



National Grid Electricity Transmission plc Regulatory Accounting Statements 2017/18

Company number 2366977

Contents

About these regulatory accounting statements	1
Overview – About National Grid Electricity Transmission plc	2
What we do – Electricity	3
What we do – Regulation	4
Principal operations.....	6
Our purpose, vision, strategy and values	9
Our strategic objectives	10
Progress against objectives - key performance indicators.....	11
Strategic Report	12
Our business environment.....	12
Our commitment to being a responsible business	14
Internal control and risk management	18
Viability statement.....	22
Financial review	23
Corporate Governance.....	28
Business separation.....	34
Directors' Report	35
Introduction to the financial statements	36
Statement of Directors' responsibilities.....	37
Independent Auditors' report	38
Basis of preparation	40
Recent accounting developments.....	43
Consolidated income statement	45
Consolidated statement of comprehensive income	46
Consolidated statement of changes in equity	47
Consolidated statement of changes in financial position	48
Consolidated cash flow statement.....	49
Notes to the consolidated financial statements.....	50
Appendices	89
Appendix 1 – Supplementary analysis of the consolidated financial statements by regulatory business	89
Regulatory consolidated income statement	90
Regulatory consolidated statement of comprehensive income	91
Regulatory consolidated statement of financial position	92
Regulatory consolidated statement of changes in equity.....	93
Regulatory consolidated cash flow statement.....	94
Notes to the regulatory consolidated financial statements.....	95
Appendix 2 – Unpublished information – Analysis of charges and apportionment	108
Appendix 3 – Unpublished information - Supplementary analysis of the regulatory transmission business by Transmission Owner (TO) and System Operator (SO) activities	110
Glossary and definitions	116

About these regulatory accounting statements

National Grid Electricity Transmission plc (the 'Company') is the holder of an Electricity Transmission Licence granted under the Electricity Act 1989. Under Condition B1 of this licence, we are required to prepare and publish annual regulatory accounting statements setting out the financial position and performance of the regulatory business covered by the licence.

Scope of the regulatory accounting statements

These regulatory accounting statements are for National Grid Electricity Transmission plc and its regulatory transmission business. The regulatory transmission business differs in certain respects from the transmission operating segment reported in the Company's annual report and accounts.

Content of the regulatory accounting statements

In accordance with the licence and as agreed with the Gas and Electricity Markets Authority (GEMA), these regulatory accounting statements comprise:

- A Strategic report for the Company as a whole including information on the financial performance and financial position of our regulatory transmission business.
- A Corporate governance statement in respect of our regulatory transmission business.
- A Directors' report in respect of the Company as a whole.
- A Statement of Directors' responsibilities for preparing regulatory accounting statements.
- The Independent Auditors' report on the regulatory accounting statements. This is separate to their report on the annual report and accounts of the Company.
- Consolidated financial statements for the Company as a whole, including additional accounting policies in respect of the basis of preparation of the supplementary analyses included in these regulatory accounting statements.
- Supplementary analysis of the financial statements by regulatory business, including reconciliation to the financial statements of the Company as a whole.
- Analysis of charges and apportionments. In accordance with the licence, this information is provided only to GEMA and is not published.
- Supplementary analysis of the financial statements of our transmission business by Transmission Owner (TO) and System Operator (SO) activities. This extra-licence information is provided only to GEMA and is not published.

Relationship of regulatory accounting statements with statutory accounts

The financial information contained in these regulatory accounting statements does not constitute statutory accounts within the meaning of section 404 of the Companies Act 2006. Statutory accounts for the Company for the year ended 31 March 2018, to which the financial information relates, have been delivered to the Registrar of Companies.

The auditors have made a report under Section 495 of the Companies Act 2006 on those statutory accounts which was unqualified and did not contain a statement under Section 498(2) or (3) of the Act. The auditors' opinion on the Company's statutory accounts is addressed to, and for the benefit of, the members of the Company and not for any other person or purpose. The auditors have clarified, in giving their opinion on those statutory accounts, that it 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. In giving their opinion, they do not accept or assume responsibility for any other purposes or to any other person to whom their audit report on the statutory accounts is shown or into whose hands it may come save where expressly agreed by their prior consent in writing.

The statutory accounts of the Company, and of the ultimate parent company National Grid plc (National Grid), can be obtained from the Company Secretary's Office, National Grid plc, 1-3 The Strand, London WC2N 5EH, and from the website of National Grid plc at www.nationalgrid.com.

Basis of preparation of regulatory accounting statements

These regulatory accounting statements contain apportionments of certain revenues, costs, assets, liabilities and shareholder's equity of the Company which are not specifically attributable to the regulatory transmission business, but which nevertheless, we are required to report against that business. Further details of these items are provided in the Basis of preparation on page 40.

Overview

About National Grid Electricity Transmission plc

National Grid Electricity Transmission plc (National Grid Electricity Transmission, NGET) is a subsidiary of National Grid plc (National Grid), based in the United Kingdom (UK). We own and operate the regulated electricity transmission network in England and Wales and are also the system operator for the high-voltage electricity transmission networks in Scotland. We do not own the Scottish networks. Our networks comprise approximately 7,200 kilometres of overhead line, 1,560 kilometres of underground cable and 346 substations. We play a vital role in connecting millions of people safely, reliably and efficiently to the energy they use. See pages 6 and 7 for further details.

The overall governance of National Grid Electricity Transmission is the responsibility of its Board of Directors. Strategic direction is determined by our ultimate parent company, National Grid. Our Directors are listed on page 35.

More information on the management structure of National Grid can be found in the National Grid plc Annual Report and Accounts 2017/18 and on National Grid's website at www.nationalgrid.com.

Financial highlights

	2017/18	2016/17	Percentage change
	£m	£m	
Operating profit ¹	1,033	1,346	(23%)
Cash generated from operations	1,683	1,659	1%
Regulated assets ²	13,045	12,479	4.5%

1. There were no exceptional items within operating profit for the year ended 31 March 2018 or 2017, see page 23 for further details.

2. See page 25 for further details.

	2017/18	2016/17
	£m	£m
Return on equity	13.1%	13.6%

Non-financial highlights

	2017/18	2016/17
Number of employees	3,679	3,692
Network reliability ₁	99.999984%	99.999964%

1. See page 11 for further details on our KPI's

What we do – Electricity

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

The UK electricity industry has five main sectors.

1. Generation

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

The UK is moving away from a historical reliance on large thermal power generation and there is now a greater diversity of supply and flexible demand than ever before. Therefore, the electricity transmission network has a central role to play in the future energy mix, with evolving roles enabling a range of possible energy futures for the long-term benefit of consumers.

2. Interconnectors

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

Great Britain (GB) is linked via interconnectors with Ireland and Northern Ireland which are owned by the wider National Grid plc Group. The Group also owns part of the interconnectors with France and Netherlands. National Grid plc is continuing to work on developing additional interconnector projects, which we believe will deliver significant benefits to consumers. These include three interconnectors currently in construction to France, Norway and Belgium, a link to Denmark and exploring opportunities for future projects.

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

3. Transmission

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

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

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

4. Distribution

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

We do not own or operate electricity distribution networks.

5. Supply

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

We do not sell electricity to consumers.

What we do – Regulation

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

How we make money from our regulated assets

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

Our network is regulated by Ofgem, which has a statutory duty under the Act to protect the interests of consumers. As part of our licence, Ofgem established price controls that limit the amount of revenue our regulated business can earn. This gives us a specified level of revenue for the duration of the price control that is sufficient to meet our statutory duties and licence obligations, and make a reasonable return on our investments.

The price control includes a number of mechanisms designed to help achieve its objectives. These include financial incentives that encourage us to:

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

The Electricity Transmission (ET) business operates under two separate price controls in the UK. These comprise our role as transmission owner (TO) and the other for our role as system operator (SO). While each of the two price controls may have differing terms, they are based on a consistent regulatory framework.

How is revenue calculated?

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

The five output categories are:

- **Safety** - ensuring the provision of a safe energy network.
- **Reliability (and availability)** - promoting networks capable of delivering long-term reliability, as well as minimising the number and duration of interruptions experienced over the

price control period, and ensuring adaptation to climate change.

- **Environmental impact** - encouraging companies to play their role in achieving broader environmental objectives, specifically, facilitating the reduction of carbon emissions, as well as minimising their own carbon footprint.
- **Customer and stakeholder satisfaction** - maintaining high levels of customer satisfaction and stakeholder engagement, and improving service levels.
- **Customer connections** - encouraging networks to connect customers quickly and efficiently.

Within each of these output categories are a number of primary and secondary deliverables, reflecting what our stakeholders want us to deliver over the remaining 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.

Totex

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

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

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

The extended length of the price control to eight years is one of the ways that RIIO has given innovation more prominence. Innovation refers to all the new ways of working that deliver outputs more efficiently. This broad challenge has an impact on everyone in our business.

Allowed revenue to fund totex costs is split between RIIO fast and slow money categories using specified ratios that are fixed for the duration of the price control. Fast money represents the amount of totex we are able to recover in the next available year. Slow money is added to our Regulated Asset Value

(RAV), which contributes to future year's revenue – effectively the regulatory IOU. For more details on the sharing factors under RIIO, please see the table below.

In addition to fast money, in each year we are allowed to recover a portion of the RAV (regulatory depreciation) and a return on the outstanding RAV balance. We are also allowed to collect additional revenues related to non-controllable costs and incentives. In addition to totex sharing, RIIO incentive mechanisms can increase or decrease our allowed revenue to reflect our performance against various other measures related to our outputs. For example, performance against our customer and stakeholder satisfaction targets can have a positive or negative effect of up to 1% of allowed annual revenues. Most of our incentives affect our revenues two years after the year of performance.

During the eight-year period of the price control our regulator included a provision for a mid-period review, with scope driven by:

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

The current price controls are set to run for an eight-year period and will end on 31 March 2021. Ahead of the new regulatory framework (RIIO T2) we will continue to engage with stakeholders and work with Ofgem to clarify the parameters of RIIO T2. We have mobilised teams to prepare for RIIO T2 drawing on the knowledge across our business. In depth stakeholder engagement has commenced and will continue throughout the process.

National Grid has responded to the RIIO T2 Framework Consultation document issued by Ofgem in March 2018 and we expect the framework to be finalised during the summer of 2018 with Ofgem publishing their final view on the final price control allowances by the end of 2020.

Competition in onshore transmission

Ofgem stated in its final decision on the RIIO control for electricity transmission that it would consider holding a competition to appoint the constructor and owner of suitably large and separable new transmission projects, rather than including these new outputs and allowances in existing transmission licensee price controls. On 23 January 2018, Ofgem proposed that, in the absence of required legislation to support a competition, it would set allowances for National Grid Electricity Transmission plc to undertake the transmission works associated with connecting the Hinkley Point C power station but with reduced allowances reflecting prices it has observed in other competitions. The consultation closed on 20 March 2018 and Ofgem has stated it will make a decision on this treatment later in the summer of 2018.

Allowed returns

The cost of capital allowed under RIIO price controls is as follows:

Cost of equity (post-tax real)	7.0%
Cost of debt (pre-tax real)	iBoxx 10 year simple trailing average index (2.22% for 2017/18)
Notional gearing	60.0%
Vanilla WACC*	4.13%

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

Sharing factors and fast money

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

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.

	Transmission Operator	System Operator
Fast ₁	15.00%	72.10%
Slow ₂	85.00%	27.90%
Sharing ₃	46.89%	46.89%

1. Fast money allows network companies to recover a percentage of total expenditure within a one year period.

2. Slow money is where costs are added to RAV and, therefore, revenues are recovered slowly (e.g. over 20 years) from both current and future consumers.

3. Sharing is the proportion retained by NGET. The consumer benefits by 53.11% of the efficiency delivered by NGET.

Principal operations

We own and operate the electricity transmission network in England and Wales, ensuring electricity is transported safely, reliably and efficiently.

Electricity Transmission Owner

Our Electricity Transmission network comprises approximately 7,200 kilometres of overhead line, 1,560 kilometres of underground cable and 346 substations.

Our business performed well in 2017/18 and we maintained our focus on safe, customer-led, reliable, innovative and efficient operations.

In December 2017 Ofgem published its RIIO transmission annual report for electricity. We were pleased that it recognised the fact the markets continue to deliver for customers.

Market Context

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

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

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

Operational performance

For the full year 2017/18 our employee lost time injury frequency rate was 0.03 which is consistent with world-class safety performance. Over the year we performed significantly better than our high potential incidents target, which tracks the events with the potential to cause more serious harm. We have also worked hard on risk assessments both ahead of work and at the point of work across our UK business.

We met our customer satisfaction targets for 2017/18. The figure for our electricity transmission business was 7.7. This exceeds our agreed target of 6.9.

We have also made positive progress in our first year using Net Promoter Score. We are gaining more insight into the needs of our customers (and theirs). For example, a continuing theme has been the need for greater transparency from us.

Our electricity transmission business has improved its customer application process, reducing the average time to produce a connection offer by about 30%. We introduced a series of initiatives that enable us to condense the application process using a dedicated cross-functional team. Our average historical lead time was close to 90 days, which we have reduced to 60 days.

Our electricity transmission business has continued to provide reliable services. We report on our key performance indicators in detail on page 11. This year the figure of our network reliability for Electricity Transmission was 99.999984%. See pages 10 and 11 for further information on our KPI's.

In late February 2018, adverse weather affected the UK, leading to high demand for energy on the system. Our networks performed strongly, maintaining secure supplies of electricity throughout the period.

This year we have worked hard to find ways of operating more efficiently, so we can make our business more agile and competitive. For example, our Electricity Transmission business is now carrying out protection system replacements in less than half the time and for significantly lower cost.

In order to continue to provide low-cost services which our customers want, we know we must innovate. A good example is the Western Link, which is a joint venture between National Grid and Scottish Power Transmission. The £1bn project will bring renewable energy from Scotland to homes and businesses in England and Wales.

This year also marked the completion of phase one of the London Power Tunnels project which will ensure we can meet London's growing electricity demand.

We continue to invest in the health of our assets and to ensure high network reliability. One example is work in overhead lines to improve how we map the operating environment and corrosion. It will enable us to better assess the likelihood of asset failure and which towers and spans are experiencing the most wear. The work supports our long-term strategy for overhead line investment. It led to a 'Next Generation' award from the Institute of Asset Management for project lead, Jon Hennah.

System Operator

As Great Britain's System Operator (SO) we ensure that supply and demand are balanced in real-time and we facilitate the connection of assets to the transmission system.

Market context

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

This makes our role in matching supply and demand more challenging, so we work with the market to make sure we have appropriate tools in place to balance the transmission system. We work with our customers and stakeholders to shape the future of the energy market, providing analysis and insight into the changing nature of energy. We also facilitate changes to the market frameworks to accommodate new technologies and ways of working, while considering how the role of the SO should evolve over time.

National Grid issued a joint statement with the Department for Business, Energy and Industrial Strategy (BEIS) and Ofgem regarding the enhanced role and greater separation of the SO function. This is a sensible step forward, recognising the need for stability in the organisation during a period of rapid industry change, and the importance of bolstering the perceived independence of the SO. The SO is at the forefront of this debate helping to find solutions with industry.

Operational Performance

As new sources of energy connect to the network, we need to find smarter ways to balance the system. To help us do this, the SO launched its first System Needs and Product Strategy consultation.

This consultation gave us a better understanding of the services we will need to procure in future. We had 128 stakeholder responses and used this feedback to shape the Product Roadmap for frequency response and reserve services, which we published in December.

We are reducing the number of balancing servicing products, simplifying procurement and improving the products themselves. We are also trialling close to real-time procurement to reflect the rapid growth in renewable generation.

The SO is also closely involved in far-reaching electricity charging reforms. During 2017/18, together with Ofgem and industry partners, we established Charging Futures as a platform to co-ordinate reform on electricity access and charging. At the first forum 64 organisations took part, while more than 280 stakeholders have also signed up to hear more about the plans.

Shaping the future of energy

2017 underlined the speed of change in the energy sector. In April, Great Britain experienced a day without any coal generation, while between June and September low carbon sources met 52% of the nation's electricity generation needs.

The changes that we have already introduced in the SO including the operation of a new scheduling algorithm for balancing the system have all ensured that we have continued to deliver power where and when our customers require them. We continue to develop our balancing tools to ensure high network reliability.

We are also finding ways to ensure that National Grid Electricity Transmission is better equipped for the future, particularly through innovation. For example, we are investing to ensure we can bring new technologies onto the network. On Deeside, we are converting an existing substation into a trial facility to test new technologies off network. This year Ofgem approved the substation conversion costs of about £10.9 million.

In July 2017, the UK Government announced plans to ban the sale of new petrol and diesel vehicles from 2040. Meanwhile, our own 'Future Energy Scenarios' analysis suggests the potential for rapid growth in electric vehicles (EVs) through to 2050. This year we have developed a proposal for a strategic charging network to enable a backbone of charging points at Motorway Service Areas and other strategic locations. This would support the installation of rapid high-capacity chargers and help to tackle anxieties people have about the perceived range of EVs. We are engaging with government and UK car manufacturers on the way ahead for EVs.

In last year's regulatory accounting statements we reported on the launch of Power Potential, a joint project between National Grid and UK Power Networks. It aims to create a new reactive power market for distributed energy resources and generate extra capacity on the network. We are now calling for organisations to participate in the project, which is initially being trialled in the south east of the UK. This year we are also building a novel distributed energy resource management system (DERMS) as a platform to manage these resources at scale.

Meanwhile the Power Responsive programme continues to encourage growth in demand side response and storage. 650 members have joined since April 2017. There are now 2,150 stakeholders from 1,147 organisations taking part.

Looking ahead

Electricity supply is undergoing massive transformation. Decarbonisation is creating a new landscape in which significant volumes of large, transmission-connected fossil-fuel power stations are being replaced by smaller, often distribution-network-connected, renewable technologies such as wind and solar.

Ahead of the new regulatory framework (RIIO T2) which begins in 2021 we will further our engagement with stakeholders and work with Ofgem to clarify the parameters of T2.

Next year we will be working closely with Ofgem on two landmark developments;

Firstly, we will create a legally separate SO, within the National Grid Group by April 2019. This new legal entity will not form part of the National Grid Electricity Transmission plc consolidated results with effect from FY 2020/21, and will be reported elsewhere in the National Grid Group. As part of this Ofgem have been consulting on the new licence. We have developed our separation programme internally, which is on track and we have started publishing more details of the plans that the SO is putting in place. This began with a consultation on its goals for 2021 and publication of a Forward Plan for 2018/19, demonstrating how the SO will take an enhanced role in facilitating the transition to a low-carbon energy system.

This will make it easier for a wider range and variety of customers to connect to the network. We will consult with stakeholders and be totally upfront in our decision-making, showing that everything we do promotes competition and is in the best interests of consumers.

Critical to that is how we're regulated. Ofgem have introduced a new incentive scheme that will make sure we continue to stay one step ahead in an ever-changing industry. Our previous regulatory framework focused on how efficiently and economically we balance the electricity system. But if we're to help make the transition to a greener, more affordable energy future, we need to look at what we do more broadly and extend the focus onto how we're driving investments, encouraging innovation and new approaches to meet the nation's changing energy needs.

The changes we're making, like the introduction of our Forward Plan, engaging and updating stakeholders on their terms, and sharing monthly reports on our progress, will provide greater transparency and improved investment signals for industry.

Working with our customers and stakeholders, we're supporting the transition to a greener energy future, and through our new regulatory regime we can ensure we deliver value for consumers every step of the way.

Secondly, we will also begin detailed work on our Hinkley Seabank (HSB) project to connect EDF's new Hinkley Point C nuclear power station onto the network from 2024. Ofgem confirmed this year that the project is required and we are working with them on how the project will be funded.

Next year we will continue to focus on safe, customer-led, reliable, innovative and efficient operations. Achieving greater efficiency in our business will be a priority for us — particularly important considering the price cap proposed for supply to consumers that the government is seeking to impose.

Our purpose, vision, strategy and values

We work within the purpose, vision, strategy and values of the National Grid Group to ensure we are well positioned to respond to changes in the operating environment.

Our purpose

Having a clear sense of what we stand for as a company and what it is that binds us all together is vitally important. This is what we call our purpose. In simple terms, it's what drives our desire to serve our customers and it's that thing that makes us proud about the work we do.

Our purpose is to bring energy to life

Essentially, 'Bring Energy to Life' means getting the heat, light and power that customers rely on to their homes and businesses. But 'Life' also means supporting the communities that we are a part of and live among to support the economic growth and sustainability of wider society.

Our vision

We will exceed the expectations of our customers, shareholders and communities today and make possible the energy systems of tomorrow.

Our vision describes how we create value – not just today, but in the future too.

The needs of our customers, shareholders and communities are at the heart of everything we do. So, our vision statement clearly describes the ambitious challenge we have set ourselves – to make sure we deliver value for them every day.

Our vision also looks to the future, reminding us of the critical role we will play for future generations. We continue to see changes in our energy system as more renewable and decentralised generation is introduced. To be relevant in this future, we have to play an active role in helping shape the energy landscape, and benefiting from what it provides.

Our strategy

We are focused on three strategic priorities for our business, which will set the foundations for our future success. These are described below.

1) Find new ways of optimising our operational performance

We will exceed the expectations of our customers, shareholders and communities today and make possible the energy systems of tomorrow.

Our customers want and need us to be more efficient, so we must find ways to improve how we run our business. We have looked at enhancing our productivity and customer experience through more efficient and customer-focused processes. Given the scale of our core business, even small improvements will have a huge impact on our overall performance. Finding new ways of optimising our operational performance will be an important factor in our ability to compete and grow. It creates the financial capacity and the capability for us to future-proof our business.

2) Look for opportunities to grow our core business

Delivering strong operational performance provides us with a foundation to pursue other opportunities. We will continue to pursue business development opportunities that are close to our core business. In the UK, competitive onshore transmission projects will continue to be our focus over the next decade.

3) Make sure National Grid is better equipped for the future

We need to future-proof our business against the effects of a changing energy landscape. The operation of our networks is already affected by changes to the generation mix, while the needs and expectations of our customers are evolving.

Our values

Every day we do the right thing and find a better way.

We know that how we deliver is as important as what we deliver. If our purpose is the 'why', our values are the 'how'. They help shape our spirit, attitude and what guides us. We have to adapt and develop our values to align with the expectations of our customers and communities, without losing sight of the things that make us strong today.

Our values build on and protect our strong foundations while looking to the future. They are aligned to our purpose and help our people understand how we expect to achieve our purpose and vision for our customers and each other.

'Do the right thing' pulls together our foundational values – keeping each other and the public safe; complying with all the relevant rules, regulations and policies; respecting our colleagues, customers and communities; and saying what we think and challenging constructively. 'Find a better way' challenges us to focus on performance and continuous improvement for our customers, our shareholders and communities.

Our strategic objectives

We are focused on three strategic priorities for our business, which will set the foundations for our future success. These are described below.

	Find new ways of optimising our operational performance	Look for opportunities to grow our core business	Make sure National Grid is better equipped for the future
Why it's important	Our customers want and need us to be more efficient, so we must find ways to improve how we run our business.	To make possible the energy systems of tomorrow requires investment in our core and many areas close to our core business.	We need to future-proof our business against the effects of a changing energy landscape. The operation of our networks is already affected by changes to the generation mix, while the needs and expectations of our customers are evolving.
What this means	We have looked at enhancing our productivity and customer experience through more efficient and customer-focused processes. Finding new ways of optimising our operational performance will be an important factor in our ability to compete and grow. It creates the financial capacity and the capability for us to future-proof our business.	We continue to pursue business development opportunities that are close to our core business. In the UK, onshore transmission projects will continue to be our focus over the next decade.	We are looking to develop new capabilities that are essential for long-term success.
How we measure ourselves	<ul style="list-style-type: none"> • Safety performance • Customer satisfaction scores • Network reliability • RoE • Greenhouse gas emissions reduction 	<ul style="list-style-type: none"> • Regulated asset base growth • Capital investment 	<ul style="list-style-type: none"> • Innovation investment
The below metrics underpin all of our strategic priorities: Employee engagement; Workforce diversity			

Progress against objectives – key performance indicators (KPIs)

Strategic objective	KPI and definition	Performance
Find new ways of optimising our operational performance	Safety – Employee lost time frequency rate (IFR) Injuries resulting in employees taking time off work per 100,000 hours worked on a 12 month basis.	2017/18: 0.03 (Target 0.1) 2016/17: 0.11 (Target 0.1)
	Network reliability Reliability of Electricity network as a percentage against the target set by Ofgem	2017/18: 99.999984% (Target 99.9999%) 2016/17: 99.999964% (Target 99.9999%)
	Customer satisfaction scores Our score in customer satisfaction surveys. Ofgem set a baseline	2017/18: 7.7 out of 10 (Target 6.9) 2016/17: 7.4 out of 10 (Target 6.9) * Figures represent our baseline targets set by Ofgem for reward or penalty under RIIO.
	Greenhouse gas emissions Percentage reduction in greenhouse gas emissions. National Grid target 2017/18 and 2016/17: 45% reduction by 2020 and 80% reduction by 2050, compared to 1990 baseline emissions.	Tonnes carbon dioxide 2017/18: 254 KTCO_{2e} 2016/17: 278 KTCO _{2e} National Grid plc Group has achieved a 65% reduction against the 1990 baseline to date.
Look for opportunities to grow our core business	Regulated asset base growth Maintaining efficient growth in the total Regulated Asset Value (RAV) base	2017/18: 4.5% 2016/17: 5.0%
	Capital investment Additions to Property, Plant and Equipment and Intangible Assets	2017/18: £1,000 million 2016/17: £1,028 million
Make sure National Grid is better equipped for the future	We are in the midst of an energy revolution with the economic landscape, developments in technology, evolving business models and consumer behaviour all changing at an unprecedented rate. We are focussing our innovation on four value themes; Managing assets – looking for innovative ways to manage asset life Efficient build – finding ways to reduce the cost of building infrastructure Service delivery – we're exploring ways to provide value to our customers and consumers Corporate responsibility – we're constantly researching and developing safer working practices	
	Skills and capabilities We measure quality (>1 hour) interactions with young people on STEM subjects. We support developing the skills and capabilities of young people through skills-sharing employee volunteering, especially in STEM subjects. While we have no specific target, our aim is to encourage many young people to get involved in STEM subjects.	Number of quality interactions 2017/18: 35,425 2016/17: 29,591 Figures represent performance for National Grid plc
Underpin all three strategic priorities	Employee engagement index Employee engagement index calculated using responses to National Grid's annual employee survey. Target is to increase the level of engagement compared with previous year. See page 15 for more detail.	2017/18: 72% 2016/17: 78% Index represents performance for National Grid UK entities
	Workforce diversity We measure the percentage of women and ethnic minorities in our workforce. We aim to develop and operate a business that has an inclusive and diverse culture. See page 15 for more detail.	Workforce diversity % 2017/18: Women: 21% Ethnic minority: 15% 2016/17: Women: 19.6% Ethnic minority 13.0%

Greenhouse gas emissions

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

National Grid measure and report in accordance with the World Resources Institute and World Business Council on Sustainable Development Greenhouse Gas Protocol: Corporate Accounting and Reporting Standard (Revised Edition) for all six Kyoto gases, using the operational approach for emissions accounting. 100% of our Scope 1 and 2 emissions and 92% of our Scope 3 emissions are independently assured against ISO 14064-3 Greenhouse Gas assurance protocol. A copy of this statement of assurance is available on the National Grid website. See National Grid plc 2017/18 Annual Report and Accounts for further information.

Strategic Report

Our business environment

Our environment is shaped by four themes. The first three are distinct objectives that need to be met in providing energy to customers, but which are often in tension. Choices that governments make in seeking to appropriately balance these objectives can result in regulatory changes. The final theme is technology, which is shaping the way we respond and transform our operations for the better.

Impact on consumer bills

Commentary

Consumers expect a reliable energy system that delivers electricity when and where it is needed. They pay for the cost of this infrastructure and improvements to it through the part of their energy bills that covers network costs. These costs are subject to regulatory approval.

2017/18 developments

Affordability of energy is a critical topic, as highlighted in the 2017 General Election campaign. Price caps featured in both the Conservative and Labour manifestos and an energy price cap bill is currently progressing through Parliament. The Labour Party also indicated in its manifesto that it was considering renationalising utility networks. The Government commissioned the Cost of Energy Review in the summer of 2017. Its main findings were that the cost of energy is too high, and that the energy policy, regulation and market design are not fit for the purposes of the emerging low-carbon energy market.

Our response

- Our regulated business continues to strive for greater efficiency, seeking innovative ways to reduce both the time and cost to repair or replace assets. This approach minimises the costs to consumers.
- National Grid Electricity Transmission has been able to generate £440 million of savings for consumers in the first five years of the RII arrangements. We have also volunteered that £480 million of RII T1 allowances for electricity transmission investments should be deferred, which will help ease the impact on consumer bills.
- We do not believe that renationalisation of National Grid would be in the best interests of consumers, and we have communicated externally the ways in which we have created and driven value for customers and society since privatisation.

Energy Security

Commentary

The energy system is in a phase of transition from high to low carbon. Coal plants are closing down and being replaced with nuclear, renewables and gas, as well as emerging battery storage. Electricity margins need to be monitored and actively managed as we move to a generation mix with greater volumes of intermittent generation.

2017/18 developments

Over the summer of 2017, the majority of the UK's energy supply came from renewable sources. The UK also saw its first day free of generation from coal in April 2017. As the region shifts towards an increasingly decarbonised generation mix, baseload electricity prices are expected to increase.

Our response

We published our System Needs and Product Strategy report, which sets the scene for future requirements, and consults on the future of balancing services products.

Environmental sustainability

Commentary

Our world is changing as a result of human activity and its impact on the environment. The Paris Agreement sends a clear signal that the shift to a low-carbon economy is inevitable, and it is now accepted that sustainable business is good business – creating value for people, the environment and businesses. This includes reducing greenhouse gas emissions, managing non-renewable resources, and preserving and protecting habitats and ecosystems.

2017/18 developments

During 2017, the UK saw a number of records broken for renewable energy – including the first day when wind, nuclear and solar generated more power than gas and coal. The UK Government published 'A Green Future: Our 25 year Plan to Improve the Environment', setting out the UK's long-term approach to protecting and enhancing the natural environment. And in July 2017 the Government announced a ban on the sale of new petrol and diesel vehicles from 2040.

Our response

- Reducing greenhouse gas emissions forms part of the Company's KPIs – see page 11.
- National Grid's environmental strategy, 'Our Contribution', focuses on the areas where it can make the greatest contribution. You can read more about the approach and the work on page 14.
- We continue to work with BEIS and Ofgem on the development of future energy systems as we respond to the shift to low-carbon energy in the UK.
- We will continue to support the Paris Agreement and align ourselves with state and local leaders who share our own climate and environmental goals.

Technology

Commentary

The energy landscape is being transformed by technologies such as renewable generation, district heating, electric vehicles, and battery storage. This transformation is being driven by a range of factors: political and regulatory push, consumer pull and the rapid pace of change in digital technologies.

2017/18 developments

Demand for more sustainable energy is accelerating the pace of change within the energy industry. Faster-than-expected price reductions for key technologies have boosted the speed of developments in areas such as solar energy, energy storage, electric vehicles and distributed generation. Battery pack prices have fallen 24% since 2016, electric vehicle growth has continued apace, and UK small scale solar is expected to double by 2025.

Digitisation of energy networks from generators to households is further changing how people engage with energy. We face the challenge of adapting our networks to meet new demands, and making sure we act on the opportunities that will benefit our customers and other stakeholders.

Our response

National Grid plc created a Group technology and innovation team to develop strategy with regards to new technology, to monitor disruptive technology and business model trends, and to act as a bridge for emerging technology into the core regulated businesses and business development teams. National Grid plc is also involved in early-stage energy technology venture investments.

We are taking advantage of the latest technological innovations to improve our performance.

The Impact of Brexit

We believe UK-EU cooperation on energy is positive for UK and EU consumers in terms of energy security, affordability and decarbonisation.

We continue to keep the implications of Brexit under review, especially regarding our access to energy markets and the impacts on revenues and costs. Based on the worst case scenario ("no deal" on free trade), we have determined that the risk of increased costs of tariffs and any possibility that National Grid owned interconnectors may be "switched off" is low.

Throughout the year, we have been engaging with our customers and stakeholders, especially with our regulators, as we seek to inform them of Brexit outcomes we believe would be in the best interests of consumers.

Our commitment to being a responsible business

Businesses should be a force for positive social and environmental change. To do this, companies have to act responsibly in everything they do, and in the way that they do it. This belief is fundamental to the way we work at National Grid.

Our approach

Businesses are a key part of the communities where they work and we believe they should be aiming to leave a positive purpose-led legacy for future generations. At National Grid Electricity Transmission, we work hard to bring energy to life and exceed the expectations of our customers, shareholders and communities.

The National Grid Group took part in the 2017 UK Social Mobility Index and were ranked 34th out of the 98 companies that took part. Following feedback, we have introduced changes to our recruitment processes and the data we capture so we can better understand and address social diversity. We are undertaking a significant piece of work to move the focus of our corporate responsibility activities towards supporting social mobility in the UK. We will describe the outcomes from this work in next year's report.

Being a responsible business covers every aspect of our work, both what we do and how we do it. When we are undertaking major infrastructure projects, we work with our customers, stakeholders and communities to gather their views to help inform what we do. For example, at our new Highbury substation in London we are building retail units and residential apartments to help support urban regeneration in the area, half of which are affordable homes. We support communities through our employee volunteering programmes, partnering with charities and civil society, and providing community groups with financial support.

We report on a number of non-financial performance measures relating to these policies. You can find details about key non-financial performance measures on page 11, and also on the National Grid website, in the Responsibility and Sustainability section.

Our priorities

Our priorities are shaped by the Company's strategic priorities, and a number of other factors, including the risks we face as a business, the views of our customers and stakeholders, and the challenges faced by the communities where we operate. National Grid is a signatory to the United Nation's Global Compact and support its Sustainable Development Goals (SDGs). These goals promote prosperity while protecting the planet. All 17 goals are important, and there are five (see below) that are particularly linked to our responsible business focus areas.

Environmental sustainability

We are passionate about operating our business in an environmentally responsible way and making sure sustainability shapes our thinking and decision making. This helps us to

optimise our operational performance, provide value for our customers, and benefit the environment.

We know that our business operations have the potential to affect the environment. Managing any risks, whether these are short-term through our physical operations, such as air quality and pollution, or long-term through our greenhouse gas emissions or resource use, is fundamental to our approach to environmental sustainability.

Additionally, an environmental event arising from catastrophic asset failure is one of our operational risks. You can read more about this on page 18, together with our approach to mitigation.

Our priorities

National Grid's environmental strategy, 'Our Contribution', was originally developed in 2012 with a wide range of internal and external stakeholders, and has been refined over the years to reflect changing stakeholder priorities. It focuses on three areas: climate change, resources and caring for the natural environment. Our strategy is delivered through our environmental policies. We focus on:

- reducing our carbon footprint;
- maximising the value of resources and reducing the impact on the environment through re-use and re-cycling; and
- using our land holdings in ways that benefit our business, the environment and the communities in which we live and work.

This is all underpinned by maintaining high environmental management standards.

As a company, we support climate change science. Reducing greenhouse gas emissions is an important area of focus for us, and is one of National Grid's KPIs. You can read more about this on page 11.

As a result, we also support the Paris Agreement and National Grid has committed to reduce National Grid's greenhouse gas emissions by 45% by 2020 and 80% by 2050. This aligns with the trajectory required to meet the goal of the Agreement: to limit global warming to a 2°C temperature rise from 1990 levels.

In June 2017, the Financial Stability Board released its final report on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The voluntary framework for disclosure of climate-related information in financial filings is structured around four themes: governance, strategy, risk management, and metrics and targets. We recognise the importance of these disclosures and are committed to implementing the recommendations.

This year National Grid was delighted to win Business in the Community's Award for Environmental Leadership.

People

We are working hard to overcome some of the biggest energy challenges of the 21st century as generation moves from fossil fuels to renewable sources and transportation moves towards electric vehicles. We need to make sure we have highly motivated people, with the right skills, working for us, and helping equip us for the future.

Our focus on people covers our current and future employees. We aim to have an engaged and diverse workforce to stimulate innovation, reflect the communities where we work, and deliver great customer service.

The culture we strive for stems from embracing our values of *Doing the right thing and Finding a better way*. You can read more about our values on page 9.

We also know that building sufficient capability and leadership capacity (including effective succession planning) is an important factor in delivering our vision and strategy. You can read more about how we are mitigating the risks of not achieving this on pages 18 to 21.

Engaging our people

Through our approach to developing our people and the wider benefits of working at National Grid we aim to have an engaged and productive work force. To attract and retain employees we make sure our remuneration package is both fair and competitive. Through a third party company, we also carry out an annual employee survey to measure engagement levels and to help us address areas employees believe we need to improve. Employee engagement forms one of our KPIs – you can read more about this and our performance on page 11.

The wellbeing of our workforce is also important. This year our employee lost time injury frequency rate improved to 0.03. Our KPI is to achieve a safety performance below 0.10.

Safeguarding the future

We continue to raise awareness of the career opportunities in the energy utility industry. The need for a skilled workforce to develop, deliver and use new technologies within the energy sector is becoming more acute according to the EU Skills Workforce Strategy. STEM skills underpin our business, so we promote STEM as an exciting career path for young people through education outreach activity such as the Big Bang Fair, work experience, and hosting school visits to our sites.

Whistleblowing

We have confidential external whistleblowing helplines available 24/7 in all the regions where we operate. We publicise the contact information to our employees and on the National Grid external website so concerns can be reported anonymously. Our policies make it clear that we will support and protect 'whistle-blowers' and any form of retaliation will not be tolerated.

Promoting an inclusive and diverse workforce

In 2017 we implemented new inclusion and diversity policies. The purpose of the policies is to demonstrate our commitment to providing an inclusive, equal and fair working environment through:

- driving inclusion and promoting equal opportunities for all;
- ensuring the workforce, whether part-time, full-time or temporary, will be treated fairly and with respect;
- eliminating discrimination; and
- ensuring selection for employment, promotion, training, development, benefit and reward, will be on the basis of merit and in line with regional legislation.

15% of our total workforce have declared themselves to be of 'minority' racial or ethnic heritage. We recognise the value a diverse workforce and an inclusive culture bring to our business and have many initiatives to encourage and promote this. For example, our employee resource groups created our second edition of 'Remarkable', which highlights the full diversity of our people. We have implemented a diverse panel interview approach in to appoint senior leaders. In System Operator, this resulted in an increase in gender diversity and BAME representation on the Network Capability Electricity leadership team. We have also established development programmes for BAME employees to build leadership capability.

Our policy is that people with disabilities should have fair consideration for all vacancies against the requirements for the role. Where possible, we make reasonable adjustments in job design and provide appropriate training for existing employees who become disabled. We are committed to equal opportunity in recruitment, promotion and career development for all employees, including those with disabilities. Our policy recognises the right of all people to work in an environment that is free from discrimination.

Our leaders advocate a diverse workforce. John Pettigrew gave a keynote speech at the Women in Energy conference 2018. Several of our senior leaders have taken part in our reverse mentoring programme.

The gender demographic table that follows shows the breakdown in numbers of employees by gender at different levels of the organisation. We define 'senior management' as those managers who are at the same level, or one level below, our Executive Committee. It also includes those who have responsibility for planning, directing or controlling the activities of the Company, or a strategically significant part of the Company, and are employees of the Company.

Gender	Financial year ending 31 March 2018				
	Male	Female	Total	% Male	% Female
Our Board	5	3	8	63	37
Senior Management	21	10	31	68	32
Whole Company	2,919	760	3,679	79	21

Ethnicity demographic as at 31 March 2018

'Minority' refers to racial/ethnic heritage declarations recorded in our system. Those who have not stated their ethnicity are excluded from the baseline.

White	2,870
Minority	510
Total	3,380
White (%)	85%
Minority (%)	15%

Our role in communities

An important part of our vision is to exceed the expectations of our communities. We do this by providing a safe and reliable service, and by helping our communities to thrive through our responsible business activities. We also know that, from time-to-time, when we are carrying out large construction projects that our work can have a negative impact on communities. We work with communities to reduce this impact and to help support their social and economic needs.

Safe reliable energy

Providing a reliable and safe service at as low a cost as possible is important to our customers and to us as we work hard to exceed their expectations.

The safety of our employees, contractors and the public is one of our highest priorities and this is reflected in our KPI's, described on page 11. We have policies, procedures and training in place to make sure we maintain our safety performance at the high level that we expect.

The reliability of our networks is world class, running at more than 99.9% availability. You can read more about this on page 11, as well as how we manage our operational risks on page 19.

Supporting communities to thrive

We don't just supply power to communities, we are part of them. As a purpose-led organisation, we believe that helping to build strong communities is good for the people who live there, good for our business and good for the wider economy.

We achieve this by partnering with civil society, providing communities with one-off grants to support their social, economic and environmental development, and encouraging our employees to pursue skills-based volunteering and fundraising opportunities. In the future, we will be focusing on helping to address social mobility in the UK. We encourage our employees to pursue skills-based volunteering and fundraising opportunities. In the future, we will be focusing on helping to address social mobility.

National Grid plc voluntarily set up a £150 million Warm Home Fund to address fuel poverty. To date, £63 million has been given to improve homes and help people across England, Wales and Scotland by, for example, enabling them to have central heating systems for the first time.

We are part of the UK Government's inclusive Economic Partnership, a partnership between the business sector, Government and Civil Society. We are supporting work in the vital areas of mental health in the workplace and equipping people to successfully transition to the world of work.

Preventing modern slavery

We strive to make sure that modern slavery is not taking place anywhere in our business or in our supply chain. We recognise that we are reliant on our suppliers to deliver our human rights requirements within their own supply chains and we expect all suppliers to be compliant with the Modern Slavery Act. Each year we publish our modern slavery statement on the National Grid website.

We work with our suppliers and peers to understand what approach they are taking to combat modern slavery. In 2017 the group completed a desktop risk assessment of the group's top 250 suppliers. We are now engaging with those suppliers that have been identified as potentially high risk and will be working with them to complete a range of assessment questions to develop risk mitigation plans for any identified issues.

We are also developing a framework for our buyers so that the sustainability risk criteria, including modern slavery, can be embedded into the initial stages of the sourcing process and integrated into the selection criteria. Any risks identified will be reviewed through the contract management process.

Good business conduct

To provide an understanding of the company's development, performance and position, we describe our respect for human rights, anti-corruption and anti-bribery matters below.

Human rights

Respect for human rights is incorporated into our employment practices and our values, which are integral to our ethical business conduct guide – 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. However, due to the jurisdictions in which we operate, the nature of the work we undertake, and our associated supply chain, human rights is not considered to be a principal risk to our business.

Although we do not have specific policies relating to human rights, slavery or human trafficking, our procurement policies integrate sustainability into the way we do business throughout our supply chain, so that we create value, preserve natural resources and respect the interests of the communities we serve and from which we procure goods and services.

Through our Supplier Code of Conduct we expect our suppliers to keep to all laws relating to their business, as well as adhere to the principles of the United Nations Global Compact, the Ethical Trading Initiative Base Code, the UK Modern Slavery Act 2015, and the requirements of the Living Wage Foundation.

Anti-bribery and corruption

We have policies and governance in place that set and monitor our approach to being responsible, including Our Code of Business Conduct (covering bribery and corruption). We have a Company-wide framework of controls designed to prevent and detect bribery.

We investigate all allegations of ethical misconduct thoroughly, and where appropriate, we take corrective action. We also record trends and metrics relating to such allegations – only a small percentage of these relate to bribery or corrupt practices, so we do not consider them to be material for reporting purposes. For the seventh successive year, we have been awarded the World's Most Ethical Business title from Ethisphere.

Governance and oversight

We regularly review and update our framework so we can make sure our procedures remain proportionate to the principle risks we have identified.

Our Ethics and Compliance Committee (ECC) oversees the Code of Ethical Business Conduct and associated awareness programmes. Any cases alleging bribery are required to be referred immediately to the ECC so the members can satisfy themselves that cases are investigated promptly and where

appropriate, acted upon, including ensuring any lessons learnt are communicated across the business.

Anti-bribery policy

The National Grid Group Policy Statement – Anti Fraud and Bribery applies to all permanent employees, temporary agency staff and contractors. It sets out our zero tolerance approach to bribery.

To ensure compliance with the UK Bribery Act 2010, we carried out a risk assessment across the Company so we could highlight higher risk areas and make sure adequate procedures were in place to address them. We introduced an e-learning course for all employees so they can adequately understand the Company's zero tolerance approach to fraud, bribery or corruption of any kind.

Ethical business conduct

We work under the National Grid Group Code of Ethical Business Conduct, which sets out the standards and behaviours we expect from all employees to meet our values of Do the Right Thing and Find a Better Way. The document is issued to all employees and is supported by a regular programme of communications to promote a strong ethical culture. Additionally, we provide briefings for high risk areas of the business, such as Procurement.

Suppliers

Our Supplier Code of Conduct is issued to our suppliers and sets out our requirements that they have in place a programme with procedures to prevent and detect bribery and corruption, in accordance with all applicable local, state, federal or national laws or regulations including the UK Bribery Act 2010.

We provide specific guidance and briefings for high risk areas, so contractors, agents and others who are acting on behalf of National Grid Electricity Transmission plc do not engage in any illegal or improper conduct. Our Global Procurement team carries out regular supplier screening to identify any requirements for prosecutions or sanctions within our supplier base.

Compliance framework

Each of our business areas are required to consider their specific risks and maintain a compliance framework setting out the controls they have in place to prevent bribery. Every six months, as part of the compliance procedure, the business is asked to self-assess the effectiveness of their controls and provide evidence that supports their compliance.

Each year, all function heads are asked to certify the compliance in their area, and to provide details of any exceptions. This culminates in presentation of a Certificate of Assurance from the National Grid plc CEO to the National Grid Board (following consideration by the National Grid Audit Committee).

Internal control and risk management

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

Managing our risks

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

The National Grid Electricity Transmission Board oversees the Company's risk management and internal control systems as it relates to our electric operations. The Board assesses these risks and monitors the risk management process through risk review and challenge sessions twice a year.

Risk management process

Overall risk strategy, policy and process are set at the Group level by National Grid plc with implementation owned by National Grid Electricity Transmission. Our enterprise risk management process provides a framework through which we can consistently identify, assess and prioritise, manage, monitor and report risks.

Our UK Regional risk profile, which is presented to National Grid Electricity Transmission Board biannually, contains the most important gas and electric risks currently facing the company as we endeavour to achieve our strategic objectives. We agree these top risks through implementation of our top-down/bottom-up risk management process. The risks are reported and debated with the National Grid UK Executive Committee every three months.

A broad range of factors are considered when determining our most important risks. The potential for renationalisation of energy supply networks by the UK Labour Party continues to be kept under review. Should the UK Labour Party come into power, the timing and route to energy supply network renationalisation generally is uncertain, and therefore the impact upon National Grid Electricity Transmission remains unclear. Options considered have included acquisition of the listed plc, the UK business, the transfer of transmission assets to 'regional communities' and regulatory change. The Government would have to pay compensation for the Company's property, which would be determined at the time, but would be an amount reasonably related to the value of the property taken. We have taken a number of steps, including canvassing a wide range of stakeholders – government officials, consumers, members of the public – to understand the impact of renationalisation on certain stakeholder groups.

In addition to the issues above, senior leaders and the Board have also considered certain aspects of the risks in more detail, including the Hinkley Point transmission line and cyber-security.

The UK Regional risk profile informs the National Grid Group Principal Risk profile which is tested annually to establish the impact on the Company's ability to continue operating and to meet its liabilities over a specified assessment period. The impact of these risks is tested on a reasonable worst case basis, alone and in clusters, the result of which is utilised to develop our viability statement. The National Grid Board, National Grid Executive Committee and other leadership teams discuss the results of the annual testing of principal risks at the end of the year.

Changes during the year

Significant changes have been made to the UK Regional risk profile as a result of UK Executive Committees' workshops in 2017 including the addition of new risks, removal of existing risks and the rewording and/or consolidation of several risks to better reflect the current meaning of the risk. Additionally, this year, a reassessment of the Company's risk appetite resulted in the establishment of a system of classification of risks into categories (Operational, Strategic, Regulatory, People and Financial) which is utilised in our reporting.

Internal Controls

There has been a National Grid wide focus on internal control improvement throughout the year. This review resulted in observations across a number of key UK processes and included a focus on the reliance placed on the data used in controls and on third-party reports, and the precision of key review controls.

In response, the UK Executive leadership defined a comprehensive multi-year control programme to identify and implement solutions to optimise the UK business control environment while continuing to focus on the real-time need of addressing the findings of the National Grid Group-led SOX refresh programme in the short term.

The UK Executive Committee and the National Grid Electricity Transmission Audit Committee has challenged management on its progress on mitigating control observations as they arose and requested additional insight into areas which were subject to shorter-term fixes. The Committee sought additional context from management on its assessment of the severity of the matters identified, the identification of mitigating controls and the impact on the year-end aggregation exercise.

After careful consideration, the Committee concurred with management's overall assessment that the Company's internal control over financial reporting is effective.

Our principal risks and uncertainties

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, our risk management process aims to provide reasonable assurance that we understand, monitor and manage the main uncertainties that we face in delivering our objectives. This includes consideration of inherent risks, which exist because of the nature of day-to-day operations in our industry, and financial risks, which exist because of our financing activities. Our principal risks and a summary of management and mitigation actions are provided in the table below.

Operational risks	<p>Operational risks relate to the risk of losses resulting from inadequate or failed internal processes, people and systems or due to external events. These risks normally fall within our low risk appetite level as there is no strategic benefit from accepting the risk and accepting the risk is not in line with our vision and values.</p> <p>Our operational risks have a low likelihood of occurring but have a high level of impact should the event occur without effective prevention and mitigation controls. The risk owners, executive leaders, and their teams develop and monitor actions to control the risks. Operational risks are managed through policy, standards, and procedure based controls, active prevention and monitoring. The operational risks link to our strategic priority of, 'Find new ways of optimising our operational performance'.</p>	
	<p>Risks</p> <p>Asset or assets failure on the electricity transmission system leading to a 3rd party serious injury or loss of life. Risk trend: </p> <p>Failure of critical national infrastructure (CNI) IS Systems. Risk trend: </p> <p>Major cyber-security breach of business and CNI systems/data. Risk trend: </p> <p>Failure of a Business Critical Enterprise (non-CNI) IS System or Systems. Risk trend: </p> <p>Asset failure on the electricity transmission system leading to a serious loss of supply or a higher number of smaller losses of supply than currently experienced Risk trend: </p> <p>Our workers, contractors or members of the public experience an occupational safety incident that results in a fatal or life-changing injury. Risk trend: </p>	<p>Actions taken by management</p> <p>We continue to commit significant resources and financial investment to maintaining the integrity and security of our assets and data. This year, we have continued to focus on risk mitigation actions designed to reduce risk and help meet our business objectives. Monitoring action statuses has been incorporated into various business processes and senior leadership meetings. Examples of actions include:</p> <ul style="list-style-type: none"> • A National Grid Group-wide process safety management system is in place to make sure a robust and consistent framework of risk management exists across our higher hazard asset portfolio. • We continually invest in strategies that are commensurate with the changing nature of the security landscape. This includes collaborative working with the Centre for Protection of National Infrastructure (CPNI) on key cyber risks, as well as development of an enhanced CNI security strategy. • Business continuity and emergency plans are in place and practised to ensure we quickly and effectively respond to a variety of incidents – storms, physical and cyber-related attacks, environmental incidents and asset failures. • Safety plans have been developed to identify key risks and mitigation actions implemented as appropriate. • We have a mature insurance strategy that uses a mix of self-insurance, captives and direct (re)insurance placements. This provides some financial protection in respect of property damage, business interruption and liability risks.

<p>Strategic and regulatory risks</p>	<p>Strategic risk is the risk of failing to achieve the Company's overall strategic business plans and objectives as well as failing to have the 'right' strategic plan. We voluntarily accept some risk so we can generate the desired returns from our strategy.</p> <p>Management of strategic risks focuses on reducing the probability that the assumed risk would materialise and improving the Company's ability to effectively respond to the risk should it occur. The risk owners, executive leaders, and their teams develop and monitor actions to control the risks. These risks link to our strategic priorities of, 'Look for opportunities to grow our core business' and 'make sure National Grid is better equipped for the future.' The political climate and policy decisions of our regulators this past year were key considerations in assessing our risks.</p>	
	<p>Risks</p> <p>By the end of RIIO T1 we have failed to secure adequate new allowances. This will make it harder to deliver performance commitments to shareholders and customers.</p> <p>Risk trend: </p> <p>We are unable to secure an acceptable RIIO – T2 outcome for the UK Regulated Businesses.</p> <p>Risk trend: </p> <p>We are unable to transform the customer experience as quickly as we would like because required capacity and/or capability is not available in all entities.</p> <p>Risk trend: </p> <p>We fail to manage the business according to the terms of the licenses and laws we operate under and thereby risk reputational damage, higher costs and/or a fine.</p> <p>Risk trend: </p> <p>External pressures adversely impact achievement of Business objectives.</p> <p>Risk trend: </p> <p>There is the risk that the Hinkley Sea Bank (HSB) project will be subject to a delivery model which has unacceptable parameters.</p> <p>Risk trend: </p>	<p>Actions taken by management</p> <ul style="list-style-type: none"> • We strive to maintain a good understanding of the regulatory agenda and emerging issues, so that robust, public interest aligned responses can be selected and developed in good time. Our reputation as a competent operator of important national infrastructure is critical to our ability to do this. We have plans and governance structures in place to address specific issues such as RIIO T2 and continuously work to foster open and effective relationships with our regulators and other stakeholders. • We continue to maintain regular engagement with Ofgem for the HSB project and participate in consultation. • Our understanding of regulatory obligations and accountabilities is enhanced through the conduct of mapping exercises. Action plans have been effectively implemented to mitigate non-compliances and control weaknesses. • Threats and opportunities related to external and political pressure are discussed with internal and external stakeholders thereby ensuring our knowledge and communication channels remain current. • Our electricity transmission business has improved its customer application process, reducing the average time to produce a connection offer by about 30%. We introduced a series of initiatives that enable us to condense the application process using a dedicated cross-functional team. Our average historical lead time was close to 90 days, which we have reduced to 60 days.
<p>People</p>	<p>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 our strategic objectives is vital to our success. We must attract, integrate and retain the talent we need at all levels of the business.</p>	
	<p>Risks</p> <p>We cannot attract, recruit, develop or retain people with the right skills and capabilities to deliver our strategy and UK priorities.</p> <p>Risk trend: </p>	<p>Actions taken by management</p> <p>Strategic workforce planning has been embedded in our organisation. This process helps to effectively inform financial and business planning as well as human resourcing needs.</p> <p>Our entry level talent development schemes (e.g. apprenticeships) are a potential source of competitive advantage in the market place. We are involved in a number of initiatives to help secure the future engineering talent required including the UK annual residential work experience.</p> <p>We maintain a clear strategic focus on talent through the creation of aligned talent plans with agreed metrics.</p>

Our internal control process

We have a number of processes to support our internal control environment. These processes are managed by dedicated specialist teams, including risk management, ethics and compliance management, corporate audit and internal controls, and safety, environment and health. Oversight of these activities is provided through regular review and reporting to the Board and appropriate Board committees as outlined in the Corporate Governance section on pages 28 to 33.

Monitoring internal control is conducted through established boards and committees at different levels of the National Grid plc organisation. Control deficiencies are reported and corrected at the appropriate entity-level. The most significant risk and internal controls issues are monitored at the Senior Executive and National Grid plc Board level. The National Grid Electricity Transmission plc Audit Committee is responsible for keeping under review and reporting to the Board on effectiveness of reporting, internal control policies, Bribery Act legislation, appropriateness of financial disclosures and procedures for risk and compliance management, business conduct and internal audit.

Reviewing the effectiveness of our internal control and risk management

Each year the National Grid Electricity Transmission Audit Committee reviews the effectiveness of our internal control systems and risk management processes covering all material systems, including financial, operational and compliance controls, to make sure they remain robust.

The latest review covered the financial year to 31 March 2018 and the period to the approval of this regulatory accounting statements.

Fostering a culture of integrity is an important element of our risk management and internal controls system. National Grid Electricity Transmission's values - 'do the right thing' and 'find a better way' - provide a framework for reporting business conduct issues, educating employees and promoting a culture of integrity at all levels of the business. We have policies and procedures in place to communicate behaviour expected from employees and third parties, and to prevent and investigate fraud and bribery and other business conduct issues. We monitor and address business conduct issues through several means, including a biannual review by the Audit Committee.

Overall compliance strategy, policy and frameworks are set at the National Grid plc Group-level with implementation owned by National Grid Electricity Transmission. The business is responsible for identifying compliance issues, continuous monitoring, and developing actions to improve compliance performance. We monitor and address compliance issues through several means including reviews at leadership meetings and a biannual review by the Audit Committee.

A feature of our internal controls system is our three lines of defence model. This model is a way of explaining the relationship between functions and how responsibilities for risk and controls are allocated and monitored. Each business function owns and is responsible for managing its own particular risk and controls (the first line of defence). Central management teams (the second line of defence) act as an advisory function on implementing the principal risk assessments and actions taken to mitigate and manage those risks. An internal audit function then audits selected controls to provide independent assessments of the effectiveness of our risk management and internal control systems (the third line of defence).

The Certificate of Assurance (CoA) from the Chief Executive of National Grid to the National Grid Group board provides overall assurance around the effectiveness of our risk management and internal controls systems. The CoA process operates via a cascade system and takes place annually in support of the financial end of year review. The CoA's from senior managers within National Grid provide upwards assurance on the risk management and internal controls systems for their areas of responsibility. The Chief Executive's certificate was prepared using the information provided to him in the certificates of the National Grid Group Executive Committee members and was the final certificate presented to the National Grid Audit Committee and National Grid plc Board for review and consideration.

The periodic reports on management's opinion on the effectiveness of internal controls over financial reporting are received by the National Grid Electricity Transmission Audit Committee and Board in advance of the full-year results.

Internal control over financial reporting

We have specific internal mechanisms that govern the financial reporting process and the preparation of regulatory accounting statements. Our financial controls guidance sets out the fundamentals of internal control over financial reporting, which are applied across the Company. Our financial processes include a range of system, transactional and management oversight controls. In addition, our businesses prepare 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 UK CEO and UK CFO. The reviews consider historical results and expected future performance and involve senior management from both operational and financial areas of the business. Each month, the UK CFO presents a consolidated financial report to the Board of National Grid Electricity Transmission plc.

Viability statement

The Board's consideration of the longer-term viability of the Company is an extension of National Grid plc's business planning process. This includes financial forecasting, a robust risk management assessment, regular budget reviews and scenario planning incorporating industry trends and economic conditions. Our business strategy aims to enhance our long-term prospects by making sure our operations and finances are sustainable.

National Grid Electricity Transmission plc (NGET) is a wholly owned subsidiary of National Grid plc which performed a group wide business plan that was reviewed and approved by the National Grid plc Board and which included detail of the NGET operating segment.

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

The business plan considers the significant solvency and liquidity risks involved in delivering our business model in light of our strategic priorities. The business plan models upside and downside scenarios derived from the risks and opportunities identified, and determines the impact these would have on our results and financial position over the five-year period. We have set out the details of the principal risks facing our Company on pages 19 to 20, described in relation to our ability to deliver our strategic objectives. We identify our principal risks through a robust assessment that includes a continuous cycle of bottom up reporting and review, and top down feedback.

The business model calls for significant capital investment to maintain and expand our network infrastructure. To deliver this, our business plan highlights that we will need to access capital markets to raise additional funds from time to time. We have a long and successful history in this regard. Our business plan also models various KPIs used by lenders in assessing a company's credit worthiness. These models indicate that we

would continue to have access to capital markets at commercially acceptable interest rates throughout the five-year period.

The National Grid plc Board assessed our financial "headroom", and reviewed principal risk testing results against that headroom. No principal risk or cluster of principal risks was found to have an impact on the viability of the Company over the five year assessment period. Preventative and mitigating controls in place to minimise the likelihood of occurrence and/or financial and reputational impact are contained within our assurance system.

The NGET plc Board review and approve the annual certificates in respect of compliance with certain licence conditions (including Financial Ring-fencing, and Availability of Resources). The Electricity Transmission Financial Ring-fencing certificate was approved by the Board in March 2018, and the Availability of Resources certificate was issued in July 2017, the next Availability of Resources certificate will be issued in July 2018.

In assessing the impact of the principal risks on the Company, the Board has considered the fact that we operate in stable markets and the robust financial position of the Company, including the ability to raise capital and suspend or reduce the payment of dividends. It has also considered Ofgem's legal duty to have regard to the need to fund licenced NGET activities.

Based on the assessment described above and on page 33, the Directors have a reasonable expectation that the Company will be able to continue operating and meet its liabilities over the period to June 2023.

The Strategic Report was approved by the Board of Directors on 27 July 2018 and signed on its behalf by:

Alan Foster
UK CFO

Financial review

We have delivered another year of strong financial performance. Revenue decreased by £281 million to £4,158 million and operating profit decreased by £313 million to £1,033 million, which was in line with expectations.

Use of adjusted profit measures

Headline - In considering the financial performance of our businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax, profit for the year attributable to equity shareholders into two components.

The first of these components is referred to as an adjusted profit measure, also known as 'Headline' or a 'business performance' measure. This is the measure used by management that forms part of the incentive target set annually for remunerating certain Executive Directors. Adjusted results exclude exceptional items and remeasurements. These items are reported collectively as the second component of the financial measures. Note 3 explains in detail the items which are excluded from our adjusted profit measures.

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

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

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

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

Reconciliations of adjusted profit measures

Reconciliation of adjusted operating profit to total operating profit

There were no exceptional items included within operating profit for the year ended 31 March 2018 or 31 March 2017.

	Years ended 31 March	
	2018	2017
	£m	£m
Operating profit and adjusted operating profit	1,033	1,346

Reconciliation of adjusted operating profit to adjusted earnings and earnings

	Years ended 31 March	
	2018	2017
	£m	£m
Adjusted operating profit	1,033	1,346
Adjusted net finance costs	(188)	(160)
Adjusted profit before tax	845	1,186
Adjusted taxation	(163)	(243)
Adjusted earnings	682	943
Exceptional items after tax	-	(329)
Remeasurements after tax	7	(15)
Earnings	689	599

Reconciliation of adjusted profit excluding timing differences to total operating profit

Adjusted profit excluding timing differences is presented below.

	Years ended 31 March	
	2018	2017
	£m	£m
Adjusted operating profit excluding timing differences	1,047	1,210
Timing differences ¹	(14)	136
Adjusted operating profit	1,033	1,346
Exceptional items	-	-
Total operating profit	1,033	1,346

¹ In year under-recovery of £14 million compared with an over-recovery in the prior year of £136 million. The estimated closing under-recovered value at 31 March 2018 is £44 million.

Consolidated income statement commentary

	Years ended 31 March	
	2018 £m	2017 £m
Revenue	4,158	4,439
Operating costs	(3,125)	(3,093)
Operating profit	1,033	1,346
Finance income	1	2
Finance costs:		
Before exceptional items and remeasurements	(189)	(162)
Exceptional items and remeasurements	9	(500)
Profit before tax	854	686
Taxation:		
Before exceptional items and remeasurements	(163)	(243)
Exceptional items and remeasurements	(2)	156
Profit after tax	689	599

Revenue

Revenue for the year ended 31 March 2018 decreased by £281 million to £4,158 million. This decrease principally reflected the lower billing out of pass through costs related to Black Start income and a reduction in Transmission Network Use of System (TNUoS) charges.

Operating costs

Operating costs for the year ended 31 March 2018 of £3,125 million were £32 million higher than the prior year. This minor increase in costs relates to increased depreciation and amortisation charges as a result of newly commissioned assets, increased payroll costs as a result of new work streams and an increase in property taxes as a result of the nationwide rate review, all offset by lower pass through costs.

Net finance costs

For the year ended 31 March 2018, net finance costs before exceptional items and remeasurements increased by £28 million to £188 million, principally driven by higher RPI rates during the year impacting our index linked debt.

In the year to 31 March 2017 £481 million of exceptional finance costs were reported following a public bond tender as part of the restructure of the National Grid plc financing portfolios. No exceptional finance costs are reported for the year to 31 March 2018.

Taxation

The tax charge on profits before exceptional items and remeasurements was £80 million lower than the prior year as a result of lower profits in the year.

Regulatory businesses

Revenue by regulatory business

	Years ended 31 March	
	2018 £m	2017 £m
Transmission business	4,098	4,385
Other activities	60	54
Total revenue	4,158	4,439

Operating profit by regulatory business

	Years ended 31 March	
	2018 £m	2017 £m
Transmission business	1,023	1,334
Other activities	10	12
Operating profit	1,033	1,346

2017/18 compared with 2016/17

Changes to adjusted operating profit for 2017/18 compared with 2016/17 are analysed by regulatory business in the table below.

	£m
2016/17 adjusted operating profit	1,346
Transmission business	(311)
Other activities	(2)
2017/18 adjusted operating profit	1,033

Transmission business

The regulatory Transmission business comprises our electricity transmission business as described on page 3. Central corporate overheads, which are reported within other activities for statutory accounting purposes, are reported within our transmission business for regulatory purposes.

Other activities

Certain contracting services are reported within 'Other activities' for regulatory purposes.

Consolidated statement of financial position commentary

	Year ended 31 March	
	2018	2017
	£m	£m
Non-current assets	13,552	13,025
Current assets	604	837
Total assets	14,156	13,862
Current liabilities	(3,431)	(2,646)
Non-current liabilities	(7,251)	(8,155)
Total liabilities	(10,682)	(10,801)
Net assets	3,474	3,061

Property, plant and equipment

Property, plant and equipment increased by £520 million to £12,800 million as at 31 March 2018. This was principally due to capital expenditure of £944 million, offset by £413 million of depreciation in the year and disposals of £13 million.

Trade and other receivables

Trade and other receivables have decreased by £94 million to £299 million at 31 March 2018. This was predominantly driven by reduction in the Balancing Services Incentive Scheme (BSIS) Black Start income accruals and a reduction in the value of unpaid invoices in query.

Trade and other payables

Trade and other payables have increased by £77 million to £964 million mainly due to an increase in deferred income for Half Hourly (HH) demand TNUoS revenue offset by a decrease in trade payables.

Deferred tax liabilities

The net deferred tax liability increased by £132 million to £910 million. This was primarily due to the increase in the pension scheme asset.

Derivatives financial instruments

The £112 million increase in derivative value reported at 31 March 2018 is mainly due to certain swap terminators associated with restructuring of the National Grid plc financing portfolio.

Provisions

Total provisions decreased by £13 million, driven predominantly by movements in the environmental provision where £10 million was released to the income statement following updates to estimates as a result of refined estimation techniques being used in year and £3 million was utilised in the year.

Other non-current liabilities

Other non-current liabilities increased by £37 million principally due to further customer funded work.

Net pensions (obligations)/surplus

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

Net scheme (liability)/asset	£m
As at 1 April 2017	(507)
Current service cost	(28)
Net interest cost	(11)
Curtailments and settlements – other	(1)
<i>Actuarial gains</i>	
on plan assets	110
on plan liabilities	384
Employer contributions	80
As at 31 March 2018	27

The principal movements during the year include net actuarial gain of £494 million and employer contributions of £80 million. The overall movement in the deficit was a decrease of £534 million to show a closing pension asset of £27 million.

Further information on our pensions benefit obligations can be found in notes 17 and 24 to the consolidated financial statements.

Off balance sheet items

There were no significant off balance sheet items other than the contractual obligations shown in note 23 (b) to the consolidated financial statements, and the commitments and contingencies discussed in note 21.

Summarised regulatory Transmission business statement of financial position

The statement of financial position at 31 March 2018 for the regulatory Transmission business can be summarised as follows:

	Years ended 31 March	
	2018	2017
	£m	£m
Intangibles	273	269
Property, plant and equipment	12,790	12,270
Current assets*	330	424
Current liabilities*	(957)	(870)
Net deferred tax liabilities	(911)	(780)
Other non-current liabilities*	(496)	(459)
Provisions	(61)	(74)
Net pensions	27	(501)
Net debt	(7,550)	(7,226)
Net assets	3,445	3,053

* excludes amounts related to net debt and provisions reported in other lines

Cash flow statement commentary

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

Reconciliation of cash flow to net debt

	2018 £m	2017 £m
Cash generated from operations	1,683	1,659
Net capital expenditure	(968)	(960)
Business net cash flow	715	699
Net interest paid	(126)	(604)
Tax paid	(96)	(100)
Dividends paid	(700)	(150)
Other	(117)	(52)
Increase in net debt	(324)	(207)
Opening net debt	(7,226)	(7,019)
Closing net debt	(7,550)	(7,226)

Cash flows from our operations are largely stable when viewed over the longer term. Our electricity transmission operations are subject to a multi-year regulatory agreement. We have largely stable intra-year cash flows.

For the year ended 31 March 2018 cash flow from operations increased by £24 million to £1,683 million. Adjusted operating profit before depreciation and amortisation was £313 million lower year on year. Changes in working capital increased by £291 million from the prior year to £224 million.

Net capital expenditure

Net capital expenditure in the year of £968 million was £8 million higher than the prior year.

Net interest paid

The net interest paid is £478 million lower than the prior year. This is mainly due to costs incurred in the financing portfolio restructure during the 2016/17 year.

Dividends paid

Dividends paid in the year ended 31 March 2018 amounted to £700 million.

Other

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

Regulated financial performance

Timing and Regulated Revenue Adjustments

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

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

The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are finalised. Our operating profit for the year includes a total estimated in-year under-recovery of £14 million (2016/17: £136 million over-recovery). Our closing balance at 31 March 2018 was £44 million under-recovery (2016/17: under-recovery of £30 million). All other things being equal, the majority of that balance would normally be recoverable from customers within the next two years.

In addition to the timing adjustments described above, as part of the RIIO price controls, outperformance against allowances as a result of the totex incentive 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. We are also recovering revenues in relation to certain costs incurred (for example pension contributions made) in prior years.

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.

Return on Equity 290bps above base levels

Return on Equity for the year, normalised for a long-run RPI inflation rate of 3%, was 13.1% compared with a regulatory assumption, used in calculating the original revenue allowance, of 10.2%. The principal components of the differences are shown in the table below:

Year ended 31 March	2018 %	2017 %
Base return (including avg. 3% long-run inflation)	10.2	10.2
Totex incentive mechanism	1.8	1.9
Other revenue incentives	0.4	0.7
Return including in year incentive performance	12.4	12.8
Pre-determined additional allowances	0.7	0.8
Return on Equity	13.1	13.6

Return on Equity decreased 50bps year-on-year, mainly due to reduced revenue incentive performance on the BSIS scheme where 2017/18 included (£8) million (2016/17 £23 million) of previous scheme claims and model changes.

The consistent totex performance in the year principally reflects outperformance within the capital investment programme in relation to non-load related projects. National Grid Electricity Transmission aims to deliver the essential maintenance and outputs required by the RIIO framework sustainably and at the lowest sustainable total cash cost in order to deliver best value for consumers and shareholders. Innovative solutions such as predictive analysis and new engineering approaches are essential to achieving this and continued to be a focus for the business over the course of 2017/18.

Regulated Financial Position up 5%

In the year, Regulated Asset Value (RAV) grew by 4.5% which is 0.3% lower than prior year. The reduction principally reflects the lower levels of totex than prior periods as large portfolio spend projects came to completion, partially offset by high RPI accretion. Net other regulatory liabilities decreased by £51 million, reflecting the impact of the repayments of excess allowances from the first half of RIIO.

	2018	2017
Opening Regulated Asset Value (RAV)*	12,479	11,871
Asset additions (aka slow money) (actual)	918	944
Performance RAV or assets created	83	74
Inflation adjustment (actual RPI)	417	375
Depreciation and amortisation	(852)	(800)
Closing RAV	13,045	12,464
Opening balance of other regulated assets and (liabilities)*	(445)	(129)
Movement	51	(288)
Closing balance	(394)	(417)
Closing Regulated Financial Position	12,651	12,047

*April 2017 opening balances adjusted to correspond with 2016/17 regulatory filings and calculations.

Corporate Governance

Corporate Governance Statement

National Grid Electricity Transmission aims to achieve high standards of leadership and governance. At the National Grid plc level, its Board considers that it complied in full with the provisions of the UK Corporate Governance Code 2016 (the Code) during the year being reported on. National Grid Electricity Transmission is not required to comply with the Code; however, the Board is mindful of the principles of the Code and develops its governance and oversight of the Company considering not only its ultimate shareholder, National Grid, but the wider range of stakeholders in its business. The Corporate Governance statement sets out the principal areas of the National Grid Electricity Transmission Board governance together with an explanation of areas where it considers that it has operated consistently with the main principles of the Code.

Governance framework

The Board of the Company is collectively responsible for its governance, and oversees its effective oversight of the Company and its business and compliance with all relevant laws and regulations, including compliance with its obligations under its Electricity Transmission Licence. To facilitate this, a comprehensive governance framework has been established. This governance framework forms part of the wider National Grid plc governance framework and is aligned, as required and is applicable, to the Company. Risk management is fundamental to delivering the long term success of the Company and for that reason a separate section of the regulatory accounting statements has been dedicated to describing our internal controls and risk management, see page 18. The day-to-day operational and financial management of the Company's businesses is undertaken by committees. The committees are operated in compliance with business separation obligations set out in its licence.

Reinforcing its commitment to sound corporate governance the Board has continued to strengthen and develop both its composition and governance framework, implementing, as applicable, many of the best practice governance principles in operation at the National Grid plc level.

Board composition

The Board consists of six executive directors and two Sufficiently Independent Directors ("SIDs") who between them provide a broad and diverse range of experience and technical skills from both within and external to the organisation, from the energy sector, other regulated industries and external bodies.

This depth and breadth of experience, and the independence brought by the SIDs, enables the Board to engage in constructive and challenging discussions, considering the perspectives and interests not only of the Company's shareholder but the wider range of stakeholders in the

business. Details of the director positions, demonstrating their area of responsibility within the business, can be found under the section "How our Board operates".

During the last financial year, the Board consolidated its composition under the leadership of the Executive Director, UK, Nicola Shaw CBE, who became Chairman of the Board in July 2016. Nicola continues to sit as an Executive Director on the National Grid plc Board. Through her participation at the Boards of both companies, the Board of National Grid Electricity Transmission is well placed to identify and facilitate understanding of the views of its ultimate shareholder.

Sufficiently Independent Directors

The appointment of two SIDs in April 2014 has provided the Board with independent challenge and input to the decision-making process. The SIDs bring to the Board a wealth of experience and knowledge derived from working in other businesses in the utility sector, government and regulatory organisations and other businesses and organisations outside of the energy sector. Dr Catherine Bell and Dr Clive Elphick have remained in these roles providing continuity, and an independent voice in the boardroom. Their input and involvement in developing the governance framework is demonstrated through their continued leadership of two committees of the Board: the Audit Committee and Business Separation Compliance Committee. Within the boardroom, the constructive independent challenge and input brought by the SIDs, supports the Board in considering the wider range of stakeholders in the business. Outside of the boardroom, the SIDs hold an annual meeting with the Chief Executive Officer of National Grid plc, enabling them to strengthen their, and the Board's, engagement and understanding of the views of the shareholder. Additionally, in their roles as members of the Company's Audit Committee, the SIDs hold an annual meeting with the Chair of the National Grid plc Audit Committee creating a formal information flow between the independent directors of the two committees.

The SIDs attend a range of site and operational visits and briefing sessions on key strategic matters outside of the Board meeting calendar throughout the year, enabling them to strengthen their knowledge and understanding of the business and current operational matters. These visits and briefing sessions also provide the opportunity to create further links between the business and the Board room.

Executive Directors

The executive director membership of the Board consists of the senior managers of the electricity transmission and system operator businesses, regulatory function and finance function.

During the year the Board's executive director composition changed following Cordi O'Hara, Director of UK System Operator, starting a new role in the National Grid Group's US business. Phil Sheppard was appointed to the role of Interim Director of UK System Operator and was appointed to the Board in July 2017 until the appointment of Fintan Slye as Director of UK System Operator in February 2018. Fintan was appointed to the Board with effect from 7 February 2018.

Following the year end, Andy Agg, Group Tax & Treasury Director, resigned from the Board. Alexandra Lewis, Group Treasurer, was appointed to the Board in April 2018.

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

Director induction and development

Director training on the statutory duties and responsibilities of directors has been made available to new and existing directors and reference material has been placed in the online document library.

Continuing director training and development is delivered both within and outside of the boardroom. A programme of head office and operational site visits, briefings and internal conferences and events aims to strengthen and refresh the Board's knowledge and understanding of the Company's operations, the external business and regulatory environment and specific technical briefings to support the directors in fulfilling their roles on both the Board and Board Committees. The visits and briefings provide an opportunity for the directors to support and reinforce the Company's culture, values and ethics and promote a culture of openness between Board members and employees and add depth and knowledge to the discussions in the boardroom.

Within the boardroom, the Board receive updates and presentations on current operational matters and specific initiatives within the business and wider National Grid plc group. These presentations also provide an opportunity for the individual executive directors to benefit from the input of other Board members on matters within their area of the business.

How our Board operates

The Board maintains a schedule of matters specifically reserved for its consideration and decision. This is aligned, as appropriate, to that of the National Grid plc board with additional responsibilities as required by licence obligations. The matters reserved cover matters categorised as: Strategy, Management and Finance, Director and Employee Issues, Corporate Governance, Financial and Regulatory Reporting and Shareholders and includes oversight of the relationship with the regulatory bodies, including Ofgem, Department for Business,

Energy and Industrial Strategy and the Health and Safety Executive.

To support the Board, there is an established framework of Committees, to which the Board delegates defined duties under Terms of Reference and within a framework of Delegations of Authority. Further detail on the work of the Committees can be found below.

The Board's accountability for financial and business reporting and risk management and internal control is undertaken within the wider Group governance framework and processes. As a regulated entity, the Board has responsibility for the annual regulatory accounts to which it applies the same rigorous governance processes as that of the statutory accounts, and it involves the work of the Audit Committee. Reporting on the regulatory regime is overseen by the Board, and further detail can be found in the section "What we do – Regulation", see page 4.

Board meetings are scheduled and communicated a minimum of one year in advance providing all directors with sufficient notice to attend meetings. The matters to be considered throughout the annual board meeting schedule fulfil the Board's responsibilities in line with its statutory duties, licence obligations, its matters reserved for the Board and its authority under the Group Delegations of Authority from National Grid plc. The Board's supervision of the Company's operations is fulfilled through standing agenda items on safety matters, business overviews from the transmission owner and system operator and financial performance. The Board's consideration of health and safety matters covers all parts of the operational business and takes into account the health and safety of employees. Throughout the year, the Board has allocated additional time to focus on the potential impact that the Company's operations may have on the health and safety of members of the public. In addition to this the Board receives a suite of management reports, in line with Group reporting, providing updates on different aspects of the business.

To enable the Board to be effective and efficient within the boardroom a number of procedures have been established: papers supporting each agenda item are distributed in advance, typically a week before the meeting; training and briefings on specific matters are scheduled prior to the board meeting; and the Chairman holds a short meeting with the SIDs, before each meeting to discuss the focus of the upcoming meeting. After each meeting the Chairman and SIDs meet to share feedback and discuss the dynamics of the meeting, enabling a process of continuous improvement for the operation of future board meetings.

Board performance evaluation

Following the externally facilitated board evaluation in June 2015 (the "2015 Evaluation") progress against the actions has continued, developing and enhancing the performance of the Board. The Board has undertaken an internally facilitated board evaluation process during February and March 2018, led by Nicola Shaw in her role as Chair of the Board. The process built on the 2015 Evaluation and focused on three key topics: the Board's effectiveness; the coverage of the Board at its meetings; and change management in key strategic areas over the next three to five years. The evaluation process consisted of a structured questionnaire and one-to-one interviews between the Chair and each director. The Board plans to review the results of the evaluation process later in 2018 before agreeing an agreed action plan aimed to further develop and enhance performance of the Board.

Board membership and attendance

Six Board meetings were scheduled and held during the last financial year. Board membership and attendance at the meetings is set out below. Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2018.

		Attendance
Nicola Shaw CBE (Chair)	Executive Director UK	6 of 6
Andy Agg ¹	Group Tax & Treasury Director	5 of 6
Alan Foster	UK CFO	6 of 6
David Wright	Director Electricity Transmission Owner	5 of 6
Cordi O'Hara ²	Director of UK System Operator	1 of 1
Phil Sheppard ³	Interim Director of UK System Operator	4 of 4
Fintan Slye ⁴	Director of UK System Operator	1 of 1
Chris Bennett	Director UK Regulation	6 of 6
Catherine Bell	Sufficiently Independent Director	6 of 6
Clive Elphick	Sufficiently Independent Director	6 of 6

¹ Resigned 13 April 2018

² Resigned 16 July 2017

³ Appointed 17 July 2017, resigned 7 February 2018

⁴ Appointed 7 February 2018

For those meetings where an executive Director was unable to attend, alternative arrangements were put in place to ensure the Board had representation from the relevant functional area. This was either through the attendance of a senior manager from within the applicable functional area or a written briefing provided by the Director to the Chairman.

Board remuneration

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

Committees

The Board has established a number of committees and sub-committees which assist it in its activities and operate within agreed Terms of Reference and a framework of Delegations of Authority. The Committees of the Board are listed below:

- Electricity Transmission Executive Committee,
- System Operator Executive Committee.
- Business Separation Compliance Committee
- Finance Committee
- Audit Committee

The Company does not have a Nominations, Finance or Remuneration Committee as these functions are provided by National Grid plc. See the annual report and accounts of National Grid plc for further information about these committees.

Electricity Transmission Executive Committee

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

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

ETEC acts within National Grid's overall corporate governance framework and delegated authorities and is responsible for the operational and financial management of the Electricity Transmission business. Membership of the Committee comprises Directors of the Company, senior managers of the Electricity Transmission business and certain other senior

managers. Attendance of the voting members is set out below and is expressed as the number of meetings attended out of the number eligible to attend during the year to 31 March 2018. There were 12 Committee meetings held during the year.

		Attendance
David Wright (Chair)	Director, Electricity Transmission Owner	10 of 12
Matt Staley	Head of Operations	11 of 12
Hedd Roberts	Head of Customer & Commercial	11 of 12
Daniel Westerman ¹	Head of Network Management	8 of 8
Paul Gallagher ²	Head of Network Management	4 of 4
Nicky Damerell	Head of Process & Enablement	11 of 11
Stephen Johnson	Head of Transformation & Business Change	11 of 12
Ursula Bryan	Head of Engineering & Asset Management	11 of 12
Ryan Ramsay ³	Head of ETO Construction	5 of 8
Nicola Medalova ⁴	Head of ETO Construction	4 of 4
Jenny Dillon ⁵	ET Finance Business Partner	6 of 8
Mark Coles ⁶	ET Finance Business Partner	4 of 4

1. Resigned November 2017
2. Appointed December 2017
3. Resigned November 2017
4. Appointed December 2017
5. Resigned November 2017
6. Appointed December 2017

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

System Operator Executive Committee

The System Operator Executive Committee (SOEC) acts within National Grid's overall corporate governance framework and delegated authorities and is responsible for the strategic direction of Great Britain SO activities (Gas and Electricity combined) and RIIO incentive and output performance measures. The SOEC was set up following the implementation of the new UK Operating Model in 2013. Membership of this Committee comprises Directors of the Company, senior managers of the Transmission business and certain other senior managers. Attendance of the voting members is set out below and is expressed as the number of meetings attended out of the number eligible to attend, and includes attendance by a nominated deputy during the year to 31 March 2018. There were three Committee meetings held during the year.

		Attendance
Cordi O'Hara	Director of UK System Operator	2 of 2
Phil Sheppard	Interim Director of UK System Operator	1 of 1
Duncan Burt	Director of SO Operations	1 of 1
Darren Pettifer	SO Finance Business Partner	2 of 2
Claire Tuckman	SO Finance Business Partner	1 of 1
Chris Bennett	Director UK Regulation	3 of 3
Simon Johnston	Head of Business Change	2 of 3
Roisin Quinn	Head of SO Strategy	2 of 3

The SOEC has a number of sub-committees dealing with matters such as SO specific investments, SO Risk and Compliance and SO Incentive Performance.

Business Separation Compliance Committee

The Business Separation Compliance Committee of the Board is responsible for overseeing the duties and tasks of the Business Separation Compliance Officer and for overseeing compliance with the business separation licence conditions for business separation between the Company and National Grid Offshore Limited.

Membership of the Committee is by appointment of the Board and comprises all directors of the licensee. The Committee is chaired by Dr Catherine Bell, SID, providing independent leadership of the Committee. The Business Separation Compliance Officer/Compliance Officer are in attendance and present reports on their duties, activities and compliance with the licence obligations.

Two Committee meetings were held during the year, with additional meetings taking place between the Chairman of the Committee and the Business Separation Compliance Officer/Compliance Officer. Following the meetings, the Chairman provided updates to the Board on matters considered at the meetings.

Please refer to the separate sections on Business separation and the Company's Compliance statement for further information.

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. During the year, the Company's Pensions Committee was disbanded and the Finance Committee's remit was expanded to also provide governance of the Company's pension schemes.

Membership of the Committee comprises the Chief Financial Officer of National Grid plc and the Group Tax and Treasury Director, a director of the Board. The Committee interfaces with the Finance Committee of National Grid plc and the Board.

Each Board meeting considers a separate agenda item on the work of the Finance Committee. Financial reporting on the financing activities, taxation and financial costs and liabilities of the pension schemes is provided through the regular financial management reports discussed at each board meeting.

Audit Committee

The Audit Committee whose role is to keep under review the Company's financial reporting and internal controls and their effectiveness, together with reviewing the Company's risk

management processes. It also reviews the external audit plan and reviews the external auditors' findings.

Membership of this Committee is comprised of three Board directors: the two SIDs and an executive director, the Group Tax and Treasury Director. The Committee is chaired by Dr Clive Elphick, SID, providing independent leadership. Financial experience is provided by both Clive and the Group Tax and Treasury Director. In addition to the members of the Committee, individuals such as representatives of the external auditors, Head of UK Audit, representatives of the Assurance function, UK Chief Financial Officer and other representatives of the finance function and the UK General Counsel and Company Secretary may be invited to attend by the Committee and normally attend each meeting. Other Directors, representatives of the business and external advisers may be invited to attend as and when considered appropriate by the Committee and in respect of items that are relevant to them.

Since its conception in November 2014, the Audit Committee's role has developed and enhanced, providing the assurance required by the Board on matters within its authority. The Chairman provides a report on the meeting to the following Board meeting, and where applicable makes recommendations to the Board. The Board considers these recommendations and, where required, seeks further assurance and details to be brought to the Board.

To strengthen the governance links to National Grid, the SIDs hold an annual meeting with the Chairman of the National Grid plc Audit Committee.

The preparation and management of the Audit Committee's annual meeting schedule follows the same governance processes as those for the Board. Technical briefings and meetings with the UK Chief Financial Officer and members of the financial function are held before meetings, as required, to provide further details on matters to be discussed during the meetings.

Five meetings took place during the last financial year. Committee membership and attendance at meetings is set out below. Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2018.

		Attendance
Clive Elphick (Chair)	Sufficiently Independent Director	5 of 5
Catherine Bell	Sufficiently Independent Director	5 of 5
Andy Agg	Group Tax and Treasury Director	5 of 5

Following the year end, Andy Agg resigned as a director of the Board and was replaced by Alexandra Lewis, Group Treasurer; it followed that Alexandra also replace Andy as a member of the Audit Committee at the same time.

Areas of focus

The Audit Committee meetings considered a programme of matters comprising those which were aligned to that of the National Grid plc Audit Committee and specific matters as they related to the Company, as a listed and regulated entity and as defined in the Terms of Reference for the Committee. Examples of key areas of focus included:

- Statutory and regulatory accounting statements;
- Going concern statements;
- Fair, balanced and understandable statements;
- Financial reporting;
- Internal controls and processes;
- Regulatory to RIIO accounts transition;
- Risk management processes;
- Compliance matters, including compliance with licence obligations;
- Internal (corporate) audit plan; and
- Business conduct, including whistleblowing.

Significant issues

The most significant issues the Committee considered during the year were matters relating to internal controls and processes, compliance and judgements made in the preparation of the year-end financial statements, including assumptions used in the calculation of pension liabilities.

Looking forward, the Committee will continue to focus on the effectiveness of the internal control environment, providing input to the Group wide process.

In terms of financial reporting changes, the Committee will continue to focus on the changes in regulatory accounting reporting required for the implementation of RIIO accounts.

External audit

The Committee is responsible for overseeing relations with the external auditors, as part of the Group wide external audit arrangements. Each Committee meeting is preceded by a meeting between the SIDs and the external auditor, without management present, to allow independent discussions on any matters the auditors would like to bring to the attention of the Committee.

The Committee reviews the audit plan and audit findings in respect of the audit of the statutory and regulatory accounts. The Committee also engages on auditor recommendations for improvements around internal controls. Through regular management reporting on internal controls, the Committee is able to monitor progress of the actions being taken.

Following the National Grid plc Audit Committee audit tender process, Deloitte LLP was appointed by shareholders as the Group's statutory auditors at the AGM in July 2017.

Auditor transition

Deloitte's transition plan focused on developing a deeper understanding of the Company's business, processes and control, and leveraging the experience and knowledge of PricewaterhouseCoopers (PwC) during the shadowing period. Deloitte shadowed PwC during 2016/17 year end close process and attended Audit Committee meetings in June and July 2017. They also undertook a review of the PwC audit files and held meetings with key management. The Committee received regular updates on the status of the transition during the year.

Internal (corporate) audit

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

Inputs to the audit plan include principal risks, risk registers, corporate priorities, and external research of emerging risks and trends, and discussions with senior management to make sure the plan aligns with the Committee and Company's view of risk. The audit plan is considered and approved by the

Committee annually and progress against the plan is monitored throughout the year.

The Committee received regular controls updates from the Corporate Audit team. Management actions on audit findings have continued to be a focus at Executive meetings resulting in greater visibility of audit findings, increased ownership of actions and greater engagement by senior management.

Auditors' independence and objectivity

Mindset, integrity and objectivity enable auditors to undertake their role with professional scepticism while maintaining effective working relationships with those subject to audit i.e. management and other employees.

As highlighted in National Grid's Annual Report and Accounts for 2017/18 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.

Following consideration of the auditors' independence and objectivity, the audit quality and the auditors' performance, the Committee was satisfied with the effectiveness, independence and objectivity of Deloitte and recommended to the Board their reappointment for the year ended 31 March 2019. A resolution to re-appoint Deloitte and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2018 AGM.

Business separation

Business Separation Compliance Committee

The Board's Business Separation Compliance Committee is responsible for overseeing the duties and tasks of the Compliance Officer and EMR Compliance Officer and for overseeing compliance with the licence conditions for business separation between the Company and National Grid's competitive businesses operating or bidding for activities in carbon capture and storage, interconnectors or offshore transmission. Membership of the Committee is by Board appointment and comprises all Directors of the Company. The Compliance Officer and EMR Compliance Officer are in attendance. Dr Catherine Bell (SID) chairs the committee. Two meetings took place during the last financial year.

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

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

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

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

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

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

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

- Appointed a Compliance Officer and a Single Responsible Director who report on compliance to the Compliance Committee and the Company's Board of Directors.
- Put in place specific legal, managerial and functional architectures to ensure separation.

- Put in place specific policies and procedures to ensure that the Company does not give any unfair commercial advantage to any of its affiliates and that confidential information relating to EMR is kept confidential.
- Put in place specific restrictions on premises, use of systems and transfer of employees between the Company and the competitive businesses.
- Established and maintained an employee Code of Conduct to ensure employees are aware of their obligations to protect confidential information relating to EMR.

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

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

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

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

Directors' Report

The information in this Directors' Report does not comprise a Directors' Report within the meaning of the Companies Acts and UK Listing Authority's Listing, Disclosure and Transparency Rules. Such a report for the company is included in its annual report and accounts. As the business reported on within these regulatory accounting statements does not comprise a legal entity the following information is provided for the company as a whole. Further details of matters required to be included in the Directors' Report are incorporated by reference into this report, as detailed below.

Directors

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

Andy Agg	Resigned 13 April 2018
Catherine Bell CB (SID*)	
Chris Bennett	
Clive Elphick (SID*)	
Alan Foster	
Alexandra Lewis	Appointed 13 April 2018
Cordi O'Hara	Resigned 16 July 2017
Nicola Shaw CBE	
Phil Sheppard	Appointed 17 July 2017, Resigned 7 February 2018
Fintan Slye	Appointed 7 February 2018
David Wright	
*Sufficiently Independent Director	

The Company has arranged, in accordance with the Companies Act 2006 and the Articles, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties. Equivalent qualifying third party indemnities were, and remain, in force for the benefit of those Directors who stood down from the Board during the year ended 31 March 2018. Alongside these indemnities, the Company places Directors' and Officers' liability insurance cover for each Director.

Principal activities and business review

A full description of the Company's principal activities, business, key performance indicators and principal risks and uncertainties is contained in the Strategic Report on pages 12 to 17 which is incorporated by reference into this report.

Material interests in shares

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

Dividends

An interim dividend of £700 million was paid during the year (2016/17: £150 million interim dividend). The Directors have not proposed a final dividend.

Share capital

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

Research and development

Expenditure on research and development was £6 million during the year (2016/17: £7 million).

Financial instruments

Details on the use of financial instruments and financial risk management are included in note 23 to the consolidated financial statements.

Future developments

Details of future developments are contained in the Strategic Report.

Employee involvement

Details of how the Company involves its employees are contained in the Strategic Report on pages 12 and 17 which is incorporated by reference into this report.

Audit information

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

Annual General Meeting

Notice of the Company's Annual General Meeting for 2018 will be issued separately to the shareholder.

Going concern

Having made enquiries and reviewed management's assessment of the going concern assumption, the Directors consider it appropriate to prepare the financial statements on a going concern basis. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. More detail on our financial risks, including liquidity and solvency, is provided in note 23 to the consolidated financial statements. There have been no major changes to the liquidity and solvency risks in the year. Although not assessed over the same period, the viability of National Grid Electricity Transmission has been assessed on page 22.

By order of the Board

Alan Foster

UK CFO

27 July 2018

National Grid Electricity Transmission plc

1-3 Strand, London WC2N 5EH

Registered in England and Wales Number 2366977

Introduction to the financial statements

Throughout these financial statements, we have provided explanations of the disclosures and why they are important to the understanding of our financial performance and position.

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 regulatory accounting statements in accordance with applicable law and regulation.

Under the regulatory requirements, the directors have responsibility for ensuring that:

- the Company and its related undertakings keep accounting records in such a form that the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, each of the regulatory businesses are separately identifiable in the books of the Company and its related undertakings from those of any other business;
- the regulatory accounting statements fairly present the financial position, financial performance and cash flows of, or reasonably attributable to, each regulatory business; so far as is reasonably practicable, the regulatory accounting statements have the same content and format in respect of the businesses to which they relate as the equivalent statutory accounts of the Company and that they comply with all relevant accounting and reporting standards currently in force which have been issued or adopted by the International Accounting Standards Board;
- the regulatory accounting statements include for each regulatory business and for the regulatory businesses in total, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of financial position and a cash flow statement, including notes thereto and the basis of preparation and introduction to the financial statements;
- the regulatory accounting statements include, for the regulatory businesses in total, a corporate governance statement, a directors' report and a strategic review; and
- the regulatory accounting statements show separately and in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions that have been charged from or to any other business of National Grid (other than the Company or its subsidiaries), or that have been determined by apportionment, where they relate to goods or services received or supplied for the purposes of the regulatory businesses.

In addition, in preparing the regulatory accounting statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the regulatory accounting statements; and
- Prepare the regulatory accounting statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors, having prepared the regulatory accounting statements, have requested the Auditors to take whatever steps and to undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the directors, whose names are listed in the Directors' Report on page 35 and who are in office at the date of signing this report, confirm that, to the best of their knowledge that the regulatory accounting statements have been:

- prepared in accordance with the regulatory requirements and fairly present the financial position of the Company's transmission businesses and other activities; and
- that the Audit Committee of National Grid Electricity Transmission plc continues to review the adequacy of the system of internal financial controls adopted by the Company.

On behalf of the Board

Nicola Shaw
Chair
27 July 2018

Independent Auditors' report

to the Gas and Electricity Markets Authority (the "Regulator") and to National Grid Electricity Transmission Plc ("NGET")

Report on the regulatory accounting statements

Our opinion

We have audited the regulatory accounting statements of National Grid Electricity Transmission plc ('NGET') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated statement of financial position;
- the consolidated cash flow statement;
- the related notes 1 to 26 of the consolidated financial statements; and
- supplementary appendices.

These regulatory accounting statements have been prepared under the accounting policies set out therein. The financial reporting framework that has been applied in their preparation is Standard Condition B1 of the Regulatory Licence and the accounting policies set out in the principal accounting policies on pages 40 to 42.

In our opinion, NGET regulatory accounting statements present fairly, in all material respects, in accordance with Standard Condition B1 of the Regulatory Licence and the Company's accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the Regulatory Accounts section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the regulatory accounting statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw your attention to Note [1] of the regulatory accounting statements, which describes the basis of accounting. The regulatory accounting statements are separate from the statutory financial statements of the Company and are to meet the requirements of Standard Condition 44 of the Regulatory

Licence. As a result, the regulatory accounting may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the regulatory accounting statements is not appropriate; or
- the directors have not disclosed in the regulatory accounting statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the regulatory accounting statements are authorised for issue.

Other information

The other information comprises all of the information in the annual report other than the regulatory accounting statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the regulatory accounting statements do not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the regulatory accounting statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the regulatory accounting statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the regulatory accounting statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement or inconsistency of this other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 37, the directors are responsible for the preparation of the regulatory accounting statements in accordance with Standard Condition B1 of the Regulatory Licence and the Company's accounting policies.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the

regulatory accounting statements that are free from material misstatement, whether due to fraud or error.

In preparing the regulatory accounting statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the regulatory accounting statements

Our objectives are to obtain reasonable assurance about whether the regulatory accounting statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these regulatory accounting statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition B1 of the Regulatory Licence. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in an independent auditor's report, in order (a) to assist the company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report or for the opinions we have formed.

Our opinion on the regulatory accounting statements within the annual report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2018 on which we reported on 22 June 2018, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006.

Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Jane Whitlock, Senior Statutory Auditor

for and on behalf of Deloitte LLP
Statutory auditor
Birmingham, United Kingdom

27 July 2018

Basis of preparation

(for National Grid Electricity Transmission plc)

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 IASB and EU endorsed accounting standards, amendments and interpretations and whether these are effective in 2019 or later years, explaining how significant changes are expected to affect our reported results.

A. Basis of preparation of regulatory accounting statements under IFRS

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

These regulatory accounting statements were approved for issue by the Board of Directors on 27 July 2018.

These regulatory accounting 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 2018 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the EU IAS Regulation. The comparative financial information has also been prepared on this basis.

The regulatory accounting 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.

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 E).

Attribution of revenues, costs, assets, liabilities and equity

The condition requires that all the revenues, costs, assets, liabilities and equity of the Company are attributed to the businesses and activities reported in the regulatory accounting statements. Those revenues, costs, assets, liabilities and equity which are not directly attributable to specific businesses or activities have been apportioned between the businesses and activities according to whether they are related items or unrelated items.

Allocations between the System Operator and the Transmission Owner have been done on the assumption that both operations are part of National Grid Electricity Transmission plc, consistent with prior years. As noted in the review of Principal Operations, we will create a legally separate System Operator, within the National Grid Group by April 2019. This new legal entity will not form part of the National Grid Electricity Transmission plc consolidated results from the year ending 31 March 2020. Allocations made on the separation of the System Operator may be on a different basis to the allocations within this regulatory return to reflect the legal basis of the separation.

Related items

Related items comprise all those revenues, costs, assets and liabilities of the Company which are not directly attributable to a specific business or activity, but where there is a reasonable basis for apportioning those revenues, costs, assets or liabilities between businesses and activities. These items comprise activities carried out on a centralised basis, shared services and certain business services.

These revenues, costs, assets and liabilities are apportioned between businesses and activities in accordance with the activities giving rise to the income, costs, assets or liabilities.

Unrelated items

Unrelated items comprise all those revenues, costs, assets, liabilities and equity of the Company which are not directly attributable to a specific business or activity, and where there is no reasonable basis for apportioning those revenues, costs, assets, liabilities and equity between the businesses and activities. These items mainly comprise corporate activities, financial items, taxation, dividends, share capital and reserves.

These revenues, costs, assets, liabilities and equity are apportioned between businesses and activities using the following bases:

- Corporate costs charged to the Company by National Grid are apportioned using the same metrics as National Grid uses to determine the allocated charge to the Company. These metrics take into account relative revenue, operating profit, employees and net assets.
- Net debt at 1 April 2005 (the first balance sheet date for this format of regulatory accounting statements), which comprises borrowings and bank overdrafts, less cash,

cash equivalents and financial investments at that date, was apportioned between regulatory businesses in the ratio of estimated regulatory asset values at that date. No amounts were apportioned to other activities.

- The amounts at subsequent period ends have been determined by separately adjusting these initially apportioned amounts by the cash generated or used by each regulatory business, movements in fair value of net debt allocated to each business and other funding movements.
- Movements in fair value and other funding movements are initially apportioned between the regulatory businesses relative to the net debt at the start of the period in which the movements occurred. A further reallocation of funding between regulatory businesses is then applied so that the overall allocation ratio for closing net debt across our regulatory businesses reflects their individual estimated maximum debt potential, taking into account RAV gearing ratios.
- Interest is apportioned between the regulatory businesses according to the relative level of net debt determined according to the principles set out above.
- Current and deferred taxation are apportioned relative to the results of undertaking notional current and deferred tax computations for each business and activity, commencing from 1 April 2005. Prior year tax adjustments substantially relating to transactions which occurred prior to 1 April 2005 are apportioned in the ratio of estimated regulatory asset values at that date. The estimated capital allowances pools at 1 April 2005 were apportioned between the regulatory businesses in the ratio of estimated regulatory asset values at that date. Current tax liabilities have been apportioned relative to current tax charges and tax paid or recovered is determined by balance.
- Equity dividends primarily funded from profits for the year have been apportioned on the basis of profits for the year. Equity dividends primarily funded from retained earnings have been apportioned on the basis of relative regulatory asset values.
- The apportionment of the total equity of the Company at 1 April 2005, comprising called up share capital, share premium account, retained profits and other reserves, was determined as a balancing item at that date. The amounts at subsequent period ends are determined by separately adjusting these initially apportioned amounts by the equity movements derived for each business or activity as a consequence of all other allocations and funding movements.

B. Going concern

The Directors considered it appropriate to prepare the financial statements on a going concern basis. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed.

C. Basis of consolidation

The regulatory accounting 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.

D. Foreign currencies

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

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the adoption of hedge accounting requires inclusion in other comprehensive income - note 23.

E. 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 on the following page.

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

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

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

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

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analysis in note 24.

Recent accounting developments

New IFRS accounting standards and interpretations adopted in 2017/18

The Group has adopted the following amendments to standards:

- Annual improvements to IFRSs 2014-201 Cycle;
- Amendments to IAS 7 'statement of cash flows'; and
- Amendments to IAS 12 'Income taxes'.

The adoption of these amendments has had no material impact on the results or financial statement 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 'Financial Instruments'(IFRS 9), IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) and IFRS 16 'Leases'(IFRS 16). We are assessing the likely impact of these standards on the Group's financial statements.

i) IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is effective for National Grid Electricity Transmission plc for the year ending 31 March 2019. The new standard provides enhanced detail and a five-step revenue recognition approach to reflect the transfer of goods and services to customers. The core principle of IFRS 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to customers.

The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. This differs from the principle under the current revenue standard that requires an assessment of when risks and rewards of goods and services are transferred rather than control of those goods or services.

Detailed reviews of revenue arrangements have been undertaken prior to our transition to IFRS 15 on 1 April 2018. We will adopt the modified retrospective approach whereby the historical cumulative transition adjustment is reflected through retained earnings.

There are two types of revenue arrangements that will be impacted on transition to IFRS 15. The financial impacts and the transition adjustment to retained earnings are described further:

- There are certain pass-through revenues (principally revenues collected on behalf of the Scottish and Offshore transmission operators) where the principal/agency assessment changes on transition to IFRS 15. In moving from a risk and reward model to a control model, we will no longer record our revenues collected on behalf of the Scottish and

Offshore transmission operators as principal as we do not control the Scottish or Offshore transmission networks. If we had adopted IFRS 15 in 2017/18, both revenues and operating costs would have been £990 million lower, with no impact to profit as a result of this change. There will be no resulting transition adjustment as a result of this change; and

- Our customers provide contributions towards the physical diversion of certain of our assets. These are currently deferred over the life of our network. Under IFRS 15, these revenues are recognised on completion of the diversion as there are no ongoing performance obligations to satisfy.

Had we adopted IFRS 15 in 2017/18, revenues would have been circa £1 million higher, as revenues from diversions in the that were previously deferred over the life of the network are recognised up front. The increase in profit after tax would have been £1 million.

The transition adjustment through retained earnings of £32 million will result in a decrease to deferred revenues of approximately £38 million and a corresponding deferred tax impact of £6 million.

Under IFRS 15, contributions received from customers towards certain capital works (e.g. connections) which we continue to own upon completion will continue to be deferred and released into the income statement as revenue over the life of the network. We have reached this conclusion because our customers cannot benefit from a connection without the use of our utility network; access to our network through the connection is satisfied over time.

ii) IFRS 16 'Leases'

IFRS 16 is effective for National Grid Electricity Transmission plc in the year ending 31 March 2020. The Group enters into a significant number of operating lease transactions as well as certain power purchase arrangements. Under IFRS 16, our operating leases will be accounted for on the balance sheet as 'right-of-use' assets. This treatment will increase both our assets and liabilities and subsequently, an increase to finance costs and depreciation and a reduction in rental costs. The outcome of our conclusions will have an impact on how we account for our operating leases and power purchase arrangements. We are also performing an assessment of our revenue and service contracts to determine whether we have the right to use assets under those contracts and whether they fall within the scope of IFRS 16. We plan to apply IFRS 16 using the modified retrospective approach, whereby comparatives will not be restated on adoption of the new standard but instead a cumulative adjustment will be reflected in retained earnings.

iii) IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' (IFRS 9) is effective for National Grid Electricity Transmission plc (NGET) in the year ending 31 March 2019. The changes to IFRS 9 principally impact the accounting for the classification of financial instruments, impairment of financial instruments and hedge accounting.

The Company has elected not to restate comparatives on initial application of IFRS 9. The full impact of adopting IFRS 9 will depend on the financial instruments that the Group has during the year ending 31 March 2019 as well as on economic conditions and judgements made as at the year end. The Group has performed a preliminary assessment of the potential impact of adopting IFRS 9 based on the financial instruments and hedging relationships as at the date of adoption of IFRS 9 (1 April 2018).

Classification and measurement: financial assets

The number of categories of financial assets has been reduced under IFRS 9 compared to IAS 39. Under IFRS 9 the classification of financial assets is based on the business model within which the asset is held and the contractual terms of the asset. There are three principal classification categories for financial assets that are debt instruments: (i) amortised cost, (ii) fair value through other comprehensive income (FVOCI) and (iii) fair value through profit or loss (FVTPL). Equity investments are either classified as (i) FVTPL or (ii) FVOCI. If measured at FVOCI, realised gains on equity investments are not recycled to the income statement but instead are transferred directly to retained profits.

The change to the asset classification rules will have no impact in reported group net assets, although there will be some changes to reserves at transition. These changes are not material.

Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred losses under IAS 39. The new impairment model will apply to the group's financial assets that are debt instruments measured at amortised cost or FVOCI as well as the group's trade receivables.

Other investments in debt instruments that are subject to the IFRS 9 impairment model are determined to be low credit risk at 31 March 2018. The Company intends to apply the low credit risk simplification in IFRS 9 which allows the group to

assume that there has not been a significant increase in credit risk since initial recognition of these assets and therefore recognise a loss allowance for only 12-month expected credit losses as at 1 April 2018. The adjustment to the opening reserves in respect of these changes is not expected to be significant.

Hedge Accounting

On initial application of IFRS 9, an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of those of IFRS 9. The Company has elected to apply the hedge IFRS 9 accounting requirements because they more closely align with the Group's risk management policies.

As assessment of the Group's hedging relationships under IAS 39 has been performed and it has been determined that the relationships will qualify as continuing hedge relationships under IFRS 9.

The group does not anticipate the application of IFRS 9 hedge accounting requirements will have a material impact on the group's consolidated financial statements.

iv) Other

In addition, the following new accounting standards and amendments to existing standards have been issued but are not yet effective have not yet been endorsed by the EU:

- Amendments to IFRS 2 'Share Based Payments';
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration';
- IFRIC 23 'Uncertainty over Income Tax';
- Amendments to IAS 40 'Investment Property';
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015-2017 Cycle;
- IFRS 17 'Insurance Contracts'; and
- Amendments to IAS 19 'Employee Benefits'.

Effective dates remain subject to the EU endorsement process.

The Company is currently assessing the impact of the above standards, but they are not expected to have a material impact. The Company has not early adopted any other standard, amendment or interpretation that was issued but is not yet effective.

Consolidated income statement

for the years ended 31 March

	Notes	2018 £m	2018 £m	2017 £m	2017 £m
Revenue	1(a)		4,158		4,439
Operating costs	2		(3,125)		(3,093)
Operating profit	1 (b)		1,033		1,346
Finance income	4		1		2
Finance costs					
Before exceptional items and remeasurements	4	(189)		(162)	
Exceptional items and remeasurements	3, 4	9		(500)	
Total finance costs	4		(180)		(662)
Profit before tax					
Before exceptional items and remeasurements		845		1,186	
Exceptional items and remeasurements	3	9		(500)	
Total profit before tax			854		686
Tax					
Before exceptional items and remeasurements	5	(163)		(243)	
Exceptional items and remeasurements	3, 5	(2)		156	
Total tax	5		(165)		(87)
Profit after tax					
Before exceptional items and remeasurements		682		943	
Exceptional items and remeasurements	3	7		(344)	
Profit for the year attributable to owners of the parent			689		599

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2018 £m	2017 £m
Profit for the year		689	599
Other comprehensive income/(loss):			
Items that will never be reclassified to profit or loss			
Remeasurements of net retirement benefit obligations	17	494	(278)
Tax on items that will never be reclassified to profit or loss	5	(84)	46
Total items that will never be reclassified to profit or loss		410	(232)
Items that may be reclassified subsequently to profit or loss			
Net gains/(losses) in respect of cash flow hedges		7	(30)
Transferred to profit or loss in respect of cash flow hedges		3	108
Tax on items that may be reclassified subsequently to profit or loss	5	(2)	(14)
Total items that may be reclassified subsequently to profit or loss		8	64
Other comprehensive income/(loss) for the year, net of tax		418	(168)
Total comprehensive income for the year attributable to owners of the parent		1,107	431

Consolidated statement of changes in equity

	Note	Called up share capital £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
At 1 April 2016		44	(68)	2,798	2,774
Profit for the year		-	-	599	599
Total other comprehensive loss for the year		-	64	(232)	(168)
Total comprehensive income for the year		-	64	367	431
Equity dividends	6	-	-	(150)	(150)
Share-based payments		-	-	5	5
Tax on share based payments		-	-	1	1
At 31 March 2017		44	(4)	3,021	3,061
Profit for the year		-	-	689	689
Total other comprehensive income for the year		-	8	410	418
Total comprehensive income for the year		-	8	1,099	1,107
Equity dividends	6	-	-	(700)	(700)
Share-based payments		-	-	5	5
Tax on share based payments		-	-	1	1
At 31 March 2018		44	4	3,426	3,474

Cash flow hedge reserve

The cash flow hedge reserve balance will be transferred to the income statement until the committed future cash flows from capital projects are paid. The amount due to be released from reserves to the income statement next year is a gain of £2m (2017: £3m), with the remainder to be released based on the stage of completion of existing capital projects.

Consolidated statement of financial position

as at 31 March

	Notes	2018 £m	2017 £m
Non-current assets			
Intangible assets	7	273	269
Property, plant and equipment	8	12,800	12,280
Prepayments	12	11	-
Pension Asset	17	73	-
Derivative financial assets	10	395	476
Total non-current assets		13,552	13,025
Current assets			
Inventories	11	42	44
Trade and other receivables	12	299	393
Financial and other investments	9	224	350
Derivative financial assets	10	25	27
Current tax asset		3	6
Cash and cash equivalents	13	11	17
Total current assets		604	837
Total assets		14,156	13,862
Current liabilities			
Borrowings	14	(2,327)	(1,502)
Derivative financial liabilities	10	(132)	(246)
Trade and other payables	15	(964)	(887)
Provisions	18	(8)	(11)
Total current liabilities		(3,431)	(2,646)
Non-current liabilities			
Borrowings	14	(5,357)	(5,878)
Derivative financial liabilities	10	(389)	(470)
Other non-current liabilities	16	(496)	(459)
Deferred tax liabilities	5	(910)	(778)
Pensions benefit obligations	17	(46)	(507)
Provisions	18	(53)	(63)
Total non-current liabilities		(7,251)	(8,155)
Total liabilities		(10,682)	(10,801)
Net assets		3,474	3,061
Equity			
Share capital	19	44	44
Retained earnings		3,426	3,021
Cash flow hedge reserve		4	(4)
Total equity		3,474	3,061

These regulatory accounting statements, comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position, consolidated cash flow statement, basis of preparation, recent accounting developments, notes to the accounting statements 1 to 26, supplementary analysis of the consolidated financial statements by regulatory business contained in appendix 1, the unpublished information contained in appendix 2 and the supplementary analysis of the regulatory business by activity contained in appendix 3, were approved by the Board of Directors of National Grid Electricity Transmission plc on 27 July 2018 and were signed on its behalf by:

Nicola Shaw Chair

Alan Foster Director

National Grid Electricity Transmission plc
Registered number: 2366977

Consolidated cash flow statement

for the years ended 31 March

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Operating profit	1 (b)	1,033	1,346
Adjustments for:			
Depreciation and amortisation		464	419
Share-based payment charge		5	5
Changes in working capital		224	(67)
Changes in pension obligations		(49)	(48)
Changes in provisions		(15)	(12)
Loss on disposal of property, plant and equipment		7	14
Loss on disposal of intangible assets		14	2
Cash flows generated from operations		1,683	1,659
Tax paid		(96)	(100)
Net cash inflow from operating activities		1,587	1,559
Cash flows from investing activities			
Purchases of intangible assets		(56)	(96)
Purchases of property, plant and equipment		(918)	(868)
Disposals of property, plant and equipment		6	2
Disposals of intangible assets		-	2
Net disposals of short-term financial investments		127	76
Net cash flow used in investing activities		(841)	(884)
Cash flows from financing activities			
Proceeds from loans received		812	1,242
Repayment of loans		(583)	(1,080)
Settlement of short-term borrowings and derivatives		(155)	(68)
Interest paid		(126)	(604)
Dividends paid to shareholders	6	(700)	(150)
Net cash flow used in financing activities		(752)	(660)
Net (decrease)/increase in cash and cash equivalents	20(a)	(6)	15
Cash and cash equivalents at the start of the year		17	2
Net cash and cash equivalents at the end of the year	13	11	17

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

1. Segmental analysis

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

Our strategy in action

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

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

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

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

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

Electricity Transmission	High voltage electricity transmission networks in Great Britain.
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Other activities relate to other commercial operations not included within the above segment and corporate activities. There have been no changes to our reporting structure for the year ended 31 March 2018.

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

(a) Revenue

	2018	2017
	Total	Total
	sales	sales
	£m	£m
Operating segment		
Electricity Transmission	4,154	4,438
Other activities	4	1
	4,158	4,439

All sales are to third parties.

Analysis of revenue by major customer:

	2018	2017
	£m	£m
Customer A	505	510
Customer B	500	496
Customer C	497	475

No other single customer contributed 10% or more to the Group's revenue in either 2018 or 2017.

1. Segmental analysis (continued)

(b) Operating profit

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

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2018 £m	2017 £m	2018 £m	2017 £m
Operating segment				
Electricity Transmission	1,053	1,361	1,053	1,361
Other activities	(20)	(15)	(20)	(15)
	1,033	1,346	1,033	1,346
Reconciliation to profit before tax:				
Operating profit	1,033	1,346	1,033	1,346
Finance income	1	2	1	2
Finance costs	(189)	(162)	(180)	(662)
Profit before tax	845	1,186	854	686

(c) Capital expenditure and depreciation

	Capital expenditure		Depreciation and amortisation	
	2018 £m	2017 £m	2018 £m	2017 £m
Operating segment				
Electricity Transmission	1,000	1,028	464	419
	1,000	1,028	464	419
By asset type				
Property, plant and equipment	944	932	413	391
Intangible assets	56	96	51	28
	1,000	1,028	464	419

2. Operating costs

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

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2018 £m	2017 £m	2018 £m	2017 £m
Depreciation and amortisation	464	419	464	419
Payroll costs	181	156	181	156
Rates	117	86	117	86
Balancing Service Incentive Scheme	1,011	1,121	1,011	1,121
Payments to other UK network owners	1,032	1,008	1,032	1,008
Research and Development expenditure	6	7	6	7
Operating leases	15	17	15	17
Inventory consumed	14	10	14	10
Other	285	269	285	269
	3,125	3,093	3,125	3,093

(a) Payroll costs

	2018 £m	2017 £m
Wages and salaries	190	172
Social security costs	26	24
Pension costs (note 17)	46	42
Share-based payments	5	5
Severance costs (excluding pension costs)	(1)	1
	266	244
Less: payroll costs capitalised	(85)	(88)
	181	156

(b) Number of employees, including Directors

	31 March 2018 Number	Monthly average 2018 Number	31 March 2017 Number	Monthly average 2017 Number
Electricity Transmission	3,679	3,703	3,692	3,657

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

(c) Key management compensation

	2018 £m	2017 £m
Salaries and short-term employee benefits	3	3
Post-retirement benefits	-	1
Share-based payments	1	2
	4	6

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

2. Operating costs (continued)

(d) Directors' emoluments

The aggregate amount of emoluments paid (excluding social security, pensions and share-based payments) to Directors of the Company in respect of qualifying services for 2018 was £1,484,977 (2017: £1,775,171).

None (2017: one) of the directors exercised share options during 2018 including the highest paid director.

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

As at 31 March 2018, retirement benefits were accruing to four Directors (2017: six Directors), under a defined benefit scheme.

The aggregate emoluments for the highest paid Director were £512,695 for 2018 (2017: £626,609); and total accrued annual pension at 31 March 2018 for the highest paid Director was £nil (2017: £41,547).

There were no loss of office payments to Directors in 2018 (2017: £nil).

(e) Auditors' remuneration

	2018 £m	2017 £m
Audit services		
Audit of the parent Company's individual and consolidated financial statements	0.3	0.3
Other services supplied		
Fees payable to the Company's auditors for audit related assurance services	0.5	0.3
Other non-audit fees	0.1	0.5

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

3. Exceptional items and remeasurements

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

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

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

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

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

	2018	2017
	£m	£m
Included within finance costs:		
<i>Exceptional items:</i>		
Debt redemption costs ¹	-	(481)
<i>Remeasurements:</i>		
Net gains/(losses) on derivative financial instruments ²	9	(19)
Total included within profit before tax	9	(500)
Included within tax (note 5):		
<i>Exceptional credits arising on items not included in profit before tax:</i>		
Deferred tax credit arising on the reduction in UK corporation tax rate ³	-	56
Tax on exceptional items	-	96
Tax on remeasurements	(2)	4
	(2)	156
Total exceptional items and remeasurements after tax	7	(344)
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	-	(329)
Total remeasurements after tax	7	(15)
Total	7	(344)

3. Exceptional items and remeasurements (continued)

Items included within finance costs

- 1 During the prior financial year, the Company completed a public bond tender as part of a restructure to the National Grid plc financing portfolios. The Company re-purchased external fixed rate debt with a carrying value of £880m at a fair market value of £1,307m resulting in a cash loss of £427m. There was also unrealised loss of £105m taken to income statement on cash flow hedge de-designations which was partially offset by an unrealised gain of £51m resulting from the release of historic fair value hedge reserves designated against the repurchased fixed rate debt. The net position was a loss of £481m recorded in the consolidated income statement.
- 2 Remeasurements - net gains/losses arising from derivative instrument fair value movement reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt.

Items included within tax

- 3 The Finance Act 2016 which was enacted on 15 September 2016 reduced the main rate of UK corporation tax to 17% with effect from 1 April 2020. Deferred tax balances have been calculated at this rate. Deferred taxes at the reporting date have been measured using these enacted tax rates and reflected in these financial statements resulting in a deferred tax credit. This credit is presented as exceptional reflecting its nature.

4. Finance income and costs

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

	2018 £m	2017 £m
Finance income		
Interest income on financial instruments	1	2
	1	2
Finance costs		
Net interest on pension obligations (note 17)	(11)	(7)
<i>Interest expense on finance liabilities held at amortised cost:</i>		
Bank loans and overdrafts	(54)	(38)
Other borrowings	(230)	(210)
Derivatives	18	13
Unwinding of discount on provisions	(2)	(4)
Less: interest capitalised ¹	90	84
	(189)	(162)
Exceptional items:		
Debt redemption costs	-	(481)
Remeasurements:		
Net gains/(losses) on derivative financial instruments included in remeasurements ² :		
<i>Ineffectiveness on derivatives designated as:</i>		
Ineffectiveness on derivatives designated as fair value hedges ³	8	12
Ineffectiveness on derivatives designated as cash flow hedges	2	(9)
Derivatives not designated as hedges or ineligible for hedge accounting	(1)	(22)
	9	(500)
Finance costs after exceptional items and remeasurements	(180)	(662)
Net finance costs	(179)	(660)

¹ Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 4.2% (2017: 3.5%). Capitalised interest qualifies for a current year tax deduction with tax relief claimed of £17m (2017: £17m).

² Includes a net foreign exchange gain on financing activities of £30m (2017: £127m loss). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

³ Includes a net loss on instruments designated as fair value hedges of £18m (2017: £9m loss), and a net gain of £26m (2017: £21m gain) arising from fair value adjustments to the carrying value of debt.

5. Tax

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

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

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

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

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

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

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

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

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

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

Tax charged to the income statement

	2018	2017
	£m	£m
Tax before exceptional items and remeasurements	163	243
Exceptional tax on items not included in profit before tax (note 3)	-	(56)
Tax on other exceptional items and remeasurements (note 3)	2	(100)
Tax on total exceptional items and remeasurements (note 3)	2	(156)
Total tax charge	165	87

Tax as a percentage of profit before tax

	2018	2017
	%	%
Before exceptional items and remeasurements	19.3	20.5
After exceptional items and remeasurements	19.3	12.7

5. Tax (continued)

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

	2018 £m	2018 £m
<i>Current tax</i>		
Corporation tax at 19% (2017: 20%)	118	84
Corporation tax adjustment in respect of prior years	2	3
Total current tax	120	87
<i>Deferred tax</i>		
Deferred tax	45	2
Deferred tax adjustment in respect of prior years	-	(2)
Total deferred tax	45	-
Total tax charge	165	87

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

	2018 £m	2017 £m
<i>Current tax</i>		
Share-based payments	(1)	(2)
<i>Deferred tax</i>		
Cash flow hedges	2	14
Share-based payments	2	1
Remeasurements of net retirement benefit obligations	84	(46)
	87	(33)
Analysed as:		
Total tax recognised in the statement of other comprehensive income	86	(32)
Total tax relating to share-based payment recognised directly in equity	1	(1)
	87	(33)

The tax charge for the year after exceptional items and remeasurements is higher than (2017: lower than) the standard rate of corporation tax in the UK of 19% (2017: 20%):

	Before exceptional items and remeasure- ments 2018 £m	After exceptional items and remeasure- ments 2018 £m	Before exceptional items and remeasure- ments 2017 £m	After exceptional items and remeasure- ments 2017 £m
Profit before tax				
Before exceptional items and remeasurements	845	845	1,186	1,186
Exceptional items and remeasurements (note 3)	-	9	-	(500)
Profit before tax after exceptional items and remeasurements	845	854	1,186	686
Profit before tax multiplied by UK corporation tax rate of 19% (2017: 20%)	160	162	237	137
Effect of:				
Adjustments in respect of prior years	2	2	1	1
Expenses not deductible for tax purposes	8	8	9	9
Non taxable income	(2)	(2)	(3)	(3)
Impact of share-based payments	-	-	(1)	(1)
Deferred tax impact of change in UK tax rate	(5)	(5)	-	(56)
Total tax charge	163	165	243	87
	%	%	%	%
Effective tax rate	19.3	19.3	20.5	12.7

Factors that may affect future tax charges

The Finance Act 2016 which was enacted on 15 September 2016 reduced the main rate of UK corporation tax to 17% with effect from 1 April 2020. Deferred tax balances have been calculated at this rate.

5. Tax (continued)

Tax included within the statement of financial position

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

Deferred tax liabilities/(assets)

	Accelerated tax depreciation £m	Share- based payment £m	Pensions £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2016	-	(6)	(48)	(15)	(2)	(71)
Deferred tax liabilities at 31 March 2016	879	-	-	-	1	880
At 1 April 2016	879	(6)	(48)	(15)	(1)	809
(Credited)/charged to income statement	(8)	-	8	-	-	-
(Credited)/charged to other comprehensive income	-	1	(46)	14	-	(31)
At 31 March 2017	871	(5)	(86)	(1)	(1)	778
Deferred tax assets at 31 March 2017	-	(5)	(86)	(1)	(2)	(94)
Deferred tax liabilities at 31 March 2017	871	-	-	-	1	872
At 1 April 2017	871	(5)	(86)	(1)	(1)	778
Charged to income statement	37	1	6	-	-	44
Charged to other comprehensive income	-	2	84	2	-	88
At 31 March 2018	908	(2)	4	1	(1)	910
Deferred tax assets at 31 March 2018	-	(2)	-	-	(1)	(3)
Deferred tax liabilities at 31 March 2018	908	-	4	1	-	913
At 31 March 2018	908	(2)	4	1	(1)	910

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £910m (2017: £778m).

6. Dividends

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

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

The following table shows the dividends paid to the equity shareholder:

	2018		2017		£m
	pence (per ordinary share)	£m	pence (per ordinary share)	£m	
Ordinary dividends					
Interim dividend paid in the year	160.18	700	34.30		150

7. Intangible assets

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

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.

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

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

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

	Software £m
Cost at 1 April 2016	385
Additions	96
Disposals	(14)
Cost at 31 March 2017	467
Additions	56
Disposals	(16)
Reclassifications ¹	3
Transfers ²	10
Cost at 31 March 2018	520
Accumulated amortisation at 1 April 2016	(180)
Amortisation charge for the year	(28)
Disposals	10
Accumulated amortisation at 31 March 2017	(198)
Amortisation charge for the year	(51)
Disposals	2
Accumulated amortisation at 31 March 2018	(247)
Net book value at 31 March 2018	273
Net book value at 31 March 2017	269

¹ Reclassification represents amounts transferred from property, plant and equipment (see note 8).

² Transfers represents assets transferred from other group undertaking in the year.

8. Property, plant and equipment

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

Our strategy in action

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

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

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

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

Contributions received prior to 1 July 2009 towards the cost of property, plant and equipment are included in trade and other payables as deferred income and credited on a straight-line basis to the income statement over the estimated useful economic lives of the assets to which 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 assessments of estimated useful economic lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	<u>Years</u>
Freehold and leasehold buildings	up to 50
Plant and Machinery	
- Electricity Transmission plant	15 to 100
Motor vehicles and office equipment	<u>up to 7</u>

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

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

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

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

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

8. Property, plant and equipment (continued)

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2016	670	12,541	2,941	189	16,341
Additions	19	93	818	2	932
Disposals	-	(58)	(15)	(1)	(74)
Reclassifications	72	988	(957)	(84)	19
Cost at 31 March 2017	761	13,564	2,787	106	17,218
Additions	20	145	769	10	944
Disposals ¹	(1)	(272)	(12)	-	(285)
Reclassifications ²	90	684	(780)	3	(3)
Transfers ³	4	-	-	1	5
Cost at 31 March 2018	874	14,121	2,764	120	17,879
Accumulated depreciation at 1 April 2016	(99)	(4,430)	-	(76)	(4,605)
Depreciation charge for the year	(14)	(369)	-	(8)	(391)
Disposals	-	58	-	-	58
Accumulated depreciation at 31 March 2017	(113)	(4,741)	-	(84)	(4,938)
Depreciation charge for the year	(12)	(393)	-	(8)	(413)
Disposals ¹	-	272	-	-	272
Reclassifications ²	(2)	2	-	-	-
Accumulated depreciation at 31 March 2018	(127)	(4,860)	-	(92)	(5,079)
Net book value at 31 March 2018	747	9,261	2,764	28	12,800
Net book value at 31 March 2017	648	8,823	2,787	22	12,280

¹ Disposals includes £166m of nil net book value assets written off.

² Reclassifications represents transfers between asset categories and to intangible assets.

³ Transfers represents assets transferred from another group undertaking in the year.

	2018 £m	2017 £m
Information in relation to property, plant and equipment:		
Capitalised interest included within cost	1,401	1,311
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	46	43
Non-current liabilities	387	359

9. Financial and other investments

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

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

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

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

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

	2018 £m	2017 £m
Current		
Loans and receivables - amounts due from fellow subsidiaries	1	1
Loans and receivables - restricted cash balances ¹	223	349
Total financial and other investments	224	350

¹ Comprises collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA (International Swaps and Derivatives Association) Master Agreement £223m (2017: £349m).

10. Derivative financial instruments

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

Derivative financial instruments are initially recognised at fair value and subsequently remeasured at fair value at each reporting date. Changes in fair values are recorded in the period they arise, either in the income statement or other comprehensive income as required by IAS 39 Financial Instruments: Recognition and Measurement. Where the fair value of a derivative is positive, it is carried as a derivative asset, and where negative as a derivative liability.

We calculate fair value of the financial derivatives by discounting all future cash flows by the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. Analysis of these derivatives and the various methods used to calculate their respective fair values is detailed below and in note 23.

10. Derivative financial instruments (continued)

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

	2018			2017		
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£m	£m	£m	£m	£m	£m
Interest rate swaps	366	(314)	52	439	(389)	50
Cross-currency interest rate swaps	53	(47)	6	63	(54)	9
Foreign exchange forward contracts ¹	1	(2)	(1)	1	(1)	-
Inflation linked swaps	-	(158)	(158)	-	(272)	(272)
Total	420	(521)	(101)	503	(716)	(213)

¹ Included within the foreign exchange forward contracts balance is £(1)m (2017: £(1)m) of derivatives in relation to capital expenditure.

The maturity profile of derivative financial instruments is as follows:

	2018			2017		
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£m	£m	£m	£m	£m	£m
Current	25	(132)	(107)	27	(246)	(219)
In 1 - 2 years	-	(31)	(31)	-	(20)	(20)
In 2 - 3 years	-	-	-	-	(11)	(11)
In 3 - 4 years	-	-	-	-	-	-
In 4 - 5 years	-	-	-	-	-	-
More than 5 years	395	(358)	37	476	(439)	37
Non-current	395	(389)	6	476	(470)	6
Total	420	(521)	(101)	503	(716)	(213)

For each class of derivative the notional contract amounts¹ are as follows:

	2018	2017
	£m	£m
Interest rate swaps	(3,416)	(3,494)
Cross-currency interest rate swaps	(620)	(1,236)
Foreign exchange forward contracts	(223)	(229)
Inflation linked swaps	(494)	(639)
Total	(4,753)	(5,598)

¹ The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the reporting date.

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

Hedge accounting allows derivatives to be designated as a hedge of another non-derivative financial instrument, to mitigate the impact of potential volatility in the income statement of changes in the fair value of the derivative financial instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement.

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 offset 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.

	2018	2017
	£m	£m
Cross-currency interest rate/interest rate swaps	52	71

10. Derivative financial instruments (continued)

Cash flow hedges

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

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

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

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

	2018 £m	2017 £m
Cross-currency interest rate/interest rate swaps	(24)	(45)
Foreign exchange forward contract	(1)	-
	(25)	(45)

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.

	2018 £m	2017 £m
Cross-currency interest rate/interest rate swaps	30	33
Inflation linked swaps	(158)	(272)
Derivatives not in a formal hedge relationship	(128)	(239)

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, unless the hedged item is no longer expected to occur and then the amounts would be recognised immediately. For fair value hedges, the cumulative adjustment recorded to the carrying value of the hedged item at the date hedge accounting is discontinued is amortised to the income statement using the effective interest method.

Embedded derivatives

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

11. Inventories

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

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

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

	2018	2017
	£m	£m
Raw materials, spares and consumables	42	44

The above table includes a £12m provision for obsolescence against raw materials and consumables at 31 March 2018 (2017: £15m).

12. Trade and other receivables

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

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

Trade receivables are non-interest bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade and other receivables approximates to their book value. All other receivables are recorded at amortised cost. The provision as at 31 March 2018 was £4m (2017: £3m).

	2018	2017
	£m	£m
Current		
Trade receivables	45	88
Amounts owed by fellow subsidiary undertakings	10	35
Prepayments and accrued income	209	249
Other receivables	35	21
	299	393

	2018	2017
	£m	£m
Non-current		
Prepayments	11	-
	11	-

Provision for impairment of receivables	2018	2017
	£m	£m
At 1 April	3	2
Charge for the year, net of recoveries	1	1
As at 31 March	4	3

Trade receivables past due but not impaired	2018	2017
	£m	£m
Up to 3 months past due	8	23
3 to 6 months past due	1	-
Over 6 months past due	2	2
	11	25

For further information on our wholesales and retail credit risk, refer to note 23(a).

13. Cash and cash equivalents

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

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

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

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

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 23(d).

	2018	2017
	£m	£m
Cash at bank and short-term deposits	11	17
Net cash and cash equivalents	11	17

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

14. Borrowings

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

Our strategy in action

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

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

	2018 £m	2017 £m
Current		
Bank loans	151	117
Bonds	595	615
Borrowings from fellow subsidiary undertakings	1	1
Borrowings from the ultimate parent company	1,580	769
	2,327	1,502
Non-current		
Bank loans	1,731	1,740
Bonds	3,276	3,796
Borrowings from the ultimate parent company	350	342
	5,357	5,878
Total	7,684	7,380
Total borrowings are repayable as follows:	2018 £m	2017 £m
Less than 1 year	2,327	1,502
In 1 - 2 years	221	541
In 2 - 3 years	434	242
In 3 - 4 years	350	418
In 4 - 5 years	113	-
More than 5 years		
by instalments	901	919
other than by instalments	3,338	3,758
	7,684	7,380

The fair value of borrowings at 31 March 2018 was £9,007m (2017: £8,680m). Where market values were available, fair value of borrowings (Level 1) was £1,264m (2017: £2,127m). Where market values are not available, fair value of borrowings (Level 2) was £7,743m (2017: £6,553m), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio as at 31 March 2018 was £7,559m (2017: £7,228m).

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £96m (2017: £103m) in respect of cash received under collateral agreements.

At 31 March 2018, we had committed credit facilities of £1,515m (2017: £1,515m) of which £1,515m was undrawn (2017: £1,515m undrawn). All of the unused facilities at 31 March 2018 and at 31 March 2017 are available for liquidity purposes.

Of the £1,515m of undrawn committed borrowing facilities due to expire within 1 to 2 years, £725m was renegotiated before 31 March 2018, with effect from 1 June 2018. This amount has increased to £850m with the expiry extended to more than 5 years.

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

15. Trade and other payables

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

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

	2018 £m	2017 £m
Trade payables	484	541
Amounts owed to fellow subsidiaries of National Grid plc	83	38
Deferred income	284	206
Social security and other taxes	86	72
Other payables	27	30
	964	887

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

16. Other non-current liabilities

Other non-current liabilities includes deferred income which will not be recognised as income until after 31 March 2018. It also includes payables that are not due until after that date.

	2018 £m	2017 £m
Deferred income	413	384
Other payables	83	75
	496	459

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

17. Pensions

Many of National Grid Electricity Transmission's employees are members of the National Grid Electricity Group (NGEG) of the Electricity Supply Pension Scheme, which is a defined benefit scheme or The National Grid YouPlan (YouPlan) which is a defined contribution trust. YouPlan was launched in 2013 and under the rules of the plan, National Grid double matches contributions to YouPlan up to a maximum of 6% of employee salary. YouPlan is the qualifying scheme used for automatic enrolment and new hires are enrolled into YouPlan.

The fair value of defined benefit scheme assets and present value of defined benefit obligations are updated annually in accordance with IAS 19 (revised).

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

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

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

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

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

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

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

Risks

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

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

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

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

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

17. Pensions (continued)

Actuarial information

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

The last full actuarial valuation for the NGEG was carried out at 31 March 2016 and determined that the scheme was in deficit. National Grid and the Trustee agreed on a schedule of contribution, whereby deficit funding contributions of £48 million are payable each year from 2016/17 onwards until 31 March 2027. All deficit funding amounts due will be adjusted for the change in the Retail Price Index (RPI). The funding shortfall is expected to be eliminated by 31 March 2027.

The employer will also contribute 40.7% of pensionable earnings (less an average of 7% paid by employees). The next actuarial valuation is required with an effective date of no later than 31 March 2019.

Latest full actuarial valuation	31 March 2016
Actuary	Aon Hewitt
Market value of scheme assets at latest valuation	£2,553m
Actuarial value of benefits due to members	(£3,053m)
Market value as percentage of benefits	84%
Funding deficit	£500m
Funding deficit (net of tax)	£415m

Accounting entries for pensions are updated annually. The following information relates to the amounts included in the annual report in accordance with our accounting policies.

The scheme closed to new members from 1 April 2006.

Amounts recognised in the statement of financial position

	2018 £m	2017 £m
Present value of funded obligations	(2,979)	(3,372)
Fair value of scheme assets	3,052	2,916
	73	(456)
Present value of unfunded obligations	(46)	(51)
Net defined benefit assets/(liabilities)	27	(507)
Represented by:		
Assets	73	-
Liabilities	(46)	(507)
	27	(507)

17. Pensions (continued)**Amounts recognised in the income statement and the statement of other comprehensive income**

	2018	2017
	£m	£m
Included within payroll costs (note 2(a))		
Defined contribution scheme costs	15	17
<i>Defined benefit scheme costs:</i>		
Current service cost	28	27
Contributions from other employers	-	(3)
Past service credit cost/(credit)	1	(1)
Special termination benefit cost - redundancies	-	3
Settlement cost/(credit)	3	(2)
Past service cost - augmentations	-	1
Curtailement cost	(1)	-
Total operating cost (defined benefit and defined contribution)	46	42
Included within finance income and costs (note 4)		
Interest cost	11	7
Total included in the income statement	57	49
Actuarial gain/(loss) on defined benefit obligations in the year	384	(606)
Return on assets greater than discount rate	110	328
Total included in the statement of other comprehensive income	494	(278)

Reconciliation of the net defined benefit liability

	2018	2017
	£m	£m
Opening net defined benefit liability	(507)	(270)
Net cost recognised in the income statement	(40)	(35)
Remeasurement effects recognised in the statement of other comprehensive income	494	(278)
Employer contributions	80	76
Closing net defined benefit liability	27	(507)

17. Pensions (continued)

	2018	2017
	£m	£m
Changes in the present value of defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligations	(3,423)	(2,826)
Current service cost	(31)	(27)
Interest cost	(80)	(91)
Actuarial gains - experience	(7)	11
Actuarial gains/(losses) - financial assumptions	154	(617)
Actuarial gains/(losses) - demographic assumptions	237	-
Past service credit - redundancies	-	1
Special termination benefit cost - redundancies	-	(3)
Past service cost - augmentations	-	(1)
Settlement of defined benefit obligation	-	13
Employee contributions	(1)	(1)
Benefits paid	110	118
Net transfers	16	-
Closing defined benefit obligations	(3,025)	(3,423)
Changes in the fair value of plan assets		
Opening fair value of plan assets	2,916	2,556
Interest income	69	84
Return on assets greater than assumed	110	328
Employer contributions	80	76
Employee contributions	1	1
Settlement of assets	-	(11)
Benefits paid	(110)	(118)
Net transfers	(14)	-
Closing fair value of plan assets	3,052	2,916
Actual return on plan assets	179	412
Expected contributions to plans in the following year	78	72

Asset allocations

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

	2018	2018	2018	2017	2017	2017
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	£m	£m	£m	£m	£m	£m
Equities	453	335	788	949	98	1,047
Corporate bonds	360	-	360	48	-	48
Government securities	-	-	-	138	-	138
Property	129	122	251	90	91	181
Liability matching assets	1,174	-	1,174	1,412	-	1,412
Diversified alternatives ¹	99	-	99	-	-	-
Other	211	169	380	63	27	90
Total	2,426	626	3,052	2,700	216	2,916

¹ Includes return seeking non-conventional asset classes.

Target asset allocations

The scheme's investment strategy is formulated specifically in order to manage risk, through investment in diversified asset classes, including the use of liability matching assets and where appropriate through the employment of interest rate and inflation hedging instruments. The target asset allocation of the plans as at 31 March 2018 is as follows:

	2018	2017
	%	%
Equities	15	36
Other	85	64
Total	100	100

17. Pensions (continued)

Actuarial assumptions

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

	2018	2017
	%	%
Discount rate ¹	2.6	2.4
Rate of increase in salaries ²	3.4	3.5
Rate of increase in Retail Price Index ³	3.2	3.2

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

² A promotional scale has also been used where appropriate. The assumption stated is that relating to service prior to 1 April 2013. The assumption for the rate of increase in salaries for service after this date is 2.2% (2017: 2.2%).

³ This is the key assumption that determines assumed increases in pensions in payment and deferment. Consistent with the derivation of the discount rate, the RPI assumption reflects the duration of the active liabilities to be adopted in the calculation of the future service obligations. This approach leads to a RPI assumption for the future service rate of 3.10% p.a. at reporting date (2017: 3.15%), as compared to the 2017 published assumption of 3.20% for both past service and future service.

For sensitivity analysis, see note 24.

	2018	2017
	years	years
Assumed life expectations for a retiree at age 65		
Today:		
Males	23.4	25.0
Females	24.7	25.7
In 20 years:		
Males	24.7	27.3
Females	26.4	28.5

18. Provisions

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

Our strategy in action

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

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

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

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

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

	Environmental £m	Other £m	Total provisions £m
At 1 April 2016	70	16	86
Additions	10	3	13
Unused amounts reversed	(21)	-	(21)
Unwinding of discount	3	1	4
Utilised	(2)	(6)	(8)
At 31 March 2017	60	14	74
Additions	-	1	1
Unused amounts reversed	(10)	(2)	(12)
Unwinding of discount	2	-	2
Utilised	(3)	(1)	(4)
At 31 March 2018	49	12	61
		2018	2017
		£m	£m
Current		8	11
Non-current		53	63
		61	74

Environmental provision

The environmental provision is calculated on an discounted basis and represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Group (discounted using a real rate of 1.0%). Cash flows are expected to be incurred between 2018 and 2069. As a result of an improvement to the estimates used in the environmental provision, £10m was released to the income statement during the year. The undiscounted amount is £58m (2017: £75m).

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

Other provisions

The two most significant other provisions are a health and safety claim provision of £3m and employer liability claims of £6m (2017: £6m). In accordance with insurance industry practice, the estimate of employer liability claims is based on experience from previous years and there is therefore no identifiable payment date.

19. Share capital

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

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

	Number of shares millions	£m
At 31 March 2017 and 2018 - ordinary shares of 10p each		
Allotted, called-up and fully paid	437	44

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

20. Net Debt

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

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

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

	2018 £m	2017 £m
(Decrease)/increase in cash and cash equivalents	(6)	15
Decrease in financial investments	(127)	(76)
Increase in borrowings and related derivatives	(78)	(94)
Net interest paid on the components of net debt	126	604
Change in net debt resulting from cash flows	(85)	449
Changes in fair value of financial assets and liabilities and exchange movements	26	58
Net interest charge on the components of net debt	(265)	(714)
Other non cash movements	-	-
Movement in net debt (net of related derivative financial instruments) in the year	(324)	(207)
Net debt (net of related derivative financial instruments) at start of year	(7,226)	(7,019)
Net debt (net of related derivative financial instruments) at end of year	(7,550)	(7,226)

Composition of net debt

	2018 £m	2017 £m
Cash, cash equivalents and financial investments	235	367
Borrowings and bank overdrafts	(7,684)	(7,380)
Derivatives	(101)	(213)
Total net debt	(7,550)	(7,226)

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Total £m
At 1 April 2016	2	426	(7,194)	(253)	(7,019)
Cash flow	15	(76)	539	(29)	449
Fair value gains and losses and exchange movements	-	-	(103)	161	58
Interest charges	-	-	(622)	(92)	(714)
At 31 March 2017	17	350	(7,380)	(213)	(7,226)
Cash flow	(6)	(127)	(78)	126	(85)
Fair value gains and losses and exchange movements	-	-	58	(32)	26
Interest charges	-	1	(284)	18	(265)
At 31 March 2018	11	224	(7,684)	(101)	(7,550)
Balances at 31 March 2018 comprise:					
Non-current assets	-	-	-	395	395
Current assets	11	224	-	25	260
Current liabilities	-	-	(2,327)	(132)	(2,459)
Non-current liabilities	-	-	(5,357)	(389)	(5,746)
	11	224	(7,684)	(101)	(7,550)

21. Commitments and contingencies

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

	2018	2017
	£m	£m
Future capital expenditure		
Contracted for but not provided	789	1,003
Operating lease commitments		
Amounts due:		
Less than 1 year	13	12
In 1 - 2 years	10	10
In 2 - 3 years	6	7
In 3 - 4 years	4	4
In 4 - 5 years	1	3
More than 5 years	-	1
	34	37

Other commitments, contingencies and guarantees

Guarantees in respect of a former associate amounting to £13m (2017: £13m). These are open ended.

Other commitments, contingencies and guarantees in the normal course of business and entered into on normal commercial terms amounted to £1,341m (2017: £1,489m). These include guarantees of certain obligations for construction of the HVDC West Coast link amounting to £125m (2017: £280m), expected to expire in 2018.

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

22. Related party transactions

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

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

	2018 £m	2017 £m
Income:		
Goods and services supplied ¹	37	33
Interest received on advances to fellow subsidiary undertakings	-	-
	37	33
Expenditure:		
Services received ²	146	(212)
Corporate services received	17	(17)
Interest paid on borrowings from fellow subsidiary undertakings	(17)	(9)
	146	(238)
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:		
Amounts receivable ³	10	36
Amounts payable	83	(39)
Advances to fellow subsidiary undertakings (amounts due within one year):		
At 31 March	1	1
Borrowings payable to fellow subsidiary undertakings (amounts due within one year):		
At 31 March	(1,581)	(770)
Borrowings payable to fellow subsidiary undertakings (amounts due after one year):		
At 31 March	(350)	(342)

¹ Includes £7m in respect of joint ventures (2017: £5m).

² Includes £137m in respect of joint ventures (2017: £160m).

³ Includes £nil in respect of joint ventures (2017: £1m).

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

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

23. Financial risk management

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

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

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

We have exposure to the following risks, which are described in more detail below:

- credit risk
- liquidity risk
- interest rate risk
- currency risk
- capital risk

(a) Credit risk

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

Treasury credit risk

Counterparty risk arises from the investment of surplus funds and from the derivative instruments. The Company's limits are managed by the central treasury department of National Grid plc, as explained in the principal risks on pages 18 to 20.

As at 31 March 2018 and 2017, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Management does not expect any significant losses from non performance by these counterparties.

Wholesale and retail credit risk

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

Offsetting financial assets and liabilities

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

23. Financial risk management (continued)

(a) Credit risk (continued)

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

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

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

	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Related amounts available to be offset but not offset in statement of financial position		Net amount £m
				Financial instruments £m	Cash collateral received/pledged £m	
As at 31 March 2018						
Assets						
Derivative financial instruments	420	-	420	(254)	(96)	70
Liabilities						
Derivative financial instruments	(521)	-	(521)	254	222	(45)
Total	(101)	-	(101)	-	126	25

	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Related amounts available to be offset but not offset in statement of financial position		Net amount £m
				Financial instruments £m	Cash collateral received/pledged £m	
As at 31 March 2017						
Assets						
Derivative financial instruments	503	-	503	(320)	(103)	80
Liabilities						
Derivative financial instruments	(716)	-	(716)	320	346	(50)
Total	(213)	-	(213)	-	243	30

(b) Liquidity risk

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

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

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

23. Financial risk management (continued)

(b) Liquidity risk (continued)

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:

	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
At 31 March 2018					
Non-derivative financial liabilities					
Borrowings	(2,284)	(221)	(434)	(4,620)	(7,559)
Interest payments on borrowings ¹	(120)	(114)	(103)	(1,547)	(1,884)
Other non-interest bearing liabilities	(594)	(83)	-	-	(677)
Derivative financial liabilities					
Derivative contracts - receipts	241	98	70	128	537
Derivative contracts - payments	(245)	(119)	(48)	(307)	(719)
Total at 31 March 2018	(3,002)	(439)	(515)	(6,346)	(10,302)
At 31 March 2017					
Non-derivative financial liabilities					
Borrowings	(1,457)	(541)	(240)	(4,990)	(7,228)
Interest payments on borrowings ¹	(136)	(115)	(109)	(1,654)	(2,014)
Other non-interest bearing liabilities	(571)	(75)	-	-	(646)
Derivative financial liabilities					
Derivative contracts - receipts	328	231	94	102	755
Derivative contracts - payments	(399)	(246)	(107)	(286)	(1,038)
Total at 31 March 2017	(2,235)	(746)	(362)	(6,828)	(10,171)

¹ The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating-rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle.

(c) Interest rate risk

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

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

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

During 2018 and 2017, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2018			
	Fixed rate £m	Floating rate £m	RPI £m	Total £m
Cash	-	11	-	11
Financial investments	-	224	-	224
Borrowings	(1,552)	(1,975)	(4,157)	(7,684)
Pre-derivative position	(1,552)	(1,740)	(4,157)	(7,449)
Derivative effect	221	(272)	(50)	(101)
Net debt position¹	(1,331)	(2,012)	(4,207)	(7,550)

23. Financial risk management (continued)

(c) Interest rate risk (continued)

	2017			
	Fixed	Floating	RPI	Total
	rate	rate		
	£m	£m	£m	£m
Cash	-	17	-	17
Financial investments	-	350	-	350
Borrowings	(2,054)	(1,304)	(4,022)	(7,380)
Pre-derivative position	(2,054)	(937)	(4,022)	(7,013)
Derivative effect	361	(408)	(166)	(213)
Net debt position¹	(1,693)	(1,345)	(4,188)	(7,226)

¹ The impact of 2018/19 (2017: 2017/18) maturing short-dated interest rate derivatives is included

(d) Currency risk

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

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

During 2018 and 2017, derivative financial instruments were used to manage foreign currency risk as follows:

	2018			
	Sterling	Euro	Other	Total
	£m	£m	£m	£m
Cash	11	-	-	11
Financial investments	224	-	-	224
Borrowings	(6,989)	(280)	(415)	(7,684)
Pre-derivative position	(6,754)	(280)	(415)	(7,449)
Derivative effect	(892)	364	427	(101)
Net debt position	(7,646)	84	12	(7,550)

	2017			
	Sterling	Euro	Other	Total
	£m	£m	£m	£m
Cash	17	-	-	17
Financial investments	350	-	-	350
Borrowings	(6,069)	(275)	(1,036)	(7,380)
Pre-derivative position	(5,702)	(275)	(1,036)	(7,013)
Derivative effect	(1,739)	469	1,057	(213)
Net debt position	(7,441)	194	21	(7,226)

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

23. Financial risk management (continued)

(e) Capital risk management

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

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by regulatory asset value (RAV) gearing calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our regulated business. The RAV gearing ratio at 31 March 2018 was 58% compared with 58% at 31 March 2017. We regularly review and maintain or adjust the capital structure as appropriate in order to manage the level of RAV gearing. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for our business, at around 60%.

(f) Fair value analysis

Included in the statement of financial position are financial instruments which have been 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.

	2018				2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Derivative financial instruments	-	420	-	420	-	503	-	503
Liabilities								
Derivative financial instruments	-	(383)	(138)	(521)	-	(464)	(252)	(716)
Total	-	37	(138)	(101)	-	39	(252)	(213)

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

Our level 3 derivative financial instruments include inflation linked swaps where the inflation curve is illiquid. In valuing these instruments we use in-house valuation models and obtain external valuations to support each reported fair value.

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

	2018 Level 3 valuation £m	2017 Level 3 valuation £m
At 1 April	(252)	(124)
Net gains/(losses) for the year ¹	9	(23)
Settlements	105	-
Reclassification into level 3 ²	-	(105)
At 31 March	(138)	(252)

¹ Gains of £9m (2017: £23m losses) are attributable to assets or liabilities held at the end of the reporting period and have been recognised in finance costs in the income statement.

² Sterling RPI swaps reclassified from level 2 into level 3 in the year to March 2017.

23. Financial risk management (continued)

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

	2018	2017
	Income	Income
	Statement	Statement
	£m	£m
+20 basis point change in Limited Price Inflation (LPI) market curve	(52)	(58)
-20 basis point change in LPI market curve	51	55

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

24. Sensitivities

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

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

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 2018 would result in a decrease in the income statement of £20 million and a 10% decrease in unbilled revenue would have the equal but opposite effect.

(a) Sensitivities on areas of judgement and key sources of estimation uncertainty

The table below sets out the sensitivity analysis for each of the areas of estimation uncertainty. These estimates are those that have a significant risk of resulting in material adjustments to the carrying values of assets and liabilities in the next year.

	2018		2017	
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
Pensions obligations benefit (pre-tax) ¹				
Discount rate change of 0.5% ²	3	244	6	333
RPI rate change of 0.5% ³	2	257	4	309
Change in long-term rate of increase in salaries change of 0.5% ⁴	1	36	1	45
Change of one year to life expectancy at age 65	1	119	1	130
One year average increase in useful economic lives (pre-tax)				
Depreciation charge on property, plant and equipment	13	13	9	9
Amortisation charge on intangible assets	9	9	1	1
Environmental provision:				
10% change in estimated future cash flows	4	4	5	5
1% change in discount rate	7	7	7	7
Unbilled revenue at 31 March change of 10% (post-tax)	20	20	22	22

¹ The changes shown are a change in the annual pension or other post-retirement benefit service charge and change in the defined benefit obligations.

² A change in the discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans.

³ The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.

⁴ This change has been applied to both the pre 1 April 2014 and post 1 April 2014 rate of increase in salary assumption.

Pensions and post retirement benefits assumptions

Sensitivities have been prepared to show how the DB obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 2018. In preparing sensitivities the potential impact has been calculated by applying the change to each assumption in isolation and assuming all other assumptions remain unchanged. This is with the exception of RPI in the UK where the corresponding change to increases to pensions in payment, increases to pensions in deferment and increases in salary is recognised.

24. Sensitivities (continued)

(b) Sensitivities on financial instruments

We are further required to show additional sensitivity analysis under IFRS 7 Financial Instruments: Disclosures and these are shown separately in the subsequent table due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

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

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

- 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 2018 and 2017 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.

	2018		2017	
	Income statement £m	Other equity reserves £m	Income statement £m	Other equity reserves £m
Financial risk (post-tax)				
UK RPI rate change of 0.5% ¹	17	-	16	-
UK interest rate changes of 0.5%	8	18	5	22

Assets and liabilities carried at fair value (pre-tax)

	2018		2017	
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
10% fair value change in derivative financial instruments ²	(10)	(10)	(21)	(21)

¹ Excludes sensitivities to LPI curve. Further details on sensitivities are provided in note 23 (f).

² The effect of a 10% change in fair value assumes no hedge accounting.

25. Ultimate parent company

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

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

26. Subsidiary undertakings, joint ventures and associates

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

Subsidiary undertakings

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

	Principal activity	Holding
Elxon Limited ¹	Electricity market Balance and Settlement Code company for Great Britain	100%
NGC Employees Shares Trustee Limited	Trustee of the NGC profit sharing scheme and NGC Employee Trust	50%
National Grid Electricity Group Trustee Limited	Pension nominee company	100%

¹ National Grid Electricity Transmission does not consolidate its wholly owned subsidiary Elxon Limited, as it has no control over Elxon.

All subsidiaries are incorporated in England and Wales.

Joint ventures

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

	Principal activity	Holding
NGET/SPT Upgrades Limited	Construction services for the England-Scotland interconnector	50%

Associates

The list below contains all associates included within the National Grid Electricity Transmission plc Group.

	Principal activity	Holding
Coreso SA (incorporated in Belgium)	Associate in relation to a European regional transmission operations coordination centre	16%

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

Appendices

Appendix 1 – Supplementary analysis of consolidated financial statements by regulatory business

The schedules in this appendix provide a supplementary analysis of the primary financial statements by regulatory business, together with relevant supporting notes. This appendix should be read in conjunction with the consolidated financial statements of the Company, set out on pages 45 to 88, which provide details in respect of the Company in total not included in this appendix.

Regulatory consolidated income statement

for the years ended 31 March

	Notes	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
		2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Revenue		4,098	60	4,158	4,385	54	4,439
Operating costs	A	(3,075)	(50)	(3,125)	(3,051)	(42)	(3,093)
Operating profit		1,023	10	1,033	1,334	12	1,346
Finance income	C	1	-	1	2	-	2
Finance costs							
Before exceptional items and remeasurements	C	(189)	-	(189)	(162)	-	(162)
Exceptional items and remeasurements	B, C	9	-	9	(500)	-	(500)
Total finance costs	C	(180)	-	(180)	(662)	-	(662)
Profit before tax							
Before exceptional items and remeasurements		835	10	845	1,174	12	1,186
Exceptional items and remeasurements	B	9	-	9	(500)	-	(500)
Total profit before tax		844	10	854	674	12	686
Tax							
Before exceptional items and remeasurements	D	(160)	(3)	(163)	(241)	(2)	(243)
Exceptional items and remeasurements	B, D	(2)	-	(2)	156	-	156
Total tax	D	(162)	(3)	(165)	(85)	(2)	(87)
Profit after tax							
Before exceptional items and remeasurements		675	7	682	933	10	943
Exceptional items and remeasurements	B	7	-	7	(344)	-	(344)
Profit for the year		682	7	689	589	10	599

Regulatory consolidated statement of comprehensive income

for the years ended 31 March

		Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	Notes	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Profit for the year		682	7	689	589	10	599
Other comprehensive loss:							
Items that will never be reclassified to profit or loss							
Remeasurements of net pension obligations	L	488	6	494	(275)	(3)	(278)
Tax on items that will never be reclassified to profit or loss	D	(84)	-	(84)	46	-	46
Total items that will never be reclassified to profit or loss		404	6	410	(229)	(3)	(232)
Items that may be reclassified subsequently to profit or loss							
Net gains/(losses) in respect of cash flow hedges		7	-	7	(30)	-	(30)
Transferred to profit or loss in respect of cash flow hedges		3	-	3	108	-	108
Tax on items that may be reclassified subsequently to profit or loss	D	(2)	-	(2)	(14)	-	(14)
Total items that may be reclassified subsequently to profit or loss		8	-	8	64	-	64
Other comprehensive income/(loss) for the year, net of tax		412	6	418	(165)	(3)	(168)
Total comprehensive income for the year		1,094	13	1,107	424	7	431

Regulatory consolidated statement of financial position

at 31 March

		Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	Notes	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Non-current assets							
Intangible assets	E	273	-	273	269	-	269
Property, plant and equipment	F	12,790	10	12,800	12,270	10	12,280
Prepayments		10	1	11	-	-	-
Pension Asset		72	1	73	-	-	-
Derivative financial assets		395	-	395	476	-	476
Total non-current assets		13,540	12	13,552	13,015	10	13,025
Current assets							
Inventories	G	39	3	42	42	2	44
Trade and other receivables	H	278	21	299	376	17	393
Financial investments		224	-	224	350	-	350
Derivative financial assets		25	-	25	27	-	27
Current tax asset		3	-	3	6	-	6
Cash and cash equivalents	I	11	-	11	17	-	17
Total current assets		580	24	604	818	19	837
Total assets		14,120	36	14,156	13,833	29	13,862
Current liabilities							
Borrowings		(2,327)	-	(2,327)	(1,502)	-	(1,502)
Derivative financial liabilities		(132)	-	(132)	(246)	-	(246)
Trade and other payables	J	(957)	(7)	(964)	(870)	(17)	(887)
Provisions	M	(8)	-	(8)	(11)	-	(11)
Total current liabilities		(3,424)	(7)	(3,431)	(2,629)	(17)	(2,646)
Non-current liabilities							
Borrowings		(5,357)	-	(5,357)	(5,878)	-	(5,878)
Derivative financial liabilities		(389)	-	(389)	(470)	-	(470)
Other non-current liabilities	K	(496)	-	(496)	(459)	-	(459)
Deferred tax liabilities	D	(912)	2	(910)	(780)	2	(778)
Pension obligations	L	(45)	(1)	(46)	(501)	(6)	(507)
Provisions	M	(53)	-	(53)	(63)	-	(63)
Total non-current liabilities		(7,252)	1	(7,251)	(8,151)	(4)	(8,155)
Total liabilities		(10,676)	(6)	(10,682)	(10,780)	(21)	(10,801)
Net assets		3,444	30	3,474	3,053	8	3,061
Total equity		3,444	30	3,474	3,053	8	3,061

Regulatory consolidated statement of changes in equity

for the years ended 31 March

	Total equity		
	Trans- mission business £m	Other activities £m	Total £m
At 1 April 2016	2,755	19	2,774
Profit for the year	589	10	599
Total other comprehensive loss for the year	(165)	(3)	(168)
Total comprehensive income for the year	424	7	431
Equity dividends	(150)	-	(150)
Share-based payment	5	-	5
Tax on share based payments	1	-	1
Transfers ¹	18	(18)	-
At 31 March 2017	3,053	8	3,061
Profit for the year	682	7	689
Total other comprehensive income for the year	412	6	418
Total comprehensive income for the year	1,094	13	1,107
Equity dividends	(700)	-	(700)
Share-based payment	5	-	5
Tax on share based payments	1	-	1
Transfers ¹	(9)	9	-
At 31 March 2018	3,444	30	3,474

¹: Transfers comprise of reallocation of funding between regulatory business and other activities over the financial year.

Regulatory consolidated cash flow statement

for the years ended 31 March

	Notes	Trans-	Other	Total	Trans-	Other	Total
		mission business	activities		mission business	activities	
		2018	2018	2018	2017	2017	2017
		£m	£m	£m	£m	£m	£m
Cash flows from operating activities							
Total operating profit		1,023	10	1,033	1,334	12	1,346
Adjustments for:							
Depreciation and amortisation		464	-	464	419	-	419
Share based payment charge		5	-	5	5	-	5
Changes in working capital		224	-	224	(67)	-	(67)
Changes in pension obligations		(49)	-	(49)	(48)	-	(48)
Changes in provisions		(15)	-	(15)	(12)	-	(12)
Loss on disposal of property, plant and equipment		7	-	7	14	-	14
Loss on disposal of intangible assets		14	-	14	2	-	2
Cash generated from operations		1,673	10	1,683	1,647	12	1,659
Tax paid		(96)	-	(96)	(98)	(2)	(100)
Net cash inflow from operating activities		1,577	10	1,587	1,549	10	1,559
Cash flows from investing activities							
Purchases of intangible assets		(56)	-	(56)	(96)	-	(96)
Purchases of property, plant and equipment		(918)	-	(918)	(868)	-	(868)
Disposal of property, plant and equipment		6	-	6	2	-	2
Disposal of intangible assets		-	-	-	2	-	2
Net movement in short term financial investments		127	-	127	76	-	76
Net cash flow used in investing activities		(841)	-	(841)	(884)	-	(884)
Cash flows from financing activities							
Proceeds from loans received		812	-	812	1,242	-	1,242
Repayment of loans		(583)	-	(583)	(1,080)	-	(1,080)
Net movements in short-term borrowings and derivatives		(155)	-	(155)	(68)	-	(68)
Interest paid		(126)	-	(126)	(604)	-	(604)
Dividends paid		(700)	-	(700)	(150)	-	(150)
Transfers ¹		10	(10)	-	10	(10)	-
Net cash outflow from financing activities		(742)	(10)	(752)	(650)	(10)	(660)
Net decrease in cash and cash equivalents		(6)	-	(6)	15	-	15
Cash and cash equivalents at the start of the year		17	-	17	2	-	2
Net cash and cash equivalents at the end of the year	I	11	-	11	17	-	17

1. Transfers represent the contribution of the other activities to the equity dividend of the Company, net of short-term movements in working capital balances.

Notes to the regulatory consolidated financial statements

A. Operating costs

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018	2018	2018	2017	2017	2017
	£m	£m	£m	£m	£m	£m
Before exceptional items						
Depreciation and amortisation	464	-	464	419	-	419
Payroll costs	174	7	181	146	10	156
Other operating charges:						
Rates	117	-	117	86	-	86
Balancing Service Incentive Scheme	1,011	-	1,011	1,121	-	1,121
Payments to other network owners	1,032	-	1,032	1,008	-	1,008
Other	277	43	320	271	32	303
	3,075	50	3,125	3,051	42	3,093

Payroll costs

Wages and salaries	184	6	190	163	9	172
Social security costs	26	-	26	24	-	24
Other pension costs	45	1	46	41	1	42
Share-based payments	5	-	5	5	-	5
Severance costs (excluding pension costs)	(1)	-	(1)	1	-	1
	259	7	266	234	10	244
Less: payroll costs capitalised	(85)	-	(85)	(88)	-	(88)
	174	7	181	146	10	156

B. Exceptional items and remeasurements

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Included within finance costs:						
<i>Exceptional items:</i>						
Debt redemption costs	-	-	-	(481)	-	(481)
<i>Remeasurements:</i>						
Net gains/(losses) on derivative financial instruments	9	-	9	(19)	-	(19)
Total included within profit before taxation	9	-	9	(500)	-	(500)
Included within taxation:						
<i>Exceptional credit arising on items not included in profit before tax:</i>						
Deferred tax credit arising on the reduction in UK corporation tax rate	-	-	-	56	-	56
Tax on exceptional items	-	-	-	96	-	96
Tax on remeasurements	(2)	-	(2)	4	-	4
	(2)	-	(2)	156	-	156
Total exceptional items and remeasurements after taxation	7	-	7	(344)	-	(344)
Analysis of total exceptional items and remeasurments after tax:						
Total exceptional items after taxation	-	-	-	(329)	-	(329)
Total remeasurements after taxation	7	-	7	(15)	-	(15)
Total	7	-	7	(344)	-	(344)

C. Finance income and costs

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Finance income						
<i>Interest income on financial instruments:</i>						
Bank deposits and other financial assets	1	-	1	2	-	2
Finance income	1	-	1	2	-	2
Finance costs						
Net interest on pension obligations	(11)	-	(11)	(7)	-	(7)
<i>Interest expense on financial liabilities held at amortised cost:</i>						
Bank loans and overdrafts	(54)	-	(54)	(38)	-	(38)
Other borrowings	(230)	-	(230)	(210)	-	(210)
Derivatives	18	-	18	13	-	13
Unwinding of discount on provisions	(2)	-	(2)	(4)	-	(4)
Less: interest capitalised	90	-	90	84	-	84
Finance costs before exceptional items and remeasurements	(189)	-	(189)	(162)	-	(162)
Exceptional items:						
Debt redemption costs	-	-	-	(481)	-	(481)
Remeasurements:						
Net gains/(losses) on derivative financial instruments included in remeasurements:						
<i>Ineffectiveness on derivatives designated as:</i>						
Fair value hedges	8	-	8	12	-	12
Cash flow hedges	2	-	2	(9)	-	(9)
Derivatives not designated as hedges or ineligible for hedge accounting	(1)	-	(1)	(22)	-	(22)
Total exceptional items and remeasurements	9	-	9	(500)	-	(500)
Finance costs after exceptional items and remeasurements	(180)	-	(180)	(662)	-	(662)
Net finance costs	(179)	-	(179)	(660)	-	(660)

D. Tax

Tax charged/(credited) to the income statement

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018	2018	2018	2017	2017	2017
	£m	£m	£m	£m	£m	£m
Tax before exceptional items and remeasurements	160	3	163	241	2	243
Exceptional tax on items not included in profit before tax	-	-	-	(56)	-	(56)
Tax on other exceptional items and remeasurements	2	-	2	(100)	-	(100)
Tax on total exceptional items and remeasurements	2	-	2	(156)	-	(156)
Total tax charge	162	3	165	85	2	87

Tax as a percentage of profit before tax

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018	2018	2018	2017	2017	2017
	%	%	%	%	%	%
Before exceptional items and remeasurements	19.2	30.0	19.3	20.5	16.7	20.5
After exceptional items and remeasurements	19.2	30.0	19.3	12.6	16.7	12.7

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

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018	2018	2018	2017	2017	2017
	£m	£m	£m	£m	£m	£m
<i>Current tax</i>						
Corporation tax at 19% (2017: 20%)	115	3	118	82	2	84
Corporation tax adjustment in respect of prior years	2	-	2	3	-	3
Total current tax	117	3	120	85	2	87
<i>Deferred tax</i>						
Deferred tax	45	-	45	2	-	2
Deferred tax adjustment in respect of prior years	-	-	-	(2)	-	(2)
Total deferred tax	45	-	45	-	-	-
Total tax charge	162	3	165	85	2	87

D. Tax (continued)**Tax (credited)/charged to other comprehensive income and equity**

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
<i>Current tax</i>						
Share-based payment	(1)	-	(1)	(2)	-	(2)
<i>Deferred tax</i>						
Cash flow hedges	2	-	2	14	-	14
Share-based payment	2	-	2	1	-	1
Remeasurements of net retirement benefit obligations	84	-	84	(46)	-	(46)
	87	-	87	(33)	-	(33)
Analysed as:						
Total tax recognised in the statement of other comprehensive income	86	-	86	(32)	-	(32)
Total tax relating to share-based payment recognised directly in equity	1	-	1	(1)	-	(1)
	87	-	87	(33)	-	(33)

The tax charge for the year after exceptional items and remeasurements is higher than (2017: lower than) the standard rate of corporation tax in the UK of 19% (2017: 20%):

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Before exceptional items and measurements						
Profit before exceptional items and measurements	835	10	845	1,174	12	1,186
Profit on continuing operations multiplied by the rate of corporation tax in the UK of 19% (2017: 20%)	158	2	160	235	2	237
Effects of:						
Adjustments in respect of prior years	1	1	2	1	-	1
Non taxable income	(2)	-	(2)	(3)	-	(3)
Expenses not deductible for tax purposes	8	-	8	9	-	9
Impact of share-based payment	-	-	-	(1)	-	(1)
Deferred tax impact of change in UK tax rate	(5)	-	(5)	-	-	-
Tax charge	160	3	163	241	2	243
	%	%	%	%	%	%
Effective tax rate	19.2	30.0	19.3	20.5	16.7	20.5
After exceptional items and measurements						
Profit before tax						
Before exceptional items and remeasurements	835	10	845	1,174	12	1,186
Exceptional items and remeasurements	9	-	9	(500)	-	(500)
Profit before tax after exceptional items and measurements	844	10	854	674	12	686
Profit on continuing operations multiplied by the rate of corporation tax in the UK of 19% (2017: 20%)	160	2	162	135	2	137
Effects of:						
Adjustments in respect of prior years	1	1	2	1	-	1
Non taxable income	(2)	-	(2)	(3)	-	(3)
Expenses not deductible for tax purposes	8	-	8	9	-	9
Impact of share-based payment	-	-	-	(1)	-	(1)
Deferred tax impact of change in UK tax rate	(5)	-	(5)	(56)	-	(56)
Tax charge	162	3	165	85	2	87
	%	%	%	%	%	%
Effective tax rate	19.2	30.0	19.3	12.6	16.7	12.7

D. Tax (continued)**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 years:

Deferred tax (assets)/liabilities

	Accelerated tax depreciation £m	Employee share options £m	Pensions £m	Financial instruments £m	Other net temporary differences £m	Total Transmission business £m	Other activities £m	Total £m
Deferred tax assets at 31 March 2016	-	(6)	(46)	(15)	(2)	(69)	(2)	(71)
Deferred tax liabilities at 31 March 2016	879	-	-	-	1	880	-	880
At 1 April 2016	879	(6)	(46)	(15)	(1)	811	(2)	809
(Credited)/charged to income statement	(8)	-	8	-	-	-	-	-
(Credited) to other comprehensive income	-	1	(46)	14	-	(31)	-	(31)
At 31 March 2017	871	(5)	(84)	(1)	(1)	780	(2)	778
Deferred tax assets at 31 March 2017	-	(5)	(84)	(1)	(2)	(92)	(2)	(94)
Deferred tax liabilities at 31 March 2017	871	-	-	-	1	872	-	872
At 1 April 2017	871	(5)	(84)	(1)	(1)	780	(2)	778
Charged/(credited) to income statement	37	1	6	-	-	44	-	44
(Credited)/charged to other comprehensive income	-	2	84	2	-	88	-	88
At 31 March 2018	908	(2)	6	1	(1)	912	(2)	910
Deferred tax assets at 31 March 2018	-	(2)	2	-	(1)	(1)	(2)	(3)
Deferred tax liabilities at 31 March 2018	908	-	4	1	-	913	-	913
At 31 March 2018	908	(2)	6	1	(1)	912	(2)	910

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £910m (2017: £778m).

E. Intangible assets

	Trans- mission business Software £m	Total Software £m
Non-current		
Cost at 1 April 2016	385	385
Additions	96	96
Disposals	(14)	(14)
Cost at 31 March 2017	467	467
Additions	56	56
Disposals	(16)	(16)
Reclassifications	3	3
Transfers	10	10
Cost at 31 March 2018	520	520
Accumulated amortisation at 1 April 2016	(180)	(180)
Amortisation charge for the year	(28)	(28)
Disposals	10	10
Accumulated amortisation at 31 March 2017	(198)	(198)
Amortisation charge for the year	(51)	(51)
Disposals	2	2
Accumulated amortisation at 31 March 2018	(247)	(247)
Net book value at 31 March 2018	273	273
Net book value at 31 March 2017	269	269

F. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total Transmission business £m	Other activities £m	Total £m
Cost at 1 April 2016	659	12,542	2,942	186	16,329	12	16,341
Additions	19	93	818	2	932	-	932
Disposals	-	(58)	(15)	(1)	(74)	-	(74)
Reclassifications between categories	72	988	(957)	(84)	19	-	19
Cost at 31 March 2017	750	13,565	2,788	103	17,206	12	17,218
Additions	20	145	769	10	944	-	944
Disposals	(1)	(272)	(12)	-	(285)	-	(285)
Reclassifications between categories	90	684	(780)	3	(3)	-	(3)
Transfers	4	-	-	1	5	-	5
Cost at 31 March 2018	863	14,122	2,765	117	17,867	12	17,879
Accumulated depreciation at 1 April 2016	(98)	(4,430)	-	(75)	(4,603)	(2)	(4,605)
Depreciation charge for the year	(13)	(370)	-	(8)	(391)	-	(391)
Disposals	-	58	-	-	58	-	58
Accumulated depreciation at 31 March 2017	(111)	(4,742)	-	(83)	(4,936)	(2)	(4,938)
Depreciation charge for the year	(12)	(393)	-	(8)	(413)	-	(413)
Disposals	-	272	-	-	272	-	272
Reclassifications between categories	(2)	2	-	-	-	-	-
Accumulated depreciation at 31 March 2018	(125)	(4,861)	-	(91)	(5,077)	(2)	(5,079)
Net book value at 31 March 2018	738	9,261	2,765	26	12,790	10	12,800
Net book value at 31 March 2017	639	8,823	2,788	20	12,270	10	12,280

F. Property, plant and equipment (continued)

Information in relation to property, plant and equipment:

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Capitalised interest included within cost	1,401	-	1,401	1,311	-	1,311
Contributions to cost of property, plant and equipment included within:						
Trade and other payables	46	-	46	43	-	43
Non-current liabilities	387	-	387	359	-	359

G. Inventories

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Raw materials, spares and consumables	39	3	42	42	2	44

H. Trade and other receivables

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Current						
Trade receivables	39	6	45	81	7	88
Amounts owed by fellow subsidiary undertakings	10	-	10	35	-	35
Prepayments and accrued income	196	13	209	237	12	249
Other receivables	33	2	35	23	(2)	21
	278	21	299	376	17	393
	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Non-current						
Prepayments	10	1	11	-	-	-
	10	1	11	-	-	-

I. Cash and cash equivalents

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Cash at bank and short-term deposits	11	-	11	17	-	17
Net cash and cash equivalents	11	-	11	17	-	17

J. Trade and other payables

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Trade payables	484	-	484	535	6	541
Amounts owed to fellow subsidiaries of National Grid plc	78	5	83	37	1	38
Deferred income	282	2	284	197	9	206
Social security and other taxes	86	-	86	71	1	72
Other payables	27	-	27	30	-	30
	957	7	964	870	17	887

K. Other non-current liabilities

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Deferred income	413	-	413	384	-	384
Other payables	83	-	83	75	-	75
	496	-	496	459	-	459

L. Pensions**Amounts recognised in the statement of financial position**

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Present value of funded obligations	(2,940)	(39)	(2,979)	(3,328)	(44)	(3,372)
Fair value of plan assets	3,012	40	3,052	2,878	38	2,916
	72	1	73	(450)	(6)	(456)
Present value of unfunded obligations	(45)	(1)	(46)	(51)	-	(51)
Net defined benefit liability	27	-	27	(501)	(6)	(507)
Represented by:						
Assets	72	1	73	-	-	-
Liabilities	(45)	(1)	(46)	(501)	(6)	(507)
	27	-	27	(501)	(6)	(507)

L. Pensions (continued)

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

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Included within payroll costs						
Defined contribution scheme costs	15	-	15	17	-	17
<i>Defined benefit scheme costs:</i>						
Current service cost	27	1	28	26	1	27
Contributions from other employers	-	-	-	(3)	-	(3)
Past service cost/(credit)	1	-	1	(1)	-	(1)
Special termination benefit cost - redundancies	-	-	-	3	-	3
Settlement cost/(credit)	3	-	3	(2)	-	(2)
Past service cost - augmentations	-	-	-	1	-	1
Curtailment cost	(1)	-	(1)	-	-	-
	45	1	46	41	1	42
Included within finance income and costs						
Interest cost	11	-	11	7	-	7
	56	1	57	48	1	49
Actuarial gain/(loss) on defined benefit obligations in the year	379	5	384	(603)	(3)	(606)
Return on assets greater than discount rate	109	1	110	328	-	328
Total included in statement of other comprehensive income	488	6	494	(275)	(3)	(278)

Reconciliation of the net defined benefit liability

	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Opening net defined benefit liability	(501)	(6)	(507)	(267)	(3)	(270)
(Cost)/credit recognised in the income statement	(39)	(1)	(40)	(34)	(1)	(35)
Remeasurement effects recognised in the statement of other comprehensive income	488	6	494	(275)	(3)	(278)
Employer contributions	79	1	80	75	1	76
Closing net defined benefit asset/(liability)	27	-	27	(501)	(6)	(507)

Changes in the present value of the defined benefit obligations (including unfunded obligations)

	2018 £m	2018 £m	2018 £m	2017 £m	2017 £m	2017 £m
Opening defined benefit obligations	(3,379)	(44)	(3,423)	(2,789)	(37)	(2,826)
Current service cost	(31)	-	(31)	(27)	-	(27)
Interest cost	(79)	(1)	(80)	(90)	(1)	(91)
Actuarial (losses)/gains - experience	(7)	-	(7)	11	-	11
Actuarial (losses)/gains - financial assumptions	152	2	154	(609)	(8)	(617)
Actuarial gains/(losses) - demographic assumptions	234	3	237	-	-	-
Past service credit - redundancies	-	-	-	1	-	1
Special termination benefit cost - redundancies	-	-	-	(3)	-	(3)
Past service cost - augmentations	-	-	-	(1)	-	(1)
Settlement of defined benefit obligations	-	-	-	13	-	13
Employee contributions	(1)	-	(1)	(1)	-	(1)
Benefits paid	109	1	110	116	2	118
Net transfers	16	-	16	-	-	-
Closing defined benefit obligations	(2,986)	(39)	(3,025)	(3,379)	(44)	(3,423)
Changes in the fair value of plan assets						
Opening fair value of plan assets	2,878	38	2,916	2,522	34	2,556
Interest income	68	1	69	83	1	84
Return on assets greater/(less) than assumed	109	1	110	324	4	328
Employer contributions	80	-	80	75	1	76
Employee contributions	1	-	1	1	-	1
Settlement of assets	-	-	-	(11)	-	(11)
Benefits paid	(109)	(1)	(110)	(116)	(2)	(118)
Net transfers	(14)	-	(14)	-	-	-
Closing fair value of plan assets	3,013	39	3,052	2,878	38	2,916

Actual return on plan assets

	177	2	179	407	5	412
Expected contributions to plans in the following year	77	1	78	71	1	72

M. Provisions

	Environmental £m	Other £m	Trans- mission business £m	Total £m
At 1 April 2016	70	16	86	86
Additions	10	3	13	13
Unused amounts reversed	(21)	-	(21)	(21)
Unwinding of discount	3	1	4	4
Utilised	(2)	(6)	(8)	(8)
At 31 March 2017	60	14	74	74
Additions	-	1	1	1
Unused amounts reversed	(10)	(2)	(12)	(12)
Unwinding of discount	2	-	2	2
Utilised	(3)	(1)	(4)	(4)
At 31 March 2018	49	12	61	61

	Trans- mission business 2018 £m	Total 2018 £m	Trans- mission business 2017 £m	Total 2017 £m
Current	8	8	11	11
Non-current	53	53	63	63
	61	61	74	74

N. Net debt**(a) Reconciliation of net cash flow to movement in net debt**

	Trans- mission business	Total	Trans- mission business	Total
	2018 £m	2018 £m	2017 £m	2017 £m
(Decrease)/increase in cash and cash equivalents	(6)	(6)	15	15
Decrease in financial investments	(127)	(127)	(76)	(76)
Increase in borrowings and related derivatives	(78)	(78)	(94)	(94)
Net interest paid on the components of net debt	126	126	604	604
Change in net debt resulting from cash flows	(85)	(85)	449	449
Changes in fair value of financial assets, liabilities and exchange movements	26	26	58	58
Net interest charge on the components of net debt	(265)	(265)	(714)	(714)
Movement in net debt (net of related derivative financial instruments) in the year	(324)	(324)	(207)	(207)
Net debt (net of related derivative financial instruments) at start of year	(7,226)	(7,226)	(7,019)	(7,019)
Net debt (net of related derivative financial instruments) at end of year	(7,550)	(7,550)	(7,226)	(7,226)

(b) Analysis of changes in net debt - Transmission business and Total

	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Trans- mission business and Total £m
At 1 April 2016	2	426	(7,194)	(253)	(7,019)
Cash flow	15	(76)	539	(29)	449
Fair value gains and losses and exchange movements	-	-	(103)	161	58
Interest charges	-	-	(622)	(92)	(714)
At 31 March 2017	17	350	(7,380)	(213)	(7,226)
Cash flow	(6)	(127)	(78)	126	(85)
Fair value gains and losses and exchange movements	-	-	58	(32)	26
Interest charges	-	1	(284)	18	(265)
At 31 March 2018	11	224	(7,684)	(101)	(7,550)
Balances comprise:					
Non-current assets	-	-	-	395	395
Current assets	11	224	-	25	260
Current liabilities	-	-	(2,327)	(132)	(2,459)
Non-current liabilities	-	-	(5,357)	(389)	(5,746)
At 31 March 2018	11	224	(7,684)	(101)	(7,550)

O. Commitments and contingencies

	Trans- mission business	Total	Trans- mission business	Total
	2018 £m	2018 £m	2017 £m	2017 £m
Future capital expenditure				
Contracted for but not provided	789	789	1,003	1,003
Operating lease commitments				
Amounts due:				
Less than 1 year	13	13	12	12
In 1 - 2 years	10	10	10	10
In 2 - 3 years	6	6	7	7
In 3 - 4 years	4	4	4	4
In 4 - 5 years	1	1	3	3
More than 5 years	-	-	1	1
	34	34	37	37

Appendix 2 - Unpublished information: Analysis of Charges and apportionments

In accordance with the Transmission Licence, Condition B1, Part G, paragraph 19, appendix 2 does not form part of the published regulatory accounting statements.

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Appendix 3 - Unpublished information: Supplementary analysis of regulatory Transmission busin

The extra-licence information in this appendix is provided for the use of Ofgem only and is not published. It should be

In accordance with the Transmission Licence, Condition B1, Part G, paragraph 19, appendix 3 does not form part of the published regulatory accounting statements.

Regulatory Transmission Income statement

In accordance with the Transmission Licence, Condition B1, Part G, paragraph 19, appendix 3 does not form part of the published regulatory accounting statements.

Regulatory Transmission statement of financial position

In accordance with the Transmission Licence, Condition B1, Part G, paragraph 19, appendix 3 does not form part of the published regulatory accounting statements.

Regulatory Transmission Cash flow statement

In accordance with the Transmission Licence, Condition B1, Part G, paragraph 19, appendix 3 does not form part of the published regulatory accounting statements.

Notes to the Regulatory Transmission financial statements

In accordance with the Transmission Licence, Condition B1, Part G, paragraph 19, appendix 3 does not form part of the published regulatory accounting statements.

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Glossary and definitions

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

BSIS

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

Delivery Body

Under the Energy Bill currently being considered by the UK Parliament, National Grid Electricity Transmission's system operator function would provide independent evidence and analysis to the UK Government to inform its decisions on the key rules and parameters to achieve the Government's policy objectives under Electricity Market Reform. As proposed, National Grid Electricity Transmission would administer the capacity mechanism, including running the annual capacity auctions, managing the allocation of contracts for difference to low carbon generators and reporting to Government annually on performance against the Government's delivery plan. Detailed roles and responsibilities for all market participants, including the Delivery Body, will be finalised within secondary legislation enacted under the Energy Act 2013, due to be in force from summer 2014.

Electricity Market Reform (EMR)

An energy policy initiative, introduced by the Energy Bill currently being considered by the UK Parliament, designed to provide greater financial certainty to investors in low carbon generation by guaranteeing a price for electricity generated.

EU

European Union.

FRS

UK Financial Reporting Standard.

GAAP

Generally accepted accounting principles.

GHG

Greenhouse gas.

GW

Gigawatt, 10^9 watts.

GWh

Gigawatt hours.

HSE

Health and Safety Executive.

IAS

International Accounting Standard.

IASB

International Accounting Standards Board.

IFRIC

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

IFRS

International Financial Reporting Standard.

KPI

Key Performance Indicator.

Lost time injury

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

National Grid

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

Ofgem

The Office of Gas and Electricity Markets.

Regulatory asset value (RAV)

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

Regulated controllable operating costs

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

RIIO

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

RoE

A performance metric measuring returns from the investment of shareholders' funds. It is a financial ratio of a measure of earnings divided by an equity base. UK regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.

RPI

UK Retail Prices Index.

tonnes CO₂ equivalent

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

TW

Terawatt, 10^{12} watts.

TWh

Terawatt hours.

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