-	-	7	-	-	7	-	7
As at 31 March 2014	45	204	4,812	(34)	1,332	6,359	-	6,359
Profit for the year	-	-	792	-	-	792	4	796
Total other comprehensive loss for the year	-	-	-	(22)	-	(22)	-	(22)
Total comprehensive income/(loss) for the year	-	-	792	(22)	-	770	4	774
Equity dividends	-	-	(700)	-	-	(700)	-	(700)
Other movements in non-controlling interests	-	-	-	-	-	-	(2)	(2)
Share-based payment	-	-	6	-	-	6	-	6
Tax on share-based payment	-	-	(2)	-	-	(2)	-	(2)
At 31 March 2015	**45**	**204**	**4,908**	**(56)**	**1,332**	**6,433**	**2**	**6,435**

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 £9m, and the remainder released with the same maturity profile as borrowings due after more than one year.

Other reserves comprise the capital redemption reserve arising from the refinancing and restructuring of the Lattice Group in 1999. It represents the amount of the reduction in the share capital of the Company as a consequence of that restructuring. As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

Consolidated cash flow statement

for the years ended 31 March

	Notes	**2015 £m**	2014 £m
Cash flows from operating activities			
Total operating profit	1(b)	**1,355**	1,359
Adjustments for:			
Exceptional items	3	**57**	110
Depreciation, amortisation and impairment		**547**	533
Share-based payment charge		**6**	6
Changes in working capital		**24**	1
Changes in provisions		**10**	(17)
Gain on disposal of property, plant and equipment		**(41)**	(82)
Cash flows relating to exceptional items		**(98)**	(36)
Cash generated from operations		**1,860**	1,874
Tax paid		**(192)**	(189)
Net cash inflow from operating activities		**1,668**	1,685
Cash flows from investing activities			
Purchases of intangible assets		**(70)**	(58)
Purchases of property, plant and equipment		**(669)**	(572)
Disposals of property, plant and equipment		**48**	81
Interest received		**5**	4
Net movement in short-term financial investments		**57**	434
Net cash flow used in investing activities		**(629)**	(111)
Cash flows from financing activities			
Proceeds received from loans		**21**	115
Repayment of loans		**(245)**	(780)
Net movements in short-term borrowings and derivatives		**87**	(113)
Interest paid		**(192)**	(202)
Dividends paid to shareholders		**(700)**	(600)
Net cash flow used in financing activities		**(1,029)**	(1,580)
Net increase/(decrease) in cash and cash equivalents	21	**10**	(6)
Net cash and cash equivalents at the start of the year		**(9)**	(3)
Net cash and cash equivalents at the end of the year	15	**1**	(9)

Notes to the consolidated financial statements - analysis of items in the primary statements

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 businesses earn revenue for the transmission and distribution services they have provided during the year. The revenue recognised may differ from the revenue allowed under our regulatory agreements and differences are adjusted against future prices.

Revenue represents the sales value derived from the transmission and distribution of gas and the provision of gas metering services during the year including assessment of the value of services provided, but not invoiced at the year end. It excludes value added tax and intra-group sales.

The sales value for the transmission and distribution of gas is largely determined from the amount of system capacity sold for the year, and the amount of gas transported for the year, evaluated at contractual prices on a monthly basis. The sales value for the provision of gas metering services is largely derived from monthly charges for the provision of individual meters under contractual arrangements.

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.

Revenue includes income arising from the sale of properties as a result of property management activities, from the sale of emission allowances and from the recovery of pension deficit from other gas transporters under regulatory arrangement.

We present revenue and the results of the business analysed by operating segment, based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between operating segments. The Board is National Grid Gas plc's chief operating decision-making body (as defined by IFRS 8 'Operating Segments') and assesses the performance of operations principally on the basis of operating profit before exceptional items and remeasurements (see note 3). The following table describes the main activities for each operating segment:

Gas Transmission - the gas transmission network in Great Britain and UK liquefied natural gas (LNG) storage activities
Gas Distribution - four of the eight regional networks of Great Britain's gas distribution system

Other activities relate to the gas metering business which provides regulated gas metering activities in the UK, the Xoserve business which provides transportation transaction services on behalf of all the major gas network transportation companies, including ourselves, together with corporate activities.

Our segments are unchanged from those reported in the financial statements for the year ended 31 March 2014. All of the Group's sales and operations take place within the UK.

Sales between businesses are priced having regard to the regulatory and legal requirements that the businesses are subject to, which include requirements to avoid cross-subsidies.

1. Segmental analysis (continued)

(a) Revenue

	2015			2014		
	Total sales £m	**Sales between businesses £m**	**Sales to third parties £m**	Total sales £m	Sales between businesses £m	Sales to third parties £m
Operating segments						
Gas Transmission	**1,023**	**(105)**	**918**	943	(103)	840
Gas Distribution	**1,868**	**(38)**	**1,830**	1,897	(43)	1,854
Other activities	**356**	**(27)**	**329**	365	(26)	339
	3,247	**(170)**	**3,077**	3,205	(172)	3,033

Analysis of revenue by major customer:	**2015 £m**	2014 £m
Customer A	**714**	787
Customer B	**282**	338

These revenues are attributable to the Gas Transmission, Gas Distribution and Other activities.

No other single customer contributed 10% or more to the Group's revenue in either 2015 or 2014.

(b) Operating profit

Further details of the exceptional items and remeasurements are provided in note 3.

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Operating segments				
Gas Transmission	**439**	419	**354**	362
Gas Distribution	**826**	904	**855**	851
Other activities	**147**	146	**146**	146
	1,412	1,469	**1,355**	1,359
Reconciliation to profit before tax:				
Operating profit	**1,412**	1,469	**1,355**	1,359
Finance income	**5**	4	**5**	4
Finance costs	**(269)**	(303)	**(326)**	(287)
Profit before tax	**1,148**	1,170	**1,034**	1,076

(c) Capital expenditure, depreciation and amortisation

	Capital expenditure		Depreciation and amortisation	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Operating segments				
Gas Transmission	**184**	181	**172**	172
Gas Distribution	**498**	480	**286**	271
Other activities	**62**	63	**89**	90
	744	724	**547**	533
By asset type				
Property, plant and equipment	**674**	666	**487**	479
Other non-current intangible assets	**70**	58	**60**	54
	744	724	**547**	533

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	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Depreciation and amortisation	**547**	533	**-**	-	**547**	533
Payroll costs	**291**	283	**-**	28	**291**	311
Purchases of gas	**97**	112	**-**	-	**97**	112
Rates	**246**	241	**-**	-	**246**	241
Other	**484**	395	**57**	82	**541**	477
	1,665	1,564	**57**	110	**1,722**	1,674

(a) Payroll costs

	2015 £m	2014 £m
Wages and salaries	**257**	247
Social security costs	**29**	26
Pension costs (note 4)	**56**	79
Share-based payment	**6**	6
Severance costs (excluding pension costs)	**9**	14
	357	372
Less: payroll costs capitalised	**(66)**	(61)
	291	311

(b) Number of employees, including Directors

	31 March 2015 Number	31 March 2014 Number (i)	**Monthly Average 2015 Number**	Monthly Average 2014 Number (i)
UK	**5,895**	5,876	**5,888**	5,771

(i). Comparatives have been re-presented on a basis consistent with the current year classification.

The vast majority of employees are either directly or indirectly employed in the transmission and distribution of gas.

(c) Key management compensation

	2015 £m	2014 £m
Short-term employee benefits	**3**	3
Post-employment benefits	**3**	1
Share-based payment	**2**	1
Termination benefits (i)	**-**	-
	8	5

(i). See note 2(d) for details of termination benefits

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

(d) Directors' emoluments

The aggregate amount of emoluments (excluding social security, pensions and share-based payment) paid to Directors of the company in respect of qualifying services for 2015 was £2,085,729 (2014: £1,878,407).

Ten Directors including the highest paid Director exercised share options during 2015 (2014: eight Directors including the highest paid Director). 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 2015, retirement benefits were accruing to seven Directors under a defined benefit scheme (2014: four Directors under a defined benefit scheme).

The aggregate emoluments for the highest paid Director were £691,839 for 2015 (2014: £564,439) and total accrued annual pension at 31 March 2015 for the highest paid Director was £nil (2014: £nil).

The aggregate amount of loss of office payments to Directors for 2015 was £155,393 (2014: £nil).

(e) Auditors' remuneration

	2015 £m	2014 £m
Audit services		
Audit of parent company and consolidated financial statements	**0.3**	0.3
Other services		
Fees payable to the company's auditors for audit-related assurance services	**0.5**	0.2

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'. We exclude items from business performance because we think these items are individually important to understanding our financial performance. If included, these items could distort understanding of our 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.

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 or decommissioning provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and 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 of 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.

	2015 **£m**	2014 £m
Included within operating profit:		
Exceptional items:		
Restructuring costs (i)	**-**	(60)
Gas holder demolition costs (ii)	**-**	(79)
Sale of surplus land to National Grid Property	**41**	83
Pension deficit charges (iii)	**(98)**	(52)
Other	**-**	(2)
	(57)	(110)
Included within finance costs:		
Exceptional items:		
Debt redemption costs (iv)	**(31)**	-
Remeasurements:		
Net (losses)/gains on derivative financial instruments (v)	**(26)**	16
	(57)	16
Total included within profit before tax	**(114)**	(94)
Included within taxation:		
Exceptional credit arising on items not included in profit before tax:		
Deferred tax credit arising on the reduction in the UK tax rate (vi)	**3**	241
Tax on exceptional items	**21**	46
Tax on remeasurements	**13**	(3)
	37	284
Total exceptional items and remeasurements after tax	**(77)**	190
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	**(64)**	177
Total remeasurements after tax	**(13)**	13
Total	**(77)**	190

(i) No exceptional restructuring costs have been incurred in the year ended 31 March 2015. Restructuring costs for 2014 included: costs related to the continued restructuring of our operations in preparedness to deliver RIIO, and other transformation-related initiatives.

(ii) No further provision (2014: £79m) has been made for the demolition of non-operational gas holders in the UK.

(iii) Pension deficit charges in 2015 and 2014 arise from recovery plan contributions to the National Grid UK Pension Scheme.

(iv) Represents costs arising from a liability management programme. We have reviewed and restructured the Group debt portfolio following the commencement of the RIIO price controls in 2013. This resulted in a bond repurchase programme with a notional value of £127m.

(v) Remeasurements - net (losses)/gains 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.

(vi) 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. Other UK tax legislation also reduced the UK corporation tax rate in prior periods (2013: from 24% to 23%). These reductions have resulted in decreases to UK deferred tax liabilities in these periods.

4. Pensions

We have employees who are members of the National Grid UK Pension Scheme which is a defined benefit scheme closed to new entrants. The fair value of scheme assets and present value of defined benefit obligations are updated annually. For further details of the National Grid UK Pension Scheme terms and the actuarial assumptions used to value the associated assets and obligations, see note 24. Membership of the National Grid YouPlan defined contribution trust is offered to all new employees.

The substantial majority of the Group's employees are members of the National Grid UK Pension Scheme or The National Grid YouPlan. There is no contractual arrangement or stated policy for charging the net defined benefit cost of the scheme to the National Grid Group. Accordingly, the scheme is recognised as if it were a defined contribution scheme. The pension charge for the year represents contributions payable to the scheme for the period. A share of the assets and liabilities, or the actuarial gains and losses of the scheme are not recognised in these financial statements.

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 markets 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. 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.

The following disclosures relate to the scheme as a whole which are recognised in the consolidated financial statements of National Grid plc.

	2015 £m	2014 £m
Amounts recognised in the consolidated statement of financial position of National Grid plc		
Present value of funded obligations	**(17,236)**	(15,667)
Fair value of scheme assets	**17,073**	15,452
	(163)	(215)
Present value of unfunded obligations	**(29)**	(28)
Net defined benefit liability	**(192)**	(243)
Reconciliation of the net defined benefit liability		
Opening defined benefit liability	**(243)**	(549)
Cost recognised in the income statement	**(79)**	(97)
Remeasurement effects recognised in the statement of other comprehensive income	**(37)**	258
Employer contributions	**167**	145
Closing net defined benefit liability	**(192)**	(243)
Changes in the present value of defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligations	**(15,695)**	(15,998)
Current service cost	**(47)**	(61)
Interest cost	**(659)**	(672)
Actuarial (losses)/gains - financial assumptions	**(1,629)**	308
Actuarial losses - demographic assumptions	**(88)**	-
Actuarial gains - experience	**113**	-
Past service cost - redundancies	**(1)**	9
Special termination benefit cost - redundancies	**(14)**	(18)
Past service cost - augmentations	**(3)**	(7)
Past service credit - plan amendments	**-**	7
Employee contributions	**(1)**	(1)
Benefits paid	**759**	738
Closing defined benefit obligations	**(17,265)**	(15,695)
Changes in the fair value of scheme assets		
Opening fair value of scheme assets	**15,452**	15,449
Interest income	**651**	651
Return on assets greater/(less) than assumed	**1,567**	(50)
Administration costs	**(6)**	(6)
Employer contributions	**167**	145
Employee contributions	**1**	1
Benefits paid	**(759)**	(738)
Closing fair value of scheme assets	**17,073**	15,452
Actual return on scheme assets	**2,218**	601
Expected contributions to defined benefit scheme in the following year	**151**	113

5. Finance income and costs

This note details the interest income generated by our financial assets and the interest expense incurred on financial liabilities. 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 debt redemption costs incurred in the current year have been treated as an exceptional item (see note 3).

	2015 £m	2014 £m
Finance income		
Interest income on financial instruments	**5**	4
Finance income	**5**	4
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**(32)**	(40)
Other borrowings	**(308)**	(330)
Derivatives	**60**	54
Unwinding of discount on provisions	**(7)**	(4)
Other interest	**(2)**	(1)
Less: interest capitalised (i)	**20**	18
	(269)	(303)
Exceptional items		
Debt redemption costs	**(31)**	-
Remeasurements		
Net gains/(losses) on derivative financial instruments included in remeasurements (ii):		
Ineffectiveness on derivatives designated as:		
Fair value hedges (iii)	**17**	16
Cash flow hedges	**(2)**	(5)
Derivatives not designated as hedges or ineligible for hedge accounting	**(41)**	5
Exceptional items and remeasurements included within finance costs	**(57)**	16
	(326)	(287)
Net finance costs	**(321)**	(283)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 4.25% (2014: 4.60%). Capitalised interest qualifies for a current year tax deduction with tax relief claimed of £4m (2014: £4m).

(ii) Includes a net foreign exchange loss on financing activities of £55m (2014: £109m). 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 £117m (2014: £109m) offset by a net loss of £94m arising from the fair value adjustments to the carrying value of debt (2014: £125m).

6. Taxation

We operate in the UK and this note gives further details of the 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.

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 Company and its subsidiaries intend to settle their current tax assets and liabilities on a net basis.

Tax charged/(credited) to the income statement

	2015	2014
	£m	£m
Tax before exceptional items and remeasurements	**275**	283
Exceptional tax on items not included in profit before tax (note 3)	**(3)**	(241)
Tax on other exceptional items and remeasurements	**(34)**	(43)
Tax on total exceptional items and remeasurements (note 3)	**(37)**	(284)
Total tax charge/(credit)	**238**	(1)

Taxation as a percentage of profit before tax

	%	%
Before exceptional items and remeasurements	**24.0**	24.2
After exceptional items and remeasurements	**23.0**	(0.1)

The tax charge for the year can be analysed as follows:

	£m	£m
Current tax		
UK corporation tax at 21% (2014: 23%)	**174**	210
UK corporation tax adjustment in respect of prior years	**9**	-
Total current tax	**183**	210
Deferred tax		
UK deferred tax	**54**	(210)
UK deferred tax adjustment in respect of prior years	**1**	(1)
Total deferred tax	**55**	(211)
Total tax charge/(credit)	**238**	(1)

6. Taxation (continued)

Tax credited to other comprehensive income and equity

	2015 £m	2014 £m
Current tax		
Share-based payment	**(2)**	(2)
Deferred tax		
Share-based payment	**4**	(5)
Cash flow hedges	**(4)**	(2)
	(2)	(9)
Total tax recognised in the statement of comprehensive income	**(4)**	(2)
Total tax relating to share-based payment recognised directly in equity	**2**	(7)
	(2)	(9)

The tax charge for the year after exceptional items and remeasurements is higher (2014: lower) than the standard rate of corporation tax in the UK of 21% (2014: 23%):

	Before exceptional items and remeasure-ments 2015 £m	**After exceptional items and remeasure-ments 2015 £m**	Before exceptional items and remeasure-ments 2014 £m	After exceptional items and remeasure-ments 2014 £m
Profit before tax				
Before exceptional items and remeasurements	**1,148**	**1,148**	1,170	1,170
Exceptional items and remeasurements	**-**	**(114)**	-	(94)
Profit before tax	**1,148**	**1,034**	1,170	1,076
Profit before tax multiplied by UK corporation tax rate of 21% (2014: 23%)	**241**	**217**	269	247
Effects of:				
Adjustments in respect of prior years	**10**	**9**	-	(1)
Expenses not deductible for tax purposes	**8**	**8**	5	5
Non-taxable income	**(1)**	**(1)**	(1)	(1)
Impact of share-based payment	**4**	**4**	(4)	(4)
Deferred tax impact of change in UK tax rate	**-**	**(3)**	-	(241)
Other	**13**	**4**	14	(6)
Total tax	**275**	**238**	283	(1)
	%	**%**	%	%
Effective tax rate	**24.0**	**23.0**	24.2	(0.1)

Taxation 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	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2013	-	(4)	-	(19)	(23)
Deferred tax liabilities at 31 March 2013	1,824	-	4	12	1,840
At 1 April 2013	1,824	(4)	4	(7)	1,817
(Credited)/charged to income statement	(208)	(3)	(2)	2	(211)
Credited to other comprehensive income and equity	-	(5)	(2)	-	(7)
At 31 March 2014	1,616	(12)	-	(5)	1,599
Deferred tax assets at 31 March 2014	-	(12)	-	(15)	(27)
Deferred tax liabilities at 31 March 2014	1,616	-	-	10	1,626
At 1 April 2014	1,616	(12)	-	(5)	1,599
Charged/(credited) to income statement	47	3	(2)	7	55
Charged/(credited) to other comprehensive income and equity	-	4	(4)	-	-
At 31 March 2015	**1,663**	**(5)**	**(6)**	**2**	**1,654**
Deferred tax assets at 31 March 2015	-	(5)	(6)	(8)	(19)
Deferred tax liabilities at 31 March 2015	1,663	-	-	10	1,673
At 31 March 2015	**1,663**	**(5)**	**(6)**	**2**	**1,654**

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an 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 £1,654m (2014: £1,599m). At the balance sheet date there were no material current deferred tax assets or liabilities (2014: £nil).

7. Dividends

Dividends represents 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 pay out the remainder in accordance with our dividend policy.

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

The following table shows the dividends paid to equity shareholders:

	2015		2014	
	pence (per ordinary share)	**2015 £m**	pence (per ordinary share)	2014 £m
Ordinary dividends				
Interim dividend paid in the year	**17.75**	**700**	15.21	600

8. 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 fixed 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 that 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 principal amortisation period for software is up to 8 years.

	Software £m
Cost at 1 April 2013	394
Additions	58
Reclassifications	28
Cost at 31 March 2014	480
Additions	70
Reclassifications	14
Cost at 31 March 2015	564
Accumulated amortisation at 1 April 2013	(192)
Amortisation charge for the year	(54)
Reclassifications	(2)
Accumulated amortisation at 31 March 2014	(248)
Amortisation charge for the year	(60)
Reclassifications	(6)
Accumulated amortisation at 31 March 2015	(314)
Net book value at 31 March 2015	**250**
Net book value at 31 March 2014	232

Reclassifications represents amounts transferred from property, plant and equipment (see note 9).

9. 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 a gas transmission and distribution 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 are flexible and resilient. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and 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 Company'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 they relate.

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 assessment 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	
- mains, services and regulating equipment	30 to 100
- meters and metering equipment	10 to 16
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, dependent 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.

9. 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 2013	373	17,684	365	534	18,956
Additions	46	516	74	30	666
Disposals	-	(46)	-	(56)	(102)
Reclassifications (i)	(43)	73	(74)	16	(28)
Cost at 31 March 2014	376	18,227	365	524	19,492
Additions	47	514	87	26	674
Disposals	-	(29)	-	(6)	(35)
Reclassifications (i)	-	(1)	(17)	4	(14)
Cost at 31 March 2015	423	18,711	435	548	20,117
Accumulated depreciation at 1 April 2013	(115)	(6,315)	-	(404)	(6,834)
Depreciation charge for the year (ii)	(35)	(396)	-	(50)	(481)
Disposals	-	38	-	56	94
Reclassifications (i)	5	(6)	-	3	2
Accumulated depreciation at 31 March 2014	(145)	(6,679)	-	(395)	(7,219)
Depreciation charge for the year (ii)	(36)	(401)	-	(52)	(489)
Disposals	-	21	-	4	25
Reclassifications (i)	-	-	-	6	6
Accumulated depreciation at 31 March 2015	(181)	(7,059)	-	(437)	(7,677)
Net book value at 31 March 2015	**242**	**11,652**	**435**	**111**	**12,440**
Net book value at 31 March 2014	231	11,548	365	129	12,273

(i) Represents amounts transferred between categories and to intangible assets (see note 8).

(ii) Includes amounts in respect of capitalised depreciation £2m (2014: £2m)

	2015 £m	2014 £m
Information in relation to property, plant and equipment		
Capitalised interest included within cost	**220**	200
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	**31**	28
Non-current liabilities	**1,000**	1,003

10. Other non-current assets

Other non-current assets includes assets that do not fall into any other non-current asset category (such as property, plant and equipment) and the benefit to be received from the asset is not due to be received until after 31 March 2016.

	2015 £m	2014 £m
Loans and receivables - amounts owed by parent	**5,609**	5,609
Other receivables	**1**	1
	5,610	5,610

The amount owed by the parent is non-contractual, and its fair value is approximate to book value.

11. Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange rates, 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, in either 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 using 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 25.

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

	2015			2014		
	Asset £m	**Liabilities £m**	**Total £m**	Asset £m	Liabilities £m	Total £m
Interest rate swaps	**656**	**(405)**	**251**	431	(237)	194
Cross-currency interest rate swaps	**400**	**(15)**	**385**	258	(28)	230
Foreign exchange forward contracts	**1**	**(1)**	**-**	-	-	-
Inflation linked swaps	**1**	**(193)**	**(192)**	16	(113)	(97)
Total	**1,058**	**(614)**	**444**	705	(378)	327

The maturity profile of derivative financial instruments is as follows:

	2015			2014		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
In one year or less	**70**	**(133)**	**(63)**	63	(99)	(36)
Current	**70**	**(133)**	**(63)**	63	(99)	(36)
In 1 - 2 years	**4**	**(9)**	**(5)**	-	-	-
In 2 - 3 years	**37**	**(20)**	**17**	3	-	3
In 3 - 4 years	**47**	**(83)**	**(36)**	47	(16)	31
In 4 - 5 years	**83**	**(67)**	**16**	44	(64)	(20)
More than 5 years	**817**	**(302)**	**515**	548	(199)	349
Non-current	**988**	**(481)**	**507**	642	(279)	363
	1,058	**(614)**	**444**	705	(378)	327

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

	2015 £m	2014 £m
Interest rate swaps	**(4,756)**	(4,948)
Cross-currency interest rate swaps	**(887)**	(992)
Foreign exchange forward contracts	**(39)**	(5)
Inflation linked swaps	**(739)**	(760)
	(6,421)	(6,705)

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

11. Derivative financial instruments (continued)

Where possible, derivatives held as hedging instruments are formally designated as hedges as defined in IAS 39. 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 or 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 instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. National Grid Gas 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.

	2015	2014
	£m	£m
Cross-currency interest rate/interest rate swaps	**427**	334

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.

	2015	2014
	£m	£m
Cross-currency interest rate/interest rate swaps	**132**	76
Inflation linked swaps	**(61)**	(21)
Cash flow hedges	**71**	55

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.

	2015	2014
	£m	£m
Cross-currency interest rate/interest rate swaps	**77**	14
Inflation linked swaps	**(131)**	(76)
Derivatives not in a formal hedge relationship	**(54)**	(62)

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 profit or loss. Amounts deferred in equity with respect to net investment hedges are subsequently recognised in the income statement in the event of the disposal of the overseas operations concerned. 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 defined as 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.

12. Inventories and current intangible assets

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

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

Emission allowances, principally relating to the emissions of carbon dioxide in the UK, are recorded as intangible assets within current assets and are initially recorded at cost and subsequently at the lower of cost and net realisable value. Where emission allowances are granted by relevant authorities, cost is deemed to be equal to the fair value at the date of allocation. Receipts of such grants are treated as deferred income, which is recognised in the income statement as the related charges for emissions are recognised or on impairment of the related intangible asset. A provision is recorded in respect of the obligation to deliver emission allowances and emission charges are recognised in the income statement in the period in which emissions are made.

	2015	2014
	£m	£m
Raw materials and consumables	**25**	22
Current intangible assets - emission allowances	**1**	2
	26	24

There is a provision for obsolescence of £5m against inventories as at 31 March 2015 (2014: £5m).

13. 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 to 90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their book value.

	2015	2014
	£m	£m
Trade receivables	**66**	52
Amounts owed by fellow subsidiaries of National Grid plc	**61**	43
Prepayments and accrued income	**353**	310
Other receivables	**5**	5
	485	410

Provision for impairment of receivables

	£m
At 31 March 2013 and 31 March 2014	3
Recoveries net of additions	1
At 31 March 2015	**4**

Trade receivables past due but not impaired

	2015	2014
	£m	£m
Up to 3 months past due	**3**	1
3 to 6 months past due	**-**	-
Over 6 months past due	**1**	1
	4	2

For further information about wholesale credit risk refer to note 25(a).

14. Financial and other investments

Financial and other investments include 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.

	2015	2014
	£m	£m
Current		
Available-for-sale investments - investments in short-term money funds	**-**	126
Available-for-sale investments (i)	**194**	195
Loans and receivables - amounts due from fellow subsidiaries	**22**	22
Loans and receivables - restricted cash balances (ii)	**168**	98
	384	441

(i) Includes £92m (2014: £195m) which is restricted and relates to assets held within security accounts with charges in favour of the UK pension scheme trustees.

(ii) Comprises collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £164m (2014: £94m) and secured bank accounts with charges in favour of the UK pension schemes Trustees of £4m (2014: £4m).

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. The maximum exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our credit risk, refer to note 25(a). None of the financial investments are past due or impaired.

15. 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.

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 25(d).

	2015	2014
	£m	£m
Cash at bank and short-term deposits	**1**	-
Cash and cash equivalents excluding bank overdrafts	**1**	-
Bank overdrafts (note 16)	**-**	(9)
Net cash and cash equivalents	**1**	(9)

16. Borrowings

We borrow money primarily in the form of bonds, borrowings from fellow subsidiaries 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 11, we use derivatives to manage risks associated with interest rates and foreign exchange.

Our strategy in action
Our price controls and rate plans 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 value 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 ratings agencies.

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.

	2015 £m	2014 £m
Current		
Bank loans	**446**	358
Bonds	**78**	203
Other loans	**1**	1
Borrowings from fellow subsidiaries of National Grid plc	**1,666**	1,926
Bank overdrafts	**-**	9
	2,191	2,497
Non-current		
Bank loans	**898**	882
Bonds	**5,797**	5,687
Other loans	**150**	142
Borrowings from fellow subsidiaries of National Grid plc	**313**	-
	7,158	6,711
Total	**9,349**	9,208

Total borrowings are repayable as follows:	**2015** £m	2014 £m
Less than 1 year	**2,191**	2,497
In 1 - 2 years	**43**	-
In 2 - 3 years	**276**	43
In 3 - 4 years	**410**	281
In 4 - 5 years	**365**	420
More than 5 years:		
by instalments	**52**	52
other than by instalments	**6,012**	5,915
	9,349	9,208

The fair value of borrowings at 31 March 2015 was £10,978m (2014: £10,035m). Where market values were available, fair value of borrowings (Level 1) was £3,517m (2014: £3,826m). Where market values were not available, the fair value of borrowings (Level 2) was £7,461m (2014: £6,209m), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2015 was £9,252m (2014: £9,194m).

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

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 £441m (2014: £354m) in respect of cash received under collateral agreements.

At 31 March 2015, we had bilateral committed credit facilities of £400m (2014: £400m) of which £400m was undrawn (2014: £400m undrawn). All of the unused facilities at 31 March 2015 and 31 March 2014 were held as backup to commercial paper and similar borrowings.

17. 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 delivered 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. Due to their short maturities, the fair value of trade and other payables approximates their book value.

	2015 £m	2014 £m
Trade payables	**459**	485
Amounts owed to fellow subsidiaries of National Grid plc	**216**	137
Deferred income	**97**	89
Social security and other taxes	**92**	79
Other payables	**47**	44
	911	834

18. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2016. It also includes payables that are not due until after that date.

All other non-current liabilities are recorded at amortised cost. There is no material difference between the fair value and the carrying value of other non-current liabilities.

	2015 £m	2014 £m
Trade payables	**1**	1
Deferred income	**1,046**	1,053
	1,047	1,054

19. 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 amount of cash required can only be estimated.

The main estimates relate to environmental remediation and decommissioning costs for various sites we own or have owned, other provisions, 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 decommissioning and environmental costs, based on future estimated expenditures, discounted to present values. An initial estimate of decommissioning and 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.

	Decommissioning £m	Environmental £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 2013	-	80	35	70	185
Additions	79	-	43	9	131
Unused amounts reversed	-	(12)	(1)	(1)	(14)
Unwinding of discount	-	4	-	-	4
Utilised	(7)	(2)	(33)	(28)	(70)
At 31 March 2014	72	70	44	50	236
Additions	11	-	7	15	33
Unused amounts reversed	-	(13)	(3)	(5)	(21)
Unwinding of discount	3	3	1	-	7
Utilised	(15)	(1)	(23)	(6)	(45)
At 31 March 2015	**71**	**59**	**26**	**54**	**210**

	2015 £m	2014 £m
Current	**39**	74
Non-current	**171**	162
	210	236

Decommissioning provision

The decommissioning provision represents £71m (2014: £72m) of expenditure relating to the demolition of gas and LNG storage facilities expected to be incurred until 2022.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the Company (discounted using a real rate of 2.0%). Cash flows are expected to be incurred between 2015 and 2060.

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 materially impact the calculation of the provision. The undiscounted amount of the provision at 31 March 2015 was £85m (2014: £95m), being the undiscounted best estimate of the liability having regard to these uncertainties.

Restructuring provision

At 31 March 2015, £13m consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties (2014: £17m). The expected payment dates for property restructuring costs remain uncertain. The remainder of the restructuring provision related to business reorganisation costs, of which £10m are expected to be paid until 2016 and £3m until 2023.

Other provisions

Other provisions at 31 March 2015 include £22m (2014: £23m) in respect of employer liability claims. In accordance with insurance industry practice, these estimates for employer liability claims are based on experience from previous years and, therefore, there is no identifiable payment date. Other provisions also include £32m (2014: £15m) in respect of distribution asset protection costs and metering claims. There are no provisions in respect of gas distribution transformation (2014: £5m).

20. Share capital

Ordinary share capital represents the total number of shares issued.

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 2015 millions	Number of shares 2014 millions	**2015 £m**	2014 £m
At 31 March 2014 and 2015 - ordinary shares of $1^{2}/_{15}$p each Allotted, called-up and fully paid	**3,944**	3,944	**45**	45

In line with the provisions of the Companies Act 2006, during the year ended 31 March 2010, the Company amended its Articles of Association and ceased to have authorised share capital.

21. Net Debt

Net debt represents the amount of cash and financial investments held, less borrowings, overdrafts 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

	2015 £m	2014 £m
Increase/(decrease) in cash and cash equivalents	**10**	(6)
Decrease in financial investments	**(57)**	(434)
Decrease in borrowings and related derivatives	**134**	778
Net interest paid on the components of net debt	**190**	198
Change in net debt resulting from cash flows	**277**	536
Changes in fair value of financial assets and liabilities and exchange movements	**(51)**	5
Net interest charge on the components of net debt	**(306)**	(312)
Movement in net debt (net of related derivative financial instruments) in the year	**(80)**	229
Net debt (net of related derivative financial instruments) at the start of the year	**(8,440)**	(8,669)
Net debt (net of related derivative financial instruments) at the end of the year	**(8,520)**	(8,440)

Composition of net debt
Net debt is made up as follows:

	2015 £m	2014 £m
Cash, cash equivalents and financial investments	**385**	441
Borrowings and bank overdrafts	**(9,349)**	(9,208)
Derivatives	**444**	327
Total net debt	**(8,520)**	(8,440)

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Total debt £m
At 1 April 2013	20	(23)	(3)	875	(10,131)	590	(8,669)
Cash flow	(20)	14	(6)	(438)	1,061	(81)	536
Fair value gains and losses and exchange movements	-	-	-	-	241	(236)	5
Interest charges	-	-	-	4	(370)	54	(312)
At 31 March 2014	-	(9)	(9)	441	(9,199)	327	(8,440)
Cash flow	1	9	10	(62)	369	(40)	277
Fair value gains and losses and exchange movements	-	-	-	-	(148)	97	(51)
Interest charges	-	-	-	5	(371)	60	(306)
At 31 March 2015	**1**	**-**	**1**	**384**	**(9,349)**	**444**	**(8,520)**
Balances at 31 March 2015 comprise:							
Non-current assets	-	-	-	-	-	988	988
Current assets	1	-	1	384	-	70	455
Current liabilities	-	-	-	-	(2,191)	(133)	(2,324)
Non-current liabilities	-	-	-	-	(7,158)	(481)	(7,639)
	1	**-**	**1**	**384**	**(9,349)**	**444**	**(8,520)**

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.

22. Commitments and contingencies

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets their 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 which will remain for a specific period.

Future capital expenditure

	2015 £m	2014 £m
Contracted for but not provided	**466**	540

Operating lease commitments

	2015 £m	2014 £m
Amounts due:		
Less than 1 year	**15**	16
In 1 - 2 years	**12**	11
In 2 - 3 years	**8**	8
In 3 - 4 years	**7**	6
In 4 - 5 years	**7**	6
More than 5 years	**19**	28
	68	75

Other commitments, contingencies and guarantees
The value of other commitments and guarantees at 31 March 2015 amounted to £285m (2014: £178m), including energy purchase commitments amounting to £159m (2014: £57m).

Parent Company loan guarantees on behalf of subsidiaries
The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its financial subsidiaries to third parties. At 31 March 2015, the sterling equivalent amounted to £1,195m (2014: £1,064m).

Amounts receivable under sublease arrangements
The total of future minimum sublease payments expected to be received under non-cancellable subleases is £7m (2014: £4m).

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

23. 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 Gas plc. The related parties identified include joint ventures, associated undertakings, investments and key management personnel.

The following significant transactions with related parties were in the normal course of business. Amounts receivable from and payable to related parties are due on normal commercial terms:

	Parent		Other related parties		Total	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Income:						
Goods and services supplied	**-**	-	**17**	43	**17**	43
Expenditure:						
Services received	**-**	-	**13**	1	**13**	1
Corporate services received	**-**	-	**18**	20	**18**	20
Charges in respect of pensions costs	**-**	-	**57**	67	**57**	67
Interest paid on borrowings from fellow subsidiaries	**-**	-	**48**	21	**48**	21
	-	-	**136**	109	**136**	109
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:						
Amounts receivable	**-**	-	**61**	43	**61**	43
Amounts payable	**-**	-	**210**	137	**210**	137
Advances to parent and fellow subsidiaries (due within one year):						
At 1 April	**21**	21	**-**	1	**21**	22
Repayments	**-**	-	**-**	(1)	**-**	(1)
At 31 March	**21**	21	**-**	-	**21**	21
Advances to parent (due after more than one year):						
At 1 April	**5,609**	5,609	**-**	-	**5,609**	5,609
Repayments	**-**	-	**-**	-	**-**	-
At 31 March	**5,609**	5,609	**-**	-	**5,609**	5,609
Borrowings payable to fellow subsidiaries (amounts due within one year):						
At 1 April	**-**	-	**1,926**	2,111	**1,926**	2,111
Advances	**-**	-	**1,361**	115	**1,361**	115
Repayments	**-**	-	**(1,621)**	(300)	**(1,621)**	(300)
At 31 March	**-**	-	**1,666**	1,926	**1,666**	1,926
Borrowings payable to fellow subsidiaries (due after more than one year):						
At 1 April	**-**	-	**-**	-	**-**	-
Advances	**-**	-	**313**	-	**313**	-
At 31 March	**-**	-	**313**	-	**313**	-

Amounts receivable from or payable to related parties in respect of sales and expenditure are ordinarily settled one month in arrears. The advance to the parent due after more than one year is not interest bearing. Advances to and borrowings from fellow subsidiaries are repayable on demand and bear interest at commercial rates.

No amounts have been provided at 31 March 2015 (2014: £nil) and no expense has been recognised during the year (2014: £nil) in respect of bad or doubtful debts for related party transactions.

Details of guarantees provided in respect of related parties are provided in note 22.

Details of key management compensation are provided in note 2(c).

24. Actuarial information on pensions

Further details of the defined benefit scheme terms and the actuarial assumptions used to value the 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.

National Grid UK Pension Scheme

The National Grid UK 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 National Grid, the qualified actuary certifies the rate of employers' 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 next valuation is required to be carried out as at 31 March 2016.

The results of the 2013 valuation are shown below:

Latest full actuarial valuation	31 March 2013
Actuary	Towers Watson
Market value of scheme assets at latest valuation	£15,569m
Actuarial value of benefits due to members	£(17,332)m
Market value as percentage of benefits	90%
Funding deficit	£1,763m
Funding deficit (net of tax)	£1,410m

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 applied to all pensionable service from 1 April 2013 onwards. During the year ended 31 March 2014 these changes resulted in a past service credit of £11m to the income statement and a change to the salary increase assumption which affects how our defined benefit liabilities as at 31 March have been calculated. These changes are to ensure our scheme remains affordable and sustainable over the coming years.

The 2013 actuarial funding valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 36% of pensionable earnings (currently 33% by employers and 3% by employees). In addition, National Grid makes payments to the scheme to cover administration costs and the Pension Protection Fund levy.

Following the 2013 valuation, National Grid and the Trustees agreed a recovery plan which would see the funding deficit repaid by 31 March 2027. Under the schedule of contributions, payments of £60m were made in 2013/14 and £98m in 2014/15 and will thereafter rise in line with RPI until 2026/27. As part of the 2013 agreement, National Grid has established a security arrangement with a charge in favour of the Trustees. At 31 March 2015 the value of this was required to be £397m. This was provided via £300m in letters of credit and approximately £198m in UK government bonds and cash. The assets held as security will be paid to the scheme in the event that National Grid Gas plc (NGG) is subject to an insolvency event, is given notice of less than 12 months that Ofgem intends to revoke its licence under the Gas Act 1986, or National Grid fails to make the required contributions in relation to the scheme. The assets held as security will be released back to National Grid if the scheme moves into surplus. In addition, National Grid will make a payment of £200m (increased in line with RPI) into the scheme if NGG's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

This scheme ceased to allow new hires to join from 1 April 2002. A defined contribution section of the scheme was offered for employees joining after this date, which has since been replaced by The National Grid YouPlan (see below).

The National Grid YouPlan

The National Grid YouPlan (YouPlan) is a defined contribution scheme that 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 all new hires are enrolled into YouPlan.

Asset allocations

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

	2015 Quoted £m	**2015 Unquoted £m**	**2015 Total £m**	2014 Quoted £m	2014 Unquoted £m	2014 Total £m
Equities (i)	**3,069**	**608**	**3,677**	3,401	471	3,872
Corporate bonds (ii)	**6,273**	**-**	**6,273**	5,425	-	5,425
Government securities	**4,513**	**-**	**4,513**	4,159	-	4,159
Property	**-**	**993**	**993**	-	978	978
Diversified alternatives (iii)	**-**	**716**	**716**	-	793	793
Other	**890**	**11**	**901**	259	(34)	225
Total	**14,745**	**2,328**	**17,073**	13,244	2,208	15,452

(i). Included within equities at 31 March 2015 were ordinary shares of National Grid plc with a value of £14m (2014: £15m).

(ii). Included within corporate bonds at 31 March 2015 was an investment in a number of bonds issued by subsidiary undertakings with a value of £80m (2014: £72m).

. Includes return seeking non-conventional asset classes.

24. Actuarial information on pensions (continued)

Target asset allocations

National Grid UK Pension 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 scheme as at 31 March 2015 is as follows:

	%
Equities	**18**
Other	**82**
Total	**100**

Actuarial assumptions

National Grid has applied the following financial assumptions in assessing defined benefit liabilities.

	2015	2014
	%	%
Discount rate (i)	**3.3**	4.3
Rate of increase in salaries (ii)	**3.2**	3.6
Rate of increase in RPI (iii)	**2.9**	3.3

(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 2014. The assumption for the rate of increase in salaries for service after this date is 2.1%.

(iii). This is the key assumption that determines assumed increases in pensions in payment and deferment. The assumptions were 2.9% (2014: 3.3%) for increases in pensions in payment and 2.1% (2014: 3.3%) for increases in pensions in deferment.

For sensitivity analysis, see note 26.

Assumed life expectations for a retiree age 65	**2015**	2014
	years	years
Today:		
Males	**22.4**	22.5
Females	**25.0**	25.3
In 20 years:		
Males	**24.5**	24.7
Females	**27.2**	27.6

25. 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 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.

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 use of derivative instruments. Our limits are managed by the central treasury department of National Grid.

As at 31 March 2014 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 Uniform Network Code. These set out the level of credit relative to the regulatory asset value (RAV) for each credit rating. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash, cheques, electronic bank payments or by using major credit cards. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 13.

25. Financial risk management (continued)

(a) Credit risk (continued)

Offsetting financial assets and liabilities

The following tables set out 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 Gas's net exposure.

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 Gas 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 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	1,058	-	1,058	(415)	(439)	204
	1,058	-	1,058	(415)	(439)	204
Liabilities						
Derivative financial instruments	(614)	-	(614)	415	152	(47)
	(614)	-	(614)	415	152	(47)
Total	444	-	444	-	(287)	157

				Related amounts available to be offset but not offset in statement of financial position		
As at 31 March 2014	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	705	-	705	(213)	(342)	150
	705	-	705	(213)	(342)	150
Liabilities						
Derivative financial instruments	(378)	-	(378)	213	85	(80)
	(378)	-	(378)	213	85	(80)
Total	327	-	327	-	(257)	70

25. Financial risk management (continued)

(b) Liquidity risk

We 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 adequacy 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 22 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 these 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 2015	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings	**(2,105)**	**(42)**	**(263)**	**(6,842)**	**(9,252)**
Interest payments on borrowings (i)	**(199)**	**(200)**	**(189)**	**(2,447)**	**(3,035)**
Other non-interest bearing liabilities	**(505)**	**(1)**	**-**	**-**	**(506)**
Derivative financial liabilities					
Derivative contracts - receipts	**308**	**99**	**151**	**758**	**1,316**
Derivative contract - payments	**(179)**	**(58)**	**(169)**	**(624)**	**(1,030)**
Total at 31 March 2015	**(2,680)**	**(202)**	**(470)**	**(9,155)**	**(12,507)**

At 31 March 2014	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings	(2,413)	-	(41)	(6,740)	(9,194)
Interest payments on borrowings (i)	(225)	(209)	(212)	(2,804)	(3,450)
Other non-interest bearing liabilities	(529)	(1)	-	-	(530)
Derivative financial liabilities					
Derivative contract - receipts	483	144	60	372	1,059
Derivative contract - payments	(255)	(76)	(27)	(629)	(987)
Total at 31 March 2014	(2,939)	(142)	(220)	(9,801)	(13,102)

(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.

25. Financial risk management (continued)

(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, swaptions 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 16 (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 2015 and 2014, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2015				
	Fixed rate £m	**Floating rate £m**	**RPI £m**	**Other (i) £m**	**Total £m**
Cash and cash equivalents	**-**	**1**	**-**	**-**	**1**
Financial investments	**194**	**190**	**-**	**-**	**384**
Borrowings	**(2,922)**	**(2,449)**	**(3,978)**	**-**	**(9,349)**
Pre-derivative position	**(2,728)**	**(2,258)**	**(3,978)**	**-**	**(8,964)**
Derivative effect	**1,738**	**(1,356)**	**62**	**-**	**444**
Net debt position (ii)	**(990)**	**(3,614)**	**(3,916)**	**-**	**(8,520)**
	2014				
Financial investments	196	224	-	21	441
Borrowings	(2,832)	(2,412)	(3,964)	-	(9,208)
Pre-derivative position	(2,636)	(2,188)	(3,964)	21	(8,767)
Derivative effect	1,788	(1,612)	151	-	327
Net debt position (ii)	(848)	(3,800)	(3,813)	21	(8,440)

(i) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.

(ii) The impact of 2015/16 (2014/15 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 risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where foreign currency cash forecasts are less certain, our policy is to hedge a proportion of the 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 2015 and 2014, derivative financial instruments were used to manage foreign currency risk as follows:

	2015				
	Sterling £m	**Euro £m**	**Dollar £m**	**Other £m**	**Total £m**
Cash and cash equivalents	**1**	**-**	**-**	**-**	**1**
Financial investments	**384**	**-**	**-**	**-**	**384**
Borrowings	**(7,868)**	**(192)**	**(968)**	**(321)**	**(9,349)**
Pre-derivative position	**(7,483)**	**(192)**	**(968)**	**(321)**	**(8,964)**
Derivative effect	**(1,027)**	**159**	**993**	**319**	**444**
Net debt position	**(8,510)**	**(33)**	**25**	**(2)**	**(8,520)**
	2014				
Financial investments	440	-	1	-	441
Borrowings	(7,755)	(343)	(810)	(300)	(9,208)
Pre-derivative position	(7,315)	(343)	(809)	(300)	(8,767)
Derivative effect	(1,090)	305	812	300	327
Net debt position	(8,405)	(38)	3	-	(8,440)

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

25. Financial risk management (continued)

(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 21). 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, which indicates the level of debt employed to fund our regulated business. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for our business, at around 62.5- 65%. The RAV gearing ratio at 31 March 2015 was 61% compared with 58% at 31 March 2014.

(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.

	2015				2014			
	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	**194**	**-**	**-**	**194**	321	-	-	321
Derivative financial instruments	**-**	**1,058**	**-**	**1,058**	-	704	1	705
	194	**1,058**	**-**	**1,252**	321	704	1	1,026
Liabilities								
Derivative financial instruments	**-**	**(546)**	**(68)**	**(614)**	-	(331)	(47)	(378)
Total	**194**	**512**	**(68)**	**638**	321	373	(46)	648

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

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

	2015 £m	2014 £m
At 1 April	**(46)**	(58)
Net (losses)/gains for the year (i)	**(22)**	12
At 31 March	**(68)**	(46)

(i) Loss of £22m (2014: £12m gain) is attributable to derivative financial instruments 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:

	2015 Income Statement £m	2014 Income Statement £m
+ 20 basis points change in LPI market curve (i)	**(30)**	(21)
- 20 basis points change in LPI market curve (i)	**29**	20

(i) A reasonably possible change in assumption of other level 3 derivative financial instruments is unlikely to result in a material change in fair values.

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

26. 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 (ie 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 subsequent table 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 2015 would result in an increase in the income statement of £27 million and a 10% decrease in unbilled revenue would have the equal but opposite effect.

	2015		2014	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
One year average increase in useful economic lives (pre-tax)				
Depreciation charge on property, plant and equipment	**12**	**12**	12	12
Amortisation charge on intangible assets	**8**	**8**	7	7
Estimated future cash flows in respect of provisions change of 10% (pre-tax)	**21**	**21**	23	23
Assets and liabilities carried at fair value change of 10% (pre-tax)				
Derivative financial instruments (i)	**44**	**44**	33	33
Unbilled revenue at 31 March change of 10% (post-tax)	**27**	**27**	25	25
No hedge accounting for our derivative financial instruments (post tax)	**54**	**79**	(110)	(96)

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

	2015		2014	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
Financial risk (post-tax)				
UK RPI rate change of 0.5% (i)	**16**	**-**	15	-
UK interest rate changes of 0.50%	**14**	**28**	14	11

(i). Excludes sensitivities to LPI curve. Further details on sensitivities are provided in note 25 (f).

No sensitivities have been included for pensions and other post-retirement benefits, as the National Grid UK Pension Scheme is recognised as a defined contribution scheme as set out in note 4.

Financial instruments assumptions

Our financial instruments are sensitive to changes in market variables, being UK interest rates and the UK RPI. The changes in market variables impacts 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.

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 2015 and 2014 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;
- 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; and
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in interest rates are recorded in the income statement as they are designated using the spot rather than the forward translation method.

27. Ultimate parent company

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

National Grid Gas plc's immediate parent company is National Grid Gas Holdings Limited. The ultimate parent company and controlling party is National Grid plc. Both of these companies are incorporated in Great Britain and are registered in England and Wales. National Grid plc consolidates the financial statements of National Grid Gas plc. Copies of the consolidated financial statements of National Grid plc may be obtained from the Company Secretary, 1-3 Strand, London WC2N 5EH.

28. Subsidiary undertakings, and joint ventures

While we present consolidated results in these financial statements as if we were one company, our legal structure is such that there are a number of different operating and holding companies that contribute to the overall result. Our structure has evolved through acquisitions as well as regulatory requirements to have certain activities within separate legal entities.

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

	Principal activity	Holding
British Transco Capital Inc. (incorporated in the US)	Financing	100%
British Transco Finance Inc. (incorporated in the US)	Financing	100%
British Transco Finance (No. 1) Limited (incorporated in the Cayman Islands)	Financing	100%
British Transco Finance (No. 2) Limited (incorporated in the Cayman Islands)	Financing	100%
British Transco Finance (No. 3) Limited (incorporated in the Cayman Islands)	In liquidation	100%
British Transco Finance (No. 5) Limited (incorporated in the Cayman Islands)	In liquidation	100%
British Transco International Finance BV (incorporated in the Netherlands)	Financing	100%
National Grid Gas Finance (No. 1) plc	Financing	100%
National Grid Metering Limited	Gas metering services	100%
Xoserve Limited	Gas transportation transaction services	56.57%

Unless otherwise stated all subsidiaries are incorporated in England and Wales.

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

	Principal activity	Holding
Joint Radio Company Limited (incorporated in England and Wales)	Consultancy services	50%

Company accounting policies

for the year ended 31 March 2015

We are required to include the stand-alone balance sheet of our parent Company, National Grid Gas plc, under the Companies Act 2006. The following disclosures provide additional information to stakeholders.

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.

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 2014 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 32.

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 the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash Flow Statements'.

The Company has taken advantage of the exemptions in FRS 8 'Related Party Disclosures' from disclosing transactions with other members of the National Grid 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.

B. 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.

C. 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 included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the life of the assets.

Depreciation is not provided on freehold land or assets in the course of construction. Other tangible fixed assets are depreciated principally 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:	
– Mains, services and regulating equipment	30 to 100
– Meters and metering equipment	10 to 16
Motor vehicles and office equipment	up to 7

D. 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.

E. 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.

F. 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.

G. Stocks

Stocks are stated at cost less provision for deterioration and obsolescence.

H. 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.

I. Revenue

Revenue represents the sales value derived from the transmission and distribution of gas and the provision of gas metering services during the year, including an assessment of services provided, but not invoiced as at the year end. It excludes value added tax and intra-group sales.

Where revenue for the year exceeds the maximum amount permitted by price control 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.

J. Replacement expenditure

Replacement expenditure is recognised within operating costs and represents the cost of planned maintenance of mains and services assets by replacing or lining sections of pipe. This expenditure is principally undertaken to repair and maintain the safety of the network and is written off as incurred. Expenditure that enhances the performance of mains and services assets is treated as an addition to tangible fixed assets.

K. Pensions

The Company's employees are members of either the defined benefit section of the National Grid UK Pension Scheme or the National Grid YouPlan defined contribution trust. There is no contractual arrangement or stated policy for charging the net defined benefit cost of the National Grid UK Pension Scheme to the Company. Accordingly, the Company accounts for the defined benefit section of the scheme as if it were a defined contribution scheme.

L. Leases

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

M. 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 notes 11, 13, 14, 15, 16 and 17 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.

N. 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 11 to the consolidated financial statements.

O. 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.

P. Parent Company guarantees

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due from certain subsidiary undertakings to third parties. In the event of default or non-performance by the subsidiary, the Company recognises such guarantees as insurance contracts, at fair value with a corresponding increase in the carrying value of the investment.

Q. Restructuring costs

Costs arising from the Company's restructuring programmes primarily relate to redundancy costs. Redundancy costs are charged to the profit and loss account in the period in which the Company becomes irrevocably committed to incurring the costs and the main features of the restructuring plan have been announced to affected employees.

R. Emission allowances

Emission allowances, which relate to the emissions of carbon dioxide, are recorded as an intangible asset within current assets and are initially recorded at cost, and subsequently at the lower of cost and net realisable value. For allocations of emission allowances granted by the UK Government, cost is deemed to be equal to fair value at the date of allocation. Receipts of such grants are treated as deferred income and are recognised in the income statement in the period in which carbon dioxide emissions are made. A provision is recorded in respect of the obligation to deliver emission allowances and charges are recognised in the income statement in the period in which carbon dioxide emissions are made.

S. Dividends

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

Company balance sheet

as at 31 March

	Notes	2015 £m	2014 £m
Fixed assets			
Tangible assets	5	**7,078**	7,136
Investments	6	**17**	17
		7,095	7,153
Current assets			
Stocks and current intangible assets	7	**26**	24
Debtors (amounts falling due within one year)	8	**478**	414
Debtors (amounts falling due after more than one year)	8	**5,628**	5,624
Derivative financial instruments (amounts falling due within one year)	9	**70**	63
Derivative financial instruments (amounts falling due after more than one year)	9	**988**	642
Investments		**599**	628
Cash at bank and in hand		**4**	-
		7,793	7,395
Creditors (amounts falling due within one year)			
Borrowings	12	**(2,493)**	(2,780)
Derivative financial instruments	9	**(133)**	(99)
Other creditors		**(907)**	(827)
	10	**(3,533)**	(3,706)
Net current assets		**4,260**	3,689
Total assets less current liabilities		**11,355**	10,842
Creditors (amounts falling due after more than one year)			
Borrowings	12	**(7,150)**	(6,702)
Derivative financial instruments	9	**(481)**	(279)
Other creditors		**(670)**	(674)
	11	**(8,301)**	(7,655)
Provisions for liabilities and charges	13	**(796)**	(816)
Net assets		**2,258**	2,371
Capital and reserves			
Share capital	14	**45**	45
Share premium account	15	**204**	204
Cash flow hedge reserve	15	**(56)**	(34)
Capital redemption reserve	15	**1,332**	1,332
Profit and loss account	15	**733**	824
Total shareholders' funds	16	**2,258**	2,371

The notes on pages 79 to 84 form part of the individual financial statements of the Company, which were approved by the Board of Directors and authorised for issue on 1 July 2015 and were signed on its behalf by:

Mark Ripley Director

Andy Agg Director

National Grid Gas plc
Registered number: 2006000

Notes to the Company financial statements

1. Auditors' remuneration

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

	2015 £m	2014 £m
Audit services		
Audit fee of Company	**0.3**	0.3
Other services		
Fees payable to the company's auditors for audit-related assurance services	**0.2**	0.2

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

2. Number of employees, including Directors

	2015 Monthly Average number	2014 Monthly Average number (i)
UK	**5,190**	5,199

(i). Comparatives have been re-presented on a basis consistent with the current year classification.

3. Directors' emoluments

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

4. Pensions

Substantially all the Company's employees are members of either the defined benefit pension scheme or the National Grid YouPlan defined contribution trust. There is no contractual arrangement or stated policy for charging the net defined benefit cost of the National Grid UK Pension Scheme to the Company. Accordingly, the Company accounts for the defined benefit section of the scheme as if it were a defined contribution scheme.

The disclosures required by FRS 17 are the same as those required by IAS 19 and are provided in notes 4 and 24 to the consolidated financial statements.

5. Tangible 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	376	11,239	392	904	12,911
Additions	45	152	72	90	359
Disposals	-	(29)	-	(4)	(33)
Reclassifications	-	(1)	(4)	5	-
Cost at 31 March 2015	421	11,361	460	995	13,237
Accumulated depreciation at 1 April 2014	(145)	(5,023)	-	(607)	(5,775)
Depreciation charge for the year	(36)	(270)	-	(103)	(409)
Disposals	-	21	-	4	25
Accumulated depreciation at 31 March 2015	(181)	(5,272)	-	(706)	(6,159)
Net book value at 31 March 2015	**240**	**6,089**	**460**	**289**	**7,078**
Net book value at 31 March 2014	231	6,216	392	297	7,136

The cost of tangible fixed assets at 31 March 2015 included £219m (2014: £200m) relating to interest capitalised.

The net book value of land and buildings comprised:

	2015 £m	2014 £m
Freehold	**151**	162
Short leasehold (under 50 years)	**89**	69
	240	231

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 £16m (2014: £16m) and £622m (2014: £624m) respectively.

6. Investments

	Shares in subsidiary undertakings £m
Cost and net book value at 31 March 2014 and 31 March 2015	**17**

The names of the subsidiary undertakings are included in note 28 to the consolidated financial statements.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

7. Stocks and current intangible assets

	2015 £m	2014 £m
Raw materials and consumables	**25**	22
Current intangible assets - emission allowances	**1**	2
	26	24

8. Debtors

	2015 £m	2014 £m
Amounts falling due within one year:		
Trade debtors	**63**	49
Amounts owed by fellow subsidiary undertakings	**61**	53
Other debtors	**4**	3
Prepayments and accrued income	**350**	309
	478	414
Amounts falling due after more than one year:		
Amounts owed by immediate parent undertaking	**5,609**	5,609
Other debtors	**19**	15
	5,628	5,624
Total debtors	**6,106**	6,038

The carrying values stated above are considered to represent the fair values of the assets.

9. Derivative financial instruments

The fair value of derivative financial instruments shown on the balance sheet is as follows:

	2015			2014		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Amounts falling due in one year	**70**	**(133)**	**(63)**	63	(99)	(36)
Amounts falling due after more than one year	**988**	**(481)**	**507**	642	(279)	363
	1,058	**(614)**	**444**	705	(378)	327

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

	2015 £m	2014 £m
Interest rate swaps	**(4,756)**	(4,948)
Cross-currency interest rate swaps	**(887)**	(992)
Foreign exchange forward contracts	**(39)**	(5)
Inflation linked swaps	**(739)**	(760)
	(6,421)	(6,705)

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

10. Creditors (amounts falling due within one year)

	2015 £m	2014 £m
Derivative financial instruments (note 9)	**133**	99
Borrowings (note 12)	**2,493**	2,780
Trade creditors	**316**	336
Amounts owed to fellow subsidiary undertakings	**217**	137
Corporation tax	**34**	27
Other taxation and social security	**91**	79
Other creditors	**44**	40
Accruals and deferred income	**205**	208
	3,533	3,706

The carrying values stated above are considered to represent the fair values of the liabilities.

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

	2015 £m	2014 £m
Derivative financial instruments (note 9)	**481**	279
Borrowings (note 12)	**7,150**	6,702
Other creditors	**1**	-
Accruals and deferred income	**669**	674
	8,301	7,655

The carrying values stated above are considered to represent the fair values of the liabilities.

Deferred income mainly comprises contributions to capital projects.

12. Borrowings

The following table analyses the Company's total borrowings:

	2015 £m	2014 £m
Amounts falling due within one year:		
Bank loans and overdrafts	**446**	367
Bonds	**74**	200
Borrowings from subsidiary undertakings	**306**	286
Borrowings from fellow subsidiary undertakings	**1,666**	1,926
Other loans	**1**	1
	2,493	2,780
Amounts falling due after more than one year:		
Bank loans	**898**	882
Bonds	**5,008**	5,024
Borrowings from subsidiary undertakings	**781**	654
Borrowings from fellow subsidiary undertakings	**313**	-
Other loans	**150**	142
	7,150	6,702
Total borrowings	**9,643**	9,482

	2015 £m	2014 £m
Total borrowings are repayable as follows:		
Less than 1 year	**2,493**	2,780
In 1 - 2 years	**43**	-
In 2 - 3 years	**276**	43
In 3 - 4 years	**410**	281
In 4 - 5 years	**365**	421
More than 5 years by instalments	**52**	52
More than 5 years, other than by instalments	**6,004**	5,905
	9,643	9,482

The notional amount outstanding of the Company's debt portfolio at 31 March 2015 was £9,140m (2014: £9,067m).

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

13. Provisions for liabilities and charges

	Decommissioning £m	Environmental £m	Restructuring £m	Deferred taxation £m	Other £m	Total £m
At 1 April 2014	72	71	41	584	48	816
Charged to profit and loss account	11	-	7	9	15	42
Transferred to reserves	-	-	-	(4)	-	(4)
Utilised	(15)	(1)	(23)	-	(6)	(45)
Released	-	(13)	(2)	-	(5)	(20)
Unwinding of discount	3	3	1	-	-	7
At 31 March 2015	**71**	**60**	**24**	**589**	**52**	**796**

Decommissioning provision

The decommissioning provision represents £71m (2014: £72m) of expenditure relating to the demolition of gas and LNG storage facilities expected to be incurred until 2022.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to old gas manufacturing sites owned by the Company (discounted using a real rate of 2.0%). Cash flows are expected to be incurred between 2015 and 2060.

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 materially impact the calculation of the provision. The undiscounted amount of the provision at 31 March 2015 was £85m (2014: £95m), being the undiscounted best estimate of the liability having regard to these uncertainties.

Restructuring provision

At 31 March 2015, £13m consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties (2014: £17m). The expected payment dates for property restructuring costs remain uncertain. The remainder of the restructuring provision related to business reorganisation costs, of which £10m are expected to be paid until 2016 and £3m until 2023.

Deferred taxation

Deferred taxation comprises:

	2015 £m	2014 £m
Accelerated capital allowances	**604**	603
Other timing differences	**(15)**	(19)
	589	584

Other provisions

Other provisions at 31 March 2015 include £21m (2014: £23m) in respect of employer liability claims. In accordance with insurance industry practice, these estimates for employer liability claims are based on experience from previous years and, therefore, there is no identifiable payment date. Other provisions also include £31m (2014: £15m) in respect of distribution and metering claims. There are no provisions in respect of gas distribution transformation (2014: £5m).

14. Share capital

	Number of shares 2015 millions	Number of shares 2014 millions	2015 £m	2014 £m
At 31 March 2014 and 2015 - ordinary shares of $1^{2}/_{15}$p each Allotted, called-up and fully paid	**3,944**	3,944	**45**	45

National Grid Gas plc is a wholly owned subsidiary undertaking of National Grid Gas Holdings Limited.

15. Reserves

	Share Premium Account £m	Cash flow hedge reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 1 April 2014	204	(34)	1,332	824
Profit for the year	-	-	-	604
Dividends	-	-	-	(700)
Net gain recognised directly in reserves	-	(26)	-	-
Share-based payments	-	-	-	5
Deferred tax	-	4	-	-
At 31 March 2015	**204**	**(56)**	**1,332**	**733**

The Company is prohibited from declaring a dividend or other distribution unless it has certified that it is in compliance in all material respects with certain regulatory obligations, including a requirement to ensure it has sufficient financial resources and facilities to enable it to carry on its business and a requirement to use all reasonable endeavours to maintain an investment grade credit rating.

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 after taxation was £604m (2014: £751m).

Other reserves comprise the capital redemption reserve arising from the refinancing and restructuring of the Lattice Group in 1999. It represents the amount of the reduction in the share capital of the Company as a consequence of that restructuring. As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

16. Reconciliation of movements in shareholders' funds

	2015 £m	2014 £m
Profit for the year after taxation	**604**	751
Dividends (i)	**(700)**	(600)
Net profit for the financial year	**(96)**	151
Net gains recognised directly in reserves	**(26)**	(10)
Share-based payments	**5**	6
Tax on share-based payment	**-**	1
Deferred tax	**4**	-
Net (decrease)/increase in shareholders' funds	**(113)**	148
Opening shareholders' funds	**2,371**	2,223
Closing shareholders' funds	**2,258**	2,371

(i) For further details of dividends paid and payable to shareholders, refer to note 7 in the consolidated financial statements.

17. Commitments and contingencies

(a) Future capital expenditure

As at 31 March 2015, the Company had placed contracts for capital expenditure (tangible fixed assets) amounting to £462m (2014: £525m).

(b) Lease commitments

At 31 March 2015, the Company's total operating lease commitments for the financial year ending 31 March 2016 amounted to £14m (2014 commitments for 2015: £15m) and are analysed by lease expiry date as follows:

	Land and buildings		Other		Total	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Expiring:						
In one year or less	**-**	2	**-**	1	**-**	3
In more than one year, but not more than five years	**2**	2	**1**	4	**3**	6
In more than five years	**7**	6	**4**	-	**11**	6
	9	10	**5**	5	**14**	15

(c) Other commitments and contingencies

The value of other commitments, contingencies and guarantees at 31 March 2015 amounted to £235m (2014: £128m), including energy purchase commitments amounting to £159m (2014: £57m).

(d) Parent Company loan guarantees on behalf of subsidiary undertakings

The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its financial subsidiaries to third parties. At 31 March 2015, the sterling equivalent amounted to £1,195m (2014: £1,064m).

(e) Litigation and claims

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

18. Related parties

The following material transactions are with a subsidiary of the Company which is not wholly owned by National Grid plc and are in the normal course of business. Other related party transactions are not disclosed in accordance with the exemptions available under FRS 8.

	2015 £m	2014 £m
Goods and services supplied	**3**	6
Services received	**27**	26
Amounts receivable at 31 March	**3**	3
Amounts payable at 31 March	**(4)**	(4)

Amounts payable or receivable are ordinarily settled one month in arrears. No amounts have been provided at 31 March 2015 (2014: £nil) and no expense has been recognised during the year (2014: £nil) in respect of bad or doubtful debts from the above related party transactions.

Glossary and definitions

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

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
International Financial Reporting Standards Interpretations Committee

IFRS
International Financial Reporting Standard

KPI
Key Performance Indicator

LNG
Liquefied natural gas

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 Gas plc and its controlling party

Ofgem
The Office of Gas and Electricity Markets

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

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

regulatory asset value (RAV)
The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, 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 the effects of inflation

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 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

TW
Terawatt, 10^{12} watts

TWh
Terawatt hours

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