nationalgrid

Annual Report and Accounts 2013/14
National Grid Gas plc

Company number 2006000

Contents

Strategic Report

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 parent company, National Grid. Our Directors are listed on page 31.

More information on the management structure of National Grid can be found in the National Grid Annual Report and Accounts 2013/14 and on National Grid's website at www.nationalgrid.com.

Financial review

Use of adjusted profit measures

In considering the financial performance of our businesses 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, also known as a business performance measure. This is the principal measure used by management to assess the performance of the underlying business. Adjusted results exclude exceptional items and remeasurements. These items are reported collectively as the second component of the financial measures. Note 3 on page 47 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 and in communicating financial performance to 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, remeasurements and cost recoveries

	Years ended 31 March	
	2014	2013
	£m	£m
Adjusted operating profit	**1,469**	1,485
Exceptional items	**(110)**	(98)
Total operating profit	**1,359**	1,387

Reconciliation of adjusted operating profit to adjusted earnings and earnings

	Years ended 31 March	
	2014	2013
	£m	£m
Adjusted operating profit	**1,469**	1,485
Adjusted net finance costs	**(299)**	(301)
Adjusted profit before tax	**1,170**	1,184
Adjusted taxation	**(283)**	(277)
Adjusted profit	**887**	907
Attributable to non-controlling interests	**(1)**	-
Adjusted earnings	**886**	907
Exceptional items	**177**	5
Remeasurements	**13**	18
Earnings	**1,076**	930

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

Adjusted profit excluding timing differences is discussed below.

	Years ended 31 March	
	2014	2013
	£m	£m
Adjusted operating profit excluding timing differences	**1,461**	1,478
Timing differences	**8**	7
Adjusted operating profit	**1,469**	1,485
Exceptional items	**(110)**	(98)
Total operating profit	**1,359**	1,387

Consolidated income statement commentary

The consolidated income statement shows all revenue earned and costs incurred in the year, with the difference being the overall profit for the year.

Revenue

Revenue for the year ended 31 March 2014 decreased by £4 million to £3,033 million. This was driven by changes as a result of the new RIIO regulatory arrangements.

Operating costs

Operating costs for the year ended 31 March 2014 of £1,674 million were £24 million higher than the prior year. This increase in costs was predominantly due to increases in pass-through costs, together with higher depreciation and amortisation as a result of continued investment and increases in our controllable costs.

Exceptional items and remeasurements included in our operating costs for the year ended 31 March 2014 were £12 million higher than prior year. Exceptional costs in 2013/14 primarily gas holder demolition costs of £79 million, pension deficit costs of £52 million and restructuring costs of £60 million partially offset by sale of surplus land to National Grid Property of £83 million. 2013/14 results also included a gain of £16 million on remeasurements on derivative financial instruments.

Net finance costs

For the year ended 31 March 2014, net finance cost before exceptional items and remeasurements was the same as 2012/13 at £303 million.

Finance costs for the year ended 31 March 2014 also included a gain of £16 million on financial remeasurements, relating to net gains and losses on derivative financial instruments.

Taxation

The tax charge on profits before exceptional items and remeasurements was £6 million higher than 2012/13. This was mainly due to the prior year tax credits of £40 million reducing the 2012/13 tax charge, offset to some extent by the higher current year tax charge on higher profits in 2012/13 and the higher tax charge arising on a larger transfer pricing adjustment in 2012/13. As a result of this, our effective tax rate for 2013/14 was 24.2%.

Exceptional tax for 2013/14 included an exceptional deferred tax credit of £241 million arising from a reduction in the UK corporation tax rate from 23% to 21% applicable from 1 April 2014 and a further reduction to 20% from 1 April 2015.

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 £30 million to £232 million as at 31 March 2014. This increase primarily relates to software additions of £58 million, and reclassifications of £26 million, partially offset by software amortisation of £54 million.

Property, plant and equipment

Property, plant and equipment increased by £151 million to £12,273 million as at 31 March 2014. This was principally due to capital expenditure of £666 million on the renewal and extension of our regulated networks, offset by £481 million of depreciation in the year, reclassifications of £26 million and net disposals of £8 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 £16 million to £434 million at 31 March 2014. This increase is principally due to increase in amounts owed to fellow subsidiaries of £30 million, partially offset by decrease in trade receivables due to warmer weather in 2014 compared to 2013 of £12 million.

Trade and other payables

Trade and other payables have increased by £116 million to £834 million due to higher payables due to changes in payment terms with new Gas Distribution strategic partners.

Current and deferred tax liabilities

Current tax liabilities have increased by £1 million to £27 million as at 31 March 2014. The net deferred tax liability decreased by £218 million to £1,599 million driven by a reduction in UK tax rate to 20%.

Provisions and other non-current liabilities

Provisions (both current and non-current) and other non-current liabilities increased by £48 million to £1,290 million as at 31 March 2014. Total provisions increased by £51 million in the year. The underlying movements include additions of £131 million primarily relating to a provision for the demolition of certain gas holders in the UK (£79 million), restructuring provisions (£43 million) and other provisions (£9 million), offset by utilisation of £70 million in relation to all classes of provisions. Other non-current liabilities decreased by £3 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

The consolidated cash flow statement shows how the cash balance has moved during the year. 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

	2014 £m	2013 £m
Cash generated from operations	**1,874**	1,830
Net capital expenditure	**(549)**	(933)
Business net cash flow	**1,325**	897
Net interest paid	**(198)**	(168)
Tax paid	**(189)**	(188)
Dividends paid	**(600)**	(1,900)
Other	**(109)**	(122)
Net debt decrease / (increase)	**229**	(1,481)
Opening net debt	**(8,669)**	(7,188)
Closing net debt	**(8,440)**	(8,669)

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 2014, cash flow from operations increased by £44 million to £1,874 million. Adjusted operating profit before depreciation, amortisation and impairment was £12 million lower year on year. Changes in working capital improved by £115 million over the prior year, principally due to milder weather in 2014 than expected which drives lower volumes than forecasted, creating a differential with actual cost upon reconciliation. Partially offsetting these improvements, cash outflows relating to exceptional items were £32 million higher due to reorganisation.

Net capital expenditure

Net capital expenditure in the year of £549 million was £384 million lower than the prior year. This was primarily as a result of lower spend.

Net interest paid

Net interest paid in 2013/14 was £198 million, £30 million higher than 2013/14. This was due to a combination of higher average net debt and impact of adverse interest payments due to higher interest rates in the latter part of the prior year.

Tax paid

Tax paid in the year to 31 March 2014 was £189 million, £1 million higher than prior year. This reflected higher tax payments on higher taxable profits.

Dividends paid

Dividends paid in the year ended 31 March 2014 amounted to £600 million. This was £1,300 million lower than 2012/13.

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 over-collection of £8 million (2012/13: £7 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 businesses as a whole, regulated revenue adjustments totalled £87 million over-recovery in the year. This is based on our estimates of work carried out in line with allowances, in expectation of future allowances, or work avoided altogether – either as a result of National Grid Gas finding innovative solutions or the need being permanently removed.

Key performance indicators (KPIs)

We measure the achievement of our objectives, make operational and investment decisions and reward our employees using both qualitative assessments and quantitative indicators. To provide a full and rounded view of our business, we use non-financial as well as financial measures. Although all these measures are important, some are considered to be more significant than others, and these are designated as KPIs.

KPIs are used to measure our progress on strategic priorities, aligning with those activities that combine to deliver our strategy. Financial KPIs are trailing indicators of the success of past initiatives and specific programmes. They also highlight areas for further improvement and allow us to make sure our actions culminate in sustainable long-term growth.

We have changed our financial KPIs during 2013/14 to reflect the changing metrics management used to monitor the Company as a result of RIIO. We have included regulated asset growth, as this is a measure of the ability of the business to generate revenue in the future. While we continue to focus on efficient capital expenditure, the value of our regulated assets drives our revenue allowances in future years.

Financial KPIs

KPI	Definition	2013/14 result		2012/13 result	
Regulated asset growth	Growth in the total regulated asset value (RAV) base versus the prior year	2.0%		n/a	
Return on equity (RoE)	RoE against the allowed return set by the regulator for the current price control period	Gas Transmission	Gas Distribution	Gas Transmission	Gas Distribution
		12.8% *Target: 10.0%*	13.0% *Target: not comparable*	17.2% *Target: 10.2%*	13.5% *Target: not comparable*

Non-financial KPIs

Non-financial KPIs are often leading indicators of future financial performance. Improvements in these measures build our competitive advantage.

Strategic element	Measuring performance for	KPIs	Definition and performance	
Operational excellence	Safety and reliability	Employee lost time injury frequency rate	Number of employee lost time injuries per 100,000 hours worked on a 12 month basis. **2013/14: 0.06** 2012/13: 0.15 Target: zero	
		Network reliability	Reliability of gas network as a percentage against the target set by our regulator.	
			Gas Transmission **2013/14: 100%** 2012/13: 100% Target: 100%	Gas Distribution **2013/14: 99.999%** 2012/13: 99.999% Target: 99.999%
All	People	Employee engagement index	Employee engagement index calculated using responses to National Grid's annual employee survey. Target is to improve.	
			Transmission (combined Gas & Electricity) **2013/14: 74%** 2012/13: 76%	Gas Distribution **2013/14: 70%** 2012/13: 64%
Engaging externally	Stakeholder engagement	Customer satisfaction	Our score in customer satisfaction surveys. Ofgem set a baseline target of 6.9.	
			Gas Transmission **2013/14: 7.2 out of 10** 2012/13: not measured	Gas Distribution **2013/14: not yet available**[1] 2012/13: 3rd
Innovation & efficiency	Environmental responsibility	Greenhouse gas emissions	Percentage reduction in greenhouse gas emissions. % reduction against 1990 baseline. National Grid Target: 45% reduction by 2020 and 80% by 2050. **2013/14: 66% reduction** 2012/13: 61% reduction	

[1]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. National Grid will publish the results on their website in the summer as part of our commitment to our stakeholders, and in our Annual Report and Accounts for 2014/15.

Greenhouse Gas Emissions

National Grid has remained focused on greenhouse gas emissions reduction programmes to achieve our corporate commitment targets of 45% and 80% reduction in Scope 1 and 2 emissions by 2020 and 2050 respectively from our 1990 baseline. National Grid continues to look for innovations and efficiencies that will help us achieve targets. In 2013 National Grid significantly improved their scores in Carbon disclosure project (CDP) Global 500 ratings and were admitted for the first time to the Global Leaders Index for carbon disclosure.

National Grid measures and reports their 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.

These 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 National Grid's website.

We have experienced a mild year, which has been beneficial to the overall emissions of many of our business units.

Operating environment

Economic Environment

Price controls are agreed against the backdrop of the broader macroeconomic environment.

Economic growth is projected to continue to increase at a moderate pace in 2014, while the RPI measure of inflation is expected to remain subdued. Monetary policymakers have indicated that interest rates are expected to remain low during 2014, despite significant reductions in unemployment.

Recent signs of economic growth have had a positive effect on consumer confidence, but the long downturn and its impact on wages have led to widespread concerns over energy bills. Affordability remains a primary concern of consumers and regulators.

Changing energy mix

Cost and environmental pressures affecting traditional electricity generation

The locations where gas comes into the UK are changing, with forecast reductions in North Sea production and increased reliance on imported gas. New low carbon generation may not be located in the same place or have the same characteristics as existing plant.

This means changes to our network will be needed

Changes to the energy mix and location of supply and demand centres will create pressures on our networks, potentially requiring further investment.

Energy policy

Sustainability, security of supply and affordability underpin EU policy

In a difficult economic and financial context, the EU's energy policy is underpinned by the three cornerstones of sustainability, security of supply and affordability. The European Commission published its 2030 Climate Change and Energy framework in 2014, featuring a continued ambition in terms of greenhouse gas reduction targets and energy policy objectives. Negotiations for a new international agreement on climate change continued at the nineteenth session of the Conference of the Parties (COP19) in 2013, and nations are looking to the Paris worldwide conference in 2015 as the next opportunity to work out a new climate change deal.

Policy decisions can affect our investment needs and compliance obligations

Energy policy decisions by governments, government authorities and others have a direct impact on our businesses, influencing the emerging challenges and opportunities. They can affect the amount and location of investment required in our networks and the way we operate. They can also change our compliance obligations.

This requires more market integration, interconnection and renewable generation

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 may create opportunities for growth.

UK policy changes are in place to attract investment

Energy policy continues to evolve from the Climate Change Act 2008 which commits the UK government to reducing UK greenhouse gas emissions to at least 80% lower than a 1990 baseline by 2050.

Regulation

Infrastructure investment needs must be balanced with affordability

Regulators acknowledge that there is a significant need for infrastructure investment. However, affordability continues to be a primary concern.

Cast iron gas mains still in use can be more than 100 years old, becoming riskier to use and contributing to greenhouse gas emissions through leaks. Severe weather in recent years has also highlighted the potential need for additional investment in network resilience. Regulators 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.

Regulators want 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.

Innovation and technology

Technology developments have the potential to re-shape our market

There is continued significant technological development in the energy sector as new technologies take shape and approach commercial viability.

This influences demand and helps us to manage supply

Carbon-based generation is likely to remain a significant part of the global energy mix, carbon capture and storage technologies may become critical to governments achieving their climate change targets. Technologies such as energy storage, electric transportation and distributed generation all have the potential to affect our networks significantly. New consumer products, such as alternative fuelled vehicles and distributed generation, will increase demand and require new infrastructure.

Smart grids will change the way loads are balanced across the distribution network, allowing our customers to make smarter energy choices and increasing network flexibility. Our infrastructure needs the flexibility to respond innovatively to emerging developments, potentially by being managed differently rather than by creating new infrastructure to meet supply and demand changes.

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. National Grid Gas shares the National Grid vision and strategy.

Our vision

Connecting you to your energy today, trusted to help you meet your energy needs tomorrow

Our strategy

To be a recognised leader in the development and operation of safe, reliable and sustainable energy infrastructure, to meet the needs of our customers and communities and to generate value for our investors

Our strategic objectives are:

Deliver operational excellence	**Engage our people**	**Stimulate innovation**	**Engage externally**	**Embed sustainability**	**Drive growth**

Our business model

What we do

We are a gas company based in the UK. We play a vital role in connecting millions of people safely, reliably and efficiently to the energy they use.

Operating environment (see page 7)
What we do (see page 11)
How do we make money from our regulatory assets (see page 12)
How our strategy creates value (see page 15)
Principal operations (see page 21)
Our Board (see page 27 to 31)

What did we achieve?

Our work and people underpin the prosperity and well-being of our customers, communities and investors. To read about what we achieved in 2013/14 see page 21.

What our vision and strategic objectives mean to us

Our vision describes 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.

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.

Excellence in 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.

Engagement with our customers and communities will make sure what we do reflect their needs and priorities, and that they get the maximum possible value from what we deliver.

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.

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.

Engage externally

Work with external stakeholders to shape UK and EU energy policy.

Policy decisions by Ofgem, governments 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 Ofgem to help them provide the right mechanisms so we can deliver infrastructure that meets the changing needs of our stakeholders.

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 embed the principles of the circular economy to protect and preserve natural resources and benefit the communities in which we operate. We remain committed to our targets of a 45% reduction in Scope 1 and 2 greenhouse gas emissions by 2020 and 80% by 2050.

Drive growth

Grow our core businesses and develop future new business options.

We review investment opportunities carefully and we 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.

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.

Production and importation – other companies

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

National Grid owns and operates Grain LNG, an importation terminal and storage facility at the Isle of Grain in Kent, which charges customers under long-term contracts for various services. These include access to National Grid's importation terminal, storage facilities and capacity rights.

Transmission

The transmission systems generally include pipes, compressor stations and storage facilities. Transmission systems 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.

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.

For more information on how we make money from our regulated assets, see page 12.

Supply – other companies

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.

What we do: Regulation

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

How do 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.

In addition to the six price controls, there is also a tariff cap price control applied to certain elements of domestic metering and daily meter reading activities undertaken by National Grid Metering.

Our regulatory agreements also determine the amount we are allowed to charge customers, commonly referred to as our allowed revenues. 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. 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 has 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 regulatory agreement includes 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.

For more information on timing see page 4

RIIO price controls

Ofgem has introduced a new regulatory framework called RIIO (revenue = incentives + innovation + outputs) that became effective on 1 April 2013 and lasts for eight years. The building blocks of the RIIO price control are broadly similar to the historical price controls; however there are some significant differences in the mechanics of the calculations.

How is revenue calculated?

Under RIIO the outputs we deliver are clearly articulated and are integrally linked to the calculation of our allowed revenue. These outputs have been determined through an extensive consultation process which has given stakeholders a greater opportunity to input to these decisions. The clarity around outputs should lead to greater transparency of our performance in delivering 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. Ofgem, using information submitted by us along with independent assessments, determines the efficient level of expected costs necessary to deliver them. Under RIIO this is known as totex, short for total expenditure, and is similar to the sum of controllable opex, capex and repex (Gas Distribution only) under the previous price control.

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.

Where we under- or over-spend against 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, a new concept under RIIO, based on a specified percentage. Fast money represents the amount of totex that we are able to recover in the current year. Slow money is added to our 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.

This operates in a similar way to the previous price control for Gas Transmission, although there have been changes to the regulatory depreciation calculation for Gas Distribution, changed from 45 years straightline to 45 years sum of digits. We are also allowed 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 has introduced new 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

Some of the key financial metrics are included below:

	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%
Implied vanilla WACC*	4.38%	4.24%

**Implied vanilla WACC = cost of debt x gearing + cost of equity x (1 – gearing)*

Gas Transmission

		Transmission Operator	System Owner
1	Fast	Baseline 35.6% Uncertainty 10%	62.6%
2	Slow	Baseline 64.4% Uncertainty 90%	37.4%
3	Sharing	44.36%	

Gas Distribution

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

For more information on RIIO, including incentive mechanisms, please see the relevant investor fact sheets on the Investor Relations section of the National Grid website.

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

Affordability – we aim to provide services in a cost efficient way helps to reduce the impact on customer bills.

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 aim 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.

Operational 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 – positive performance under incentive mechanisms, and delivery of the outputs our customers and regulatory stakeholders require, helps us to make the most of our allowed returns.

Our business model – a virtuous circle of growth

Customers and communities - Our focus on safety and reliability, as well as efficient investment in our networks, means that we are able to provide our customers and the communities in which we operate with the highest quality service we can. This makes sure they are able to access vital and reliable services whenever they need, wherever we operate.

Reinvestment in our business - To continue generating reasonable returns for our shareholders and revenue growth, we reinvest efficiently in our regulated assets. This 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.

Revenue - The majority of our revenue is set in accordance with our price controls. This allows 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 new RIIO licence agreements.

Cash flow - Our ability to convert revenue to cash is an important factor in the ongoing reinvestment in our business and our ability to provide sustainable value growth for our shareholders. Our focus on efficient development of our networks is important in maximising free cash flow.

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

Below, we describe the main arrangements put in place so that the National Grid Board can carry out this responsibility and so that its members can be assured of the integrity of the Company's risk management and internal control systems, financial information and financial controls.

Risk management approach

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

The risks identified are collated in risk registers and are reported at functional and regional levels of the Company. These registers include an assessment of how likely it is that each risk will materialise.

They highlight the potential 'worst case credible' financial and reputational impact of the risk and details of mitigation activities. The risk registers also describe the adequacy of our existing risk controls. The main risks for National Grid are summarised and are reviewed, reported and discussed regularly by our senior leadership team.

In addition, National Grid also records the main strategic risks for the Company which are developed through discussions with the Executive leadership team. These risks are reported and discussed with the Executive Committee and Audit Committee every six months and by the Chief Executive through quarterly performance reports. Twice yearly the National Grid Gas specific risks are noted and discussed with the National Grid Gas Board.

During 2013/14 the National Grid Board reviewed the main elements of our risk management process. This included validating the risks included in National Grid's corporate risk profile and consideration of how we treat special categories of risks, such as potential extreme catastrophic events and emerging risks (uncertainties that are still developing). The results of the National Grid Board review are being incorporated into the ongoing work of the Corporate Risk team.

The National Grid Board also sets and monitors risk appetite annually. They have a framework that differentiates our appetite for risk by categories. At their annual review meeting, the National Grid Board compares the decisions the Company has taken to the appetite level in each category. It then considers the appropriate appetite levels to set for the year ahead.

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 167 to 169 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 non-network operations due to the failure of technology supporting our business-critical processes;
- changes in interest rates could materially impact earnings or our financial condition;
- 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.

Compliance management

Compliance management is undertaken on a National Grid wide basis. This process provides assurance to Directors and senior management on the effectiveness of control frameworks to manage key internal and external obligations and also highlights instances of significant non-compliance with these obligations. External obligations are driven primarily by key legal and regulatory requirements whereas internal obligations focus more on compliance with Company's own corporate policies and procedures, which include regulatory compliance policies. The compliance management process is consistent with and complimentary to the risk management 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 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 a combination of internal resources, 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 and approved 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 & Accounts for 2013/14 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 the Company, and the rotation of the lead engagement partner at least every five years.
The current lead engagement partner has held the position for three years.

Principal risks

Our corporate risk profile contains the principal risks that the National Grid Board considers to be the main ones currently faced by the Company. A summary of the key risks pertinent to the UK Business is provided below, together with examples of the relevant controls and mitigating actions we are taking. The complete picture of the corporate risk profile can be found in the National Grid Annual Report and Accounts 2013/14.

Strategic objective	Risk description	Example of mitigations
Engage externally	Inability to influence future energy policy. Policy decisions by regulators, governments 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.	The Board is also continuing to monitor the increasing public debate around the cost, availability, security and sustainability of UK 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 and continue to develop our Academy to help develop the right skills for the future (see page 25). We are involved in a number of initiatives to help secure the future engineering talent required (see page 25). We continue to develop our succession plans for key roles, including leadership. We have described on page 26 some of the ways we seek to engage employees, including how we promote inclusion and diversity. We monitor employee engagement and formally solicit employee opinions via a Company-wide employee survey annually.
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 customer satisfaction as KPIs, as described on page 5.
	Failure to deliver appropriate information systems and data integrity. The Company is increasingly reliant on technology to support and maintain our business-critical processes. We must be able to rely on the performance of these systems and the underlying data to demonstrate the value of our business to our shareholders, and to meet our obligations under our regulatory agreements, and comply with agreements with bond holders and other providers of finance.	We are implementing a global information management framework focusing on data integrity and security. We have completed a data assurance programme, and we are developing actions to improve our data quality and integrity processes based on the results.

Strategic objective	Risk description	Example of mitigations
Deliver operational excellence (continued)	We experience a catastrophic/major cyber security breach. Due to the nature of our business we recognise that our critical national infrastructure 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 critical national infrastructure (CNI) security strategy.
	Failure to prevent a significant process safety event. The nature of our day-to-day operations is such that safety incidents can occur. The safety of our employees, contractors, suppliers, and the communities in which we operate is critical. We must operate within local laws and regulations relating to health, safety and the environment.	We have established safety and occupational health plans, programmes and procedures that are aimed at continuous improvements in safety performance. We supplement Company-wide initiatives with specific regional safety programmes. These are aimed at addressing specific areas so that safety is at the forefront of every employee's mind. We also benchmark against other industry groups to seek and implement best practice. We continue to focus on process safety, aimed at preventing major incidents. A baseline assessment has been completed and a 10 year plan is under development. We monitor employee Injury Frequency Rate as a KPI as described on page 5.

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 31.

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 2014 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; and
- 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.

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.

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 the whole Company, including National Grid Gas.

National Grid's financial processes 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.

Each National Grid Gas Board meeting the Finance Director presents a consolidated financial report to the National Grid Gas Board.

Our internal control environment

National Grid has specialist teams that manage the processes supporting our internal control environment are described below.

Risk management:

- works with the National Grid Board to determine risk appetite and establish and implement risk management policies;
- is responsible for the independent review and challenge of risk information throughout the business, compilation and analysis of risk profiles and monitoring risk management processes within the Company; and
- regularly reports on risks to the regional level and National Grid Board level oversight committees.

Ethics and compliance management:

- maintains our standards of ethical business conduct;
- promotes ethical behaviour and monitors compliance with external legal and regulatory requirements; and
- operates our whistle-blower helplines and supports activities to prevent and detect bribery.

Corporate audit:

- develops and executes a risk-based audit plan; and
- provides independent, objective assurance to the Audit Committee, SEH Committee and the Executive Committee of National Grid on the extent to which control and governance frameworks are operating effectively.

Safety, environment and health:

- develops policy recommendations for the National Grid Board;
- monitors safety, environment and health performance; and
- works with process owners to deliver our safety, environment and health objectives.

Internal controls:

- works with process owners to identify, document and test the design and operation of internal control over financial reporting; and
- helps refine and improve controls where required.

Principal operations

Overview

Over the past year there have been significant regulatory changes, most notably the introduction of RIIO and its associated incentives.

The RIIO regulatory framework, which began on 1 April 2013, incentivises us to operate efficiently. It also provides opportunities in terms of specific incentives to engage and serve our customers and stakeholders well. The planning process for obtaining consent for major infrastructure projects has also changed, requiring significant consultation before an application to the Planning Inspectorate.

Progress during 2013/14

We have made significant progress on the implementation of our new UK operating model by concluding the managerial and staff appointment process.

We have worded with trade unions to agree revisions to pay and terms and conditions for employees. We have also agreed changes to our pension arrangements for all employees who have defined benefit (DB) or defined contribution (DC) schemes. These changes aim to make sure our total reward package remains both competitive in the market and sustainable under RIIO.

We have been working on the 2013 triennial valuations of our DB pension plans (for further information see note 24 under 'Notes to the consolidated financial statements').

We have renegotiated our key contracts and introduced new contractor relationships so we can deliver our RIIO outputs efficiently and provide clarity on the accountability for safety between ourselves and our contractors.

We have continued to focus on delivering excellent levels of service. 2013/14 has been the first year in which we have had incentives for customer and stakeholder satisfaction. Ofgem set a baseline target of 6.9 for customer and stakeholder satisfaction with scoring ranging from 1 – very dissatisfied to 10 – very satisfied. We have performed well in our customer surveys, scoring 7.2 in Gas Transmission

Under RIIO our gas distribution 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 2014/15.

We have had extensive involvement in the development of new network codes to underpin the European internal energy market.

We have focused on changing our ways of working – supporting the development of our global performance excellence framework with targeted roll-out in the UK. Our approach has been to build up the capability requirements through early adopters before starting the full-scale roll-out over the coming months.

Gas Transmission

What we do

We own and operate the gas national transmission system in Great Britain, with day-to-day responsibility for balancing demand. Our network comprises approximately 7,660 kilometres (4,760 miles) of high pressure pipe and 23 compressor stations.

Where we are heading

The UK's sources of gas are changing – as gas from the UK continental shelf is being depleted, we are becoming increasingly reliant on imports from Europe and elsewhere. This also means that the traditional flow of gas from the North to the South is changing.

To ensure we continue delivering a safe, reliable and secure gas supply, as we develop our asset replacement programmes we need to make sure we consider the future operational needs of the network.

We will continue to work closely with our customers and stakeholders to adapt our network and our services so we can meet their needs economically and efficiently.

What we've achieved in 2013/14

- We delivered our strongest-ever safety performance across all areas, achieving 12 months without a single lost time injury to either our employees or contractors and without experiencing any serious process safety incidents.
- We delivered multiple innovation projects using the Network Innovation Allowance funding mechanism including 3D models that allow for more efficient and cost effective construction.
- We have adapted our ways of working so we can meet the needs of our customers and stakeholders and deliver value under RIIO. For example, we used innovative techniques to protect a section of the pipeline that carries gas from the LNG importation terminal in west Wales, prior to the construction of a new road. This meant we were able to meet the timescales of the local authority building the road without disrupting gas supply to consumers.
- We have delivered record levels of compressor availability in our network, peaking at 98%, after investing in our fleet of compressors in the summer of 2013 and by introducing improvements to our maintenance and repair methods.

Priorities for the year ahead

- Continue to improve safety performance by completing the roll out of the visual safety leadership culture programme to every employee in our Gas Transmission business and implementing new 'safe control of operations' working procedures.
- Work with our customers and stakeholders to develop an enduring compressor replacement strategy that makes sure we comply with environmental legislation and meets future system needs.
- Complete the deployment of our new performance excellence way of working across all teams in our Gas Transmission business after the successful implementation at two of our compressor sites in 2013/14.
- Support our customers in the transition to new commercial frameworks managing future capacity and connection arrangements to the Gas Transmission system.
- Shape developments in the UK and EU energy market by making sure that the new European codes governing the operation of the gas market in the UK are successfully introduced for our customers.

Results

The results for the Gas Transmission segment for the years ended 31 March 2014 and 2013 were as follows:

	Years ended 31 March	
	2014	2013
	£m	£m
Revenue and other operating income	943	1,091
Operating costs excluding exceptional items	(524)	(554)
Adjusted operating profit	419	537
Exceptional items	(57)	(38)
Operating profit	362	499

Principal movements (2012/13 – 2013/14)

	Adjusted operating profit
	£m
2012/13 adjusted operating profit	537
Timing (1)	(38)
Net regulated income (2)	(80)
Regulated controllable operating costs (3)	3
Depreciation and amortisation (4)	(10)
Other	7
2013/14 adjusted operating profit	419

1 - In year estimated under-recovery of £21 million compared with a prior year estimated under-recovery of £10 million. The estimated closing under-recovered value at 31 March 2014 is £11 million.
2 - Decrease in regulated revenues driven by the new RIIO price control.
3 - Cost savings driven by organisational design changes in response to RIIO regime.
4 - Higher average asset values due to the capital investment programme.

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 (81,000 miles) of gas distribution pipeline and we transport gas from the gas national transmission system to around 10.9 million consumers on behalf of 32 gas shippers.

Gas consumption in our networks was 264 TWh in 2013/14 compared with 306 TWh in 2012/13. 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 2.5 million calls during 2013/14.

Where we are heading

We have articulated an ambition for 2017 – to be the best gas distribution business in Britain. We are using modern technology and new, innovative techniques to build gas networks that are fit for the future, safe and secure, keeping people warm.

Our regulator is able to make direct comparisons between the performance of our four gas distribution networks, and others. Customer expectations are increasing across all industries and we are responding by focusing more energy and effort than ever before on providing a good-quality service at an affordable price to all our customers and stakeholders. We will do this by carrying out our works in the most efficient way possible.

What we've achieved during 2013/14

- We have improved our overall safety performance (see page 4). We have focussed on reducing cable strikes with programmes like 'dial before you dig' and seen a 14% reduction in cable strikes during 2013/14.
- The number of customer complaints we received during 2013/14 was 13.3% less than the previous year. However, we know our customers want more and we are focusing our attention on improving even further, particularly the experience customers have when they want to connect to our network.
- Last year we listened to what our stakeholders had to say through our consultation process and we made 29 commitments to improve in areas of stakeholder priority such as fuel poverty, vulnerability, gas safety – including carbon monoxide awareness – and new and innovative ways of working.
- We have been simplifying and improving the way we work so that our employees can be as effective as possible and our customers get a service they value. We are doing this by looking for ways to streamline, innovate and improve every-day working practices with our business and our strategic partners who help us reach our goals.
- A notable example of innovation during 2013/14 has been the use of a repair robot called CISBOT to fix a leaking 18 inch gas main in London. This was the first time in Great Britain that an 18 inch gas main has been fixed by robots. This kind of automation reduces traffic disruption and avoids the need to shut off the gas while doing the repair work, making life easier for people.
- Working with Future Biogas we successfully commissioned the first commercial biogas-to-grid project in Doncaster. The biomethane injection is produced from a maize feedstock and is the first of 20 similar projects that we are committed to connect during 2014/15. This kind of project promotes the future role of gas in the transition to a low carbon economy and also the first of 80 connections we expect to complete over the RIIO period.

Priorities for the year ahead

All our priorities relate to our Gas Distribution ambition and are above and beyond meeting our standards.

- Achieve our safest year ever by improving the safety to members of the public, continuing to reduce cable strikes and make improvements that will help reduce the number of third-party encroachments.
- Improve the experience our customers have with us and the way in which we engage with our stakeholders, including reducing complaints and rejuvenating our customer connections process.
- Invest in our people to help them develop their skills and increase their capability, including a focus on the role of the supervisor and promoting accelerated development assignments.
- Engage with our people by embedding performance excellence to the remainder of our Gas Distribution business and delivering on our enhanced engagement strategy.
- Drive innovation so we can improve the services and value we provide to our customers by both maximising existing technology and identifying new opportunities for future development.
- Improve the quality and availability of our data and management information so we can operate more efficiently in the future.

Results

The results for the Gas Distribution segment for the years ended 31 March 2014 and 2013 were as follows:

	Years ended 31 March	
	2014	2013
	£m	£m
Revenue and other operating income	1,897	1,714
Operating costs excluding exceptional items	(993)	(920)
Adjusted operating profit	904	794
Exceptional items	(53)	(40)
Total operating profit	851	754

Principal movements (2012/13 – 2013/14)

	Adjusted operating profit £m
2012/13 adjusted operating profit	794
Timing (1)	39
Net regulated income (2)	100
Regulated controllable operating costs (3)	(17)
Depreciation and amortisation (4)	(10)
Other	(2)
2013/14 adjusted operating profit	904

1 - In year over-recovery of £29 million compared with an under-recovery in the prior year of £8 million. The estimated closing over-recovered value at 31 March 2014 is £21 million.
2 - Revenues increased driven by the change in regulatory regime.
3 - Increased costs primarily driven by inflation.
4 - Higher average asset values due to the capital investment programme.

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 15 million domestic, industrial and commercial meters.

Through Ofgem's Review of Metering Arrangements, National Grid has been appointed National Metering Manager (NMM) to facilitate the transition to smart metering in the domestic sector. To support this, NGM has also undertaken a pricing consultation to define the tariff caps to apply to traditional domestic gas metering. This took effect on 1 April 2014 and will last until the end of the transition to smart metering.

In addition, NGM has been further developing its contracts and services in the industrial and commercial market.
NGM has achieved its highest customer satisfaction scores for the last six years for both its Domestic and Industrial & Commercial businesses.

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, as majority shareholder, and the other gas distribution network companies.

Results

The results for other activities for the years ended 31 March 2014 and 2013 were as follows:

	Years ended 31 March	
	2014	2013
	£m	£m
Revenue and other operating income	**365**	363
Operating costs	**(219)**	(209)
Adjusted operating profit	**146**	154
Exceptional items	**-**	(20)
Total operating profit	**146**	134

People

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

During 2013/14 we have focused particularly on the areas that we believe generate the most value for the Company through our people – both now and in the future.

This has involved a focus on: future leaders, operational leaders, engineers and stakeholder relationship managers. In addition to increasing our capability across these groups we also need to make sure we have enough people in each group. We will also be developing plans to improve our succession planning for our operational leader, engineer and stakeholder relationship manager roles.

Building skills and expertise

As we continue working under RIIO and become increasingly focused on driving performance, we have identified three main business capabilities we need to develop among our workforce to support us in achieving our strategic objectives: performance excellence, customer and stakeholder management and contract management.

We believe that by focusing on these capabilities we will make sure we meet our customers' and stakeholders' expectations while building a systematic approach to improving performance.

To help us do this we have brought all our learning and development resources together under the National Grid Academy brand.

As at the 5 June, in National Grid, 110 of our senior leaders have attended our performance excellence senior leadership programme through our Academy.

Attracting the best people

National Grid is involved in a number of initiatives to help attract new talent into our organisation and industry. These include:

- working with the energy sector towards delivering 11,000 new apprenticeships and traineeships over the next three years through the Energy & Efficiency Industrial Partnership;
- developing our own people through Advanced Apprenticeships and engineer training;
- supporting power systems undergraduate bursaries through the National Grid Power Academy; and
- making sure our graduates continue their development throughout their career with us.

Safeguarding the future

Around 89,000 people are needed annually to meet demand in the UK's engineering sector over the next decade, yet only around 51,000 are joining the profession each year.

To address this shortage, National Grid is running or is involved with a number of programmes and initiatives aimed at encouraging young people to study STEM (Science, Technology, Engineering and Mathematics) subjects. These include:

- 'School Power', which provides classroom resources, including a dedicated website, to support the teaching of STEM subjects;
- work experience, offering year 10 students a week-long residential course at the National Grid Eakring Academy (totalling 100 each year); and
- open house visits to our sites to give students and teachers an insight into gas systems, as well as future energy challenges.

National Grid is leading a consortium of businesses to create an exhibition called 'That Could Be Me' at the Science Museum in London, which will provide insight into engineering as a career. It is due to launch in December.

A further initiative, called 'Careers Lab', aims to help establish a coordinated approach towards businesses taking responsibility for the skills agenda. The pilot scheme, which began in January 2014, involves businesses and schools in the Midlands working together to progress careers advice programmes for young people.

Volunteering

Our employees continue to support our local communities sharing their time and expertise on a range of skills-based volunteering and fundraising activities. This year National Grid continued supporting Special Olympics GB by sponsoring the National Summer Games, launched their first ever employee chosen charity partnership with Macmillan Cancer Support and joined forces with two new initiatives – Step up to Serve and TeachFirst.

Health and wellbeing

Our health and wellbeing programmes for 2013/14 have included encouraging employees to improve their levels of activity and quality of nutrition, as well as supporting employees' mental wellbeing and musculoskeletal conditions. With National Grids major cancer charities (Macmillan Cancer Support) we have raised money and awareness. Our employee opinion survey results continue to show that employees have a growing awareness of our wellbeing programmes.

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, nationality, age, disability, sexual orientation, gender identity, religion and background. Where existing employees become disabled, our policy is to provide continued employment and training wherever practical. Our policies support the attraction and retention of the best people, improve effectiveness, deliver superior performance and enhance our success.

During 2013/14, Race for Opportunity and Opportunity Now each awarded National Grid with their Gold standard and recognised us as one of the top 10 private sector employers in terms of their benchmark criteria. National Grid was also once again selected as one of the Times Top 50 Employers for Women.

These groups aim to build awareness and understanding of inclusion and diversity throughout the organisation. Their activities include programmes designed to build skills that help manage differences.

The table opposite 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). We define 'senior management' as our Band A and B leaders.

	Financial year ending 31 March 2014				
	Male	Female	Total	% Male	% Female
Our Board	6	1	7	86	14
Senior Management (Band A & B)	48	5	53	91	9
Whole Company	4,438	1,291	5,729	77	23

Human rights

National Grid does not have a specific policy relating to human rights, but respect for human rights is incorporated into our employment practices and our values, which include respecting others and valuing diversity.

'Doing the Right Thing' is our guide to ethical business conduct. The way in which we conduct ourselves allows us to build trust with the people we work with. We earn this trust by doing things in the right way, building our reputation as an ethical company that our stakeholders want to do business with, and that our employees want to work for.

Our procurement policies integrate sustainability into the way we do business throughout our supply chain, so that we create value, preserve natural resources and respect the interests of the communities we serve and from which we procure goods and services. Additionally, through our supplier code of conduct, we expect our suppliers to keep to all laws relating to their business, as well as the principles of the United Nations Global Compact, the United Nations Declaration of Human Rights and the International Labor Organization (ILO)

Employee engagement

We encourage the involvement of employees in the company's performance through an employee share scheme. Employees may make monthly contributions from net salary for a period of 3 or 5 years. The savings can be used to purchase shares at a discounted price, set at the launch of each plan period.

The results of the National Grid 2014 employee opinion survey, was completed by 78% of their employees. It included an engagement score of 7.2 out of 10 – an increase of eight percentage points over the previous survey and is the highest engagement score since they started conducting Group-wide employee opinion surveys.

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Corporate Governance Statement

National Grid Gas plc 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 plc 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 it's 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.

Six Board meetings were scheduled last financial year, although the Board will meet more frequently as required. For the year 2013/14 there were no independent non-executive directors. However, in accordance with the relevant Licence conditions, the Company appointed two sufficiently independent directors to the Board of the Company with effect from 1 April 2014, Catherine Bell and Clive Elphick. The Board does not have an independent Chairman and during the year meetings were normally chaired by Nick Winser.

Board members attend meetings regularly in order to ensure they are kept up to date with the business and accordingly can contribute to meetings. Directors are informed of proposed meeting dates in advance. Directors are sent papers for meetings of the Board. Guidelines are in place concerning the content, timeliness and preferred presentation of papers to ensure Directors are briefed appropriately.

Board performance evaluation

An evaluation of the current governance structure affecting he company was undertaken during this financial year. The aim of this review was to assess the appropriateness of the current structure and the quality and content and processes relevant to certain Boards and Committees, including the Board of National Grid Gas plc and its key executive committees. The evaluation process identified some areas of improvement, focussed largely on:

- Ensuring the Boards and Committees focus was appropriate
- Continuously improving Board and Committee paper packs.

Attendance

Attendance at Board meetings during 2013/14, expressed as number of meetings attended out of number eligible to attend, is set out below.

	Attendance
Jeremy Bending[1]	0 of 1
Malcolm Cooper	5 of 6
Stuart Humphreys[2]	0 of 0
Andy Agg[3]	6 of 6
John Pettigrew	3 of 6
Paul Whittaker	5 of 6
Adam Wiltshire[4]	0 of 0
Emma Fitzgerald[5]	3 of 5
Julian Allsopp[6]	5 of 6
Nick Winser (chair)	5 of 6

[1] *Resigned 1 July 2013*
[2] *Resigned 31 May 2013*
[3] *Appointed 1 June 2013*
[4] *Retired 3 June 2013*
[5] *Appointed 1 July 2013*
[6] *Appointed 1 June 2013*

Committees

The Board has established a number of committees and sub-committees which assist it in its activities. These include the Distribution Executive Committee, the Transmission Executive Committee, the Compliance Committees, the System Operator Executive Committee and the Finance Committee. It does not have Nomination, Remuneration or Audit Committees. 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 composition and continuity

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. During the year 2013/14, Andy Agg was appointed as a Director following a change in role which consequently saw the resignation of Stuart Humphreys from the Board as he took on another role within National Grid. Additionally during the year 2013/14 both Adam Wiltshire and Jeremy Bending resigned and Emma Fitzgerald and Julian Allsopp were appointed to the Board. With effect on and from 1 April 2014 two independent non-executive directors (NED) have been appointed to the Board; Catherine Bell and Clive Elphick. The appointment of these two independent directors follows a rigorous selection and interview process which involved the use of a search consultancy. Following Catherine and Clive's appointment to the Board, a comprehensive induction programme has been arranged, which has been tailored to Catherine and Clive's background and experience.

Board remuneration

The Directors of the Company are not separately remunerated in that capacity with the exception of the NEDs. 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 2013/14, 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 (Chair)	Company Director and Director Network Strategy	9 of 12
Julian Allsopp	Company Director and Financial Controller	12 of 12
Sharon Rodriguez[1]	Director of Network Strategy	3 of 3
Emma Fitzgerald[2]	Director, Gas Distribution	9 of 9
Ed Syson	Director of Operations	12 of 12
Jonathan Callighan	Head of Gas Distribution Strategic Partnerships	12 of 12
Ann Marie Ward	Head of Customer Operations	12 of 12
Richard Court	Head of Commercial	12 of 12
Kevin Leadbetter	Head of Emergency Response & Repair Process	11 of 12
Hilary Buxton	Replace & Extend Process Manager	12 of 12
David Salisbury	Operate & Maintain Process Manager	11 of 12
Karen Clayton	UK General Counsel & Company Secretary	9 of 12
Carrie Dunn	HR Business Partner	11 of 12
Chris Bennett	Head of UK RIIO Delivery	11 of 12

[1] *Resigned July 2013*
[2] *Appointed July 2013*

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

Transmission Executive Committee

During the year the Gas Transmission Executive Committee and Electricity Transmission Executive Committee were combined into the Transmission Executive Committee (TEC). The purpose of the Committee is to direct the affairs of the Transmission business on behalf of its Board, to perform an assurance role within the context of the overall RIIO networks governance framework and oversee the performance of any sub-committees reporting to it. The Committee's remit shall extend to approving the relevant Electricity or 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 shall carry assurance responsibilities for the relevant Electricity or 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 shall receive summary reports from Process Performance Meetings, Regulatory Commercial Committees and Business Partner Functions.

The Transmission Executive Committee 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 2013/14, 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
John Pettigrew (Chair)	Executive Director	6 of 6
Stuart Humphreys[1]	Company Director and UK Finance Director	1 of 1
Andy Agg[2]	Company Director and UK Chief Finance Officer	5 of 5
David Wright	Director of Electricity Transmission Asset Management	6 of 6
Neil Pullen	Director of Gas Transmission Asset Management	6 of 6
Mike Calviou	Director of UK Transmission Network Services	6 of 6
Chris Train[3]	Director of Market Operations	5 of 5
Cordi O'Hara[4]	Director of Market Operations	1 of 1
Ian Galloway	Director of Capital Delivery	6 of 6
Pauline McCracken	Director of Business Performance	4 of 6
Nicola Pitts	Head of Process - Operate the System	6 of 6
Chris Bennett	Head of UK RIIO Delivery	6 of 6
Karen Clayton	UK General Counsel	6 of 6
Nikki Spaul	HR Business Partner	6 of 6
Tina Sands	Head of UK IS	6 of 6

1 Resigned 31 May 2013
2 Appointed 1 June 2013
3 Resigned 1 March 2014
4 Appointed 1 March 2014

The 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 September 2012. Membership of this committee, which comprises Directors of the Company, senior managers of the Transmission business and certain other senior managers, and their attendance at meetings during 2013/14 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
Nick Winser (Chair)	Company Director and Executive Director of National Grid	5 of 6
Mike Calviou	Director of UK Transmission Network Services	6 of 6
Stuart Humphreys[1]	Company Director and UK Finance Director	1 of 1
Andy Agg[2]	Company Director and UK Chief Finance Officer	5 of 5
Chris Train[3]	Director of Market Operations	6 of 6
Cordi O'Hara[4]	Director of Market Operations	0 of 0
Nicola Pitts	Head of Process – Operate the System	6 of 6
Karen Clayton	UK General Counsel & Company Secretary	5 of 6
Paul Whittaker	Company Director and UK Director of Regulation	6 of 6

1 Resigned 31 May 2013
2 Appointed 1 June 2013
3 Resigned 1 March 2014
4 Appointed 1 March 2014

The System Operator (SO) Executive Committee 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 TEC.

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 (see page 30). 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.

Group holding company

During the year Nick Winser 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 NTS gas transporter licence requires that the Company maintains managerial and operational systems such that:

- the 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 (For the year ended 31 March 2014)

The Directors present their report and the audited consolidated financial statements of the Company for the year ended 31 March 2014. 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 the date of signing the financial statements were:

Andy Agg	Appointed 1 June 2013
Julian Allsopp	Appointed 1 June 2013
Jeremy Bending	Resigned 1 July 2013
Catherine Bell (NED)*	Appointed 1 April 2014
Malcolm Cooper	Appointed 27 June 2007
Clive Elphick (NED)*	Appointed 1 April 2014
Emma Fitzgerald	Appointed 1 July 2014
Stuart Humphreys	Resigned 31 May 2013
John Pettigrew	Appointed 1 April 2011
Paul Whittaker	Appointed 27 June 2007
Adam Wiltshire	Resigned 3 June 2013
Nick Winser	Appointed 7 July 2003

**Non-executive 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 2014. 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 1 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.

Dividends

During the year, interim dividends totalling £600 million were paid (2012/13: £1,900 million interim dividend). The Directors have not proposed a final dividend.

Research and development

Expenditure on research and development was £6 million during the year (2012/13: £7 million).

Financial instruments

Details on the use of financial instruments and financial risk management are included on pages 167 to 169 of National Grid Annual Report and Accounts 2013/14.

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 page 26, 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 2014 will be issued separately to shareholders.
By order of the Board

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.

Andy Agg
Director
9 July 2014
National Grid Gas plc, 1-3 Strand, London WC2N 5EH
Registered in England and Wales Number 2006000

Introduction to the financial statements

We have continued to develop our presentational format to provide stakeholders and users of these financial statements with additional information and guidance, and to make them easier to understand.

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

Some of these boxes highlight ‘Our strategy in action’, drawing out the key elements of our business model (set out in the Strategic Report on pages 1 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, including the Remuneration 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 and the Remuneration Report 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 and the Remuneration Report 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 pages 31, 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.

By order of the Board

Andy Agg
Director
9 July 2014

Independent Auditors' report

to the Members of National Grid Gas plc

Report on the group financial statements

Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2014 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.

This opinion is to be read in the context of what we say in the remainder of this report.

Separate opinion in relation to IFRSs as issued by the IASB

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

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

What we have audited

The group financial statements and company financial statements (the "financial statements"), which are prepared by National Grid Gas Plc, comprise:

- the consolidated statement of financial position as at 31 March 2014;
- the company balance sheet as at 31 March 2014;
- 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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

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

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 33, 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 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.

Stephen R Snook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
9 July 2014

Basis of preparation

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 2014 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 9 July 2014.

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 2014 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the EU IAS Regulation. The 2013 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 31.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.
- recoverability of deferred tax assets – note 6.
- 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 2013/14

During the year ended 31 March 2014, with the exception of IAS 19 (revised), and in respect of disclosures required by IFRS 13 ‘Fair value measurements’, the Company has not adopted any new IFRS, IAS or amendments issued by the IASB, or interpretations issued by the IFRS Interpretations Committee (IFRIC), which have had a material impact on the Company’s consolidated financial statements. The impact of IAS 19 (revised) is set out in note 4. The additional disclosures required by IFRS 13 are included in note 25.

Other standards, interpretations and amendments issued by the IASB and IFRIC that have not had a material impact on the Company’s consolidated results or assets and liabilities are:

- IFRS 10 ‘Consolidated financial statements’
- IFRS 11 ‘Joint arrangements’
- IFRS 12 ‘Disclosure of interests in other entities’
- Amendments to IAS 27 ‘Separate financial statements’ and IAS 28 ‘Investments in associates and joint ventures’ as a result of the adoption of the above standards
- Amendments to IAS 1 ‘Presentation of financial statements’
- Amendments to IFRS 7 ‘Financial instruments: Disclosures’

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 on financial instruments. The IASB is completing IFRS 9 in phases and the Company is evaluating the impact of the standard as it develops. It is currently expected that the standard will be required to be adopted by the Company on 1 April 2018. We are currently assessing the likely impact of this standard on the Company’s consolidated financial statements.

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

Consolidated income statement

for the years ended 31 March

	Notes	2014 £m	2014 £m	2013 £m	2013 £m
Revenue	1 (a)		**3,033**		3,037
Operating costs	2		**(1,674)**		(1,650)
Operating profit					
Before exceptional items	1 (b)	**1,469**		1,485	
Exceptional items	3	**(110)**		(98)	
Total operating profit	1 (b)		**1,359**		1,387
Finance income	5		**4**		2
Finance costs					
Before exceptional items and remeasurements	5	**(303)**		(303)	
Exceptional items and remeasurements	3, 5	**16**		22	
Total finance costs	5		**(287)**		(281)
Profit before tax					
Before exceptional items and remeasurements		**1,170**		1,184	
Exceptional items and remeasurements	3	**(94)**		(76)	
Total profit before tax			**1,076**		1,108
Taxation					
Before exceptional items and remeasurements	6	**(283)**		(277)	
Exceptional items and remeasurements	3, 6	**284**		99	
Total taxation	6		**1**		(178)
Profit after tax					
Before exceptional items and remeasurements		**887**		907	
Exceptional items and remeasurements	3	**190**		23	
Profit for the year			**1,077**		930
Attributable to:					
Equity shareholders of the parent			**1,076**		930
Non-controlling interests			**1**		-
			1,077		930

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2014 £m	2013 £m
Profit for the year		**1,077**	930
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss			
Net losses in respect of cash flow hedges		**(25)**	(7)
Transferred to profit or loss on cash flow hedges		**13**	12
Deferred tax on cash flow hedges	6	**2**	(2)
Total items that may be reclassified subsequently to profit or loss		**(10)**	3
Other comprehensive income for the year, net of tax		**(10)**	3
Total comprehensive income for the year		**1,067**	933
Attributable to:			
Equity shareholders of the parent		**1,066**	933
Non-controlling interests		**1**	-
		1,067	933

Unaudited commentary on consolidated statement of comprehensive income

Keeping it simple

The consolidated statement of comprehensive income records certain items as prescribed by the accounting rules. For us, the majority of the income or expense included here relates to the net gains/(losses) in respect of cash flow hedges and the associated tax impact. These items are not part of profit for the year, yet are important to allow the reader to gain a more comprehensive picture of our performance as a whole.

Net gains/(losses) in respect of cash flow hedges

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 £25m (2012/13: £7m loss).

This unaudited commentary does not form part of the financial statements.

Consolidated statement of financial position

as at 31 March

	Notes	2014 £m	2013 £m
Non-current assets			
Intangible assets	8	**232**	202
Property, plant and equipment	9	**12,273**	12,122
Other non-current assets	10	**5,610**	5,610
Derivative financial assets	11	**642**	977
Total non-current assets		**18,757**	18,911
Current assets			
Inventories and current intangible assets	12	**24**	22
Trade and other receivables	13	**410**	396
Financial and other investments	14	**441**	875
Derivative financial assets	11	**63**	119
Cash and cash equivalents	15	**-**	20
Total current assets		**938**	1,432
Total assets		**19,695**	20,343
Current liabilities			
Borrowings	16	**(2,497)**	(3,219)
Derivative financial liabilities	11	**(99)**	(158)
Trade and other payables	17	**(834)**	(718)
Current tax liabilities		**(27)**	(26)
Provisions	19	**(74)**	(64)
Total current liabilities		**(3,531)**	(4,185)
Non-current liabilities			
Borrowings	16	**(6,711)**	(6,935)
Derivative financial liabilities	11	**(279)**	(348)
Other non-current liabilities	18	**(1,054)**	(1,057)
Deferred tax liabilities	6	**(1,599)**	(1,817)
Provisions	19	**(162)**	(121)
Total non-current liabilities		**(9,805)**	(10,278)
Total liabilities		**(13,336)**	(14,463)
Net assets		**6,359**	5,880
Equity			
Called up share capital	20	**45**	45
Share premium account		**204**	204
Retained earnings		**4,812**	4,323
Cash flow hedge reserve		**(34)**	(24)
Other reserves		**1,332**	1,332
Shareholders' equity		**6,359**	5,880
Non-controlling interests		**-**	-
Total equity		**6,359**	5,880

These consolidated financial statements set out on pages 39 to 73 were approved by the Board of Directors on 9 July 2014 and were signed on its behalf by:

Paul Whittaker Director

Andy Agg Director

Company 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 2012	45	204	5,287	(27)	1,332	6,841	1	6,842
Profit for the year	-	-	930	-	-	930	-	930
Total other comprehensive income for the year	-	-	-	3	-	3	-	3
Total comprehensive income for the year	-	-	930	3	-	933	-	933
Equity dividends	-	-	(1,900)	-	-	(1,900)	-	(1,900)
Other movements in non-controlling interests	-	-	-	-	-	-	(1)	(1)
Share-based payment	-	-	5	-	-	5	-	5
Tax on share-based payment	-	-	1	-	-	1	-	1
As at 31 March 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 income/(loss) for the year	-	-	-	(10)	-	(10)	-	(10)
Total comprehensive income/(loss) 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
At 31 March 2014	**45**	**204**	**4,812**	**(34)**	**1,332**	**6,359**	**-**	**6,359**

Unaudited commentary on consolidated statement of changes in equity

Keeping it simple

The consolidated statement of changes in equity shows the additions (where it came from) and reductions (where it went) to equity. For us, the main items included here are the profit earned and dividends paid in the year. Further details on the major movements in the year are set out below.

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 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.

This unaudited commentary does not form part of the financial statements.

Consolidated cash flow statement

for the years ended 31 March

	Notes	2014 £m	2013 £m
Cash flows from operating activities			
Total operating profit	1(b)	**1,359**	1,387
Adjustments for:			
Exceptional items	3	**110**	98
Depreciation, amortisation and impairment		**451**	530
Share-based payment charge		**6**	5
Changes in working capital		**1**	(114)
Changes in provisions		**(17)**	11
Cash flows relating to exceptional items		**(36)**	(87)
Cash generated from operations		**1,874**	1,830
Tax paid		**(189)**	(188)
Net cash inflow from operating activities		**1,685**	1,642
Cash flows from investing activities			
Purchases of intangible assets		**(58)**	(47)
Purchases of property, plant and equipment		**(572)**	(893)
Disposals of property, plant and equipment		**81**	7
Interest received		**4**	2
Net movement in short-term financial investments		**434**	(424)
Net cash flow used in investing activities		**(111)**	(1,355)
Cash flows from financing activities			
Proceeds received from loans		**115**	2,017
Repayment of loans		**(780)**	(224)
Net movements in short-term borrowings and derivatives		**(113)**	14
Interest paid		**(202)**	(170)
Dividends paid to shareholders		**(600)**	(1,900)
Net cash flow used in financing activities		**(1,580)**	(263)
Net (decrease)/increase in cash and cash equivalents	21	**(6)**	24
Net cash and cash equivalents at the start of the year		**(3)**	(27)
Net cash and cash equivalents at the end of the year (i)	15	**(9)**	(3)

(i) Net of bank overdraft of £9m (2013: £23m).

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

1. Segmental analysis

Keeping it simple

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 2013. All of the Company'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

	2014 Total sales £m	2014 Sales between businesses £m	2014 Sales to third parties £m	2013 Total sales £m	2013 Sales between businesses £m	2013 Sales to third parties £m
Operating segments						
Gas Transmission	**943**	**(103)**	**840**	1,091	(61)	1,030
Gas Distribution	**1,897**	**(43)**	**1,854**	1,714	(43)	1,671
Other activities	**365**	**(26)**	**339**	363	(27)	336
	3,205	**(172)**	**3,033**	3,168	(131)	3,037

Analysis of revenue by major customer:	2014 £m	2013 £m
Customer A	**787**	850
Customer B	**338**	351

These revenues are attributable to the Gas Transmission, Gas Distribution and Gas Metering businesses.

(b) Operating profit

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

	Before exceptional items 2014 £m	Before exceptional items 2013 £m	After exceptional items 2014 £m	After exceptional items 2013 £m
Operating segments				
Gas Transmission	**419**	537	**362**	499
Gas Distribution	**904**	794	**851**	754
Other activities	**146**	154	**146**	134
	1,469	1,485	**1,359**	1,387

(c) Capital expenditure, depreciation and amortisation

	Capital expenditure 2014 £m	Capital expenditure 2013 £m	Depreciation and amortisation 2014 £m	Depreciation and amortisation 2013 £m
Operating segments				
Gas Transmission	**181**	249	**172**	162
Gas Distribution	**480**	666	**271**	261
Other activities	**63**	66	**90**	94
	724	981	**533**	517
By asset type				
Property, plant and equipment	**666**	934	**479**	463
Other non-current intangible assets	**58**	47	**54**	54
	724	981	**533**	517

2. Operating costs

Keeping it simple

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		Exceptional items		Total	
	2014	2013	**2014**	2013	**2014**	2013
	£m	£m	**£m**	£m	**£m**	£m
Depreciation and amortisation	**533**	517	**-**	-	**533**	517
Payroll costs	**283**	265	**28**	17	**311**	282
Purchases of gas	**112**	129	**-**	-	**112**	129
Rates	**241**	235	**-**	-	**241**	235
Other	**395**	406	**82**	81	**477**	487
	1,564	1,552	**110**	98	**1,674**	1,650

(a) Payroll costs

	2014	2013
	£m	£m
Wages and salaries	**247**	253
Social security costs	**26**	24
Pension costs (note 4)	**79**	67
Share-based payment	**6**	5
Severance costs (excluding pension costs)	**14**	13
	372	362
Less: payroll costs capitalised	**(61)**	(80)
	311	282

(b) Number of employees, including Directors

	31 March 2014	31 March 2013	**Monthly Average 2014**	Monthly Average 2013
	Number	Number	**Number**	Number
UK	**5,358**	5,624	**5,318**	5,694

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

(c) Key management compensation

	2014	2013
	£m	£m
Short-term employee benefits	**3**	3
Post-employment benefits	**1**	1
Share-based payment	**1**	1
	5	5

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 2014 was £1,878,407 (2013: £1,307,776). There were no payments in respect of compensation for loss of office in the year (2013: £Nil).

Eight Directors including the highest paid Director exercised share options during 2014 (2013: six Directors other than 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 2014, retirement benefits were accruing to four Directors under a defined benefit scheme (2013: seven Directors under a defined benefit scheme).

The aggregate emoluments for the highest paid Director were £564,439 for 2014 (2013: £358,944) and total accrued annual pension at 31 March 2014 for the highest paid Director was £nil (2013: £52,485).

(e) Auditors' remuneration

	2014	2013
	£m	£m
Audit services		
Audit of parent company and consolidated financial statements	**0.3**	0.2
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.

3. Exceptional items and remeasurements

Keeping it simple

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.

	2014	2013
	£m	£m
Included within operating profit:		
Exceptional items:		
Restructuring costs (i)	**(60)**	(52)
Gas holder demolition costs (ii)	**(79)**	-
Sale of surplus land to National Grid Property	**83**	-
Pension deficit charges (iii)	**(52)**	(26)
Other (iv)	**(2)**	(20)
	(110)	(98)
Included within finance costs:		
Remeasurements:		
Net gains on derivative financial instruments (v)	**16**	22
	16	22
Total included within profit before tax	**(94)**	(76)
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)	**241**	79
Tax on exceptional items	**46**	24
Tax on remeasurements	**(3)**	(4)
	284	99
Total exceptional items and remeasurements after tax	**190**	23
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	**177**	5
Total remeasurements after tax	**13**	18
Total	**190**	23

(i) Restructuring costs for year include: costs related to the restructuring of our UK operations of £36m in preparedness for delivering RIIO, transformation-related initiatives of £13m and onerous lease £11m. For the year ended 31 March 2013, restructuring costs included costs relating to the restructuring of our UK operations of £28m in preparedness for delivering RIIO and transformation-related initiatives of £24m.

(ii) A provision of £79m (2013: £nil) has been made for the demolition of certain non-operational gas holders in the UK.

(iii) Pension deficit charges in 2014 and 2013 arise from recovery plan contributions to the National Grid UK Pension Scheme.

(iv) Other exceptional items for the year ended 31 March 2013 was a £20m provision for legal claims in our Gas Metering business.

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

(vi) The exceptional tax credit arises from reductions in the UK corporation tax rate, from 23% to 21% applicable from 1 April 2014, and a further reduction from 21% to 20% applicable from 1 April 2015. The rate reductions were enacted in the Finance Act 2013. Other UK tax legislation also reduced the UK corporation tax rate in the prior periods (2013: from 24% to 23%). These reductions have resulted in a decrease in deferred tax liabilities.

4. Pensions

Keeping it simple

We have employees who are members of the defined benefit section of the National Grid UK Pension Scheme which is 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 Company's employees are members of the 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 Company. 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 and other post-retirement benefit liabilities 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 balance sheet liability.

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.

Each scheme's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made both to the maturity of the liabilities and the funding level of that plan. 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 and include amounts not recognised in these financial statements, but which are recognised in the consolidated financial statements of National Grid plc.

	2014 £m	2013 £m
Amounts recognised in the consolidated statement of financial position of National Grid plc		
Present value of funded obligations	**(15,667)**	(15,966)
Fair value of scheme assets	**15,452**	15,449
	(215)	(517)
Present value of unfunded obligations	**(28)**	(32)
Net defined benefit liability	**(243)**	(549)

	2014 £m	2013 £m
Reconciliation of the net defined benefit liability		
Opening defined benefit liability	**(549)**	(156)
(Cost)/credit recognised in the income statement	**(97)**	5
Remeasurement effects recognised in the statement of other comprehensive income	**258**	(531)
Employer contributions	**145**	133
Closing net defined benefit liability	**(243)**	(549)

	2014 £m	2013 £m
Changes in the present value of defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligations	**(15,998)**	(14,524)
Current service cost	**(61)**	(61)
Interest cost	**(672)**	(681)
Actuarial gains/(losses) - financial assumptions	**308**	(1,492)
Actuarial gains - experience	**-**	67
Past service credit - redundancies	**9**	5
Special termination benefit cost - redundancies	**(18)**	(14)
Past service cost - augmentations	**(7)**	(2)
Past service credit -plan amendments	**7**	-
Employee contributions	**(1)**	(1)
Benefits paid	**738**	705
Closing defined benefit obligations	**(15,695)**	(15,998)

	2014 £m	2013 £m
Changes in the fair value of scheme assets		
Opening fair value of scheme assets	**15,449**	14,368
Interest income	**651**	676
Return on assets (less)/greater than assumed	**(50)**	982
Administration costs	**(6)**	(6)
Employer contributions	**145**	133
Employee contributions	**1**	1
Benefits paid	**(738)**	(705)
Closing fair value of scheme assets	**15,452**	15,449
Actual return on scheme assets	**601**	1,658
Expected contributions to defined benefit scheme in the following year	**113**	116

5. Finance income and costs

Keeping it simple

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.

	2014 £m	2013 £m
Finance income		
Interest income on financial instruments	**4**	2
Finance income	**4**	2
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**(40)**	(41)
Other borrowings	**(330)**	(332)
Derivatives	**54**	64
Unwinding of discount on provisions	**(4)**	(3)
Other interest	**(1)**	(7)
Less: interest capitalised (i)	**18**	16
Finance costs before exceptional items and remeasurements	**(303)**	(303)
Remeasurements		
Net gains/(losses) on derivative financial instruments included in remeasurements (ii):		
Ineffectiveness on derivatives designated as:		
Fair value hedges (iii)	**16**	5
Cash flow hedges	**(5)**	(7)
Derivatives not designated as hedges or ineligible for hedge accounting	**5**	24
	16	22
Remeasurements included within finance costs	**16**	22
Finance costs	**(287)**	(281)
Net finance costs	**(283)**	(279)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 4.60% (2013: 4.33%).

(ii) Includes a net foreign exchange gain on financing activities of £109m (2013: £33m loss). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

(iii) Includes a net loss on instruments designated as fair value hedges of £109m (2013: £46m gain) offset by a net gain of £125m arising from the fair value adjustments to the carrying value of debt (2013: £41m loss).

6. Taxation

Keeping it simple

We principally 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 Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same 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

	2014	2013
	£m	£m
Tax before exceptional items and remeasurements	**283**	277
Exceptional tax on items not included in profit before tax (note 3)	**(241)**	(79)
Tax on other exceptional items and remeasurements	**(43)**	(20)
Tax on total exceptional items and remeasurements (note 3)	**(284)**	(99)
Total tax charge	**(1)**	178

Taxation as a percentage of profit before tax

	2014	2013
	%	%
Before exceptional items and remeasurements	**24.2**	23.4
After exceptional items and remeasurements	**(0.1)**	16.1

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

	2014	2013
	£m	£m
Current tax		
UK corporation tax at 23% (2013: 24%)	**210**	207
UK corporation tax adjustment in respect of prior years	**-**	(20)
Total current tax	**210**	187
Deferred tax		
UK deferred tax	**(210)**	11
UK deferred tax adjustment in respect of prior years	**(1)**	(20)
Total deferred tax	**(211)**	(9)
Total tax charge	**(1)**	178

Adjustments in respect of prior years include the following amounts relating to exceptional items and remeasurements £1m credit (2013: £1m credit).

6. Taxation continued

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

	2014 £m	2013 £m
Corporation tax		
Share-based payment	**(2)**	(1)
Deferred tax		
Share-based payment	**(5)**	-
Cash flow hedges	**(2)**	2
	(9)	1
Total tax recognised in the statement of comprehensive income	**(2)**	2
Total tax relating to share-based payment recognised directly in equity	**(7)**	(1)
	(9)	1

The tax charge for the year after exceptional items and remeasurements is lower (2013: lower) than the standard rate of corporation tax in the UK of 23% (2013: 24%):

	Before exceptional items and remeasure-ments 2014 £m	**After exceptional items and remeasure-ments 2014 £m**	Before exceptional items and remeasure-ments 2013 £m	After exceptional items and remeasure-ments 2013 £m
Profit before tax				
Before exceptional items and remeasurements	**1,170**	**1,170**	1,184	1,184
Exceptional items and remeasurements	**-**	**(94)**	-	(76)
Profit before tax	**1,170**	**1,076**	1,184	1,108
Profit before tax multiplied by UK corporation tax rate of 23% (2013: 24%)	**269**	**247**	284	266
Effects of:				
Adjustments in respect of prior years	**-**	**(1)**	(39)	(40)
Expenses not deductible for tax purposes	**5**	**5**	7	7
Non-taxable income	**(1)**	**(1)**	(2)	(2)
Impact of share-based payment	**(4)**	**(4)**	1	1
Deferred tax impact of change in UK tax rate	**-**	**(241)**	-	(79)
Other	**14**	**(6)**	26	25
Total tax	**283**	**(1)**	277	178
	%	**%**	%	%
Effective tax rate	**24.2**	**(0.1)**	23.4	16.1

Factors that may affect future tax charges

The Finance Act 2013 (‘the Act’) was substantively enacted on 2 July 2013. The Act further reduced the main rate of UK corporation tax to 21% with effect from 1 April 2014 and 20% from 1 April 2015.

The reduction in the UK corporation tax rate to 20% from 1 April 2015 has been enacted and deferred tax balances have been calculated at this rate.

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 2012	-	(4)	-	(18)	(22)
Deferred tax liabilities at 31 March 2012	1,829	-	4	13	1,846
At 1 April 2012	1,829	(4)	4	(5)	1,824
Credited to income statement	(5)	-	(2)	(2)	(9)
Charged to other comprehensive income and equity	-	-	2	-	2
At 31 March 2013	1,824	(4)	4	(7)	1,817
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 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 31 March 2014	**1,616**	**(12)**	**-**	**(5)**	**1,599**

6. Taxation continued

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 £1,599m (2013: £1,817m).

At the balance sheet date there were no material current deferred tax assets or liabilities (2013: £nil).

7. Dividends

Keeping it simple
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:

	2014		2013	
	pence (per ordinary share)	**2014 £m**	pence (per ordinary share)	2013 £m
Ordinary dividends				
Interim dividend for the year ended 31 March 2014	**15.21**	**600**	-	-
Interim dividend for the year ended 31 March 2013	**-**	**-**	48.17	1,900
	15.21	**600**	48.17	1,900

8. Intangible assets

Keeping it simple
Intangible assets includes 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 periods for categories of intangible assets are:

Amortisation periods	Years
Software	up to 8

	Software £m
Cost at 1 April 2012	390
Additions	47
Disposals	(7)
Reclassifications between categories (i)	(36)
Cost at 31 March 2013	394
Additions	58
Disposals	-
Reclassifications between categories (i)	28
Cost at 31 March 2014	480
Accumulated amortisation at 1 April 2012	(153)
Amortisation charge for the year	(54)
Disposals	7
Reclassifications between categories (i)	8
Accumulated amortisation at 31 March 2013	(192)
Amortisation charge for the year	(54)
Disposals	-
Reclassifications between categories (i)	(2)
Accumulated amortisation at 31 March 2014	(248)
Net book value at 31 March 2014	**232**
Net book value at 31 March 2013	202

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

9. Property, plant and equipment

Keeping it simple

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.

Material 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.

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 2012	260	17,002	318	548	18,128
Additions	113	652	135	34	934
Disposals	-	(62)	-	(80)	(142)
Reclassifications (i)	-	92	(88)	32	36
Cost at 31 March 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
Accumulated depreciation at 1 April 2012	(80)	(5,979)	-	(425)	(6,484)
Depreciation charge for the year (ii)	(35)	(380)	-	(50)	(465)
Disposals	-	44	-	79	123
Reclassifications (i)	-	-	-	(8)	(8)
Accumulated depreciation at 31 March 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)
Net book value at 31 March 2014	**231**	**11,548**	**365**	**129**	**12,273**
Net book value at 31 March 2013	258	11,369	365	130	12,122

(i) Represents amounts transferred between categories and from intangible assets (see note 8).
(ii) Includes amounts in respect of capitalised depreciation £2m (2013: £2m)

	2014 £m	2013 £m
Information in relation to property, plant and equipment		
Capitalised interest included within cost	**200**	182
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	**28**	28
Non-current liabilities	**1,003**	996

10. Other non-current assets

Keeping it simple

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 2015.

	2014 £m	2013 £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, its fair value is expected to approximate to its book value.

11. Derivative financial instruments

Keeping it simple

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, equity or other indices. In accordance with 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 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.Gains and losses arising from the changes in fair value are included in the income statement in the period they arise.

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:

	2014			2013		
	Asset £m	**Liabilities £m**	**Total £m**	Asset £m	Liabilities £m	Total £m
Interest rate swaps	**431**	**(237)**	**194**	605	(359)	246
Cross-currency interest rate swaps	**258**	**(28)**	**230**	453	(16)	437
Forward rate agreements	**-**	**-**	**-**	-	(3)	(3)
Inflation linked swaps	**16**	**(113)**	**(97)**	38	(128)	(90)
Total	**705**	**(378)**	**327**	1,096	(506)	590

The maturity profile of derivative financial instruments is as follows:

	2014			2013		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
In one year or less	**63**	**(99)**	**(36)**	119	(158)	(39)
Current	**63**	**(99)**	**(36)**	119	(158)	(39)
In 1 - 2 years	**-**	**-**	**-**	-	(11)	(11)
In 2 - 3 years	**3**	**-**	**3**	-	-	-
In 3 - 4 years	**47**	**(16)**	**31**	5	(2)	3
In 4 - 5 years	**44**	**(64)**	**(20)**	77	(34)	43
More than 5 years	**548**	**(199)**	**349**	895	(301)	594
Non-current	**642**	**(279)**	**363**	977	(348)	629
	705	**(378)**	**327**	1,096	(506)	590

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

	2014 £m	2013 £m
Interest rate swaps	**(4,948)**	(4,429)
Cross-currency interest rate swaps	**(992)**	(1,409)
Foreign exchange forward contracts	**(5)**	-
Forward rate agreements	**-**	(1,285)
Inflation linked swaps	**(760)**	(760)
	(6,705)	(7,883)

*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.

	2014 **£m**	2013 £m
Cross-currency interest rate/interest rate swaps	**334**	531
Fair value hedges	**334**	531

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 that was 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.

	2014 **£m**	2013 £m
Cross-currency interest rate/interest rate swaps	**76**	140
Inflation linked swaps	**(21)**	(14)
Cash flow hedges	**55**	126

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.

	2014 **£m**	2013 £m
Cross-currency interest rate/interest rate swaps	**14**	12
Forward rate agreements	**-**	(3)
Inflation linked swaps	**(76)**	(76)
Derivatives not in a formal hedge relationship	**(62)**	(67)

Discontinuation of hedge accounting

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

Embedded Derivatives

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are 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

Keeping it simple
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 (consumables) or to maintain our network.

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

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

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.

	2014	2013
	£m	£m
Raw materials and consumables	**22**	21
Current intangible assets - emission allowances	**2**	1
	24	22

There is a provision for obsolescence of £5m against inventories as at 31 March 2014 (2013: £5m).

13. Trade and other receivables

Keeping it simple
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.

	2014	2013
	£m	£m
Trade receivables	**52**	64
Amounts owed by fellow subsidiaries	**43**	13
Prepayments and accrued income	**310**	311
Other receivables	**5**	8
	410	396

Trade receivables are non-interest bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their book value. All other receivables are recorded at amortised cost.

Provision for impairment of receivables

	£m
At 1 April 2012	12
Additions net of recoveries	(9)
At 31 March 2013	3
Recoveries net of additions	-
At 31 March 2014	**3**

Trade receivables past due but not impaired

	2014	2013
	£m	£m
Up to 3 months past due	**1**	3
3 to 6 months past due	**-**	1
Over 6 months past due	**1**	2
	2	6

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

14. Financial and other investments

Keeping it simple
Financial and other investments includes two main categories. Assets classified as available-for-sale typically represent investments in short-term money funds and quoted investments in equities or bonds of other companies. The second category is loans and receivables which includes cash balances that cannot be readily used in operations, principally collateral pledged for certain borrowings and restricted cash balances related to our UK pension schemes.

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 equity, 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.

	2014	2013
	£m	£m
Current		
Available-for-sale investments - investments in short-term money funds	**126**	582
Available-for-sale investments - restricted balances (i)	**195**	-
Loans and receivables - amounts due from fellow subsidiaries	**22**	21
Loans and receivables - restricted cash balances (ii)	**98**	272
	441	875

(i) UK Gilt investments held within security accounts, with charges in favour of the UK pension scheme Trustees £195m (2013: £nil).

(ii) Comprises collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £94m (2013: £102m) and secured bank accounts with charges in favour of the UK pension schemes Trustees of £4m (2013: £170m).

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

Keeping it simple
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).

	2014	2013
	£m	£m
Cash at bank and short-term deposits	**-**	20
Cash and cash equivalents excluding bank overdrafts	**-**	20
Bank overdrafts	**(9)**	(23)
Net cash and cash equivalents	**(9)**	(3)

16. Borrowings

Keeping it simple

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 level of debt is expected to increase over time. To maintain a strong balance sheet and to allow us to access capital markets at commercially acceptable interest rates, we balance the amount of debt we issue with the value of our assets, and take account of certain other metrics used by credit 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.

The Finance Committee controls refinancing risk by limiting the amount of our debt maturities arising from borrowings in any one year which is demonstrated by our maturity profile.

	2014	2013
	£m	£m
Current		
Bank loans	**358**	503
Bonds	**203**	581
Other loans	**1**	1
Borrowings from fellow subsidiaries	**1,926**	2,111
Bank overdrafts	**9**	23
	2,497	3,219
Non-current		
Bank loans	**882**	856
Bonds	**5,687**	5,905
Other loans	**142**	174
	6,711	6,935
Total	**9,208**	10,154

Total borrowings are repayable as follows:	**2014**	2013
	£m	£m
Less than 1 year	**2,497**	3,219
In 1 - 2 years	**-**	126
In 2 - 3 years	**43**	-
In 3 - 4 years	**281**	52
In 4 - 5 years	**420**	291
More than 5 years:		
by instalments	**52**	52
other than by instalments	**5,915**	6,414
	9,208	10,154

The fair value of borrowings at 31 March 2014 was £10,035m (2013: £11,335m). Where market values were available, fair value of borrowings (Level 1) was £3,826m (2013: £4,977m). Where market values were not available, the fair value of borrowings (Level 2) was £6,209m (2013: £6,358m), calculated by discounting cash flows at prevailing interest rates.The notional amount outstanding of the debt portfolio at 31 March 2014 was £9,194m (2013: £10,072m).

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 £354m (2013: £499m) in respect of cash received under collateral agreements.

At 31 March 2014, we had bilateral committed credit facilities of £400m (2013: £425m) of which £400m was undrawn (2013: £425m undrawn). All of the unused facilities at 31 March 2014 and 31 March 2013 were held as backup to commercial paper and similar borrowings.

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

17. Trade and other payables

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

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

	2014 **£m**	2013 £m
Trade payables	**485**	417
Amounts owed to fellow subsidiaries	**137**	106
Deferred income	**89**	76
Social security and other taxes	**79**	82
Other payables	**44**	37
	834	718

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

18. Other non-current liabilities

Keeping it simple
Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2015. It also includes payables that are not due until after that date.

	2014 **£m**	2013 £m
Trade payables	**1**	7
Deferred income	**1,053**	1,050
	1,054	1,057

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.

19. Provisions

Keeping it simple

We make provisions when an obligation exists, relating to events in the past 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 which require restoration or remediation and other provisions, including restructuring plans and lease contracts we have entered into that are now loss making.

Our strategy in action

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

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

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

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

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

	Decommissioning £m	Environmental £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 2012	-	68	51	40	159
Additions	-	16	18	38	72
Release of unused amounts	-	(5)	(4)	(4)	(13)
Unwinding of discount	-	3	-	-	3
Utilised	-	(2)	(30)	(4)	(36)
At 31 March 2013	-	80	35	70	185
Additions	79	-	43	9	131
Release of unused amounts	-	(12)	(1)	(1)	(14)
Unwinding of discount	-	4	-	-	4
Utilised	(7)	(2)	(33)	(28)	(70)
At 31 March 2014	**72**	**70**	**44**	**50**	**236**

	2014 £m	2013 £m
Current	**74**	64
Non-current	**162**	121
	236	185

Decommissioning provision

The decommissioning provision represents £72m (2013: £nil) of expenditure relating to the demolition of gas holders expected to be incurred until 2022.

Environmental provision

The environmental provision represents the net present value of the estimated environmental 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 2014 and 2067.

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 on the calculation of the provision and hence the income statement.

The undiscounted amount of the provision at 31 March 2014 was £95m (2013: £107m), being the best undiscounted estimate of the liability having regard to these uncertainties.

Restructuring provision

At 31 March 2014, £17m consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties (2013: £9m). The expected payment dates for property restructuring costs remain uncertain. The remainder of the restructuring provision related to business reorganisation costs which are expected to be paid until 2015.

Other provisions

Other provisions at 31 March 2014 include £23m (2013: £24m) in respect of employer liability claims. In accordance with insurance industry practice, the estimates for employer liability claims are based on experience from previous years and, therefore, there is no identifiable payment date associated with these items. Other provisions also include £15m (2013: £30m) in respect of distribution and metering claims and £5m (2013: £12m) in respect of gas distribution transformation.

20. Share capital

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

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

	Number of shares 2014 millions	Number of shares 2013 millions	**2014 £m**	2013 £m
At 31 March 2013 and 2014 - ordinary shares of 1 $^{2}/_{15}$p each Allotted, called-up and fully paid	**3,944**	3,944	**45**	45

21. Net Debt

Keeping it simple
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

	2014 £m	2013 £m
(Decrease)/increase in cash and cash equivalents	**(6)**	24
(Decrease)/increase in financial investments	**(434)**	424
Decrease/(increase) in borrowings and related derivatives	**778**	(1,807)
Net interest paid on the components of net debt	**198**	168
Change in net debt resulting from cash flows	**536**	(1,191)
Changes in fair value of financial assets and liabilities and exchange movements	**5**	17
Net interest charge on the components of net debt	**(312)**	(307)
Movement in net debt (net of related derivative financial instruments) in the year	**229**	(1,481)
Net debt (net of related derivative financial instruments) at the start of the year	**(8,669)**	(7,188)
Net debt (net of related derivative financial instruments) at the end of the year	**(8,440)**	(8,669)

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

	2014 £m	2013 £m
Cash, cash equivalents and financial investments	**441**	895
Borrowings and bank overdrafts	**(9,208)**	(10,154)
Derivatives	**327**	590
Total net debt	**(8,440)**	(8,669)

(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 2012	1	(28)	(27)	451	(8,111)	499	(7,188)
Cash flow	19	5	24	422	(1,567)	(70)	(1,191)
Fair value gains and losses and exchange movements	-	-	-	-	(80)	97	17
Interest charges	-	-	-	2	(373)	64	(307)
At 31 March 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)**
Balances at 31 March 2014 comprise:							
Non-current assets	-	-	-	-	-	642	642
Current assets	-	-	-	441	-	63	504
Current liabilities	-	(9)	(9)	-	(2,488)	(99)	(2,596)
Non-current liabilities	-	-	-	-	(6,711)	(279)	(6,990)
	-	**(9)**	**(9)**	**441**	**(9,199)**	**327**	**(8,440)**

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

Keeping it simple
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

	2014	2013
	£m	£m
Contracted for but not provided	**540**	557

Operating lease commitments

	2014	2013
	£m	£m
Amounts due:		
Less than 1 year	**16**	19
In 1 - 2 years	**11**	14
In 2 - 3 years	**8**	9
In 3 - 4 years	**6**	8
In 4 - 5 years	**6**	6
More than 5 years	**28**	36
	75	92

Other commitments, contingencies and guarantees
The value of other commitments and guarantees at 31 March 2014 amounted to £178m (2013: £190m), including gas purchase commitments amounting to £57m (2013: £69m).

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 2014, the sterling equivalent amounted to £1,064m (2013: £1,168m).

Amounts receivable under sublease arrangements
The total of future minimum sublease payments expected to be received under non-cancellable subleases is £4m (2013: £6m).

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

Keeping it simple

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	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Income:						
Goods and services supplied	**-**	-	**43**	5	**43**	5
Expenditure:						
Services received	**-**	-	**1**	4	**1**	4
Corporate services received	**-**	-	**20**	17	**20**	17
Charges in respect of pensions costs	**-**	-	**67**	67	**67**	67
Interest paid on borrowings from fellow subsidiaries	**-**	-	**21**	7	**21**	7
	-	-	**109**	95	**109**	95
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:						
Amounts receivable	**-**	-	**43**	13	**43**	13
Amounts payable	**-**	-	**137**	106	**137**	106
Advances to fellow subsidiaries (due within one year):						
At 1 April	**21**	19	**1**	1	**22**	20
Advances	**-**	2	**-**	-	**-**	2
Repayments	**-**	-	**(1)**	-	**(1)**	-
At 31 March	**21**	21	**-**	1	**21**	22
Advances to parent (due after more than one year):						
At 1 April	**5,609**	5,611	**-**	-	**5,609**	5,611
Repayments	**-**	(2)	**-**	-	**-**	(2)
At 31 March	**5,609**	5,609	**-**	-	**5,609**	5,609
Borrowings payable to fellow subsidiaries (amounts due within one year):						
At 1 April	**-**	-	**2,111**	117	**2,111**	117
Advances	**-**	-	**115**	1,994	**115**	1,994
Repayments	**-**	-	**(300)**	-	**(300)**	-
At 31 March	**-**	-	**1,926**	2,111	**1,926**	2,111

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. Other 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 2014 (2013: £nil) and no expense has been recognised during the year (2013: £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

Keeping it simple

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 manged 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 2010. The 2013 valuation is ongoing.

The results of the 2010 valuation is shown below:

Latest full actuarial valuation	31 March 2010
Actuary	Towers Watson
Market value of scheme assets at latest valuation	£13,399m
Actuarial value of benefits due to members	£(13,998)m
Market value as percentage of benefits	96%
Funding deficit	£599m
Funding deficit (net of tax)	£479m

Following consultations during the past year with affected employees and our trade union partners, and the positive outcome of trade union ballots, National Grid, working with the Trustees, will implement changes to the benefits provided by the Scheme from 1 April 2014. From April 2014 an annual cap will be 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 will apply to all pensionable service from 1 April 2013 onwards.

The aim of these changes is to ensure the Scheme remains affordable and sustainable over the coming years.

The 2010 actuarial funding valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 35% of pensionable earnings (32% 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. The employer contribution rate and administration costs are being reviewed as part of the 2013 valuation.

Following the 2010 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, no deficit contributions were made in 2010/11 or 2011/12. Annual payments of £47m, rising in line with the RPI from March 2010, commenced in 2012/13 and (subject to the current valuation discussions) are due to continue until 2027. As part of the initial 2013 valuation discussions with the Trustees an additional payment of £6m was paid in March 2014.

As part of the 2010 agreement, National Grid has established security account arrangements with a charge in favour of the Trustees. The value of the assets in the security account at 31 March 2014 was approximately £199m. The assets in the security account will be paid to the Scheme in the event that National Grid Gas plc (NGG) is subject to an insolvency event, or is given notice of less than 12 months that Ofgem intends to revoke its licence under the Gas Act 1986. The assets in the security account will be released back to National Grid if the Scheme moves into surplus.

This scheme ceased to allow new hires to join from 1 April 2002. A defined contribution (DC) section of the scheme was offered for employees joining after this date, which closed to future contributions on 31 October 2013 and was replaced by The National Grid YouPlan (see below).

The National Grid YouPlan

Following a review of the DC section of the National Grid UK Pension Scheme, National Grid established a new DC trust, The National Grid YouPlan (YouPlan). This was launched on 1 November 2013 and future contributions for active members of the DC section were paid to YouPlan from this date.

Under the rules of the plan, National Grid double matches contributions to YouPlan currently up to a maximum of 5% of employee salary.Member accounts built up in the DC section prior to 1 November 2013 will be transferred to YouPlan in 2014.

YouPlan is the qualifying scheme used for automatic enrolment and National Grid’s staging date was 1 April 2013. 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.

	2014 Quoted £m	**2014 Unquoted £m**	**2014 Total £m**	2013 Quoted £m	2013 Unquoted £m	2013 Total £m
Equities[1]	**3,401**	**471**	**3,872**	4,132	412	4,544
Corporate bonds[2]	**5,425**	**-**	**5,425**	5,593	-	5,593
Government securities	**4,159**	**-**	**4,159**	4,081	-	4,081
Property	**-**	**978**	**978**	-	997	997
Diversified alternatives[3]	**-**	**793**	**793**	-	-	-
Other	**259**	**(34)**	**225**	264	(30)	234
Total	**13,244**	**2,208**	**15,452**	14,070	1,379	15,449

1. Included within equities at 31 March 2014 were ordinary shares of National Grid plc with a value of £15m (2013: £16m)
2. Included within corporate bonds at 31 March 2014 was an investment in a number of bonds issued by subsidiary undertakings with a value of £72m (2013: £69m)
3. 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 2014 is as follows:

	%
Equities	**30**
Other	**70**
Total	**100**

Actuarial assumptions

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

	2014 %	2013 %
Discount rate[1]	**4.3**	4.3
Rate of increase in salaries[2]	**3.6**	4.1
Rate of increase in RPI[3]	**3.3**	3.4

1 The discount rates for pension liabilities have been determined by reference to appropriate yields on high quality corporate bonds prevailing in the UK debt market at the reporting date.

2 A promotional scale has also been used where appropriate. The UK assumption stated is that relating to service prior to 1 April 2013. The UK assumption for the rate of increase in salaries for service after this date is 2.5%.

3 The key assumption that determines assumed increases in pensions in payment and deferment. The assumptions which apply were 3.3% (2013: 3.4%) for increases in pensions in payment and 3.3% (2013:3.4%) for increases in pensions in deferment.

Assumed life expectations for a retiree age 65	2014 years	2013 years
Today:		
Males	**22.5**	22.4
Females	**25.3**	25.2
In 20 years:		
Males	**24.7**	24.6
Females	**27.6**	27.5

25. Financial risk management

Keeping it simple

Our activities expose us to a variety of financial risk including currency risk, interest rate risk, credit risk; and liquidity risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance of 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 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 explained under risk factors on pages 16 to 20.

As at 31 March 2013 and 2014, 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. We do 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 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

				Related amounts available to be offset but not offset in statement of financial position		
As at 31 March 2013	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Financial instruments (i) £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	1,096	-	1,096	(286)	(498)	312
	1,096	-	1,096	(286)	(498)	312
Liabilities						
Derivative financial instruments	(506)	-	(506)	286	94	(126)
	(506)	-	(506)	286	94	(126)
Total	590	-	590	-	(404)	186

(i) Comparitives have been restated to present items on a basis consistent with the current year.

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 other financings 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, in addition, certain of our loan agreements assume 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. These requirements are monitored on a regular basis.

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 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 contracts - 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)**

At 31 March 2013	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	(3,111)	(127)	-	(6,834)	(10,072)
Interest payments on borrowings (i)	(224)	(210)	(213)	(3,081)	(3,728)
Other non-interest bearing liabilities	(454)	(7)	-	-	(461)
Derivative financial liabilities					
Derivative contract - receipts	341	558	158	371	1,428
Derivative contract - payments (ii)	(171)	(250)	(75)	(621)	(1,117)
Total at 31 March 2013	(3,619)	(36)	(130)	(10,165)	(13,950)

(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.

(ii) The comparitives have been restated on a basis consistent with the current year.

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 seeks 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 in flation 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 2014 and 2013, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2014				
	Fixed rate £m	**Floating rate £m**	**RPI £m**	**Other (i) £m**	**Total £m**
Cash and cash equivalents	**-**	**-**	**-**	**-**	**-**
Financial investments	**196**	**224**	**-**	**21**	**441**
Borrowings (ii)	**(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 (iii)	**(848)**	**(3,800)**	**(3,813)**	**21**	**(8,440)**

	2013				
	Fixed rate £m	Floating rate £m	RPI £m	Other (i) £m	Total £m
Cash and cash equivalents	20	-	-	-	20
Financial investments	-	854	-	21	875
Borrowings (ii)	(3,525)	(2,759)	(3,870)	-	(10,154)
Pre-derivative position	(3,505)	(1,905)	(3,870)	21	(9,259)
Derivative effect	1,223	(784)	151	-	590
Net debt position (iii)	(2,282)	(2,689)	(3,719)	21	(8,669)

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

(ii) Includes bank overdrafts.

(iii) The impact of 2014/15 (2013/14 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 2014 and 2013, derivative financial instruments were used to manage foreign currency risk as follows:

	2014				
	Sterling £m	**Euro £m**	**Dollar £m**	**Other £m**	**Total £m**
Cash and cash equivalents	**-**	**-**	**-**	**-**	**-**
Financial investments	**440**	**-**	**1**	**-**	**441**
Borrowings (i)	**(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)**

	2013				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Cash and cash equivalents	20	-	-	-	20
Financial investments	875	-	-	-	875
Borrowings (i)	(8,066)	(836)	(883)	(369)	(10,154)
Pre-derivative position	(7,171)	(836)	(883)	(369)	(9,259)
Derivative effect	(1,438)	781	878	369	590
Net debt position	(8,609)	(55)	(5)	-	(8,669)

(i) Includes bank overdrafts

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

25. Financial risk continued

(e) Capital risk management

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.

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by regulatory asset value (RAV) gearing calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our regulated business. The RAV gearing ratio at 31 March 2014 was 58% compared with 60% at 31 March 2013. We regularly review and maintain or adjust the capital structure as appropriate in order to manage the level of RAV gearing. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for our business, at around 62.5-65%.

(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.

	2014				2013			
	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	**321**	**-**	**-**	**321**	582	-	-	582
Derivative financial instruments	**-**	**704**	**1**	**705**	-	1,095	1	1,096
	321	**704**	**1**	**1,026**	582	1,095	1	1,678
Liabilities								
Derivative financial instruments	**-**	**(331)**	**(47)**	**(378)**	-	(447)	(59)	(506)
Total	**321**	**373**	**(46)**	**648**	582	648	(58)	1,172

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:

	2014 Level 3 Valuation £m	2013 Level 3 Valuation £m
At 1 April	**(58)**	(94)
Net gains/(losses) for the year (i)	**12**	36
At 31 March	**(46)**	(58)

(i) Gains of £12m (2013: £36m gain) are attributable to assets or liabilities held at the end of the reporting period and have been recognised in finance costs in the income statement.

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

	2014 Income Statement £m	2013 Income Statement £m
+ 20 basis points change in LPI market curve (i)	**(21)**	(24)
- 20 basis points change in LPI market curve	**20**	23

(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

Keeping it simple

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 which each 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 2014 would result in a decrease in the income statement of £25 million and a 10% decrease in unbilled revenue would have the equal but opposite effect.

	2014		2013	
	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	**7**	**7**	7	7
Estimated future cash flows in respect of provisions change of 10% (pre-tax)	**23**	**23**	18	18
Assets and liabilities carried at fair value change of 10% (pre-tax)				
Derivative financial instruments [1]	**33**	**33**	59	59
Unbilled revenue at 31 March change of 10% (post-tax)	**25**	**25**	29	29
No hedge accounting for our derivative financial instruments (post tax)	**(110)**	**(96)**	32	32
Financial risk (post-tax)				
UK RPI rate change of 0.5% [2]	**15**	**-**	14	-
UK interest rate changes of 0.50%	**14**	**11**	10	13

1. The effect of a 10% change in fair value assumes no hedge accounting.

2. Excludes sensitivites to LPI index. Further details on sensitivities are provided in note 25 (f) on page 71.

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.

26. Sensitivities on areas of estimation and uncertainty continued

Financial Risk

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 2014 and 2013 respectively;
- the statement of financial position sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments; and
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity.

27. Ultimate parent company

Keeping it simple

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. Principal subsidiary undertakings

Keeping it simple

While we present consolidated results in these financial statements as if we were one company, our structure is such that there are a number of 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.

	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 International Finance BV (incorporated in the Netherlands)	Financing	100%
National Grid Metering Limited	Gas metering services	100%
Xoserve Limited	Gas transportation transaction services	56.57%

The subsidiaries which have a signficant effect on the revenue, profit or assets of the Group are shown above.

A full list of all subsidiaries and associated undertakings is available from the Company Secretary of the Company.

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

Company accounting policies

for the year ended 31 March 2014

Keeping it simple

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 shareholders.

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 2013 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 31.

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 notes 25 and 26 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. 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.

P. Share-based payments

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

Q. 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	2014 £m	2013 £m
Fixed assets			
Tangible assets	5	**7,136**	7,194
Investments	6	**17**	17
		7,153	7,211
Current assets			
Stocks and current intangible assets	7	**24**	22
Debtors (amounts falling due within one year)	8	**414**	401
Debtors (amounts falling due after more than one year)	8	**5,624**	5,621
Derivative financial instruments (amounts falling due within one year)	9	**63**	119
Derivative financial instruments (amounts falling due after more than one year)	9	**642**	977
Investments		**628**	1,055
		7,395	8,195
Creditors (amounts falling due within one year)			
Borrowings	12	**(2,780)**	(3,475)
Derivative financial instruments	9	**(99)**	(158)
Other creditors		**(827)**	(712)
	10	**(3,706)**	(4,345)
Net current assets		**3,689**	3,850
Total assets less current liabilities		**10,842**	11,061
Creditors (amounts falling due after more than one year)			
Borrowings	12	**(6,702)**	(6,922)
Derivative financial instruments	9	**(279)**	(348)
Other creditors		**(674)**	(691)
	11	**(7,655)**	(7,961)
Provisions for liabilities	13	**(816)**	(877)
Net assets		**2,371**	2,223
Capital and reserves			
Called up share capital	14	**45**	45
Share premium account	15	**204**	204
Cash flow hedge reserve	15	**(34)**	(24)
Capital redemption reserve	15	**1,332**	1,332
Profit and loss account	15	**824**	666
Total shareholders' funds	16	**2,371**	2,223

The notes on pages 78 to 83 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 9 July 2014 and were signed on its behalf by:

Paul Whittaker Director

Andy Agg Director

Notes to the Company financial statements

1. Auditors' remuneration

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

	2014 £m	2013 £m
Audit services		
Audit fee of Company	**0.3**	0.2
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.

2. Number of employees, including Directors

	2014 Monthly Average number	2013 Monthly Average number
United Kingdom - continuing operations	**4,657**	5,077

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 section 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 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 2013	373	11,046	349	890	12,658
Additions	46	166	98	45	355
Disposals	-	(46)	-	(56)	(102)
Reclassifications	(43)	73	(55)	25	-
Cost at 31 March 2014	376	11,239	392	904	12,911
Accumulated depreciation at 1 April 2013	(116)	(4,780)	-	(568)	(5,464)
Depreciation charge for the year	(34)	(274)	-	(96)	(404)
Disposals	-	37	-	56	93
Reclassifications	5	(6)	-	1	-
Accumulated depreciation at 31 March 2014	(145)	(5,023)	-	(607)	(5,775)
Net book value at 31 March 2014	**231**	**6,216**	**392**	**297**	**7,136**
Net book value at 31 March 2013	257	6,266	349	322	7,194

(i) Relates to a write down of property, plant and equipment items in the LNG storage business.

The net book value of land and buildings comprised:

	2014 £m	2013 £m
Freehold	**162**	172
Short leasehold (under 50 years)	**69**	85
	231	257

The cost of tangible fixed assets at 31 March 2014 included £200m (2013: £181m) relating to interest capitalised.

Included within creditors (amounts falling due within one year) and creditors (amounts falling due after more than one year) are contributions to the cost of tangible fixed assets amounting to £16m (2013: £16m) and £624m (2013: £630m) respectively.

6. Investments

	Shares in subsidiary undertakings £m
Cost and net book value at 31 March 2013 and 31 March 2014	17

The names of the principal 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

	2014 £m	2013 £m
Raw materials and consumables	**22**	21
Current intangible assets - emission allowances	**2**	1
	24	22

8. Debtors

	2014 £m	2013 £m
Amounts falling due within one year:		
Trade debtors	**49**	62
Amounts owed by fellow subsidiary undertakings	**53**	21
Other debtors	**3**	7
Prepayments and accrued income	**309**	311
	414	401
Amounts falling due after more than one year:		
Amounts owed by immediate parent undertaking	**5,609**	5,609
Other debtors	**15**	12
	5,624	5,621
Total debtors	**6,038**	6,022

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:

	2014			2013		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Amounts falling due in one year	**63**	**(99)**	**(36)**	119	(158)	(39)
Amounts falling due after more than one year	**642**	**(279)**	**363**	977	(348)	629
	705	**(378)**	**327**	1,096	(506)	590

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

	2014 £m	2013 £m
Interest rate swaps	**(4,948)**	(4,429)
Cross-currency interest rate swaps	**(992)**	(1,409)
Foreign exchange forward contracts	**(5)**	-
Forward rate agreements	**-**	(1,285)
Inflation linked swaps	**(760)**	(760)
	(6,705)	(7,883)

*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)

	2014 **£m**	2013 £m
Derivative financial instruments (note 9)	**99**	158
Borrowings (note 12)	**2,780**	3,475
Trade creditors	**336**	264
Amounts owed to fellow subsidiary undertakings	**137**	104
Corporation tax	**27**	26
Other taxation and social security	**79**	83
Other creditors	**40**	36
Accruals and deferred income	**208**	199
	3,706	4,345

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)

	2014 **£m**	2013 £m
Derivative financial instruments (note 9)	**279**	348
Borrowings (note 12)	**6,702**	6,922
Other creditors	**-**	7
Accruals and deferred income	**674**	684
	7,655	7,961

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:

	2014 **£m**	2013 £m
Amounts falling due within one year:		
Bank loans and overdrafts	**367**	526
Bonds	**200**	576
Borrowings from subsidiary undertakings	**286**	261
Borrowings from fellow subsidiary undertakings	**1,926**	2,111
Other loans	**1**	1
	2,780	3,475
Amounts falling due after more than one year:		
Bank loans	**882**	856
Bonds	**5,024**	5,216
Borrowings from subsidiary undertakings	**654**	676
Other loans	**142**	174
	6,702	6,922
Total borrowings	**9,482**	10,397

Total borrowings are repayable as follows:		
Less than 1 year	**2,780**	3,475
In 1 - 2 years	**-**	126
In 2 - 3 years	**43**	-
In 3 - 4 years	**281**	52
In 4 - 5 years	**421**	291
More than 5 years by instalments	**52**	52
More than 5 years, other than by instalments	**5,905**	6,401
	9,482	10,397

The notional amount outstanding of the Company's debt portfolio at 31 March 2014 was £9,067m (2013: £9,842m).

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 2013	-	80	35	692	70	877
Charged to profit and loss account	79	-	40	(106)	8	21
Transferred to reserves	-	-	-	(2)	-	(2)
Utilised	(7)	(2)	(33)	-	(28)	(70)
Released	-	(11)	(1)	-	(2)	(14)
Unwinding of discount	-	4	-	-	-	4
At 31 March 2014	**72**	**71**	**41**	**584**	**48**	**816**

Decommissioning provision

The decommissioning provision represents £72m (2013: £nil) of expenditure relating to the demolition of gas holders expected to be incurred until 2022.

Environmental provision

The environmental provision represents the net present value of the estimated environmental 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 2014 and 2067.

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 on the calculation of the provision and hence the income statement.

The undiscounted amount of the provision at 31 March 2014 was £95m (2013: £107m), being the best undiscounted estimate of the liability having regard to these uncertainties.

Restructuring provision

At 31 March 2014, £17m consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties (2013: £9m). The expected payment dates for property restructuring costs remain uncertain. The remainder of the restructuring provision related to business reorganisation costs which are expected to be paid until 2015.

Deferred taxation

Deferred taxation comprises:

	2014 £m	2013 £m
Accelerated capital allowances	**603**	709
Other timing differences	**(19)**	(17)
	584	692

Other provisions

Other provisions at 31 March 2014 include £23m (2013: £24m) in respect of employer liability claims. In accordance with insurance industry practice, the estimates for employer liability claims are based on experience from previous years and, therefore, there is no identifiable payment date associated with these items. Other provisions also include £15m (2013: £30m) in respect of distribution and metering claims and £5m (2013: £12m) in respect of gas distribution transformation.

14. Called up share capital

	Number of shares 2014 millions	Number of shares 2013 millions	2014 £m	2013 £m
At 31 March 2013 and 2014 - 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 2013	204	(24)	1,332	666
Profit for the year	-	-	-	751
Dividends	-	-	-	(600)
Net gain recognised directly in reserves	-	(10)	-	-
Share-based payments	-	-	-	6
Tax on share-based payment	-	-	-	1
At 31 March 2014	**204**	**(34)**	**1,332**	**824**

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 £751m (2013: £601m).

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

	2014 £m	2013 £m
Profit for the year after taxation	**751**	601
Dividends (i)	**(600)**	(1,900)
Profit/(loss) for the financial year	**151**	(1,299)
Net gains recognised directly in reserves	**(10)**	3
Share-based payments	**6**	5
Tax on share-based payment	**1**	-
Net increase/(decrease) in shareholders' funds	**148**	(1,291)
Opening shareholders' funds	**2,223**	3,514
Closing shareholders' funds	**2,371**	2,223

(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 2014, the Company had placed contracts for capital expenditure (tangible fixed assets) amounting to £525m (2013: £554m).

(b) Lease commitments

At 31 March 2014, the Company's total operating lease commitments for the financial year ending 31 March 2015 amounted to £15m (2013 commitments for 2014: £18m) and are analysed by lease expiry date as follows:

	Land and buildings		Other		Total	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Expiring:						
In one year or less	**2**	2	**1**	2	**3**	4
In more than one year, but not more than five years	**2**	3	**4**	4	**6**	7
In more than five years	**6**	7	**-**	-	**6**	7
	10	12	**5**	6	**15**	18

(c) Other commitments and contingencies

The value of other commitments, contingencies and guarantees at 31 March 2014 amounted to £128m (2013: £140m), including gas purchase commitments amounting to £57m (2013: £69m).

(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 2014, the sterling equivalent amounted to £1,064m (2013: £1,168m).

(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.

	2014 £m	2013 £m
Goods and services supplied	**6**	7
Services received	**26**	26
Amounts receivable at 31 March	**3**	2
Amounts payable at 31 March	**(4)**	-

Amounts payable or receivable are ordinarily settled one month in arrears. No amounts have been provided at 31 March 2014 (2013: £nil) and no expense has been recognised during the year (2013: £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