

nationalgrid

Annual Report
and Accounts
2017/18

Bring Energy to Life



Contents

National Grid Annual Report and Accounts 2017/18

Strategic Report

The Strategic Report includes an overview of our strategy and business model, the principal risks we face and information about our performance. In addition to the financial review included within this section, we provide additional analysis and commentary, including the performance of our operating segments, within the unaudited commentary sections of the financial statements. This additional analysis forms part of our Strategic Report.

About National Grid	2
Our business environment	4
How we create value for our stakeholders	6
Chairman's statement	8
Chief Executive's review	10
Our purpose, vision, values and strategy	12
Progress against our strategy	14
Internal control and risk management	18
Financial review	22
Viability statement	26
Principal operations	28
Our commitment to being a responsible business	34

Corporate Governance

The Corporate Governance report, introduced by our Chairman, contains details about the activities of the Board and its committees during the year. We include reports from the Audit; Finance; Safety, Environment and Health; Nominations; and Remuneration Committees. We also include details of our shareholder engagement activities.

Corporate Governance contents	40
Directors' Report and other disclosures	62
Directors' Remuneration Report	64

Financial Statements

Our financial statements include: the independent auditor's reports; consolidated financial statements prepared in accordance with IFRS as adopted by the EU and as issued by the IASB; related commentary and notes to the consolidated financial statements; and the Company's financial statements prepared in accordance with FRS 101.

Financial Statements contents	80
Introduction to the Financial Statements	81
Statement of Directors' responsibilities	82
Independent auditor's report	83
Report of independent registered public accounting firm	92

Additional information

This section includes additional disclosures and information, definitions and a glossary of terms, summary consolidated financial information, and other useful information for shareholders, including contact details for more information or help.

Additional Information contents	184
Definitions and glossary of terms	218
Want more information or help?	223
Cautionary statement	224

Front cover

Cirhan Truswell, Senior Commercial Analyst, at our carbon weighting project, Burton, UK.



National Grid plc is an electricity and gas utility focused on transmission and distribution activities in both the United Kingdom and the United States. Business segments include UK Electricity Transmission, UK Gas Transmission, National Grid Ventures and other activities, and US Regulated Gas and Electricity distribution and transmission networks.

Group financial highlights

Statutory operating profit*

£3,493m

(2016/17: £3,208m)

Statutory EPS*

103.8p

(2016/17: 48.1p)

Value Added

57.9p/share

(2016/17: 51.6p/share)

Underlying operating profit*

£3,495m

(2016/17: £3,375m)

Underlying EPS*

60.4p

(2016/17: 58.6p proforma)

Capital investment

£4,251m

(2016/17: £3,862m)

Group return on equity (RoE)

12.3%

(2016/17: 11.7%)

For definitions and reconciliations of statutory and non-IFRS performance measures, and regulatory performance measures see pages 206-214.

All financial metrics for the current year, which are calculated on a 'per share' basis, reflect a reduction in the weighted average number of shares as of 2 June 2017, following the sale of the UK Gas Distribution business. The weighted average number of ordinary shares outstanding for the period includes the effect of the 11 for 12 share consolidation. Prior year metrics have not been restated, unless specifically identified as such.

Operational highlights

Group safety performance

0.10 IFR

(2016/17: 0.10 IFR)
(See page 15)

Greenhouse gas emissions

7.7m tonnes

(CO₂ equivalent)
(2016/17: 9.1)

Employee engagement index

77%

(2016/17: 77%)

We use a number of technical terms and abbreviations within this document. For brevity, we do not define terms or provide explanations every time they are used. Please refer to the glossary on pages 218-222 for this information, as well as an important notice in relation to forward-looking statements with our cautionary statement on page 224.

*From continuing operations.

Our reporting

Our financial results are reported in sterling. We convert our US business results at the weighted average exchange rate during the year, which for 2017/18 was \$1.36 to £1 (2016/17 \$1.28 to £1). We use adjusted profit measures,

which exclude the impact of exceptional items and remeasurements. These are used by management to assess the underlying performance of the business. Reconciliations to statutory financial information are shown on page 206-214.

Online report

The PDF of our Annual Report and Accounts 2017/18 includes a full search facility. You can find the document by visiting the 'About us' section at www.nationalgrid.com.

Further reading

Throughout this report you can find links to further detail within this document or online. Please look out for the following icon:



About National Grid

We are one of the world's largest investor-owned energy utilities, committed to delivering electricity and gas safely, reliably and efficiently to the customers and communities we serve.

Our business model

Our business model, set out below, summarises our Company's key drivers, how we create and preserve value over the longer term, and how we generate cash flows.

What we do

We play a vital role in connecting millions of people to the energy they use through our regulated utility businesses in the UK and US, with principal operations in electricity and gas transmission and distribution, as well as National Grid Ventures.

Our purpose, vision and values

Our purpose is to Bring Energy to Life. We believe it's crucial to have a clear sense of what we stand for as a company and what it is that binds us all together. This is what we call our purpose. In simple terms it's what inspires us to serve our customers as well as we can, and it's what makes us proud about the work we do.

Our vision is: we will exceed the expectations of our customers, shareholders and communities today and make possible the energy systems of tomorrow.

Our values are: every day we do the right thing and find a better way.

Adapting to change

We are responding to changes in our business environment, so we can ensure we maintain our position in the industry. We are able to generate short-term profitability and create long-term, sustainable value in an evolving energy landscape, as shown by our performance described in pages 28-33.

Our strategic priorities

Our three strategic priorities are: optimise our operational performance; look for opportunities to grow our core business; and make sure National Grid is better equipped for the future.

Being a responsible business

For us, being a responsible business means being a force for positive environmental and social change. We consider communities in all our operations, so we can fully understand their needs, keep them safe, and make sure they are fairly represented in our decisions and actions.

If we are to achieve our vision, we need to be aware of the needs of all our stakeholders. We need to make sure we deliver value for them every day, and continue to do so as the energy landscape changes.

How we make money

Our regulators in the UK and US set the type and level of charges we are allowed to pass on to our customers to simulate market competition. We also make money from businesses that operate in markets outside our core regulated businesses.

UK Regulated

44% of Group statutory operating profit
44% of Group adjusted operating profit

UK Electricity Transmission

We own and operate the electricity transmission network in England and Wales, with day-to-day responsibility for balancing supply and demand. We are also system operator for the Scottish networks, but do not own them.

4,474

Miles (7,200 kilometres) of overhead line
(2016/17: 4,474 miles; 7,200 kilometres)

346

Substations
(2016/17: 342)

969

Miles (1,560 kilometres) of underground cable
(2016/17: 932 miles; 1,500 kilometres)

UK Gas Transmission

We own and operate the gas National Transmission System (NTS) in Great Britain, with day-to-day responsibility for balancing supply and demand.

4,760

Miles (7,660 kilometres) of high-pressure pipe
(2016/17: 4,760 miles; 7,660 kilometres)

24

Compressor stations
(2016/17: 24)

Our role as System Operator

As Great Britain's System Operator (SO) we make sure Great Britain's gas and electricity is transported safely and efficiently from where it is produced to where it is consumed. We balance supply and demand in real time and we facilitate the connection of assets to the transmission system.



Further reading

- Our business environment – page 4
- How we create value for our stakeholders – page 6
- Our purpose, vision, values and strategy – page 12
- Financial review – page 22
- Our commitment to being a responsible business – page 34

US Regulated

50% of Group statutory operating profit
49% of Group adjusted operating profit

US Regulated Electricity

We both own and operate transmission facilities across upstate New York, Massachusetts, New Hampshire, Rhode Island and Vermont. We own and operate electricity distribution networks in upstate New York, Massachusetts and Rhode Island.

8,881 **740**

Miles (14,293 kilometres) of overhead line

(2016/17: 8,835 miles;
14,219 kilometres)

Distribution substations

(2016/17: 763)

387

Transmission substations
(2016/17: 377)

US Regulated Gas

We own and operate gas distribution networks across the northeastern US, located in upstate New York, New York City, Long Island, Massachusetts and Rhode Island.

35,419

Miles (57,001 kilometres) of gas pipeline

(2016/17: 35,265 miles;
56,753 kilometres)

National Grid Ventures and Other Activities

6% of Group statutory operating profit
7% of Group adjusted operating profit

National Grid Ventures was formed on 1 April 2017 and brought together our businesses that are adjacent to our core regulated operations to create a new division. This operating segment represents our main strategic growth area outside our regulated core in competitive markets across the US and the UK. The business comprises all commercial operations in Metering, LNG at the Isle of Grain and electricity interconnectors, with a focus on investment and future activities in emerging growth areas.

Our other activities mainly relate to UK property development, together with insurance and corporate activities in the UK and US.

11.1m

Metering: gas meters

1,000,000m³

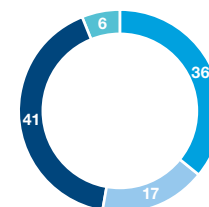
LNG: tank space

6.4

GW capacity of interconnectors in operation or under construction

Substantial asset

base as at 31 March 2018* (%)



Substantial asset base as at
31 March 2017 (%)

1. UK Electricity Transmission	35
2. UK Gas Transmission	16
3. US Regulated	43
4. National Grid Ventures and Other Activities	6

*excludes % share of UK Gas Distribution (Cadent) assets. See page 23 for further details.

For information about the accounting implications arising from the announced potential sale of 25% in Cadent, see note 35 on page 177.

What are transmission and distribution?

Our role in connecting people to the energy they use mainly involves either transmission or distribution.

'Transmission' means transporting energy from the location where it is generated or imported, to a distribution system.

'Distribution' means transporting energy to consumers at a lower voltage (for electricity) or pressure (for gas) ready for domestic use.



Further reading

Definitions can be found on pages 218-222

You can find more information about what we do on our website: www.nationalgrid.com

Our business environment

Our environment is shaped by four themes: the impact on consumer bills, energy security, environmental sustainability and technology. As the energy ecosystem evolves, so do the needs of our stakeholders.



£35.48

UK transmission network costs per average annual household dual fuel bill – representing around 3% of the total bill

- Electricity transmission: £26.16
- Gas transmission: £9.32
- These costs cover the transport of energy and maintaining very high levels of reliability

Impact on consumer bills

Commentary

Consumers expect a reliable energy system that delivers gas and 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	Our response
UK In the UK, 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. US The cost of energy remains a concern for consumers and regulators who expect affordable, reliable and cleaner energy at a low price. Costs of energy as a percentage of total spending have declined, mainly as a result of low natural gas prices and household energy efficiency improvements. Additionally, costs of low-carbon technologies such as solar, batteries and energy management systems have fallen, so they are increasingly being adopted.	• Our US and UK regulated businesses continue 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. • In the UK, we have been able to generate £540 million of savings for consumers in the first five years of the RIIO arrangements. We have also volunteered that £480 million of RIIO-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 UK consumers, and we have communicated externally the ways in which we have created and driven value for customers and society since privatisation. • In the US, approval of new electricity and gas delivery rates in upstate New York allows us to continue our new Energy Affordability Program, which provides a bill decrease for most income-eligible customers. New energy efficiency solutions will result in bill decreases for our moderate income customers.



46%

(UK capacity)

32%

(UK production)

21%

(US capacity)

15%

(US production)

Electricity generation supply from renewable sources in 2017

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 and distributed generation.

2017/18 developments	Our response
UK 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. UK wholesale gas prices have been trending upwards as sources of gas storage have decreased with the closure of the Rough gas field and general global shifts in preferences from coal to gas. US The reliability of energy infrastructure remains a concern for consumers, regulators and policy makers. Regulators are seeking investment to improve the security and resilience of energy networks. Natural gas supply has outpaced demand due to technological improvements in shale gas extraction, and wholesale gas prices have remained at historic low levels. Wholesale electricity prices have largely mirrored natural gas pricing due to the increasing reliance of the energy industry on natural gas as a fuel.	• National Grid Ventures has made significant progress in the construction of three new electricity interconnectors from the UK to Belgium, France and Norway. • The Grain LNG import terminal received the first ever UK LNG cargos from the US and Peru, highlighting our ability to help deliver a more diverse gas supply for the UK. • In the UK, 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. • In the US, approval of new electricity and gas delivery rates in upstate New York means we can invest \$2.5 billion over three years to modernise our electricity and natural gas networks.



26%

(UK)

28.5%

(US)

Percentage of greenhouse gas emissions attributable to the energy sector in the UK and US

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	Our response
UK 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. In July 2017, the Government announced a ban on the sale of new petrol and diesel cars from 2040. US In June 2017, President Trump announced that the country would cease all participation in the 2015 Paris Agreement on climate change mitigation, triggering a three-year exit process. However, state renewable energy support eclipses many federal policies. State regulators continue to support energy innovation projects through programmes such as New York State's 'Reforming the Energy Vision'.	- Reducing greenhouse gas emissions forms part of the Company's KPIs (see page 16). - Our environmental strategy, 'Our Contribution', focuses on the areas where we can make the greatest contribution. You can read more about our approach and work on page 35. - National Grid Ventures has been created to focus, in part, on investments in renewables, including utility-scale solar, wind and battery storage. - 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 are working with customers and stakeholders in the UK to gather insights on the future role of gas in managing the transition to a low-carbon future. - Although the US pulled out of the Paris Agreement, we continue to support it and align ourselves with state and local leaders who share our climate and environmental goals.



43%

(UK)

29%

(US)

Electric vehicle fleet growth in 2017

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	Our response
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 in both the UK and US, 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.	- We created a Group technology and innovation team to develop our new technology strategy, 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. We are also involved in early-stage energy technology venture investments. - National Grid Ventures, established in April 2017, focuses on business development, technology and innovation. - We are taking advantage of the latest technological innovations to improve our performance. For example, we are using robotics for gas pipeline inspection, improving asset health and lowering costs.

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 interconnectors' revenues and costs. Our interconnector partners share a financial interest in the ownership and profits from their operation. For the past 12 months, we have been assessing these

issues and have devised scenarios to cover the majority of likely outcomes. 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 our partners might be compelled to 'switch off' the interconnectors 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 the Brexit outcome we believe would be in the best interests of consumers.

How we create value for our stakeholders

The long-term success of our business is critically dependent on the way we work with a large number of important stakeholders. We aim to create value for our stakeholders every day – and to continue doing so as the energy landscape changes. The table below sets out our focus for the key relationships that will help us Bring Energy to Life and deliver the energy networks of the future.

Our stakeholders	Who they are and why they are important	How we are creating value over the long term	Where you can read more
Our customers	Our customers are the users of our products and services. In the UK, our key customers are electricity and gas distributors and generators. In the US, we have more than seven million retail bill payers.	Our customers want energy that is delivered safely, reliably, sustainably and affordably. Targeted outcome: Creating or adapting infrastructure to provide ready access to clean energy, through smart grids and evolving our networks to reflect changing patterns of demand and supply over time.	Progress against our strategy, Principal operations
The communities we work in	Our operations affect communities where we work and live. Being a responsible and sustainable business is fundamental to the way we work.	By integrating sustainability into our decision-making, we value the needs of communities. Targeted outcome: Preserving natural resources and respecting the interests of our communities.	Our commitment to being a responsible business
Our regulators	In the UK, Ofgem regulates our electricity and gas businesses and transmission businesses. In the US, our retail activities are regulated by state utility commissions. Our wholesale activities (including energy generation and interstate transmission) are regulated by the Federal Energy Regulatory Commission (FERC).	We are heavily engaged with our regulators in debates guiding future energy policy direction. Targeted outcome: Frameworks within which we can meet the changing energy needs of the communities we serve. Incentives for innovation and performance.	Business environment, Principal operations
Our suppliers	Our suppliers provide us with the goods and services we rely on to deliver for our customers. They range from substantial multinational companies to small-scale local businesses providing bespoke services when they are needed.	We are committed to long-term, sustainable and fair working practices with our suppliers, who must work to our Supplier Code of Conduct. Targeted outcome: Development of stronger, long-term relationships critical for the delivery of future projects.	Our commitment to being a responsible business
Our people	Our business is built by our people. At 31 March 2018, we had more than 22,000 employees.	We work to make sure we keep our people as safe as possible. We train them to deliver to the best of their abilities and strive to maintain high levels of engagement. In the UK and US, we have inclusion and diversity policies, as well as statistical information, that demonstrate our commitment to providing an inclusive, equal and fair working environment. Targeted outcome: Access to and retention of a high-performing workforce with the capabilities we need, delivering innovation.	Our commitment to being a responsible business
Our investors	Equity investors: We earn financial returns in accordance with our regulatory contracts in the UK and US. These contracts incentivise us to invest in long-term sustainable infrastructure in an efficient and cost-conscious way. Debt investors: Our debt investors provide capital in the form of loans and bonds, allowing us to optimise the way in which we finance our investment.	Our investors desire long-term, sustainable growth. Targeted outcome: Annual asset growth in the range of 5-7%. Dividend per share growth at least in line with the rate of UK RPI growth each year for the foreseeable future. Balance sheet strength reflected in strong credit metrics.	Financial review



£60m

Potential savings over 20 years, helping minimise household energy bills



2,145

Tonnes potential CO₂ equivalent savings each year, helping reduce our impact on the environment



1st

Winner of the Innovation Project Award at the 2017 Institution of Gas Engineers and Managers Gas Industry Awards



A world first in the pipeline

A robot will revolutionise how we maintain our underground high-pressure gas pipes, while adding value by saving money and reducing our impact on the environment, as Project Lead Dave Hardman explains.

Our high-pressure gas pipes help bring gas to 23.4 million UK homes. It's vital we keep all 4,760 miles (7,660 kilometres) in good condition, which is hard when they're buried underground. But we're going to change how we check them, using a pioneering robot being developed with the help of £5.7 million of funding from Ofgem, through its Network Innovation Competition.

Currently, the only way we can check our site pipework is by digging. We choose these locations based on what we know about their age, and when they were last repaired. Sometimes there's repair work to do, but not always. The Gas Robotic Agile Inspection

Device (GRAID) will give us the inside story on the state of the pipes, taking away the guesswork. And that means better value for our repair budget. Once GRAID starts work in late 2018, it could save around £60 million over 20 years. Crucially, such savings help minimise household energy bills. And the carbon emissions we'll cut are equivalent to the amount 477 homes would use in a year.

It'll need to be tough. Natural gas acts like a liquid at high pressure. It creates five times the force a submarine faces underwater. To overcome this challenge, the robot's twin chassis design stabilises it while magnetic tracks make it cling to the pipes. An engineer will drive GRAID from the surface, making it stop, reverse and zoom in on sections of pipe, measuring thickness and looking for corrosion.

We're sharing the story with our industry and beyond, including rail infrastructure.



Pictures shown above
GRAID robot developed for use in high-pressure underground gas pipelines.



"We remain on course to deliver long-term sustainable growth."

Dividend policy

Our dividend policy aims to grow the ordinary dividend per share at least in line with the rate of UK RPI growth each year for the foreseeable future. Accordingly, the Board has recommended an increase in the final dividend to 30.44 pence per ordinary share (\$2.0606 per American Depositary Share). If approved, this will bring the full year dividend to 45.93 pence per share (\$3.0775 per American Depositary Share), an increase of 3.75% over the 44.27 pence per ordinary share in respect of the financial year ended 31 March 2017.

See note 8 on page 124 for more information on dividends.

Annual General Meeting 2018

The 2018 AGM will be held at 11:30am on 30 July 2018 at the ICC, Birmingham.

In focus



Responsible business

www.nationalgrid.com/group/responsibility-and-sustainability

Our KPIs pages 14-17

In 2017/18 National Grid performed well, both financially and operationally as a Group, and strategically in evolving our regulated US businesses towards achieving higher growth and better returns.

While the UK continues to be the larger contributor to overall operating profit following the 2017 sale of a 61% stake in our UK Gas Distribution business, the shape and dynamics of the overall business are changing. Our operations in the US are larger than our operations in the UK in terms of employee numbers, and the US also now offers stronger growth prospects over the medium term. The UK continues to be the larger contributor in terms of operating profit.

We continue to be mindful of the large-scale change that is affecting the energy sector and are working hard to ensure our strategy and business model adapt accordingly.

Share price

I am very conscious that the decline in our Total Shareholder Return of 18.9% this financial year has been disappointing because of the decline in the share price over 2017/18 as a whole. Our share price performance was driven by a combination of factors, including rises in bond yields and negative sentiment around political and regulatory uncertainty in the UK. However, for the vast majority of our 3.6 billion shares in issue, we enjoy a long-term, stable and supportive shareholder base.

Throughout the year, we worked hard to engage with investors and to communicate clearly that National Grid remains on course to continue delivering long-term, sustainable growth.

Strategy

It is the Board's role to set the strategic direction of the Company and to scrutinise management's performance in terms of delivering the strategy. This year, the Board was pleased with the continued delivery of the core regulated businesses in the UK, the progress of our strategy to improve the returns and growth opportunities in our US regulated businesses, and the progress made in the development of our interconnectors business.

Culture

In 2017/18, the Board started to implement the recommendations of the Board effectiveness review we undertook the previous year, several of which touched upon culture. The National Grid Board sees one of its key roles as being to exemplify the Company's values of 'do the right thing' and 'find a better way'. We have continued this year to enhance the Board's leadership role in development of the Company's culture.

Enhanced transparency

In light of recent events such as the collapse of Carillion, we believe it is even more important we provide investors with enhanced transparency in respect of our assets and liabilities, a part of which is discharging our responsibility to make the Annual Report and Accounts fair, balanced and understandable.

Some of the technicalities of International Financial Reporting Standards (IFRS) make reporting of performance challenging for regulated utilities like National Grid, so we are providing additional information on page 23 to help inform investors about significant assets and liabilities that do not form part of the audited accounts.

In order to present a more comprehensive picture of our results and financial position, throughout this report we have used a number of non-IFRS and regulatory performance measures. Some of these measures form part of the incentive arrangements for our Executive Directors.

UK political environment

In 2017/18, National Grid was involved in discussions with the UK Government on energy issues related to Brexit, in particular the importance of remaining within the European Internal Energy Market (IEM) after March 2019. Currently, the UK and the EU share 4GW of electricity through interconnectors, including 1GW of electricity interconnection with Ireland. We believe ensuring access to European energy markets remains tariff-free post-Brexit is in the best interests of energy users in the UK and throughout Europe.

As a result of the Labour Party manifesto for the 2017 general election, we have given serious consideration to the prospect of renationalisation of National Grid should the Labour Party win the next UK general election.

The Board believes that since privatisation in 1990, National Grid has created and driven value for customers, society and investors in many ways, including:

- Over the past decade alone, we have invested over £13 billion into required network modernisation in England and Wales, and we plan to continue to invest more than a billion pounds every year.
- According to Ofgem, the cost of transporting electricity through Britain's energy network has fallen by 17% relative to the retail price index since the mid 1990s.
- Our own research shows that since privatisation National Grid has created at least £12 billion of benefits for consumers, exceeding the benefits created for shareholders by more than 65%.

We plan to increase our advocacy of these and other benefits of privatisation over the coming months.

US Tax Reform

In December 2017, the US enacted significant tax reform which included the reduction of the corporate tax rate from 35% to 21%. The change in tax law holds significant benefits for our customers by reducing the costs we pass on to them for our services, while being economically neutral for National Grid over the long-term. We are continuing to work with each of our regulators in the US to finalise how the Tax Reform should be included in customer rates.

Environmental sustainability

Our environmental sustainability performance was strong in 2017/18. Highlights included being significantly ahead of our target of reducing greenhouse gas emissions by 45% compared to 1990 a year ahead of schedule (we have achieved a 65% reduction to date) and being named on the Carbon Disclosure Project's 'A' list of companies, which puts us in the top 5% of global participants in terms of carbon disclosure and performance.

Special dividend

I was pleased in 2017/18 that we were able to return money to investors following the sale of 61% of our UK Gas Distribution business. In total, we returned some £4 billion to investors through a special dividend of 84.375 pence per share on 2 June 2017, and an £835 million share buy-back programme, which was completed in January 2018.

Awards

In 2017/18, National Grid won UK Business in the Community's Award for Environmental Leadership in recognition of our work to reduce our carbon footprint during construction. We also won Business in the Community's award for Outstanding Employment after impressing judges with the quality of our apprentice opportunities and other initiatives to employ young people. In the US, our Massachusetts business was named one of the most energy efficient utilities in America by the American Council for an Energy-Efficient Economy.

Board changes

I would like on behalf of the Board to thank our departing Finance Director Andrew Bonfield for the significant contribution he has made to National Grid over the last eight years and to wish him every success for the future.

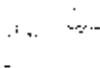
Pierre Dufour has decided that due to ill health he will not be seeking re-election at the forthcoming AGM. I would like to thank him for his contribution and wish him all the very best in the future.

The Board was delighted to appoint Amanda Mesler as an independent Non-executive Director with effect from 17 May 2018. Amanda has more than 25 years of extensive international leadership and general management experience at CEO and Board level. She brings a wealth of experience in different sectors to National Grid's Board, in particular in the area of the application of technology.

Ruth Kelly stepped down from the National Grid Board in July 2017 and I would like to thank her for the significant contribution she made both to the Board and to the various Committees with which she was involved.

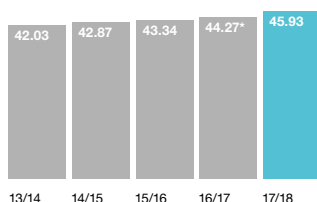
Thank you

On behalf of the Board I would like to say thank you to all National Grid employees for their hard work and commitment, without which the achievements of 2017/18 would not have been possible.



Sir Peter Gershon
Chairman

Full year dividend (pence per share)



* excludes the special dividend of 84.375p.

Final dividend of

30.44p/share

expected to be paid on
15 August 2018



"I believe strongly that society now demands more from business than ever before."

Performance highlights

57.9p/share

Value Added
(2016/17: 51.6p/share)

6%

Asset growth
(2016/17: 5%)

12.3%

Group Return on Equity (RoE)
(2016/17: 11.7%)

77%

Employee engagement index
(2016/17: 77%)

In 2017/18 National Grid made significant progress in the execution of our strategic priorities.

In both the US and the UK, we demonstrated we not only recognise the imperative to change with the times, but that we also possess the willingness and expertise necessary to drive our industry forward.

Over the course of the year, we delivered a number of important projects that aligned with our strategic priorities of growing the business, optimising operational performance and ensuring the Company is positioned to thrive in the future.

Our overall financial performance was good. Our statutory operating profit grew 9% and underlying operating profit on a constant currency basis grew 6% to £3.5 billion.

Our Group Return on Equity (RoE) was 12.3%, up from 11.7% the previous year, and Value Added was £2 billion, equivalent to 57.9 pence per share.

We invested £4.3 billion into the business, growing our asset base by 6%.

We also performed well against the other key metrics by which we benchmark our progress.

In terms of safety, our employee lost time injury frequency rate was 0.10, which is consistent with world class safety performance, evidence of our continued total commitment to ensuring no one is harmed as a result of our operations.

Moreover, in both the US and the UK, we continued to achieve close to 100% reliability across our networks.

Performance highlights

In both the US and the UK, in 2017/18 we worked hard to create real value for customers and shareholders, and to implement cutting edge innovation.

US

In the US, we enjoyed a good year, characterised by strong growth. We invested a record \$3.3 billion into infrastructure and we increased Return on Equity to 8.9%, from 8.2% the previous year.

In line with our strategic priority of growing the business, we filed for updated rate allowances with regulators in key jurisdictions. These allowances dictate the rates we can charge for the services we provide to customers. We filed new rate cases for gas distribution in Massachusetts and for electricity and gas distribution in Rhode Island (page 189).

We also reached agreement with regulators for our Niagara Mohawk rate filing in upstate New York, the first time our rates there had been fully reviewed in five years.

The successful Niagara Mohawk filing means we are now able to push ahead with infrastructure projects worth some \$2.5 billion over the next three years. These projects will significantly enhance reliability of gas and electricity supplies for homes and businesses across upstate New York.

Other US operational highlights in 2017/18 included the completion and energisation of the first phase of our new \$70 million South Street Substation in Providence, Rhode Island, and the commencement of our Metropolitan Natural Gas Reliability Project to upgrade existing gas distribution infrastructure in Brooklyn.

Additionally, we launched a customer experience transformation programme to improve the way we interact with customers at a number of key touch points, from responding to telephone enquiries to processing payments and setting up new connections.

We also created a single capital delivery function to manage construction of all future major projects for the US electricity, gas and transmission businesses. We anticipate the new capital delivery function will achieve significant savings by leveraging efficiencies of scale in all areas of construction and project management.

In 2017 we also successfully launched our Gas Enablement Programme in Rhode Island to optimise the operational performance of our gas business through modernisation of all aspects of our work, from asset management to customer service. The programme will now be rolled out across all US geographies in which we operate, as we expect it to deliver significant benefits for customers.

UK

In the UK, we faced new political and regulatory pressures, notably on issues such as affordability and renationalisation, as Sir Peter mentioned on page 9. In response to these pressures, we worked hard throughout the year to communicate the many ways in which we create and drive value for customers and society.

The speed of progress occurring in our industry was starkly highlighted on 21 April 2017, when Britain had its first working day free of coal power generation since the Industrial Revolution.

Highlights of 2017/18 for National Grid in the UK included the start of work to create a legally separate company for the electricity System Operator and the creation of significant value for consumers through the completion of several other landmark projects that showcased our ability to deliver world-class efficiency and innovation.

For example, in February 2018, I was honoured to welcome HRH The Prince of Wales and HRH the Duchess of Cornwall to the opening of the ambitious, billion-pound London Power Tunnels project. Completed on time and under budget, the London Power Tunnels, which include new substations in Highbury and Kensal Green, are the most significant investment into the UK capital's electricity transmission system since the 1960s.

We also continued to invest in innovation throughout 2017/18, notably in the use of cutting-edge robotics for underground pipe inspections (page 7). Additionally, we developed far-reaching plans to establish a strategic rapid charging network across the UK's motorway system in order to facilitate the coming electric vehicle revolution (page 29).

Over the course of the year, mindful of the fact we operate within an evolving regulatory environment, we also began preparing for a new regulatory framework (RIIO-T2), which will come into effect when the current one expires in March 2021.

To this end, we responded to Ofgem's Framework Consultation, which aims to establish the wider methodology of RIIO-T2, and we also engaged customers and other interested parties to discover their objectives from the new period of regulation.

In January 2018, I was disappointed by Ofgem's initial response to our proposal with regard to connecting Hinkley Seabank (HSB) to the electricity network. Ofgem's response indicated the regulator is considering ways in which to keep returns on investment below a level commensurate with the risk we attach to the project. We believe this proposal would not be in the best interests of consumers or the wider energy sector as it seeks investment in the future, and we will continue to work with Ofgem in the hope of finding a way forward.

Exploring new opportunities

In April 2017, we established National Grid Ventures to explore growth opportunities in some of the most exciting areas of our industry, including solar, battery storage and interconnectors.

National Grid Ventures is managing the £1.3 billion construction of three interconnectors from the UK to Belgium, Norway and France, and is also studying the commercial viability of a fourth to Denmark.

Additionally, National Grid Ventures is leading National Grid's work to establish partnerships with market leaders in renewable energy, for example our partnership with Tesla on a large-scale battery storage project on the island of Nantucket in the US.

National Grid Ventures also launched a Technology and Innovation team to explore opportunities to proactively drive value and growth through early stage adoption of cutting edge technologies.

You can read about the exciting work National Grid Ventures is doing on page 32.

People

National Grid is committed to doing everything we can to ensure all members of staff work in an environment in which they feel secure and are able to thrive. In 2017/18, in light of widespread news coverage of sexual harassment in a range of industries, we undertook a fundamental review of our policies on sexual harassment and bullying to ensure they are fit for purpose.

We also worked hard throughout the year to promote careers that STEM subjects can unlock. As one of the world's leading engineering companies, we are fortunate to be able to help young people from a diverse range of backgrounds kick-start rewarding careers, through apprenticeships or other forms of professional training. In 2017/18, for example, I was delighted we were able to enrol 369 people into professional training schemes in the US and the UK.

Bring Energy to Life

During the year I was pleased with the progress we made in raising awareness within the business of our Purpose, which is to Bring Energy to Life, our Values, which are to find a better way and to do the right thing, and our Vision, which is to exceed the expectations of the people we serve and to make possible the energy systems of tomorrow.

I believe our purpose, vision and values are powerful tools with which to build trust by demonstrating our commitment to the societies we serve is genuine, not only through provision of our traditional services, but also by championing the kind of change that facilitates progress and meaningfully improves lives.

Looking ahead

Over the coming year, while continuing to work to improve our safety culture, we will also focus on improving our core competencies in terms of operational and customer performance.

In line with our regulatory strategy, we will work hard to make sure the outcomes of our rate filings in the US continue to be successful and that our dialogue with Ofgem in the UK ahead of RIIO-T2 is effective. We will also seek to recruit and develop talented people throughout the business to help us deliver our strategy and vision.

As we grow the business, we will embrace opportunities to evolve as a purpose-led organisation, while also continuing to play a leadership role within our industry, particularly in the area of energy transformation.

We will also develop both National Grid Ventures and our existing expertise in increasingly important areas, such as digital technologies, data analytics and artificial intelligence.

Thank you

I was really proud during the year to be part of an organisation, that worked so hard on so many fronts – improving the quality of life of millions of people by providing vital services in an ever more effective way.

National Grid faces many challenges, but our performance during the year showcased the collective spirit I believe will ensure we go on delivering sustained value for our stakeholders and for wider society.

Thank you to everyone who worked hard for National Grid in 2017/18.



John Pettigrew
Chief Executive

Our purpose, vision, values and strategy

To make sure National Grid is well positioned to respond to changes in our business environment and within the energy industry, we continue to adhere to and promote our purpose, vision, values and strategy.

Our purpose

'Bring Energy to Life'.

Our vision

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

Our values

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

Our strategy

'We have three strategic priorities for our business that will help us achieve our vision: find new ways of optimising our operational performance, look for opportunities to grow our core business, and make sure National Grid is better equipped for the future'.

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 makes us proud about the work we do.

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

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 values

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.

Finding a better way to connect gas

It currently takes around three years and £2 million to connect new gas customers to the National Transmission System (NTS). For smaller connections, we're working to halve the cost, and reduce the time to under one year through Project CLoCC (Customer Low Cost Connections).

We will deliver these savings in three main ways. Firstly, we're developing an online gas connections portal to replace the current paper-based process. Customers will be able to generate indicative quotes within seconds, and will benefit from greater transparency on the status of their applications which they will be able to track from start to finish.

Secondly, we've developed a suite of pre-approved and pre-appraised standardised connection designs, ready to order off the shelf. This will save our customers significant time and money.

Finally, we're looking at ways to optimise commercial arrangements through changes to relevant gas regime governance. An example of this is the work we have done towards removing the absolute requirement for every new NTS exit connection to include a remotely operable valve (ROV) installation. This governance change, which became effective in January 2018, will reduce costs for customers.

The project is running under budget and on schedule to complete later in 2018.



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	 2. Look for opportunities to grow our core business	 3. 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.	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 US, we are pursuing opportunities in electricity and gas transmission. In the UK, interconnectors will continue to be our focus over the next decade.	National Grid Ventures was established in April 2017. National Grid Ventures is tasked with creating value and gathering knowledge through investment in adjacent businesses, including utility-scale projects, distributed energy opportunities and the development of new and evolving technologies.	
Associated principal risks to achieving our priorities	Operational: safety or environmental event; cyber security breach; failure to predict and respond to significant disruption of energy; failure to adequately manage data.	Strategic and regulatory: failure to secure satisfactory regulatory agreements; failure to deliver our proposition due to political and economic uncertainty; failure to adequately anticipate and minimise the adverse impact from disruptive forces on our business model.		
	People: failure to build sufficient capability and leadership capacity required to deliver our vision and strategy.			
How we measure ourselves	• Safety performance • Customer satisfaction scores*** • Network reliability*** • Group RoE • Greenhouse gas emissions reduction	• Regulated asset base growth • Capital investment	• Innovation investment	
	The metrics below underpin all our strategic priorities: contribution of our corporate responsibility work; skills and capabilities; employee engagement; workforce diversity; adjusted EPS; Value Added			
Performance in 2017/18**	0.10 Employee lost time injuries per 100,000 hours worked in a 12-month period (2016/17: 0.10)	6% Asset growth (2016/17: 5%)	59.5 Adjusted EPS (2016/17: 56.9)	£73m Contribution of our corporate responsibility work (2016/17: £9m)
	12.3% Group RoE (2016/17: 11.7%)	7.7m Tonnes of CO ₂ equivalent (2016/17: 9.1m)	£4,251m Capital investment (2016/17: £3,862m)*	35,425 Interactions with young people on STEM subjects (2016/17: 29.6k)
	57.9 p/share Value Added (2016/17: 51.6p/share)	77% Employee engagement index (2016/17: 77%)	24.6% Women in workforce (2016/17: 24.1%)	17.9% Ethnic minority in workforce (2016/17: 17.3%)

* Includes investments in joint ventures and associates (excluding St. William).

** For reconciliations between statutory and non-IFRS performance measures see pages 206-214.

*** Customer satisfaction and network reliability are not measured at a Group level. See pages 14-17 for the business segment performance.

Progress against our strategy

The Board uses a range of financial and non-financial metrics, reported periodically, against which we measure Group performance. These metrics are aligned to our three strategic priorities. In addition there are a number of metrics that underpin all our strategic priorities.

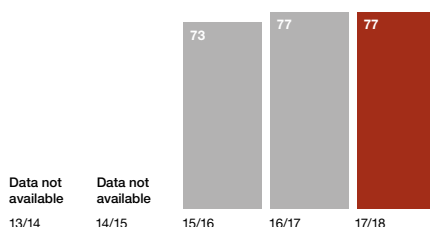


Metrics that underpin all three strategic priorities

Employee engagement index

This is a measure of how engaged our employees feel, based on the percentage of favourable responses to certain indicator questions repeated annually in our employee engagement survey.

Employee engagement index (%)



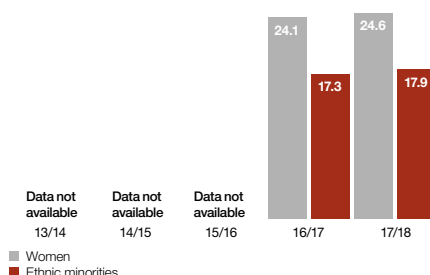
We measure employee engagement through our employee engagement survey. The results of our 2017/18 survey, which was completed by 87% of our employees, have helped us identify specific areas where we are performing well and those areas we need to improve.

This year's employee engagement score was 77%.

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 37).

Workforce diversity (%)

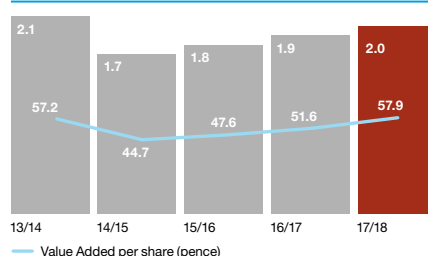


During 2017/18, we continued to increase the diversity of our workforce and saw an increase over the last 12 months of female and minority groups: from 24.1% to 24.6% females (+0.5% increase) and from 17.3% to 17.9% minorities (+0.6% increase). The two years' worth of data we are showing does not include our UK Gas Distribution workforce. Data prior to 2016/17 would include this data and is no longer being shown on the graph.

Value Added

Reflects value to shareholders of dividend and growth in National Grid's assets, net of the growth in overall debt.

Value Added (£bn)



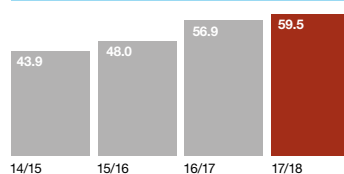
While we have no specific target, our overall aim is to grow Value Added sustainably over the long term, while maintaining our performance for our other financial KPIs. Value Added in the year of £2.0 billion or 57.9 pence per share was higher than 2016/17 (£1.9 billion or 51.6 pence per share), primarily as a result of higher RPI inflation on UK regulated assets (March 2018 RPI of 3.3%, prior year 3.1%) and improved US performance. Of the £2.0 billion Value Added in 2017/18, £1.3 billion was paid to shareholders as cash dividends and £0.2 billion as share repurchases, with £0.5 billion retained in the business.

A target for Value Growth, a derivative of Value Added, is included in the incentive mechanisms for executive remuneration within the Long Term Performance Plan (LTTP). You can find more information in our Directors' Remuneration Report on pages 63-79.

Adjusted EPS

Adjusted earnings represents profit for the year attributable to equity shareholders. This excludes exceptional items and remeasurements (see page 123). Adjusted EPS provides a measure of shareholder return that is comparable over time.

Adjusted EPS from continuing operations (pence)



For the year ended 31 March 2018, adjusted EPS increased by 2.6 pence to 59.5 pence, reflecting a lower number of shares following the return of capital, increased revenue and a 39% share of Cadent profits, partly offset by increased costs, including the impact of major US storms.

A target for adjusted EPS is included in the incentive mechanisms for certain Executive Directors' remuneration within the Annual Performance Plan (APP). You can find more information in our Directors' Remuneration Report on pages 63-79.

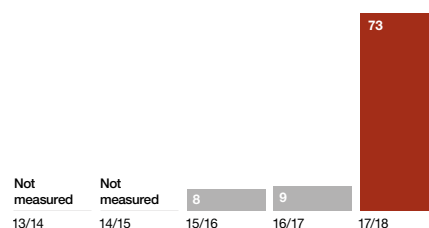
See page 206-214 for reconciliations to our statutory measures.

Contribution of our corporate responsibility work

Working with our communities is important in creating shared value for us as a business, the people we serve and the communities where we work.

We use the London Benchmarking Group measurement framework to provide an overall community investment figure which includes education (but excludes investment in university research projects). While we have no specific target, our overall aim is to make sure we are creating shared value through our social purpose activities.

Contribution of our corporate responsibility work (£m)



In the UK the overall contribution of our corporate responsibility work was valued at just over £66 million. This is a significant increase on last year due to the donations we have been making through the Warm Homes Fund. In the US, our contribution was just under £7 million. This gives a combined Group-wide contribution of just over £73 million.



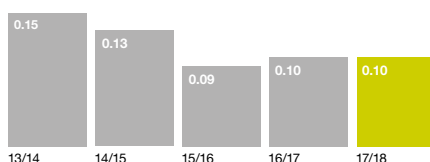
Find new ways of optimising our operational performance

How we assess progress:

Employee lost time injury frequency rate

This is the number of employee lost time injuries per 100,000 hours worked in a 12-month period (including fatalities). Our lost time injury frequency rate for the Group has been 0.10 or lower throughout the year, which is consistent with world-class safety performance. The below data does not include UK Gas Distribution employees.

Employee lost time injury frequency rate (per 100,000 hours worked)



Customer satisfaction

The table below summarises how we measure customer satisfaction and shows our targets for each business area.

Customer satisfaction

	Methodology	Measure
UK	RIO-related metrics agreed with Ofgem	Score from surveys
US	Customer Trust Advice metric	Score from survey
NGV	Net Promoter Score (NPS) ¹	Score from survey

	16/17	17/18	Target
UK Electricity Transmission	7.4	7.7	6.9 ²
UK Gas Transmission	8.0	7.6	6.9 ²
US – Residential ³	60.7%	56.6%	57.4%
NGV	–	+34	–

1. NPS is a commonly used tool to measure customer experience. It is an index ranging from -100 to +100.
2. Figures represent our baseline targets set by Ofgem for reward or penalty under RIO (maximum score is 10).
3. Our US customer satisfaction methodology is the Customer Trust Advice survey metric. The survey specifically focuses on the services we provide for our customers and represents their views of us.

Our customer satisfaction KPI comprises Ofgem's UK electricity and gas transmission customer satisfaction scores, the US residential Customer Trust Advice survey metric and National Grid Ventures's Net Promoter Score metric. This year our UK Gas Transmission score was 0.4 points lower than last year.

The US metric measures customers' sentiment with National Grid by asking customers their level of trust in our advice to make good energy decisions. The metric, which is tied to the value customers feel they receive from National Grid, fell below target primarily due to higher customer bills and storm-related outages.

NPS measures the willingness of customers to recommend National Grid to others and is a measure of their loyalty. This is the first year we have reported a customer satisfaction

score for National Grid Ventures. The score is the average across National Grid Metering Domestic, National Grid Metering I&C (Industrial & Commercial), Grain (LNG Primary Shippers, LNG Road Tanker Operators) and Interconnectors. We currently do not have a target score.

We are also measuring NPS in the core UK business to understand our customers' views and to introduce a benchmark measure. We will comment more on this next year.

Network reliability

Network reliability is measured separately for each of our business areas. The table below represents our performance across all our networks. Our targets are set out in the table for our UK networks, and are set individually for each of our US jurisdictions.

Network reliability

		Target or base %	16/17 %	17/18 %	Performance against target
UK Electricity Transmission	T	99.9999	99.999964	99.999984	exceeded
UK Gas Transmission	T	100	99.97500	99.996151	not achieved
US Electricity Transmission	B	99.9	99.97	99.953	no target
US Electricity Distribution	B	99.9	99.994	99.995	no target

Key:

T – Target

B – No target set, as set individually by each jurisdiction. Accordingly, we set a base and report performance above the base.



Find new ways of optimising our operational performance continued

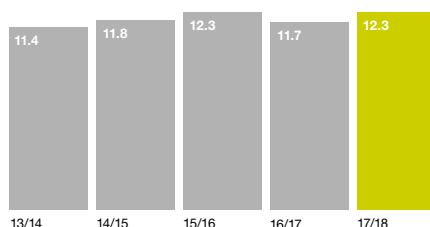
We aim to deliver reliability by planning our capital investments to meet challenging demand and supply patterns, designing and building robust networks, having risk-based maintenance and replacement programmes, and detailed and tested incident response plans.

We have not met our targets for UK Gas Transmission. UK Gas Transmission missed its target as there was cessation to the flow at one supply point on the NTS on a small number of occasions. You can find more information about our UK principal operations on pages 28-29, and our US principal operations on pages 30-31.

Group return on equity (RoE)

We measure our performance in generating value for our shareholders by dividing our annual return by our equity base. This calculation provides a measure of the performance of the whole Group compared with the amounts invested by the Group in assets attributable to equity shareholders.

Group RoE (%)



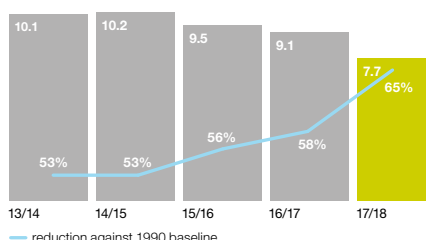
Group RoE increased during the year to 12.3%, from 11.7% in 2016/17. The UK regulated businesses delivered a solid operational return of 12.1% in aggregate (2016/17: 13.1%), including an assumption of 3% long-run average RPI inflation. The US operational return of 8.9% was up on last year's 8.2%, as the US business delivered a 20% increase in underlying operating profit (at constant currency), reflecting increased revenues from new rate plans in MECO, KEDNY and KEDLI.

A target for Group RoE is included in the incentive mechanisms for certain Executive Directors' remuneration within both the APP and the Long Term Performance Plan LTPP. You can find more information in our Directors' remuneration on pages 63-79.

Climate change

This is a measure of our reduction of Scope 1 and Scope 2 greenhouse gas emissions of the six primary Kyoto greenhouse gases. Our target is to reduce our greenhouse gas emissions by 45% by 2020, 70% by 2030, and 80% by 2050, compared with our 1990 emissions of 21.6 million tonnes.

Greenhouse gas emissions (Scope 1 and 2 (million tonnes of carbon dioxide equivalent))



Our Scope 1 greenhouse gas emissions for 2017/18 equate to 4.8 million tonnes of carbon dioxide equivalent (2016/17: 5.8 million tonnes) and our Scope 2 emissions (including electricity line losses) equate to 2.9 million tonnes (2016/17: 3.4 million tonnes); combined this is a 65% reduction against our 1990 baseline. These figures now include line losses, but exclude UK Gas Distribution. These are equivalent to an intensity of around 505 tonnes per £1 million of revenue (2016/17: 424).

Our Scope 3 emissions for 2017/18 were 31.9 million tonnes (2016/17: 34 million tonnes).

We measure and report in accordance with the World Resources Institute and World Business Council on Sustainable Development Greenhouse Gas Protocol. 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. This statement, along with more information about our wider sustainability activities and performance can be found in the 'responsible business' section of our website www.nationalgrid.com.

Reporting disclosure of our Scope 1, 2 and 3 emissions is part of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. You can read more about TCFD on page 192.



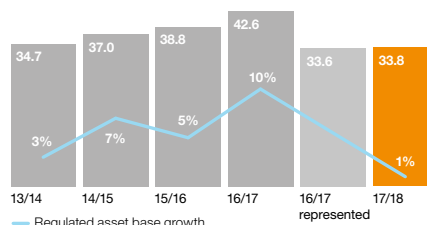
Look for opportunities to grow our core business

How we assess progress:

Regulated asset base growth

Maintaining efficient growth in our regulated assets ensures we are well positioned to provide consistently high levels of service to our customers and increases our revenue allowances in future years. It also contributes to our Group target of 5-7% asset growth each year.

Total regulated asset base (£m) and regulated asset base growth (%)

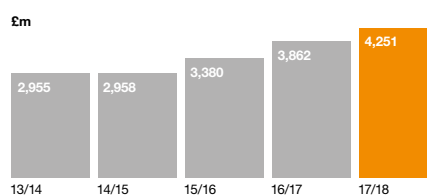


In total, our UK RAV and US rate base increased by £0.2 billion (0.6%) in the year to £33.8 billion. This reflects the continued high levels of investment in our networks in both the UK and US, offset by the impact of the weaker US dollar. Excluding the impact of FX, growth was 5.7%. Following the sale of a 61% interest in the UK Gas Distribution business on 31 March 2017, the Group's total RAV and rate base for 2016/17 decreased to £33.6 billion (from £42.6 billion), as shown above.

Capital investment

'Capital investment' and 'investment' refer to additions to plant, property and equipment, and intangible assets, and contributions to joint ventures and associates, other than the St William Property Limited joint venture during the year. St William Property Limited is excluded based on the nature of this joint venture arrangement.

Capital investment (continuing operations (£m))



Capital investment increased in the year by £389 million (10%). Increased investment in our US Regulated business, higher spend on UK gas pipelines, and increased investment in our interconnector projects were partly offset by an unfavourable exchange rate impact of £145 million.



Make sure National Grid is better equipped for the future

Performance highlights

57.9p/share

Value Added
(2016/17: 51.6p/share)

6%

Growth in our total assets
(2016/17: 5%)

12.3%

Group Return on Equity (RoE)
(2016/17: 11.7%)

77%

Employee engagement index
(2016/17: 77%)

How we assess progress:

Innovation

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 focusing our innovation activities on four value themes:

Managing assets – looking for innovative ways to manage the life of our assets. The better we understand what affects them, the better we can maintain them at the lowest cost and least disruption to our customers.

Efficient build – finding ways to reduce the cost of building new infrastructure, such as improving the design of the network and trialling equipment that can be used more flexibly, as well as looking at ways to improve the design of the network.

Service delivery – we are exploring new ways to provide value for our customers and consumers as the energy system evolves. By understanding the present and future expectations of our customers and stakeholders, we can develop the right kind of products and services.

Corporate responsibility – we are constantly researching and developing safer working practices, including using materials with less potential to cause harm to the environment.

Investment in research and development during the year for the Group was £13 million (2016/17: £14 million; 2015/16: £19 million). On pages 204-205, you can read more about some of the innovation work we have been progressing during 2017/18.

For example, in the UK, we have signed a £40 million innovation partnership with Siemens to research and develop the use of gas-insulated lines on the electricity transmission network. Within this partnership, we also plan to develop an alternative SF₆ free insulating gas mixture that has less than 0.05% of the global warming impact of SF₆.

On Deeside, we are converting an existing substation into a trial facility to test new technologies off network. It will be the first facility in Europe where assets can be tested around the clock.

Power Potential is a £9.5 million System Operator project in collaboration with UK Power Networks. £8.0 million of the project is funded through the 2016 Network Innovation Competition (NIC). The project aims to create a regional reactive power market for distributed energy resources and generate additional capacity on the network.

Our Gas Transmission projects have included using light detection and ranging to carry out aerial inspections of our pipeline; 3D printing to allow an asset to be repaired rather than replaced; and artificial intelligence to more efficiently identify and mitigate corrosion issues across the network.

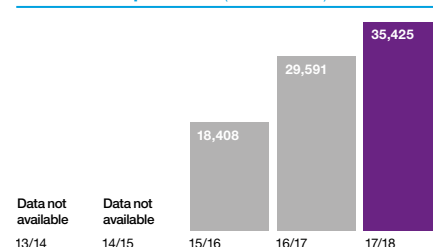
In the US, we are pre-approved to construct up to 20 MW of photovoltaic (PV) facilities in Massachusetts as part of our 'Solar Phase II' programme. These sites are designed with advanced grid interactive control features, beyond what typical PV facilities are required to provide. We are also engaged with Electric Power Research Institute (EPRI) on distributed energy resources integration, energy storage, asset management, system operations, information and communication technology, and system planning.

Lessons learned from the Worcester Smart Energy Solutions pilot in Massachusetts and the Volt VAR Optimization and Conservation Voltage Reduction pilot in Rhode Island, have helped shape larger scale grid modernisation proposals in each of our jurisdictions.

Skills and capabilities

We support developing the skills and capabilities of young people through skills-sharing employee volunteering, especially in science, technology, engineering and mathematics (STEM) subjects, because it supports our future talent recruitment and our desire to see young people gain meaningful employment. While we have no specific target, our aim is to encourage many young people to get involved in STEM subjects.

Skills and capabilities (Interactions)



We measure quality (>1 hour) interactions with young people on STEM subjects. In the UK, in 2017/18, we have had 2,699 interactions with young people on STEM subjects, and 32,726 interactions in the US. Overall we have seen a total of 35,425 interactions with young people on STEM, an increase of 5,834. The 2017/18 data excludes UK Gas Distribution. All figures prior to 2017/18 include UK Gas Distribution.

Internal control and risk management

The Board is committed to protecting and enhancing our reputation and assets, while safeguarding the interests of our shareholders.

Top down, bottom up assessment

Risk management activities take place through all levels of our organisation. Through a 'top down, bottom up' approach, all business areas identify the main risks to our business model and to achieving their business objectives. Each risk is assessed by considering the financial and reputational impacts, and how likely the risk is to materialise. The business area identifies and implements actions to manage and monitor the risks. The risks and actions identified are collated in risk registers and reported at functional and regional levels of the Company quarterly. The most significant risks for the UK and US businesses are highlighted in regional risk profiles and reported to the Group Executive Committee and the Board twice a year. In addition to these reports, the Group Executive Committee and the Board may also identify and assess principal risks. These risks and any associated management actions are cascaded through the organisation as appropriate.

Managing our risks

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

The Board oversees the Company's risk management and internal control systems. As part of this role, the Board sets and monitors the amount of risk the Company is prepared to seek or accept in pursuing our strategic objectives (our risk appetite). The Board assesses the Company's principal 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 with implementation owned by the business. Our enterprise risk management process provides a framework through which we can consistently identify, assess and prioritise, manage, monitor and report risks. The process is designed to support the delivery of our vision and strategy, described on pages 12-13.

Our corporate risk profile contains the principal risks that the Board considers to be the main uncertainties currently facing the Group as we endeavour to achieve our strategic objectives. These top risks are agreed through discussions of the Group's risk profile with the Executive Committee and the Board. The risks are reported and debated with the Group Executive Committee and Board every six months.

A broad range of factors are considered when determining what our principal risks should be. Brexit is not currently one of our principal risks but the implications continue to be kept under review, especially in relation to our access to energy markets and the impacts on interconnector revenues and costs. For the past 12 months, our Brexit working group has been assessing these issues and has devised scenarios to cover the likely outcomes. 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 our partners might be compelled to 'switch off' the interconnectors is low. Throughout the year, we have been engaged with our customers and stakeholders, especially with our regulators, as we seek to inform them of the Brexit outcome we believe would be in the best interests of consumers.

The Board has also considered the potential for renationalisation of energy supply networks by the UK Labour Party. Should the UK Labour Party come into power, the timing and routes for energy supply network renationalisation generally are currently uncertain, and therefore the impact upon National Grid plc remains unclear. Renationalisation options we have considered have included acquisition of the listed plc, the UK business, the transfer of transmission assets to 'regional communities' and regulatory change. The Government has

to pay fair compensation for the Company's property which will be determined at the time, and which could be calculated in a number of different ways. We have canvassed a wide range of stakeholders including government officials, consumers and 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 principal risks in more detail, including cyber security, emerging technology, compliance with new General Data Protection Regulation, asset safety, US tax reform, and Ofgem's 'minded to' consultation on the delivery model for a project to connect the Hinkley Point C power station to the electricity network.

The principal risks are tested annually to establish the impact of the risks on the Group's ability to continue operating and to meet its liabilities over the assessment period. We test the impact of these risks on a reasonable worst case basis, alone and in clusters, over a five-year assessment period. This work informs the viability statement (see page 26). The Board, Executive Committee and other leadership teams discuss the results of the annual testing of our principal risks at the end of the year.

Changes during the year

This year, a reassessment of the Company's principal risks and approach to risk appetite was undertaken by the Executive Committee and the Board. The purpose of the assessment was to validate that we have identified the right risks in view of our strategy, priorities, and changing external environment, to identify potential new or emerging risks, and to develop a risk appetite framework that will aid better decision-making within the business.

The output from these workshops resulted in two new principal risks: 'Failure to predict and respond to a significant disruption of energy that adversely impacts our customers and/or the public' and 'Failure to deliver any one of our customer, investor and wider stakeholder propositions due to increased political and economic uncertainty'. One risk was removed from the list of principal risks and several have been reworded and/or consolidated to better reflect the current meaning of the risk. The principal risks are presented in the table opposite.

The workshops also resulted in changes to our risk appetite framework, including an update to the categories in view of current priorities and the determination of the risk appetite position for each risk appetite category. A system of classification of risks into categories (Operational, Strategic, Regulatory, People and Financial) has been implemented in accordance with the revised risk appetite framework. Risk categories help to distinguish the management approach to mitigation. During this coming year, we will embed the new framework within the organisation.

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 considering 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 actions taken by management, are provided in the table below. We have provided an overview of the key inherent risks we face on pages 193-196, as well as our key financial risks, which are incorporated within note 30 to our consolidated financial statements on pages 158-164.

Operational risks

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.

Our operational principal 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'. Principal risk assessment included reasonable worst case scenario testing – i.e. gas transmission pipeline failure, loss of licence to operate, cyber security attack – and the financial and reputation impact should a single risk or multiple risks materialise. External events over this past year – the extreme weather events, the WannaCry cyber security attack, new data privacy legislation – were considered in the assessment and testing, as well as in the development of mitigation actions.

Please also refer to page 192 for the discussion of climate-related influences on risk management.

Risks

Catastrophic asset failure results in a significant safety and/or environmental event.

Risk trend: ↔

Major cyber security breach of business, operational technology and/or critical national infrastructure (CNI) systems/data.

Risk trend: ↑

Failure to predict and respond to a significant disruption of energy that adversely affects our customers and/or the public.

Risk trend: ↑

Failure to adequately identify, collect, use and keep private the physical and digital data required to support Company operations and future growth.

Risk trend: ↔

Actions taken by management

We continue to commit significant resources and financial investment to maintain the integrity and security of our assets and data. This year, we have continued to focus on risk mitigation actions designed to reduce the risk and help meet our business objectives. Monitoring action status has been incorporated into various business processes and senior leadership meetings. Examples of actions include:

- Our 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 have implemented asset management and data management standards with supporting guidelines to provide clarity around what is expected, with a strong focus on what we need in place to keep us safe, secure and legally compliant. In support of this, we developed a capability framework to make sure our people have the appropriate skills and expertise to meet the performance requirements in these standards.
- We continually invest in strategies that are commensurate with the changing nature of the security landscape. This includes collaborative working with the Department for Business, Energy and Industrial Strategy (BEIS) and the Centre for Protection of National Infrastructure (CPNI) on key cyber risks, as well as development of an enhanced CNI security strategy; and our involvement in the US with developing the National Institute of Standards and Technology Cyberspace Security Framework.
- 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.
- 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.

Strategic and regulatory risks

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.

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.

Risks

Failure to influence future energy policy and secure satisfactory regulatory agreements.

Risk trend: 

Failure to deliver our customer, stakeholder and investor proposition due to increased political and economic uncertainty.

Risk trend: 

Failure to adequately anticipate and minimise the adverse impact from disruptive forces such as technology and innovation on our business model.

Risk trend: 

Actions taken by management

In both the UK and the US, 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 US rate case filings and continuously work to foster open and effective relationships with our regulators and other stakeholders.

Processes and resources are in place to review, undertake due diligence and progress new investment opportunities, dispose of existing businesses, and identify and execute on opportunities that provide organic growth. These processes, along with twice-yearly National Grid Board strategy offsite discussions, are reviewed regularly to ensure they continue to support our short and long-term strategy. We regularly monitor and analyse market conditions, competitors and their potential strategies, the advancement and proliferation of new energy technologies, and the performance of our Group portfolio.

We created the Group Technology and Innovation team to develop our 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. In addition, the partnership with Energy Impact Partners was established in 2015 to gain exposure to emerging start-up companies.

The new National Grid Ventures function will further the focus on new strategies, business development and technology and innovation.

People

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.

Risks

Failure to build sufficient capability and leadership capacity (including effective succession planning) required to deliver our vision and strategy.

Risk trend: 

Actions taken by management

Strategic workforce planning has been embedded in our US and UK organisations. This process helps to effectively inform financial and business planning, as well as human resourcing needs.

Our entry-level talent development schemes (graduate training and 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 week and the US Pipeline and Graduate Development Programmes.

The rigour of our succession planning and development planning process has been improved over the year, particularly at senior levels, and is now being applied deeper into the organisation. Our Strategic Talent Acquisition team now includes internal executive search capability and market mapping of critical roles. Ongoing attention is required in relation to the ethnic diversity of our management population. There are multiple activities under way to drive this agenda, including 'blind' talent and selection processes, development interventions and a global review of our inclusion and diversity strategy and resources.

Financial risks

While all risks have a financial liability, financial risks are those which directly relate to financial controls and performance. Financial risk management is a critical process used to make investment decisions and aims to maximise investment returns and earnings for a given level of risk.

Our key financial risks, which are incorporated within the notes to our consolidated financial statements, are described in note 30 to our financial statements on pages 159-164.

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 appropriate Board committees, as described in the Corporate Governance section on pages 41-79.

Monitoring internal control is conducted through established boards and committees at different levels of the organisation. 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 Board level. The Audit Committee is responsible for keeping under review and reporting to the Board on effectiveness of reporting, internal control policies, compliance with Sarbanes-Oxley, UK Bribery Act legislation, appropriateness of financial disclosures and procedures for risk and compliance management, business conduct, and internal audit. The Board is also kept informed of issues by the Group Executive Committee, sub-committees of the Board through verbal and written reports, the CEO updates, and the legal updates from the Group General Counsel and Company Secretary. 'Deep dive' sessions are conducted on significant risk issues throughout the year.

Reviewing the effectiveness of our internal control and risk management

The Board continually monitors and assesses 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 Annual Report and Accounts. In this review, the Board considered the effectiveness of areas such as the control environment, risk management and internal control activities, including those described below. It noted that no material weaknesses had been identified by the review and confirmed that it was satisfied the systems and processes were functioning effectively.

Fostering a culture of integrity is an important element of our risk management and internal controls system. National Grid'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 bi-annual review by the Audit Committee.

Overall compliance strategy, policy and frameworks are set at the Group-level with implementation owned by the business. 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 US and UK leadership meetings and a bi-annual 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. Our 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 CEO to the 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 Company's full year results. The Audit Committee considers the CoA and provides a recommendation to the Board in support of its review.

Internal control over financial reporting

The periodic Sarbanes-Oxley (SOX) Act reports on management's opinion on the effectiveness of internal control over financial reporting are received by the Board in advance of the half and full year results. They concern the Group-wide programme to comply with the requirements of s404 of the SOX Act and are received directly from the Group Controls Team; and through the Executive and Audit Committees. A programme is currently under way to identify and implement process improvements and best practices.

We have specific internal mechanisms that govern the financial reporting process and the preparation of the Annual Report and Accounts. 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 CEO and Finance Director. 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 Finance Director presents a consolidated financial report to the Board.

As part of our assessment of financial controls in previous years, we identified a number of deficiencies in our financial control framework. We are making progress in remediating these deficiencies. For more information, including reporting, see the report of the Audit Committee on page 49.

Financial review

We delivered a strong financial performance this year, driven by increased US revenues. We completed our £4 billion return of capital and funded increased investment while maintaining a healthy balance sheet.

This section

We explain how we create value for our shareholders and provide commentary on our key financial performance metrics.

For details on how we define our alternative performance measures and regulatory performance measures, refer to pages 206-214.

More detailed analysis is located in the Financial Statements as follows:

Consolidated income statement: page 96.

Principal operations by segment: page 111.

Statement of financial position: page 100.

Consolidated cash flow statement: pages 102-103.

Borrowings: page 141.

Commentary on UK and US regulation: pages 186-191.

Commentary on our financial performance and position for the year ended 31 March 2017 compared with 31 March 2016: pages 215-216.

Capital investment:

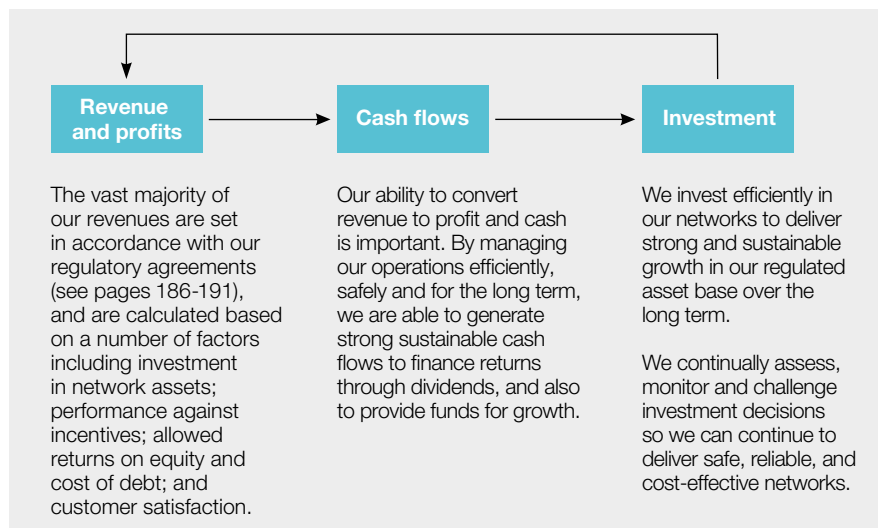
Additions to property, plant and equipment, plus contributions to JVs and associates, other than the St William property JV (contributions to St William are linked to property site transfers).

Regulated asset base:

When considering the size of our asset base, we reference our regulated asset base. This represents a measure by our regulators of the invested capital on which we are authorised to earn a cash return, and includes our regulatory asset value in the UK, plus our rate base in the US.

How we create value for our shareholders

We are a long-term asset-backed business. The diagram below illustrates how our regulated businesses create financial value over time in the UK and US.



In addition to our regulated operations we own a UK metering business generating income primarily through meter rentals. We also own a diverse and growing portfolio of commercial energy businesses operating in competitive markets across the UK and US. These include our Grain LNG terminal and electricity interconnectors between the UK and continental Europe, and between the US and Canada. These are generally electricity and gas infrastructure assets with a low risk profile and stable cash flows, underpinned by long-term contracts or regulatory arrangements. We also own a property business, developing and selling surplus land in our portfolio.

In order to deliver this value, we:

- aim to operate within our regulatory frameworks as efficiently and compliantly as possible;
- perform well against our regulatory incentives, in order to deliver customer benefits and good returns;
- manage our cashflow requirements and secure low cost funding; and
- maintain a disciplined approach to investment in our networks.

Our financial performance explained

In addition to our statutory reporting under IFRS, we believe it is helpful to report a range of alternative performance measures (or non-IFRS measures), and regulatory performance measures, as summarised below.

Profitability and earnings from the continuing business

Adjusted results, also referred to as 'headline' results: These exclude the impact of exceptional items and remeasurements that are treated as discrete transactions under IFRS and can accordingly be classified as such. This is a measure used by management that forms part of the incentive target set annually for remunerating certain Executive Directors. Further details of these items are included in Note 4 to the financial statements.

Underlying results: Further adapts our adjusted results to take account of volumetric and other revenue timing differences arising due to the in-year difference between allowed and collected revenues, including revenue incentives, as governed by our rate plans in the US or regulatory price controls in the UK (but excluding totex-related allowances and adjustments). For 2017/18, our underlying results exclude £104 million of timing differences, as well as £142 million of storm costs (which are significant in aggregate this year) where we expect to recover the bulk of the costs incurred through regulatory mechanisms in the US.

Prior period pro forma including Cadent overlay: To aid comparability with prior years, we show an estimate of adjusted and underlying results and earnings for the continuing business in 2016/17 and 2015/16, including an estimated contribution from our 39% interest in UK Gas Distribution (now Cadent).

Profitability and earnings

The table below shows our Group profit after tax and earnings per share for the year to 31 March 2018.

Results from continuing operations – at actual exchange rates

	Group profit after tax from continuing operations			Earnings per share from continuing operations		
	2017/18 £m	2016/17 £m	% change	2017/18 pence	2016/17 pence	% change
Statutory profit after tax	3,592	1,810	98%	103.8	48.1	116%
adjust for: exceptional items and remeasurements	(1,531)	331		(44.3)	8.8	
Adjusted profit after tax	2,061	2,141	(4)%	59.5	56.9	5%
adjust for: timing	(62)	(279)		(1.7)	(7.4)	
adjust for: major storms	91	–		2.6	–	
Underlying profit after tax	2,090	1,862	12%	60.4	49.5	22%
adjust for: Cadent overlay	–	167		–	9.1	
Underlying profit after tax (pro forma)	2,090	2,029	3%	60.4	58.6	3%

On a statutory basis, Group profit after tax from continuing operations was £3,592 million and EPS was 103.8p. Exceptional items and remeasurements principally reflected a £1,510 million tax credit arising from the reduction in the US tax rate, financial derivative remeasurement gains of £119 million pre-tax, and a net £103 million charge arising from our retained investment in Quadgas HoldCo Limited. Adjusted profit after tax (excluding exceptional items and remeasurements) of £2,061 million included £62 million, relating to timing offset by £(91) million as a result of major storms.

On an underlying basis, Group profit after tax was £2,090 million, up £61 million (3%) and earnings per share were 60.4p up 1.8p (3%) compared to prior year pro forma (including Cadent overlay). Revenues increased as a result of new US rate plans in New York and Massachusetts, partly offset by lower UK transmission income, reflecting the return of efficiencies and lower delivered outputs. Costs (excluding pass-through costs) were higher, partly as a result of increased workload and additional depreciation related to asset growth. The weaker dollar in 2017/18 reduced operating profit compared to last year. Net financing costs were lower, with higher interest on inflation-linked debt, offset by gains on disposals of financial investments. Tax was lower compared to 2016/17 partly as a result of decreases in both UK and US tax rates.

Financial position and capital investment

During 2017/18 our net assets under IFRS decreased from £20.4 billion to £18.8 billion, reflecting the £4.0 billion distribution to shareholders, relating to last year's disposal of our UK Gas Distribution business and the impact of the weaker dollar. This was partly offset by pension gains, and the reduction in deferred tax liabilities due to the reduction in the US federal tax rate, and retained profits in the year, further details of which can be found on page 115. The Group's net assets under IFRS, excluding net debt of £23 billion, were £41.9 billion (2017: £39.7 billion excluding net debt of £19 billion).

To help readers' assessment of the financial position of the Group, the table below shows an aggregated position for Group, as viewed through a regulatory perspective. The measures included in the table below are calculated in part from financial information used to derive measures sent to and used by our regulators in the UK and US, and accordingly inform certain of the Group's regulatory performance measures, but are not derived from, and cannot be reconciled to, IFRS.

There are certain significant assets and liabilities included in our IFRS balance sheet, but which are treated differently in the analysis below, and to which we draw readers' attention. These include the £1.5 billion reduction in IFRS deferred tax liabilities we have recognised in relation to US tax reform this year, which, from a regulatory perspective remains as a future obligation. In addition, under IFRS we recognise liabilities in respect of US environmental remediation costs, and pension and OPEB costs. For regulatory purposes, these are not shown as obligations because we are entitled to full recovery of costs through our existing rate plans. Regulatory IOUs which reflect refunds due to customers in future periods are treated within this table as obligations but do not qualify for recognition as liabilities under IFRS.

Asset growth: rate base, RAV and other invested capital

	At actual exchange rates			At constant currency		
	2018 £m	2017* £m	% change	2017/18 £m	2016/17* £m	% change
Year ended 31 March						
UK Electricity Transmission RAV	13,045	12,479	5%	13,045	12,479	5%
UK Gas Transmission RAV	6,014	5,755	5%	6,014	5,755	5%
US rate base	14,762	15,398	-4%	14,762	13,751	7%
National Grid Ventures and Other business invested capital	2,167	2,055	5%	2,167	1,984	9%
Total	35,988	35,687	1%	35,988	33,969	6%
UK other regulated assets/liabilities	(519)	(479)		(519)	(479)	
US other regulated assets/liabilities	1,921	1,665		1,921	1,487	
Other assets and liabilities	(343)	(241)		(343)	(260)	
Total Group regulated and other assets	37,047	36,632		37,047	34,717	

* Re-presented for opening balance adjustments following the completion of the UK regulatory reporting pack process in 2017.

The UK RAV increased by £0.8 billion, reflecting significant capital expenditure, together with inflation. RPI inflation at 3.3% (April to March) was slightly above our 3% long-term expectation. UK RAV growth also included capitalised efficiencies or 'performance RAV' of £67 million this year. Other UK regulated assets and liabilities principally comprise regulatory IOUs, arising from timing (including totex timing adjustments) and output-related allowance changes, which are expected to be recovered from or refunded to customers in future periods. Excluding foreign exchange impact,

Financial review continued

US rate base increased by £1.0 billion (7%) reflecting the step up in US investment, which was 15% higher than in 2016/17.

In total, our UK RAV and US rate base increased by £0.2 billion, net of a £1.6 billion reduction due to foreign exchange movements decreasing the rate base reported in sterling. Excluding foreign exchange our UK RAV and US rate base increased by £1.8 billion (6%) in the year to £33.8 billion. The increase reflects the continued high levels of investment in our networks in both the UK and US.

US other regulated assets and liabilities principally comprise assets in the course of construction (which will transfer to rate base once commissioned), timing balances and other cost or revenue deferrals, which are expected to be recovered or refunded in future periods. National Grid Ventures and other business-invested capital comprises the assets and liabilities of the operating businesses within National Grid Ventures and Other activities. Other assets and liabilities includes our interest in the RAV of Cadent after taking account of debt within the holding structure.

Capital investment

For the year ended 31 March 2018, investment of £4,251 million was £389 million higher than last year, principally driven by increased investment in our US regulated businesses including higher levels of gas mains replacement. Investment in National Grid Ventures also increased as we continue to construct the Nemo Link, our second French interconnector and the North Sea Link.

Net debt, cash flow and credit metrics

During the year we continued to borrow to fund growth in the business. The level of net debt remains appropriate for the size of our business.

Net debt and RCF to adjusted net debt metrics

	2018	2017	% change
Net debt (£m)	23,002	19,274	(19)%
Adjusted net debt (£m)	22,777	20,290	(12)%
Retained cash flow (£m)	2,199	3,020	(27)%
RCF/adjusted net debt*	9.7%	14.9%	(520) bps

* RCF/net debt calculated including scrip share buyback costs.

During 2017/18, net debt increased by £3.7 billion. This was driven by the return of capital related to the UK Gas Distribution disposal (£4.0 billion), outflows from interest, ordinary dividends, tax and other financing flows of £2.2 billion and payments related to discontinued operations of £0.2 billion. These were partly offset by cash inflows from operations (net of cash capital investment) of £0.8 billion and other non-cash movements such as foreign exchange and accretion of interest reducing net debt by £1.9 billion.

RCF/adjusted net debt (after deducting scrip buyback costs) was 9.7% for the year (2016/17: 14.9%; 2015/16: 10.5%). The RCF/adjusted net debt metric in 2016/17 was significantly improved by the disposal of our UK Gas Distribution business on 31 March 2017, which reduced closing net debt by £10 billion. Our long-term target for RCF/adjusted net debt is to exceed 9.0%, which is consistent with the A3 rating threshold used by Moody's, the rating agency.

We additionally monitor interest cover, which is a measure of the cash flows we generate compared with the net interest cost of servicing our borrowings. Interest cover for the year was 4.4 times (2016/17: 5.0 times; 2015/16: 5.5 times). Our long-term target is to maintain interest cover in excess of 3.0 times.

Other regulatory performance measures

Value Added

Value Added in the year was £2.0 billion or 57.9 pence per share as set out below:

	Year ended 31 March		
	2018 £bn	2017 £bn	change £bn
Total Group regulated and other assets ¹	37.0	34.7	+2.3
Net debt ^{1,2}	(23.0)	(21.2)	-1.8
Dividend paid ³			+1.3
Share buyback ³			+0.2
Value Added – 2017/18			+2.0

1. 2016/17 values presented on a constant currency basis using a closing exchange rate of \$1.40:£1.

2. Net debt at 31 March 2017 adjusted to reflect £4 billion relating to the return of capital following the disposal of our UK Gas Distribution business.

3. Excludes special dividend and share buy back associated with return of capital post UK Gas Distribution sale.

	Year ended 31 March (pence)			
	2018	2017	change	% change
Value Added per share	57.9	51.6	6.3	12%

Value Added in the year was higher than 2016/17 principally as a result of improved underlying profits in our US business and higher inflation on our UK regulated assets. Of the £2.0 billion Value Added in 2017/18, £1,316 million was paid to shareholders as cash dividends and £178 million as scrip repurchases (offsetting the scrip issuance during the year), with £510 million retained in the business.

Net debt:

Net debt is the aggregate of cash and cash equivalents, current financial and other investments, and derivatives (excluding commodity contract derivatives and the fair value of a put option to dispose of a 14% interest in Cadent) as defined in note 27 to the financial statements.

Adjusted net debt is principally adjusted for pension deficits and hybrid debt instruments. For a full reconciliation see page 211.

RCF/adjusted net debt:

A key measure we use to monitor financial discipline is retained cash flow divided by adjusted net debt. We monitor this metric carefully as it is a key element of the information used by rating agencies to assess our creditworthiness. See page 211.

Value Added:

Our dividend is an important part of returns to shareholders along with growth in the value of the asset base attributable to equity investors, net of the overall growth in debt. These are reflected in the Value Added metric used to measure our performance, and that underpins our approach to sustainable decision-making and long-term incentive arrangements.

Group RoE:

We measure our performance in generating value for our shareholders by dividing regulated and non-regulated financial performance, after interest and tax, by our measure of equity investment in all our businesses, including the regulated businesses, National Grid Ventures and other activities and joint ventures.

Regulated returns on equity:

These are measures of how the businesses are performing compared to the assumptions and allowances set by our regulators.

US and UK regulated returns are calculated using the capital structure assumed within their respective regulatory arrangements and, in the case of the UK, assuming 3% RPI inflation. As these assumptions differ between the UK and the US, RoE measures are not directly comparable between the two geographies. In our performance measures, we compare achieved RoEs to the level assumed when setting base rate and revenue allowances in each jurisdiction. Further details are included on pages 211-213.

Returns on equity (RoE)

We measure our performance in generating value for our shareholders by dividing our annual return by our equity base.

	2017/18	2016/17	change
UKET	13.1%	13.6%	-50 bps
UKGT	10.0%	10.8%	-80 bps
UK Transmission	12.1%	12.7%	-60 bps
US Regulated	8.9%	8.2%	+70 bps
Group	12.3%	11.7%	+60 bps

Group RoE has increased during the year to 12.3% from 11.7% in 2016/17. During the year the US regulated business delivered strong performance reflecting a full year of increased revenues from new rate plans in MECO, KEDNY and KEDLI. Group RoE also benefited from gains on disposal of financial investments and lower tax rates in both the US and the UK.

See page 16 for further information.

UK regulated return on equity

On a weighted average basis, UK Transmission RoE has decreased 60 bps to 12.1%. This reduction in RoE reflects a reduction in incentive performance year-on-year, particularly as a result of the decline in legacy revenue incentive recoveries in the Gas Transmission business. UK average totex out-performance was at a similar level to last year, representing 100 bps of our out-performance over the 10.1% allowed return.

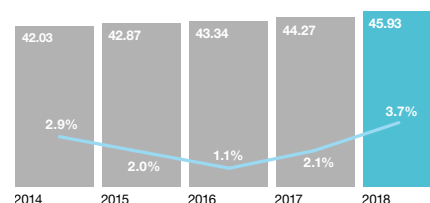
US regulated return on equity

US RoE for 2017/18 increased 70 bps to 8.9%, compared to 2016/17, reflecting the benefit of new rate cases and capital trackers on the sizeable investment programme. The 8.9% achieved return compares to an allowed return of 9.4%.

Dividend growth

The Board is committed to a long-term sustainable dividend policy. Our dividend policy aims to grow the ordinary dividend per share at least in line with the rate of UK RPI growth each year for the foreseeable future. The Company had £4,796 million of distributable reserves at 31 March 2018 available to support the dividend policy. As set out in the Chairman's statement, the Board has recommended an increase in the final dividend to 30.44 pence per ordinary share (\$2.0606 per American Depositary Share). If approved, this will bring the full year dividend to 45.93 pence per ordinary share (\$3.0775 per American Depositary Share). If approved, the final dividend will absorb approximately £1.0 billion of shareholders' funds.

Dividend per share (pence) and dividend per share growth (%)



National Grid plc, the parent company of the Group, is a non-trading investment holding company which derives its distributable reserves from dividends paid by subsidiary companies. The Directors consider the Group's capital structure and dividend policy at least twice a year when proposing an interim and final dividend and aim to maintain distributable reserves that provide adequate cover for dividend payments.

The dividend policy is influenced by a number of the principal risks (see pages 18-21) which could adversely affect the performance of the Group.

In determining the level of dividend in any year in accordance with the policy, the Directors also consider a number of other factors that influence the proposed dividend, including:

- the level of retained distributable reserves;
- availability of cash resources;
- the level of dividend cover;
- future cash commitments and investment plans in line with the strategy; and
- potential strategic opportunities.

Viability statement

The Board's consideration of the longer-term viability of the Company is an extension of our 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.

As described on page 18, the Executive Committee held risk workshops using scenario planning techniques. As a result, we have refreshed our risk profile adding two new principal risks, rewording or consolidating several risks, and removing one principal risk. The workshop discussions also considered the potential impacts of Brexit and extreme weather events on our risk profile and incorporated such concerns as threats to the applicable principal risks.

Over the course of the year, the Board has considered the principal risks shown in the table below in detail. The Board has discussed the potential financial and reputational impact of the principal risks against our ability to deliver the Company's business plan.

The assessment of the potential impact of our principal risks on the longer-term viability of the Company tests the significant solvency and liquidity risks involved in delivering our business objectives and priorities. Although it has considered adopting a longer period, the Board believes that five years is the most appropriate time-frame over which we should assess the long-term viability of the Company. The following factors have been taken into account in making this decision:

- we have reasonable clarity over a five-year period, allowing an appropriate assessment of our principal risks to be made;
- in order to test the five-year period, the Board considered whether there are specific, foreseeable risk events relating to the principal risks that are likely to materialise within a five- to ten-year period, and which might be substantial enough to affect the Company's viability and therefore should be taken into account when setting the assessment period. No risks of this sort were identified; and
- it matches our business planning cycle.

Each principal risk was considered for inclusion in the testing and, where appropriate, a reasonable worst case scenario was identified and assessed for impacts on operations and/or financial performance over the five-year assessment time period as detailed below:

Operational impacts

Scenario 1 – A terror-related cyber attack

Scenario 2 – A gas transmission pipeline failure in the US

Scenario 3 – A cyber security attack in the UK that results in a financial penalty of £600 million in accordance with the directive on security of Network and Information Systems (NIS)

Scenario 4 – Emerging technology leading to significant numbers of people going 'off grid'

Performance impacts

Scenario 5 – The breach of personal data information

Scenario 6 – The nationalisation of the energy sector in the UK

Scenario 7 – A breach of compliance rules for onshore competition in the UK

In addition to testing individual principal risks, the impact of a cluster of the principal risks materialising over the assessment period was also considered. Scenarios developed to represent reasonable worst-case examples of principal risk clusters were assessed for cumulative impact upon our reputation and stakeholder trust. We chose a combination of risks which, in the opinion of the Board, represented a Reasonable Worst Case Scenario.

Scenario 8 – A cyber security attack or safety/environmental event as a result of catastrophic asset failure and data breach occurring together within the assessment period

The reputational and financial impacts for each scenario were considered (to the nearest £500 million). The risk relating to leadership capacity was not tested, as the Board did not feel this would threaten the viability of the Company within the five-year assessment period.

The Board assessed our reputational and 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.

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 Group, including the ability to sell assets, 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 the licensed activities of National Grid Gas plc and National Grid Electricity Transmission plc.

Each Director was satisfied that they had sufficient information to judge the viability of the Company. Based on the assessment described above and on page 18, the Directors have a reasonable expectation that the Company will be able to continue operating and meet its liabilities over the period to May 2023.

Principal risk	Viability scenario	Matters considered by the Board
Major cyber security breach of business, operational technology and/or Critical Network Infrastructure (CNI) systems/data.	Scenario 1 – A terror-related cyber attack.	The Board received monthly updates in the CEO report and more detailed quarterly reports on cyber security. The Board has also undertaken cyber security training. We have agreed a structured scorecard for future reports to the Board.
Failure to predict and respond to a significant disruption of energy that adversely affects our customers and/or the public.	Scenario 3 – A cyber security attack in the UK that results in a financial penalty of £600 million in accordance with the NIS Directive.	The Board received biannual updates on network reliability and quarterly updates on cyber security. 'Deep dive' reports on asset health were also provided. Reliability information was provided to the Board through CEO reports.
Catastrophic asset failure resulting in a significant safety and/or environmental event.	Scenario 2 – A gas transmission pipeline failure in the US.	Safety is a fundamental priority and is looked at in detail by the Safety, Environment and Health Committee who have delegated authority from the Board. The Board receives a report from the Committee Chairman after every meeting. Our Electricity and Gas Engineering Reports to this Committee also provide progress updates on our asset management improvement programs.
Failure to adequately identify, collect, use and keep private the physical and IT data required to support Company operations and future growth.	Scenario 5 – The breach of personal data information.	Quarterly updates of the Company's information systems were reviewed. An update on the General Data Protection Regulation (GDPR) was given in November, which included the Company's state of readiness of compliance with GDPR.
Failure to build sufficient leadership capacity (including succession planning) required to deliver our vision and strategy.	N/A	The Board received bi-annual updates related to the make up of the workforce and the leadership team. The updates considered the capabilities necessary to support delivery of the strategic priorities. The Nominations Committee considered the structure, size and composition of the Board and its committees and succession planning. Additionally it tracks the development of individuals with the potential to be Directors and members of the executive management team and established the criteria for any new position.
Failure to deliver any one of our customer, investor and wider stakeholder propositions due to increased political and economic uncertainty.	Scenario 6 – The nationalisation of the energy sector in the UK.	The Board has been kept updated on political and economic issues that have the potential to affect our stakeholders and our strategy to mitigate any associated risks. These included: • the impact of Brexit and access to the Internal Energy Market; • the potential threat of nationalisation under a Labour government; • US tax reform; • UK and US regulatory strategy; • bi-annual UK/US/National Grid Ventures customer updates; and • the annual Update on Key Issues on Policy for 2018/19 reviewed issues related to political and economic uncertainty.
Failure to influence future energy policy and secure satisfactory regulatory agreements.	Scenario 7 – A breach of compliance rules for onshore competition in the UK.	The Board received updates and reviews of: • US and UK regulatory strategy; • our response to Ofgem's compensation proposal concerning the Hinkley-Seabank transmission project; • the impact of Brexit; • the role of the System Operator; and • the annual Update on Key Issues on Policy for 2018/19 reviewed issues related to energy policy and regulation.
Failure to adequately anticipate and minimise the adverse impact from disruptive forces such as technology and innovation on our business model.	Scenario 4 – Emerging technology leading to significant numbers of people going 'off grid'.	Two Board strategy sessions were held during the year which included consideration of technology and innovation matters. The Board also received a separate update on technology and innovation. Bi-annual National Grid Ventures strategy overviews were also held.

Principal operations – UK



This year our UK business has made progress on plans to create a legally separate Electricity System Operator, achieved major project milestones and is finding smarter ways to balance the system.

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 System Operator 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.

Delivering our strategy

UK highlights

Performance optimisation

- £540 million customer savings in the first five years of RIIO.
- UK RoE 12.1%, allowed return 10.1%.
- 99.999984% and 99.996151% – our network reliability figures for Electricity and Gas transmission respectively.
- 7.7 and 7.6 – our customer satisfaction figures for Electricity and Gas Transmission respectively.

Growth

- £1,309 million UK capital investment (2017: £1,241 million).
- Early preparation for RIIO-T2 started.
- 4.5% growth in RAV (2017: 4.3%).

Highlights

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

In December Ofgem published its RIIO transmission annual reports for electricity and gas. We were pleased that it recognised the fact that network companies continue to deliver for consumers.

Operational performance

From a safety perspective, for the full year 2017/18 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.

As well as a continued focus on safety, we are constantly looking for other ways to optimise our operational performance. We met our customer satisfaction targets for 2017/18. The figures for our Electricity and Gas Transmission businesses were 7.7 and 7.6 respectively. This compares with our agreed baseline of 6.9. The figure for Gas Transmission was lower than in 2016/17 when customers gave us a rating of 8.0.

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.

Here are a few examples of what we have done this year to improve transparency:

Our Gas Transmission business has a new online customer connections portal, which is in the testing phase. You can read more about this project on page 12.

Our Electricity Transmission business has improved its customer application process, reducing the average time to produce a connection offer. 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. This is now 60 days.

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

The System Operator 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 coordinate reform on electricity access and charging. The aim is to ensure a level playing field for all participants and to recover revenue in a fair way. At the first forum 64 organisations took part, while more than 280 stakeholders have also signed up to hear more about the plans.

Our Electricity and Gas Transmission businesses have continued to provide reliable services. We report on our key performance indicators in detail on pages 14-17. This year the network reliability figures for Electricity Transmission and Gas Transmission were 99.999984% and 99.996151% respectively.

To protect that for the future, this year we have updated some of our back-office systems to improve data and management control. In gas we have made substantial progress in our asset health data collection efforts. In electricity we have rolled out a single view of the plan for all sites ensuring that there is a unified view of all work, outage and resource going forward.

We continue to invest in our understanding of asset health in order to ensure high network reliability. One example is work we do on overhead lines to improve how we map the operating environment. This work 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 to improve the need for overhead line investment. It led to a 'Next Generation' award from the Institute of Asset Management for project lead, Jon Hennah.

Our Gas Transmission business has made good progress on Project GRAID, which is developing an innovative robotic inspection device for underground pipework. This year we have developed the robot for offline trials ahead of live site trials later in 2018. For more details on this work, see page 7.

Picture above

Tunnel boring machine for the London Power Tunnels project which involves building 10 new circuits and 20 miles (32 kilometres) of tunnels under the capital.

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

In late February adverse weather affected the UK, leading to high demand for energy on the system. Our networks performed strongly, maintaining secure supplies of electricity and gas. As part of our response we issued a Gas Deficit Warning. This signalled to the market that we required more gas to keep the system running safely and reliably. This is part of our standard approach to balancing supply and demand, and worked effectively.

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 more than 51% of the nation's electricity generation needs.

The changes that we have already introduced in the System Operator including the operation of a new scheduling algorithm for balancing the system have all ensured that we have continued to deliver energy where and when our customers require it. We continue to develop our balancing tools.

We are also finding ways to ensure that National Grid 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 £11 million.

In July 2017 the UK Government announced plans to ban the sale of new petrol and diesel cars and vans 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 Annual Report and Accounts 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 resources 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. The programme is facilitated by National Grid and 650 members have joined since April 2017. There are now 2,150 stakeholders from more than 1,000 organisations taking part.



Looking ahead

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

Next year we will also be working closely with Ofgem on two further landmark developments.

We will create a legally separate Electricity System Operator (ESO) within the National Grid Group by April 2019. As part of this, Ofgem has 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 ESO is putting in place. This began with a consultation on its longer-term goals and its plan for 2018/19, demonstrating how the ESO will take an enhanced role in facilitating the transition to a low-carbon energy system.

We will also begin detailed work on our 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 proposed a model for delivery, which it has called the Competition Proxy Model (CPM).

We do not believe that this model is in the best interests of consumers and have responded robustly to Ofgem's proposal. In our view, CPM, as currently proposed, does not replicate the outcome of a competitive process, as it does not reflect either the actual cost of financing this project or the risk being taken with construction work of this complexity and scale. We believe that Ofgem has under-estimated the costs of delivering HSB under the proposed model, and as such has come to an unfounded view of consumer benefit.

We are committed to working with Ofgem to find a solution. However, we are considering all options open to us should the regulator decide to proceed with this model in its current form.

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

In focus



Since January 2017 we have raised £270,000 for Alzheimer's Society, our chosen employee charity in the UK. This figure exceeded the fundraising target we set ourselves.

We are committed to playing an active role in the communities where we work. You can read more about the work we are doing in the responsible business section on page 38.

Statutory operating profit

£1,528m

(2016/17: £1,868m)

Adjusted operating profit

£1,528m

(2016/17: £1,883m)

Capital investment

£1,309m

(2016/17: £1,241m)

Picture top right

His Royal Highness The Prince of Wales with John Pettigrew, CEO National Grid at the opening of the London Power Tunnels on 7 February 2018.

Principal operations – US



A look at our US business's operational performance, core business growth, and how we are shaping the future of energy.

Delivering our strategy

A focus on growth, customer value, and the clean energy transition

Performance optimisation

- rate cases.
- customer experience transformation.
- new energy infrastructure.
- gas mains replacement.

Growth

- large-scale renewables.
- electric vehicle charging.
- renewable gas.
- smarter grid.

Statutory operating profit

£1,734m

(2016/17: £1,278m)

Adjusted operating profit

£1,698m

(2016/17: £1,713m)

Capital investment

£2,424m

(2016/17: £2,247m)

Highlights

The US business has performed well during 2017/18, focusing on growth, customer value, and the clean energy transition.

Overall, our revenue increased by 10% and we are growing our rate base by 7%. Our energy infrastructure spend across our footprint during 2017/18 was \$3 billion. And we added around 65,000 new customer accounts – gas, electric, and distributed generation, combined. We filed two rate cases during the year – new base gas distribution rates in Massachusetts and new base electricity and gas distribution rates in Rhode Island – where rates had remained the same for eight and five years, respectively. And in upstate New York, we reached agreement with the NY Public Service Commission (PSC) for a three-year rate plan.

Although the United States decided in June to pull out of the Paris Climate Agreement, we continue to support the Paris climate deal and align ourselves with state and local leaders who share our climate and environmental goals. One example is the appointment of Dean Seavers, National Grid Executive Director, US, to co-chair the national Alliance Commission on US Transportation Sector Efficiency, convened by the Alliance to Save Energy. The commission has said it will develop recommendations to reduce energy use in the US transportation sector by 50% by 2050 while meeting future mobility needs.

Operational performance

The US business saw a 6% reduction in the number of injuries requiring medical attention beyond first aid and a 19% reduction in the number of preventable road traffic collisions during 2017/18. We implemented safety, health and environment (SHE) plans at local levels to address current risks and injury trends. We also established our guiding principles of safety which sets out how our people can play a role in promoting a safer environment for everyone. We will continue to focus on improving our safety culture to address key risk and hazard mitigation strategies in 2018/19.

Our key performance indicators are reported in detail on pages 14-17. We have worked hard to find ways of operating more efficiently and with innovative technology. The work we have done has supported National Grid's three strategic

priorities: find new ways of optimising our operational performance; look for opportunities to grow our core business; and make sure National Grid is better equipped for the future. Below are some examples of what we have done this year under each priority:

One way we have been able to optimise our core business performance is through our gas business enablement initiative. This involves standardising and simplifying processes that will help us better manage our assets, deliver our work, and serve our customers. An example of this is a new ability to capture field data and complete work orders via mobile technology.

Our new Customer Response Center (CRC) is also designed to improve our operational performance. The CRC opened in May 2017 with the goal of establishing two-way communications with customers so we can better anticipate and respond to customer needs in everyday interactions.

One example of growing our core business is the new South Street substation in Providence, Rhode Island. In late March, we began the first phase of energisation at the \$70 million, state-of-the-art substation that is providing reliable energy to downtown Providence. Safety was our fundamental priority for the new substation. Employees are not in danger of high arc flash incidents, as arcs are extinguished under vacuum.

Revitalisation of the former power station, a historic riverfront building, is generating educational and economic development in the city and across the state. It has been transformed into space for Brown University administration and both Rhode Island College and University of Rhode Island nursing students.

The Metropolitan Natural Gas Reliability Project in Brooklyn, New York, is another way we are growing our core business. Through this project, which started in May 2017, we are installing approximately 1.7 miles (2.7 kilometres) of 30-inch transmission pipeline operating at 350 psi.

Our rate case filings allow us to make sure we are better equipped for the future, as does our continued work with Grid Modernization in Massachusetts, with Reforming the Energy Vision (REV) in New York, and with the Power Sector Transformation in Rhode Island.

Approval this past winter of new electricity and gas delivery rates in upstate New York means we can invest \$2.5 billion over three years to modernise our electricity and natural gas networks, and promote economic growth across upstate and improve customer service.

The plan allows us to continue our new Energy Affordability Program, which provides a bill decrease for most income-eligible customers, and to introduce new energy efficiency solutions for our moderate-income customers.

Picture above

Nick Monte repairs an electricity cable, USA.

An important objective in 2018 is for us to achieve a good outcome in our Massachusetts and Rhode Island rate case filings. Together, these companies represent around 30% of our US rate base.

In Massachusetts, resetting distribution prices would help us upgrade an 11,000 mile gas distribution network, improve service quality safety, meet regulatory expectations, and modernise operations for the benefit of customers across 116 cities and towns in the state.

In Rhode Island, new rates will allow us to continue improving service quality, provide the safety and reliability our customers rely on, and pursue new initiatives focused on renewable energy, modernising the network and helping income-eligible customers. Programmes to support Governor Gina Raimondo's call for the Power Sector Transformation Initiative are also important elements of our rate filing.

Storm response was a big focus for us this past autumn and winter, both within and outside our service area.

In September, Hurricane Irma caused massive damage to the US southeastern area, including Florida. At the storm's peak, there were 7.8 million outages. More than 130 National Grid US employees responded as part of the Edison Electric Institute Mutual Assistance network to support restoration activities for Tampa Electric.

In late September, Hurricane Maria left Puerto Rico without electricity. More than 150 National Grid employees from New York assisted with restoration over a six-month period, from November to April.

Closer to home, in upstate New York, damaging thunderstorms and tornadoes caused thousands of outages in May and June 2017. Our response earned us Edison Electric Institute's emergency assistance and emergency recovery award.

In late October, we responded to a storm that hit the Northeast US particularly hard, with heavy rain and wind gusts up to 80 mph. The storm was much worse than originally forecasted. Across our service area, more than 500,000 customers lost power. We were grateful for mutual aid from other utilities and the quick mobilisation of construction and tree crews to aid restoration efforts. In Massachusetts, we restored 85% of affected customers in 48 hours, and in Rhode Island, we restored over 90% of peak customers affected in 2½ days. Regulators in both Massachusetts and Rhode Island opened an investigation to review our storm performance. Although we had sufficiently prepared for the forecast weather, they felt we should have been better prepared for what actually transpired. We thoroughly reviewed lessons learned and highlighted opportunities to improve our restoration efforts in future weather events.

In March three consecutive nor'easters caused power outages to more than 800,000 of our Massachusetts and Rhode Island customers. Recognising the vital contributions of the volunteers and emergency responders that supported our customers' needs, we donated \$100,000 to the American Red Cross to support disaster relief efforts in both states.

Shaping the future of energy

We are shaping the future of energy by pursuing four distinctive policy priorities, as described below:

80%x2050: Massachusetts, New York and Rhode Island have each adopted targets mandating 80% CO₂ emission reductions by 2050 across their entire economies (1990 baseline). To balance sustainability and to achieve compelling customer outcomes, we are adhering to three design principles:

- address the highest emitting fuels and sectors first;
- optimise the use of existing networks; and
- avoid price shocks through strategic pacing of the changes.

Large-scale renewables (LSRs): We support state policies to promote renewable energy development in Massachusetts, New York and Rhode Island. LSRs are interconnected to the transmission system and deliver energy, including hydroelectric power, to wholesale customers. We expect state policy-makers to support these resources via contractual agreements.

Electrify transportation: We are a strong supporter of electrifying on-road transportation because of its promise to significantly reduce greenhouse gas emissions. Across our service area, we are helping expand deployment of charging infrastructure, informing customers about electric transportation options, and preparing for future integration of electric vehicles into the network.

We have hosted several 'ride and drive' events at our facilities to increase employee awareness about vehicle options, battery performance, charging types, and cost of ownership. We also have sponsored state-wide 'ride and drive' events in collaboration with the Executive Office of Energy and Environmental Affairs in Massachusetts.

Future of gas: We support natural gas capacity expansion projects in an effort to address gas supply demand forecasts, residential conversions to natural gas, network reliability and renewable natural gas initiatives, and the reduction of greenhouse gas emissions.

In addition to our operational performance work described above, the following programmes, grants, and awards support our policy priorities:

In November, we joined forces with the Department of Energy's Pacific Northwest National Laboratory to work together on research in the areas of transmission grid modernisation and energy storage technologies.

Also in November, we announced plans to install a 48 megawatt-hour battery energy storage system (BESS), on the island of Nantucket, 30 miles (48 kilometres) off the Massachusetts coast, to help address the island's significant growth and demand for electricity. The BESS will be six megawatts with an eight-hour duration, which is also described as a 48 megawatt-hour system, and is being provided by Tesla.



In December, the Massachusetts Clean Energy Center awarded energy storage grants totalling \$4.53 million to five projects supported by National Grid. One grant will assist in the construction and operation of an energy storage system that will be deployed alongside one of our large-scale solar installations located in Shirley, Massachusetts.

We received the first-ever National Association of Regulatory Utility Commissioners 'Utility Industry Innovation in Gas Award' for our Natural Gas Demand Response Program. This uses advanced technology to help commercial and industrial customers shift their energy use, which will help us manage peak demand during the coldest winter days.

Once again, the three states we service were ranked among the leading states in the nation when it comes to energy efficiency, according to the American Council for an Energy-Efficient Economy. Massachusetts took first place, Rhode Island moved up to third from last year's fourth place ranking, and New York was placed seventh.

Looking ahead

Looking ahead, we will stay focused on our quest to become a great operating company. This means developing our employees in a safe workplace, providing our customers affordable energy, and enabling strong economies in our communities.

Some of the ways we will address these goals are by improving both our capital and operational expenditure efficiency, improving our customer metrics, generating operating profit from new sources, and limiting customer bill increases.

We will continually improve our performance by finding a better way and investing in our growth.

Picture top right
Line-workers repairing storm-damaged cables.

National Grid Ventures and Other activities



The launch and progress of National Grid Ventures: a new unit to drive growth outside our core regulated businesses in the US and UK.

Delivering our strategy

Highlights

Performance optimisation

- National Grid Ventures +34 NPS score.
- IFA 92.6% availability for FY17/18.
- BritNed 97.7% availability for FY17/18.
- 107,000 smart meters installed by early 2018.

Growth

- 3.4 GW of new interconnector capacity on schedule to be operational in 2021/22.

Better equipped for the future

- Established Technology and Innovation team to support National Grid Ventures and our core businesses.
- Targeting investment in new and evolving technologies.

Highlights

This section relates to National Grid Ventures, non-regulated businesses and other commercial operations not included within the business segments.

National Grid Ventures was established on 1 April 2017. The new unit, which operates separately from our core regulated businesses, comprises a broad range of activities in competitive markets in Great Britain and the US, including electricity interconnectors, Europe's largest liquefied natural gas (LNG) terminal, and energy metering.

National Grid Ventures is also tasked with creating value and gathering knowledge through investment in adjacent businesses, including utility-scale projects, distributed energy opportunities and the development of new and evolving technologies.

In the last year, National Grid Ventures has made significant progress in the construction of three new electricity interconnectors from Great Britain to Belgium, France and Norway.

The Isle of Grain LNG import terminal received the first ever Great Britain LNG cargos from the US and Peru, highlighting our ability to deliver a more diverse gas supply for Great Britain.

National Grid Ventures is committed to providing a high level of service to customers across all of its businesses. It achieved a high overall NPS score of +34.

Our 'Other' activities comprise UK Property and US non-regulated businesses, which include LNG operations and corporate costs. The UK Property business generated operating profit of £84 million (2016/17: £65 million).

In aggregate, the National Grid Ventures and Other segment delivered £231 million of underlying operating profit and accounted for £518 million of continuing investment in 2017/18, after corporate costs of £87 million (2016/17: £127 million).

Operational performance

Electricity interconnectors: National Grid Ventures is the leading developer and operator of electricity interconnectors from and to Great Britain, with two subsea links in operation and three currently under construction.

BritNed is a joint venture between National Grid and TenneT, the Dutch transmission system operator. It owns and operates a 1 GW HVDC link between Great Britain and the Netherlands. BritNed availability was 97.7% in FY17/18. A substantial proportion of the flow over BritNed was in the import direction from the Netherlands to Great Britain.

The England-France interconnector (IFA) is a 2 GW HVDC link between the French and British transmission systems, with ownership shared between National Grid and Réseau de Transport d'Electricité (RTE). IFA availability was 92.6% in FY17/18. As with BritNed, a substantial proportion of the flow was in the import direction from France to Great Britain.

Nemo Link, developed between National Grid and Elia, the Belgian transmission system operator, will connect Richborough in Great Britain and Herdersbrug in Belgium. The subsea cable will be 80 miles (130 kilometres) in length and will have a capacity of 1 GW. Cable-laying work is due to be completed in May 2018, while construction of the converter stations in both countries is on track to be completed in October 2018. Overall, the project remains on schedule and the interconnector is due to be operational in the first quarter of 2019.

North Sea Link (NSL) will connect Blyth in Great Britain and Kvitlidal in Norway. Developed between National Grid and the Norwegian transmission system operator Statnett, NSL will be the longest subsea cable in the world at 447 miles (720 kilometres). The 1.4 GW link is expected to be operational in 2021/22. Construction started in Norway in 2016, while cable laying work will start in Great Britain later this year.

Initial construction work has also started on the 149 mile (240 kilometres) IFA2 interconnector. Developed with RTE, the 1 GW subsea cable will connect Hampshire in the UK and Normandy in France. The link is expected to be operational in 2020.

LNG Storage: Isle of Grain LNG is one of three LNG importation facilities in Great Britain. It operates under long-term contracts with customers and provides importation services of ship berthing, temporary storage, ship reloading and re-gasification into the NTS.

Grain LNG's road tanker loading also offers the UK's transport and off-grid industrial sector a more environmentally friendly alternative to diesel or heavy fuel oil. The facility allows road tanker operators to load and transport LNG in bulk across the UK via road or rail. Grain LNG had reloaded 3,950 road tankers by March 2018.

Picture above

Nemo Link HVDC cable on board vessel for installation.

Statutory operating profit

£231m

(2016/17: £62m)

Adjusted operating profit

£231m

(2016/17: £177m)

Capital investment

£518m

(2016/17: £374m)

Metering: National Grid Metering (NGM) provides installation and maintenance services to energy suppliers in the regulated market in Great Britain. It maintains an asset base of around 11.1 million domestic, industrial and commercial meters. Customer satisfaction scores for NGM remain positive for domestic, industrial and commercial businesses.

National Grid Smart (NGS) became operational in November 2016, supporting energy suppliers in fulfilling their UK smart meter roll-out obligations. NGS offers a variety of services from meter asset financing and customer relationship management through to installation and maintenance services. NGS installed its 107,000th smart meter by early 2018.

Shaping the future of energy

The economics for solar and wind generation are becoming increasingly attractive, and the ongoing significant growth in large-scale renewables is set to continue into the long term. 2017 was the 'greenest year ever' for the UK, with over half of electricity generation last summer coming from renewable sources. Similarly, US states remain committed to aggressive CO₂ reduction targets.

National Grid Ventures is actively engaged in the renewables space in the US. Through the partnership with Sunrun, we have seen increased conversion rates, particularly where Sunrun has co-branded with National Grid. In addition, National Grid Ventures manages our stake in Enbala, which develops technology to help utilities optimise increasingly complex electricity grids. National Grid Ventures also manages our stake in Energy Impact Partners, a strategic investment firm that invests in companies improving sustainable energy generation.



In December 2017, we announced we would join the Breakthrough Energy Coalition, which brings together private investors, global corporations that produce or consume energy in vast quantities, and financial institutions with the capital necessary to finance the world's largest infrastructure projects.

Looking ahead

NEMO Link, IFA2 and North Sea Link are on track to be operational between 2019 and 2021/22, giving National Grid Ventures a portfolio of more than 6 GW of interconnector capacity.

In addition to driving growth in existing businesses, National Grid Ventures will look to develop opportunities in new and evolving technologies. In 2018, National Grid Ventures opened up a new presence in California, with the establishment of a Technology and Innovation team tasked with direct investment in expansion and growth stage start-ups that are ready to partner with our emerging and core businesses.

Property: National Grid Property deals with the management and regeneration of our brownfield surplus estate in the UK. Our specialist team works with stakeholders such as Historic England, local authorities and communities to reduce risk across our portfolio and create new healthy, balanced communities and employment land.

During 2017/18, we disposed of 44 sites and exchanged contracts on a further five land sales, to facilitate the delivery of thousands of new homes across the UK. Our joint venture with Berkeley Group, called St William Homes, has entered its fourth year. Around 1,100 homes are already under construction, with planning permission secured for a further 1,880 homes.

Picture top right

NEMO Link team member holding cross-section of HVDC interconnector.

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 risk management framework

Our risk management process provides a framework through which we can constantly identify, assess, prioritise, manage, monitor and report our risks. Through a 'top down, bottom up' approach, all business areas identify the main risks to our business model and to achieving their business objectives. Each risk is assessed by considering the financial and reputational impacts, and how likely the risk is to materialise. Consideration is given to the impact on the external environment and the effect on our stakeholders. Each business area identifies and implements actions to manage the risks.

Monitoring risks and controls is conducted through established boards and committees at different levels of the organisation. Deficiencies, such as a significant breach of policies, are reported and corrected at the appropriate entity level. The most significant risk and controls issues are monitored at the Senior Executive and Board level.

In focus



You can read more about our approach to internal control and risk management on pages 18-21.

We describe our purpose, vision and values on page 12.

In focus



Our KPIs are described on page 14-17. You can find detailed sustainability performance metrics on our website: www.nationalgrid.com/group/responsibility-and-sustainability

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, we work hard to bring energy to life and exceed the expectations of our customers, shareholders and communities.

We took part in the 2017 UK Social Mobility Employer 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 both in the UK and US. 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. In the US, for example, 650 National Grid employees participated in 17 coordinated Earth Day projects in communities across all three states, including clean-up events in public parks, city beautification projects, tree plantings, and a door-to-door LED lightbulb exchange.

We have policies in place that support our approach to being a responsible business. We report on a number of non-financial performance measures relating to these policies. You can find details about our key non-financial performance measures on pages 14-17, and also on our 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. We are signatories 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.



Re-use of resources



Rhode Island housing



National Grid EmployAbility

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.

Communities

We support the communities where we work and live to help them thrive and be socially inclusive. Being a welcomed part of the community helps us to work effectively and deliver for our customers.

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, equipping us for the future.

Supporting the United Nation's Sustainable Development Goals

Our approach focuses on environmental sustainability, communities and people, and helps to support five of the United Nation's Sustainable Development Goals. You can find out more about this on our website in our responsible business section.

- **Goal 4:** Ensure inclusive and quality education for all and promote lifelong learning

- **Goal 7:** Ensure access to affordable, reliable, sustainable and modern energy for all
- **Goal 8:** Promote inclusive and sustainable economic growth, employment and decent work for all
- **Goal 13:** Take urgent action to combat climate change and its impacts
- **Goal 15:** Sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss

Our contribution to a low-carbon economy

- We reduced Scope 1 and 2 emissions by 15.4% in 2017/18.
- We have enhanced the value of natural assets at 30 sites. We aim to enhance a total of 50 sites by 2020.
- In 2017 we updated our strategy, setting new global and regional targets:
 - Reduce carbon intensity of our construction projects.
 - Implement carbon pricing on major investment projects.
 - Drive net gain in environmental value on our major construction projects.

In focus



You can read more about our approach to environmental sustainability on the Responsibility and Sustainability section of our website.



Environmental sustainability

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 19, together with our approach to mitigation.

Our priorities

Our 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 recycling; 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 our KPIs. You can read more about this, and our performance, on page 16.

As a result, we also support the Paris Agreement and have made our own commitment to reduce our greenhouse gas emissions by 70% by 2030 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.

We have included information relating to how we are managing our climate impact and how our business is evolving in response to the risk and opportunities we see arising from climate change in various parts of this Report. The table on page 192 shows how our disclosures map against the TCFD recommendations, and where relevant information can be found. This represents our first set of disclosures. We recognise this will evolve and expand over time.

This year we were delighted to win Business in the Community's Award for Environmental Leadership. In the US, our Massachusetts business was named one of the most energy efficient utilities in America by the American Council for an Energy-Efficient Economy.

New life for old IT equipment

Max Morgan, from our Information Services team, describes what we do and who benefits when we reuse or recycle our old IT equipment.

Being at the forefront of information technology is crucial for National Grid. It means regularly upgrading systems to make sure they can handle the challenges of our changing business.

When our IT equipment comes to the end of its useful life, we want to dispose of it in a responsible way. We have three goals: to make sure we don't harm the environment, to secure our data, and to benefit the communities where we work.

In the first eight months of 2017, working with a recycling specialist, we were successful in reusing or recycling more than 7,000 pieces of IT equipment. Nothing ended up as landfill.

Circular economy

We reuse a lot of IT equipment internally, to equip new starters, for example, or to test the latest business applications. It's part of our 'circular economy' approach. We recognise that the best way to reuse a laptop, for example, is to continue using it as a laptop, perhaps for a different job. Maintaining equipment for as long as is feasible means we buy less new IT equipment, which reduces the environmental impacts associated with building and transporting it.

Our specialist recycling partner collects surplus equipment from us such as PCs, laptops and mobile phones. Some items they clean and refurbish; some they dismantle, salvaging reusable components such as circuit boards and hard disks. They break down the rest into raw materials, including precious metals. Nothing is wasted. Even the packaging we wrap around our old IT equipment is used again.

Metal, plastic, even glass from the IT equipment can be put to further use. The money generated by selling these materials pays for our donations to local charities or schools. During 2017/18 we've helped hospices and charities dedicated to healthcare and conservation among others, in both the UK and US.

Responsible disposal of assets

We chose our recycling partner after a competitive tender. We discovered through this process that there are many approaches to recycling, not all of which are acceptable to us. However, our partner can meet all our requirements for the responsible disposal of our assets.

Our commitment to being a responsible business continued

Health and wellbeing

We have continued to focus our wellbeing efforts on encouraging behavioural change within our workforce, through education and training.

Our wellbeing programmes have raised awareness to employees of risks associated with modern living, and the impact it can have on their health. Campaigns in 2017 included: diabetes awareness, circadian rhythms, body weight, cancer prevention, nutrition, heart health, sleep quality, fatigue and immunisations.

The cornerstone of our mental health work has been in-depth training sessions in both the UK and US. These sessions are designed to provide employees and leaders with the knowledge and confidence to notice and respond to mental health issues in the workplace.

Living Wage

We are accredited by the Living Wage Foundation and our commitment to our direct employees also extends to contractors and their work on behalf of National Grid. We believe that everyone should be appropriately rewarded for the vital work they do. We also go above the Living Wage requirements and voluntarily pay our trainees the Living Wage. A Living Wage review takes place annually to ensure continued alignment and individual salaries are increased as required.

In focus



For more information about UK gender pay gap, visit our website: www.nationalgrid.com/uk/understanding-our-uk-gender-pay-gap



In focus



To find out more about our people, visit: www.nationalgrid.com/group/our-people

See also 'how we add value' on page 6

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 everyday we do the right thing and find a better way. You can read more about our values on page 12.

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 page 20.

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 workforce. 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 14.

The wellbeing of our workforce is also important. This year our employee lost time injury frequency rate remained at 0.10. Our ambition 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 in both the UK and US. In the UK, 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.

In the US we have signed a memorandum of understanding with the State University of New York (SUNY), which outlines our commitments to education, internships, and hiring opportunities. We also continue to grow our partnerships through the Center for Energy Workforce Development (CEWD) and the National Energy Education Network (NEEN).

National Grid was the winner of Business in the Communities award for Outstanding Employment. This award recognised our apprenticeship schemes and the work we do to support hard-to-reach groups of young people gain vital skills for work, such as our EmployAbility programme in the UK.

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 our external website so concerns can be reported anonymously. Our policies make it clear that we will support and protect whistleblowers and any form of retaliation will not be tolerated.

Empowering people with special educational needs to excel

'EmployAbility – Let's work together' is an employee-led initiative that aims to bring together businesses and local communities to support individuals with special educational needs. Supported internships are provided to those people who might otherwise struggle to find meaningful employment.

Only 6% of people with learning disabilities gain paid employment in the UK. At National Grid, we think we can do better – last year, 65% of our supported interns found employment.

Melanie attended a special educational needs school. She started her supported internship with us last year and excelled from the beginning. She found a natural ability to

deal with people, while her confidence and self-esteem grew.

As her internship was coming to an end, two local employers offered her full-time employment. Now Melanie is a valued member of the 14Forty team who run our restaurant at Warwick, providing customers with excellent service and supporting her colleagues.

Melanie said: 'Without National Grid's EmployAbility scheme, my future looked very uncertain. I feel happy and proud that I have achieved so much.'

We are working with the Government and others to encourage more employers to get involved in this life-changing programme.

Promoting an inclusive and diverse workforce

In 2017 we implemented inclusion and diversity policies in the UK and the US. 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.

17.9% 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 UK 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 the UK and US to appoint senior leaders. In the UK, this resulted in an increase in gender diversity and BAME representation on our Network Capability Electricity leadership team. We have also established development programmes for women (US) and BAME (UK) employees to build leadership capability.

Our US business achieved 100% in the Human Rights Campaign's Corporate Equality Index; received the Age Smart Award by Columbia University and is noted as a top 50 employer by 'CAREERS and the disABLED' magazine. These recognitions reinforce our commitments to all our employees.

Our policy is that people with disabilities should be given 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 for all people to work in an environment that is free from discrimination.

Our leaders advocate a diverse workforce. For example, 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 have included information relating to subsidiary directors, as this is required by the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We define 'senior management' as those managers who are at the same level, or one level below, our Executive Committee. It also includes those who are directors of subsidiaries, or who have responsibility for planning, directing or controlling the activities of the Group, or a strategically significant part of the Group, and are employees of the Group.

Following the appointment of a new Non-executive Director on 17 May 2018, the Board's gender demographic is currently: Male 8, Female 4, Total 12 (Male 66.7%, Female 33.3%).

Gender demographic as at 31 March 2018

	Our Board ¹	Senior management ²	Whole Company ³
Male	8	171	17,366
Female	3	77	5,657
Total	11	248	23,023
Male (%)	72.7	69	75.4
Female (%)	27.3	31	24.6

1. 'Board' refers to members as defined on the Company website.
2. 'Senior management' refers to Band A/B employees as well as subsidiary directors.
3. This measure is also one of our Company KPIs. See page 14 for more information.

Total headcount⁴

The tables below show the breakdown of employees by work pattern and diversity.

Work-pattern

	Full-time		Part-time ⁵	
	#	%	#	%
UK	5,599	95.1	286	4.9
US	16,352	99.6	62	0.4
NGV	685	96.5	25	3.5
Total⁶	22,650	98.4	373	1.6

Gender

	Male		Female	
	#	%	#	%
UK	4,365	74.2	1,520	25.8
US	12,526	76.3	3,888	23.7
NGV	466	65.6	244	34.4
Total⁶	17,366	75.4	5,657	24.6

Ethnicity demographic as at 31 March 2018

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

White	18,161
Minority	3,965
Total	22,126
White (%)	82.1
Minority (%)	17.9

Employee turnover

Turnover is defined as employees who have left in the last 12 months as a percentage of headcount last year. Voluntary turnover relates to employees who have left through either resignation or retirement. Non-voluntary attrition includes any other leave reasons – including dismissal, severance, etc.

	Voluntary	Non-voluntary	Total
UK	6.0%	2.2%	8.2%
US	5.1%	2.4%	7.5%
NGV	5.1%	1.4%	6.5%
Total⁶	5.3%	2.3%	7.6%

4. In scope are active, permanent employees. Out of scope are temporary employees.
5. Employees recorded in our system as part time; or have <1 FTE.
6. Included in 'Total' are Non-executive Directors and Executive Officers who are not categorised as UK, US or NGV.

Learning days per employee

From 1 April 2017 to 31 March 2018 the total number of training days delivered per employee, (as recorded in our HR systems), across the whole of National Grid is 6.5 days.

Promotion rate

The table below shows the rate of promotion within the business. Promotion rate is defined as number of employees who were promoted to a higher grade as a percentage of headcount last year.

	Promotion rate %
UK	10.3
US	12.4
NGV	7.9
Total	11.7

Keeping our Board and Executive Committee updated

Our Board and Executive Committee receive regular updates on matters relating to our people. The Board receives regular updates on four key focus areas for our people and organisation: our culture, diversity, the people we need for the future and efficiency. The Board also receives updates on our employee opinion survey results and action plans. Additionally, this year the Board has discussed and considered the culture of the Company and stakeholder engagement activities (see page 48 for more details).

The Executive Committee also receives a quarterly update on people-related matters. In addition to these reports, the Committee receives regular talent updates and considers the remuneration structure for senior management. It also monitors safety and operational performance and receives reports in relation to matters of business conduct, risk and compliance matters for review, including breaches of 'Always Doing the Right Thing' and biannual reports from the US and UK Ethics and Compliance Committees in conjunction with the Ethics and Business Conduct reports that they receive twice a year.

Our commitment to being a responsible business continued

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 KPIs, described on page 15. 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 in both the UK and US. You can read more about this on page 15, as well as how we manage our operational risks on page 19.

We ask our customers what they think of us and we act on their feedback. You can read about our customer satisfaction performance on page 15.

£73m

The value of our volunteering, fundraising and community contributions in 2017/18



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.

The overall additional value we bring to communities is estimated to be £73 million.

We achieve this by partnering with civil society, providing communities with one-off grants to support their social, economic and environmental development. 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, both in the UK and US.

We voluntarily set up a £150 million Warm Home Fund after the sale of a 61% stake in our UK Gas Distribution business to help address fuel poverty. To date, we have given out just over £63 million 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.

Our employees also support local schools and colleges with work experience opportunities and careers advice sessions, as described on page 17. Last year we had more than 35,400 quality STEM interactions with young people.

We are partnering with Hudson Valley Community College in the US to offer entry-level natural gas industry training. This will help meet the challenge of an ageing engineering workforce in the energy industry. Investing in future generations links in with one of our strategic priorities to ensure that National Grid is better equipped for the future.

In the UK we are part of the 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 rely 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 our UK website.

We work with our suppliers and peers to understand what approach they are taking to combat modern slavery. In 2017 we completed a desktop risk assessment of our 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 those relating to 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.

Affordable housing in Rhode Island

We're supporting United Way of Rhode Island in its affordable housing project, Housing for All. Community and Customer Manager Marisa Albanese explains why.

Affordable housing is a basic need. We know it contributes to the stability and growth of communities. Yet a shortage of affordable housing is an ongoing problem facing working families and individuals in some of the communities we serve in Rhode Island. That's why United Way of Rhode Island stepped in with Housing for All, which we support.

Our work with United Way takes various forms. We match donations our people make through fund-raising campaigns. Some of us also volunteer on United Way projects and committees.

Housing for All came out of a United Way summit to find solutions to the root causes of the housing problem in Rhode Island. As one of the state's energy suppliers, we directly touch the lives of people struggling with their household bills. We see the need to be part of the discussion and the solution. So we gave United Way \$50,000 to help fund four projects to address some of the issues raised at the summit.

We'll be working with United Way to help monitor the work of the four agencies managing these projects, to evaluate progress, and to offer our expertise when it's needed. This by itself won't solve the problem of housing costs in Rhode Island, but it's a step in the right direction.

Good business conduct

To provide an understanding of the Company's development, performance and position, we describe our respect for human rights and 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 for our UK suppliers, 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 Ethical 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 recognised by the Ethisphere Institute as one of the World's Most Ethical Companies.

Governance and oversight

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

Our UK and US Ethics and Compliance Committees (ECC) oversee the Code of Ethical Business Conduct and associated awareness programmes. Any cases alleging bribery are required to be referred immediately to the relevant 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.

The Audit Committee receives an annual report on the procedures currently in place to prevent and detect bribery. You can read more about the Audit Committee's role on page 44. None of our investigations over the last 12 months have identified cases of bribery.

Anti-bribery policy

Our 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

Our Code of Ethical Business Conduct 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 and the US Foreign Corrupt Practices Act 1977.

We provide specific guidance and briefings for high risk areas, so contractors, agents and others who are acting on behalf of National Grid 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 is required to consider its specific risks and maintain a compliance framework setting out the controls it has in place to prevent bribery. Every six months, as part of the compliance procedure, the business is asked to self-assess the effectiveness of its controls and provide evidence that supports its 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 Chief Executive to the Board (following consideration by the Audit Committee).

Letter from the Chairman



Sir Peter Gershon
Chairman

Corporate Governance contents

Corporate Governance	41
Board and Committee evaluation	46
Audit Committee	49
Finance Committee	56
Safety, Environment and Health Committee	57
Nominations Committee	58
Diversity	59
Management committees	60
Statement of compliance with the UK Corporate Governance Code	61
Index to the Directors' Report and other disclosures	62
Directors' Remuneration Report	63

Structure of the report

This report sets out how we are governed and the Board's key governance activities during the year. Further information on our compliance with the UK Corporate Governance Code for 2017/18 is set out on pages 61-62.

Special dividend

This year we returned some £4 billion to shareholders following the sale of a 61% stake in our UK Gas Distribution business, through a combination of a share consolidation, a special dividend and share buybacks.

Dear shareholders,

This year the Board has continued to focus on providing effective leadership and oversight of the Company as it seeks to achieve its strategic priorities and create value for our shareholders during an ongoing period of external regulatory and political uncertainty. These external changes have influenced the Board's agenda during the year, as we considered, among other matters, the impact of US tax reform, Ofgem's 'minded-to' consultation on the delivery model for the Hinkley-Seabank project, Brexit and the threat of renationalisation.

Risk

As a Board we are responsible for determining the nature and extent of the principal risks we are willing to take to achieve our strategic priorities. In addition to its usual ongoing oversight of the Company's risk management and internal control systems and assessment of our principal risks, the Board this year undertook a risk management review to revalidate our principal risks and rethink our risk appetite framework. You can read about the outcome of our work on risk during the year on page 41.

Culture

Like risk management, I believe that focusing on the Company's culture is part of doing good business and is intrinsic to everything we do. We reported last year on the outcome of the Board's previous performance evaluation, which focused on culture, and it remained a focus area for the Board this year; particularly how we oversee, shape and monitor culture. You can read more about this on page 47.

As Chairman, promoting a culture of openness and debate is one of my key responsibilities and as a Board we play an important leadership role in promoting the desired culture throughout the organisation and making sure that good governance, which underpins a healthy culture, is established. The right culture and governance can support us in achieving our purpose and strategic priorities. It is also integral to creating sustainable value in a way that is consistent with our values: every day we do the right thing and find a better way.

Corporate Governance

Your Board remains committed to the highest standards of corporate governance and alignment with best practice, and this requires ongoing focus as the corporate governance landscape continues to develop. We are cognisant of this changing environment and are an active participant in it – in February we responded to the Financial Reporting Council's consultation on its proposed revision to the UK Corporate Governance Code.

I believe that strong corporate governance supports long-term value creation for shareholders and is key to balancing the interests of our shareholders with those of our wider stakeholders. Your Board recognises the importance of our wider stakeholders and takes its responsibility and duty to them under section 172 of the Companies Act 2006 very seriously. On page 6, we set out who our key stakeholders are, why they are important to us and how we create value for them over the long term.

Engagement with our stakeholders continues to be an important priority for us. This year, the Board has reviewed who the Company's key stakeholders are; our current stakeholder engagement activities; the appropriateness of this engagement; how this engagement is reported to the Board; the mechanisms used to feedback to our stakeholders; and whether there is a need for greater engagement at Board level. You can read about this on page 48.

I believe that the Board should choose a stakeholder engagement model best suited to the needs of the Company, and for us that means it should reflect that more than two-thirds of our employees now work in, and more than 60% of our capital expenditure is in, the US. We will continue to engage with our stakeholders in a way that is guided by our purpose, vision and values.

Board changes and diversity

As reported last year, Ruth Kelly stepped down from the Board in July 2017. I would like to thank Ruth for her significant contribution to the Board and Committees during her tenure. As previously announced, Andrew Bonfield will step down from the Board at the conclusion of the 2018 AGM. Andy Agg, currently Group Tax and Treasury Director, will be appointed as Interim Finance Director pending the appointment of a permanent Finance Director. Andy will not join the Board, but will become a member of the Executive Committee.

We also announced on 15 May 2018 that Pierre Dufour will step down from the Board at the conclusion of the 2018 AGM due to ill health.

On 17 May 2018 we will welcome Amanda Mesler on to the Board as a Non-executive Director. The Nominations Committee oversaw the rigorous selection process for Amanda's appointment. You can read more about this on page 59. Amanda's appointment is part of our ongoing commitment to build and maintain an effective Board which is high quality in terms of expertise, diversity and background. As a result, shareholders will continue to benefit from strong governance and stewardship.

We remain focused on maintaining an inclusive and diverse culture. We believe this improves effectiveness, encourages constructive debate, delivers superior performance and enhances the success of the Company. At its January meeting, the Nominations Committee approved amendments to our Board diversity policy and discussed progress made against our diversity objectives. You can read more about this on page 59.

Sir Peter Gershon
Chairman

Matters considered by the Board

Examples of Board focus during the year included:

Key areas of activity	Matters considered	Outcome
Business performance oversight	The Board has received regular updates on how our operational businesses have performed and progressed against our strategic priorities, as we find new ways of optimising our operational performance, look for opportunities to grow our core business and make sure we are better equipped for the future. This included performance updates from our UK and US businesses as well as the inaugural update from our newly created division, National Grid Ventures, as it focuses on the development of new growth opportunities and strengthening our commercial and partnership capabilities. Our strategic focus is predicated on our customers, and the Board was kept up to date with business performance relative to customer expectations and against our customer ambitions throughout the year. As part of this, the Board considered how we could learn from industry leaders to support our US customer transformation initiative and position the US business for future success, while capturing appropriate value for the Company and its shareholders.	Board review and challenge of business performance against the Company's performance targets and strategic priorities.
Strategy	The Board has participated in two interactive sessions this year in addition to the time allocated during Board meetings. These strategy sessions focused on ensuring the Board remains up to date on the changing energy landscape and the implications on the Company's portfolio and strategy, and the entry and growth strategies for National Grid Ventures so it can help us deliver against our strategic priorities and deliver shareholder value. At its April 2018 meeting the Board considered the external energy landscape further and endorsed the strategic priority areas for management focus for 2018/19.	- Board approval of the Company's strategy. - Board endorsement of the strategic priority areas for management focus for 2018/19.
Risk	The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving the Company's strategic priorities. It reviews the Company's principal risks and the management of significant risks as part of its risk management and monitoring process through bi-annual review and challenge sessions. This year, the Board and Executive Committee, with the assistance of an external risk advisor, have undertaken a risk management review to revalidate our principal risks and rethink our risk appetite framework. The Board discussed the Group risk profile in September and March and considered any changes to existing risks, any emerging risks, and whether the agreed principal risks were consistent with the Company's risk appetite levels. The Board also reviewed the testing of the Company's principal risks and the impact on the Company's viability over a five-year viability period.	- Agreed risk appetite profile and principal risks, including two new principal risks. - Agreed enhancements to Board reporting, utilising risk appetite. - Approved a new risk appetite framework for implementation across the business. - Board approval of the Group risk profile and confirmation that a five-year viability period was appropriate. - Approved the Company's viability statement.
Political and regulatory environment	This year, the Board continued to focus on how to promote the success of the Company during further developments in our external environment. Following the UK General Election in June 2017, the Board discussed the impact of its outcome on the Company and its business environment. During the year, the Board also had regular updates on risks and opportunities posed by Brexit and our continued engagement activities with our stakeholders on this issue. The Board also reviewed the impact of US tax reform on the Company, including on our regulatory strategy, and on our US customers. Ahead of our next UK regulatory price control, the Board considered the key elements of Ofgem's RIIO-T2 framework review consultation, published in March 2018, and scrutinised the Company's UK regulatory strategy, providing feedback, guidance and support for its ongoing development. The Board also discussed Ofgem's 'minded-to' consultation on the delivery model for the Hinkley-Seabank project and our response to the consultation. At its March 2018 meeting, the Board received an update on the key political, policy and regulatory issues in the UK and US to which the Company was responding.	- Board input on, support for and monitoring of the UK and US regulatory strategy. - Political sub-group of Executive Committee established to take a more hands-on approach.
Culture	The Board has spent much time this year on how it shapes, monitors and assesses culture of the Company, which you can read more about on page 47. This included reviewing and approving a proposed culture 'scorecard' which could be considered regularly by the Board. The Board reviewed the first culture 'scorecard' at its April 2018 meeting, which showed trends and gave an assessment of areas of strength and areas for further focus.	Board endorsement of a culture 'scorecard' to support the Board in shaping, monitoring and assessing culture.
Cyber security	The Board continued to focus on the evolving cyber security landscape during the year, with a regular cadence of Board reporting and review in place, supported by engagement with the Company's Chief Information and Digital Officer. This included review of the external and internal cyber threat environment, our key cyber risks and the Company's cyber strategy. The Board was also updated on the activities of the Company's Cyber Operational Research Establishment (CORE), a joint initiative between our UK business and Digital Risk & Security function. The Board has also considered how the Company measures its approach to cyber security and how this is used to manage cyber security risk, and how cyber risk is reported to the Board and Executive Committee.	Board review of and input on cyber security measurement and reporting, including a cyber 'scorecard'.
Technology and innovation	To support our response to the threat and opportunities presented by emerging technology, this year the Board reviewed the organisation and governance of our Technology and Innovation function. This included how we learn from and leverage innovation that is occurring externally; how we enhance the effectiveness of internally generated innovation; and how we measure the success of our efforts in this area. Our focus has been on enabling an innovative culture with rapid decision-making and the acceleration of internally sourced ideas. At its April 2018 meeting, the Board considered, and provided input on, the Company's technology and innovation strategy.	- Board review and endorsement of the organisation and governance for the Group Technology and Innovation function. - Board review of and input on the Company's technology and innovation strategy.

Looking forward. The Board's focus for next year is expected to include:

- continued regular reviews of safety activities;
- UK, US and National Grid Ventures operational business overviews;
- continued detailed review of our strategy for growth and its financing;
- the implications of regulatory and political changes in our business environment on our activities, including Brexit;
- our UK and US regulatory strategy and preparation for RIIO-T2;
- Ofgem's recommendations and decisions regarding the delivery model for the Hinkley-Seabank project;
- technology and innovation;
- cyber security updates;
- results of the 2018 employee engagement survey;
- monitoring and assessing the Company's culture, supported by our culture 'scorecard';
- our stakeholder engagement model; and
- addressing changes to the UK Corporate Governance Code and other corporate governance policy developments.

Corporate Governance

Our Board



Sir Peter Gershon CBE FREng (71)
Chairman

Appointed: 1 August 2011 as Deputy Chairman and became Chairman with effect from 1 January 2012.
Tenure: 6 years

Career and experience: Sir Peter has held senior positions spanning both public and private sectors in the healthcare, technology and telecommunications industries. His previous senior board level appointments include Chairman of Tate and Lyle plc, Chief Executive of the Office of Government Commerce, Managing Director of Marconi Electronic Systems and a member of the UK Defence Academy Advisory Board.

Skills and competencies: In this role he draws on his broad business and governance experience from the executive and non-executive senior positions he has held. His leadership as Chairman is pivotal in creating an effective Board by encouraging robust debate. Sir Peter has a commitment to strong corporate governance and has regular constructive engagement with investors through the Company's shareholder networking programme. Sir Peter actively engages with employees across our operational sites.



External appointments: Sir Peter currently holds external appointments as a Non-executive Chairman of the Aircraft Carrier Alliance Management Board, Trustee of The Sutton Trust, Trustee of the Education Endowment Foundation and Chairman of Join Dementia Research (JDR) Partnership Board. He is also a board member of the Investor Forum.

Committees: Chairman of the Nominations Committee.



John Pettigrew FEI FIET (49)
Chief Executive

Appointed: 1 April 2014 and became Chief Executive with effect from 1 April 2016.
Tenure: 4 years

Career and experience: John is a Fellow of the Energy Institute and of the Institution of Energy and Technology. He joined the Group in 1991 and has progressed through a variety of senior management roles. These include Director of Engineering in the UK, Chief Operating Officer and Executive Vice President for the US Electricity Distribution & Generation business, Chief Operating Officer for UK Gas Distribution and UK Chief Operating Officer from 2012 to 2014.

Skills and competencies: With his extensive operational experience of the Group and in depth understanding of both the US and UK energy and utility industries, John brings significant know-how and commerciality to his leadership of the executive team. John is responsible for the implementation of strategy and the continued growth of our businesses. He maintains a productive dialogue with institutional investors on Group strategy and performance.



External appointments: John is a member of the Government's Inclusive Economy Partnership and the CBI's Presidents Committee and Non-executive Director of Rentokil Initial plc.

Committees: Member of the Finance Committee.



Nicola Shaw CBE (48)
Executive Director, UK

Appointed: 1 July 2016
Tenure: 1 year

Career and experience: Nicola has served in senior management roles, as Chief Executive Officer of HS1 and Managing Director of UK Business Division at FirstGroup plc. She was also an independent Non-executive Director of Ellevio AB and Aer Lingus Group plc. Nicola's career, both in the UK and overseas, has included roles at the

Strategic Rail Authority, Office of the Rail Regulator, Bechtel Ltd, Halcrow Fox, the World Bank and London Transport.

Skills and competencies: Nicola has a broad range of experience and strong track-record working with the UK Government, the European Commission and Parliament and industry regulators, as well as leading large regulated businesses. This enables her to draw on her diverse experience and knowledge to assist the Board and, in particular, the Executive Committee.



External appointments: Non-executive Director of International Consolidated Airlines Group, S.A., Director of Major Projects Association and member of the Audit Committee of English Heritage.



Andrew Bonfield (55)
Finance Director

Appointed: 1 November 2010
Tenure: 7 years

Career and experience: Andrew is a chartered accountant with significant financial experience, having previously held the position of Chief Financial Officer at Cadbury plc and five years as Executive Vice President and Chief Financial Officer at Bristol Myers Squibb. Andrew also has prior experience in the energy sector as Finance Director of BG Group plc.

Skills and competencies: Andrew has significant listed company and financial experience at board level both in UK and overseas. This enables him to contribute to financial discussions during Board meetings.

He has a strong focus on corporate responsibility and investor relations from a finance perspective. He is also Chairman of the 100 Group of Finance Directors.



External appointments: Non-executive Director and Chairman of the Audit Committee at Kingfisher plc to 12 June 2018 and Non-executive Director and a member of the Audit Committee at Reckitt Benckiser Group plc as of 1 July 2018.

Committees: Member of the Finance Committee.



Dean Seavers (57)
Executive Director, US

Appointed: 1 April 2015
Tenure: 3 years

Career and experience: Dean began his career at the Ford Motor Company. From there he held a series of leadership roles before moving to Tyco International Ltd, where he held various senior management positions before joining General Electric Company and United Technologies

Corporation. He was President and Chief Executive Officer of General Electric Security and then President, Global Services of United Technologies Fire & Security. Dean was also a member of the Board of Directors of the National Fire Protection Association.

Skills and competencies: Dean brings to the Board a broad range of financial and customer experience along with significant general management experience with a particular focus on change and performance improvement programmes.



External appointments: Advisor to the board at City Light Capital, Board member of Red Hawk Fire & Security, LLC and Non-executive Director of Albemarle Corporation.



Nora Mead Brownell (70)
Non-executive Director, Independent

Appointed: 1 June 2012
Tenure: 5 years

Career and experience: Nora has substantial senior management experience gained in a variety of roles, including Commissioner of the Pennsylvania Public Utility Commission, the Federal Energy Regulatory Commission (FERC) and former President of the National Association of Regulatory Utility Commissioners. Most recently, Nora sat on the Boards of ONCOR Electric Delivery Holding Company LLC and Converge, Inc.

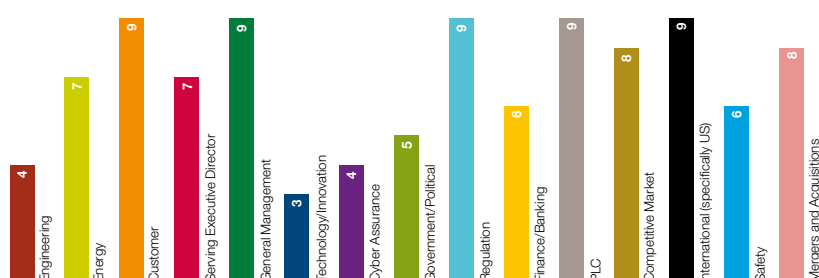
Skills and competencies: Nora brings to the Board significant expertise in the US utilities industry, in particular from her role as a Commissioner with FERC. Her first-hand regulatory experience, combined with her non-executive directorships, provides the Board with valuable strategic insights into regulation and US government relations. This allows her to scrutinise performance and provide an additional perspective for the Board's discussions.



External appointments: Board member of Spectra Energy Partners LP, the Strategic Advisory Council of the NewWorld Capital Group, LLC, the Advisory Board of Morgan Stanley Infrastructure Partners as well as a partner in ESPY Energy Solutions, LLC.

Committees: Member of the Nominations, Remuneration and Safety, Environment and Health Committees.

Skills and experience



Each bar shows the number of members on the Board with strong or very strong skills or experience in this area

Tenure as at 31 March 2018

Charts and committee membership as at 16 May 2018

This graph, together with the biographies above, shows some of the key sector experience and skills the Board has identified for the effective running of the Company and the delivery of its long-term strategy. They also demonstrate how each Board member contributes to this blend of skills and experience.



Jonathan Dawson (66)
Non-executive Director; Independent

Appointed: 4 March 2013
Tenure: 5 years

Career and experience: Jonathan started his career in the Ministry of Defence before moving to Lazard where he spent more than 20 years. He was a Non-executive Director of Galliford Try plc, National Australia Group Europe Limited and Standard Life Investments (Holdings) Limited. Most recently, Jonathan was Chairman of the Remuneration Committee and Senior Independent Director of Next plc and Senior Independent Director and Chairman of the Audit & Risk

Committee of Jardine Lloyd Thompson Group plc.

Skills and competencies: Jonathan has wide-ranging financial services, pensions and non-executive director experience, and he brings significant and in-depth understanding in remuneration and financial matters to his role as Chairman of the Remuneration Committee. As a Non-executive Director his contribution is essential to the successful operation of the Board and through his specialisms he delivers scrutiny, additional challenge and independent oversight to the Board.



External appointments: Chairman of River and Mercantile Group PLC, Chairman of Trustees of the Royal Albert Hall pension scheme and Chairman and a founding partner of Penfida Limited.

Committees: Chairman of the Remuneration Committee, member of the Finance and Nominations Committees.



Pierre Dufour (63)
Non-executive Director; Independent

Appointed: 16 February 2017
Tenure: 1 year

Career and experience: Pierre started his career at SNC Lavalin Group. He joined Air Liquide in 1997, later going on to roles such as Chief Executive of the US operations, Chairman of the Board of Air Liquide Canada and several different positions within Air Liquide where he had responsibility for North American operations, while also overseeing safety and industrial risk management and operations in South America, Africa and the Middle East. Pierre then became Senior

Executive Vice President of the Air Liquide group with responsibility for all Air Liquide activities across The Americas, Middle East, Africa and Asia.

Skills and competencies: Pierre brings to the Board a deep understanding and knowledge of safety and engineering from his previous roles. His international management experience is an asset to the Board. This, coupled with his record of successfully delivering large-scale capital projects, provides a wider perspective to Board debates and strategic discussions.



External appointments: Non-executive Director of Archer Daniels Midland, Director of Airgas Inc., an Air Liquide subsidiary and Director and Chairman of the Environment and Society Committee of Air Liquide S.A.

Committees: Member of the Nominations, Remuneration and Safety, Environment and Health Committees.



Therese Esperdy (57)
Non-executive Director; Independent

Appointed: 18 March 2014, and appointed to the Board of National Grid USA from 1 May 2015
Tenure: 4 years

Career and experience: Therese started her banking career at Lehman Brothers, then moved to Chase Securities in 1997. She subsequently held a variety of senior roles at JPMorgan Chase & Co. including Head of US Debt Capital Markets and

Global Head of Debt Capital Markets, co-head of Banking, Asia Pacific at JPMorgan and Global Chairman of the Financial Institutions Group, JPMorgan Chase & Co.

Skills and competencies: With a distinguished career in the investment banking sector, Therese brings significant banking, strategic and international financial management expertise and knowledge of financial markets to the Board and to her role as Chairman of the Finance Committee. This enables her to contribute a constructive viewpoint to Board debates with her sharp and incisive thinking.



External appointments: Non-executive Director of Imperial Brands PLC.

Committees: Chairman of the Finance Committee and member of the Audit and Nominations Committees.



Dr Paul Golby CBE FREng FIET, FIMechE, FEI, FCGI (67)
Non-executive Director; Independent

Appointed: 1 February 2012
Tenure: 6 years

Career and experience: Paul is a Chartered Engineer with a doctorate in Mechanical Engineering, Fellow of the Royal Academy of Engineering, the Institution of Engineering and Technology, the Institution of Mechanical Engineers, the Energy Institute and City of Guilds. He was awarded honorary degrees from Aston University and Cranfield University. Paul was an Executive Director of Clayhithe plc, before going on to join E.ON UK plc where he was Chief Executive and later Chairman. Paul also held previous appointments as Non-executive

Chairman of AEA Technology Group plc and Chairman of EngineeringUK.

Skills and competencies: Paul has a lifelong passion for engineering and innovation, and has spent his career in the energy, governmental and regulatory sectors. He brings the skills of an experienced Chairman and Chief Executive to his role as a Non-executive Director. He adds a valuable perspective to debates on UK regulatory and strategic issues. His deep understanding and specific experience in safety and risk management is crucial to his role as Chairman of the Safety, Environment and Health Committee.



External appointments: Chairman of Costain Group plc, the UK National Air Traffic Services, the Engineering and Physical Sciences Research Council and a member of the Prime Minister's Council for Science and Technology.

Committees: Chairman of the Safety, Environment and Health Committee, member of the Audit and Nominations Committees.



Mark Williamson (60)
Non-executive Director and Senior Independent Director

Appointed: 3 September 2012
Tenure: 5 years

Career and experience: Mark is a chartered accountant with considerable financial and managerial experience. He has a deep knowledge of operating within highly regulated industries from his time as the Group Financial Controller of Simon Group plc, Chief Financial Officer of International Power plc and Non-executive and Senior Independent Director of Alent plc.

Skills and competencies: Mark's role as Senior Independent Director is essential to the successful operation of the Board. He has an excellent understanding of investor expectations and significant experience in managing relationships with investor and financial communities. During the course of his career, Mark has gained a broad knowledge within the utilities sector as well as extensive city, international and accounting experience; this makes him ideally suited to his role as Chairman of the Audit Committee. Mark also brings the skills of an experienced Chairman to his role as a Non-executive Director.



External appointments: Chairman of Imperial Brands PLC and Chairman of Spectris plc.

Committees: Chairman of the Audit Committee, member of the Nominations and Remuneration Committees.



Alison Kay (54)
Group General Counsel and Company Secretary

Appointed: 24 January 2013

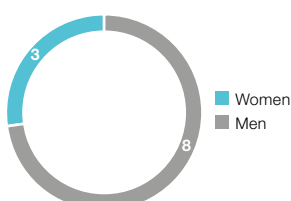
Career and experience: Alison joined National Grid in 1996 and has undertaken several roles including UK General Counsel and Company Secretary from 2000 to 2008 and Commercial Director, UK Transmission from 2008 to 2012. Prior to joining the

Group, she was a corporate/commercial solicitor in private practice.

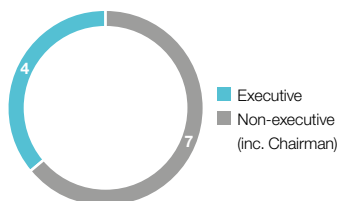
Skills and competencies: Alison is responsible for the legal, compliance and governance framework for the Group. She is an experienced commercial lawyer and brings a wealth of practical advice and guidance to her current role as Group General Counsel and Company Secretary. She also has expertise in regulatory and contractual law and legal risk management from her experience at National Grid. Alison provides support and advice to the Directors, Board and its Committees. She brings rigour around corporate governance and ensures that Board procedures and policies are complied with.

External appointments: Member and Vice-Chair of the Association of General Counsel and Company Secretaries working in FTSE 100 Companies.

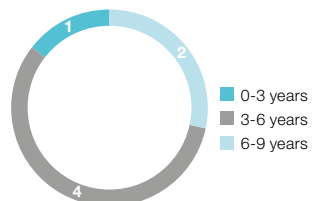
Board gender



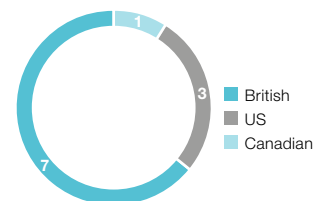
Executive and Non-executive Directors



Non-executive Directors' tenure



Board members by nationality



Corporate Governance

Board composition

The successful delivery of our strategy depends upon attracting and retaining the right talent. This starts with having a high-quality Board. Balance is an important requirement for the composition of the Board, not only in terms of the number of Executive and Non-executive Directors, but also in terms of expertise, diversity and backgrounds. Our Board is comprised of a majority of independent Non-executive Directors whose diverse skills and experience are vital to constructive challenge, debate and for the robust scrutiny of management performance and proposals.

While traditional diversity criteria such as gender and ethnicity are important, we also value diversity of skills, experience, knowledge and thinking styles. You can read about our Board diversity policy in the Nominations Committee report on page 58.

We will welcome Amanda Mesler on to the Board as a Non-executive Director from 17 May 2018. Andrew Bonfield and Pierre Dufour will step down from the Board at the conclusion of the 2018 AGM.

Governance structure

The schedule of matters reserved for the Board is available on the Corporate Governance section of our website, together with the terms of reference for each Board committee: www.nationalgrid.com

Reports from each of the Board committees, together with details of their activities are set out on the following pages.

Governance framework: Structure and responsibilities

Board	The role of the Board Our Board is collectively responsible for the effective oversight of the Company and its businesses. It determines the Company's strategic direction and objectives, business plan, viability and governance structure that will help achieve long-term success and deliver sustainable shareholder value. The Board recognises that to promote success over the long term we must earn and keep the trust and confidence of our employees, customers, the communities in which we operate and wider stakeholders. The Board sets the risk appetite and determines the principal risks for the Company and takes the lead in areas such as safeguarding the reputation of the Company and its financial policy, as well as making sure we maintain a sound system of internal control and risk management (see pages 18-21). The Board also plays a key role in setting and leading the Company's culture. For more information see page 47.				
Board committees	Audit Committee oversees the Company's financial reporting and internal controls and their effectiveness, together with the procedures for identifying, assessing and reporting risks. It also oversees the services provided by the external auditors and their remuneration.	Nominations Committee considers the structure, size and composition of the Board and committees and succession planning. It identifies and proposes individuals to be Directors and executive management, and establishes the criteria for any new position.	Remuneration Committee responsible for recommending to the Board the remuneration policy for Executive Directors and other members of the Executive Committee and for the Chairman; and for implementing this policy.	Finance Committee sets policy, approves strategy and grants authority for financing decisions (including treasury, tax and pensions), credit exposure, hedging and foreign exchange transactions, guarantees and indemnities.	Safety, Environment and Health Committee reviews the strategies, policies, initiatives, risk exposure, targets and performance of the Company and, where appropriate, of its suppliers and contractors in relation to safety, environment and health.
Management committees	Executive Committee				
	Disclosure Committee; Investment Committee; Share-schemes Sub-Committee				

In focus



Details of the management committees can be found on page 60

Our Board and its committees

In order that it can operate efficiently and give the right level of attention and consideration to relevant matters, the Board delegates authority to its Board committees. Committee agendas and schedules of items to be discussed at future meetings are prepared in accordance with the terms of reference of each committee and take account of other topical and ad hoc matters.

In addition to the vertical lines of reporting, the committees communicate and work together where required. For example, the Finance Committee and the Audit Committee both review the going concern assumptions and provide recommendations to the Board.

At Board committee meetings, items are discussed and, as appropriate, endorsed, approved or recommended to the Board, by the committee. Following Board committee meetings, the chairman of each committee provides the Board with a summary of the main decisions and discussion points and the minutes of committee meetings are made available so the non-committee members are kept up to date with the work undertaken by each Board committee.

Management committees

To help make sure we allocate time and expertise appropriately, the Company has a number of management committees, including the Executive Committee and Disclosure Committee. You can read more about these committees on page 60.

Board and committee membership and attendance

The table overleaf sets out the Board and committee attendance during the year to 31 March 2018. Attendance is shown as the number of meetings attended out of the total number of meetings possible for the individual Director during the year.

If any Directors are unable to attend a meeting, they are encouraged to communicate their opinions and comments on the matters to be considered via the Chairman of the Board or the relevant committee chairman. The one instance of non-attendance during the year was considered and determined as being reasonable due to individual circumstances; Paul Golby was unable to attend an Audit Committee meeting due to the meeting being called at short notice and him having a prior commitment.

Board and committee membership and attendance continued

Director	Board	Audit	Finance	Nominations	Remuneration	Safety, Environment and Health
Sir Peter Gershon	8 of 8	–	–	7 of 7	–	–
John Pettigrew	8 of 8	–	4 of 4	–	–	–
Andrew Bonfield ¹	8 of 8	–	4 of 4	–	–	1 of 1
Dean Seavers	8 of 8	–	–	–	–	–
Nicola Shaw	8 of 8	–	–	–	–	–
Nora Mead Brownell	8 of 8	–	–	7 of 7	6 of 6	4 of 4
Jonathan Dawson	8 of 8	–	4 of 4	7 of 7	6 of 6	–
Pierre Dufour	8 of 8	–	–	7 of 7	6 of 6	4 of 4
Therese Esperdy	8 of 8	6 of 6	4 of 4	7 of 7	–	–
Paul Golby ²	8 of 8	5 of 6	–	7 of 7	2 of 2	4 of 4
Ruth Kelly ³	2 of 2	2 of 2	2 of 2	2 of 2	–	–
Mark Williamson	8 of 8	6 of 6	–	7 of 7	6 of 6	–

1. Andrew Bonfield stepped down from the Safety, Environment and Health Committee on 21 April 2017.

2. Paul Golby stepped down from the Remuneration Committee on 15 May 2017.

3. Ruth Kelly stepped down from the Board and relevant Board committees with effect from 31 July 2017.

Directors' induction and training

Directors' induction programme

Following new appointments to the Board, the Chairman, Chief Executive and Group General Counsel & Company Secretary arrange a comprehensive induction programme. The programme is tailored based on experience and background and the requirements of the role. Consideration is given to committee appointments and where relevant, tailored training can be undertaken.

A tailored induction programme will be created for Amanda Mesler and monitored accordingly.

Director development and training

As our internal and external business environment changes, it is important to make sure that Directors' skills and knowledge are refreshed and updated regularly. The Chairman is responsible for the ongoing development of all Directors and agrees any individual training and development needs with each Director.

To strengthen the Directors' knowledge and understanding of the Company, Board meetings regularly include updates and briefings on specific aspects of the Company's activities. In January the Board participated in its second EU Market Abuse Regulation training session to ensure it remained up to date with market abuse obligations and emerging best practice. Examples of other topics on which Board members received training during the year included: remuneration and corporate governance developments; culture; and corporate reporting.

Updates on corporate governance and regulatory matters are also provided at Board meetings, along with details of training and development opportunities available to our Directors. Additionally, the Non-executive Directors are expected to visit at least one operational site annually. During the year, site visits were made by Board members to a range of the Company's projects and sites in the UK and US, such as to our London Power Tunnels project and our Long Island Gas Control Centre.



Pierre Dufour
Non-executive Director

Pierre Dufour – Non-executive Director induction

Pierre, appointed in February 2017, underwent a tailored induction programme covering a range of areas of the business, some examples of which are detailed below. This included matters pertinent to his role on the Safety, Environment and Health Committee.

Governance and remuneration

- Received a briefing from our legal advisors which included company law and directors' duties; corporate governance; the Market Abuse Regulation; and listing and disclosure obligations.
- Met key employees in our Reward team to understand our reward strategy, remuneration policy and current market practice.

Business and functions

- Met employees across the UK, US and National Grid Ventures businesses and undertook site visits, such as to our Isle of Grain LNG site.
- Met with the Group Head of Assurance and discussed the key risk and compliance issues.
- Met with the Director of Investor Relations.

Safety

- Met employees throughout the business and in key safety roles to discuss safety matters.
- Undertook a number of site visits in the UK and US which enabled Pierre to become familiar with our approach to safety and safety culture.
- Received a briefing on our Process Safety Management System.

Stakeholder matters

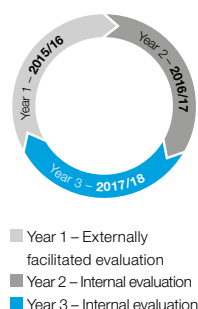
- Engaged with employees across the business, including during multiple site visits in the UK and US.
- Met with the Group HR Director.
- Met key employees in the UK and US in regulatory roles.
- Met with the Director of Procurement and discussed our key suppliers and how we engage with them.

Performance evaluation

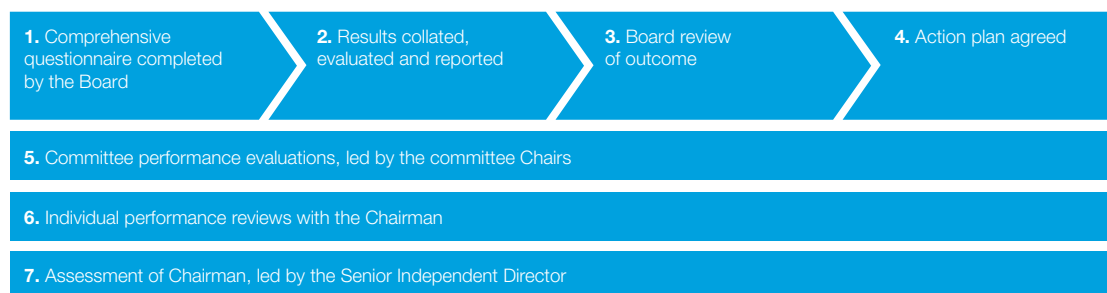
Board and Committee evaluation

This was the third year of our three-year performance cycle, as shown in the diagram below. We undertook an internal Board performance evaluation, led by Mark Williamson, Senior Independent Director.

Review cycle:



Evaluation Process: Year 3 of review cycle



1. Comprehensive questionnaire completed by the Board

Board members completed a structured questionnaire with a series of questions designed to understand the Board members' views on:

- the right skills, capabilities and expertise needed in the Boardroom;
- the effectiveness of Board meetings in terms of frequency, Board papers and content;
- the effective use of risk in Board decision-making processes;
- the agreed Company strategy and progress on strategy execution;
- the Board's priorities; and
- other actions to improve Board effectiveness.

2. Results collated, evaluated and reported

The individual responses to the performance evaluation questionnaire were reviewed and analysed by the Senior Independent Director together with the Group General Counsel and Company Secretary. A confidential and non-attributable report was then compiled with recommended improvement actions for discussion by the Board.

3. Board review of outcome

The Board discussed the findings of the year's evaluation and agreed a number of actions for the coming year as set out below. The Board also discussed its performance generally and agreed that the Board had worked well together as a unit, discharged its duties and responsibilities effectively, and worked effectively with the Board committees.

4. Action plan agreed for 2018/19

- Increase the opportunities for the Board to engage with external experts on key strategic topics
Responsibility: Chairman/Group General Counsel and Company Secretary
- Consider Board agendas and, in particular, whether more time can be devoted to strategic issues
Responsibility: Chairman/Group General Counsel and Company Secretary
- Review whether enhancements could be made to how risk appetite is incorporated into Board papers where a decision is required
Responsibility: Chairman/Group General Counsel and Company Secretary
- Improve the efficiency and speed of Board decision-making by continuously assessing the quality of Board papers
Responsibility: Chief Executive/Group General Counsel and Company Secretary

5. Committee evaluation

An evaluation of committee performance was also conducted by the chairman of each of the Board committees. The process broadly followed that conducted by the Board with each committee using a tailored questionnaire.

Actions were identified as appropriate and agreement reached that the committees continued to operate effectively. Progress against the action plans will be monitored throughout the year by the respective committee and the Board.

6. Individual performance

The Chairman held performance meetings with each Board member to discuss their individual contribution and performance over the year and their training and development needs. Following these meetings, the Chairman confirmed to the Nominations Committee that he considered that each Director demonstrated commitment to the role and that their performance continued to be effective.

Following recommendations from the Nominations Committee, the Board determined that all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties.

7. Chairman's performance

As part of our annual evaluation process, Mark Williamson, as Senior Independent Director, led a review of the Chairman's performance. At a private meeting, the Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman and considered the arrangements he has in place to fulfil his role, given he is also chairman of the Aircraft Carrier Alliance Management Board and of the Join Dementia Research (JDR) Partnership Board, Trustee of The Sutton Trust and the Education Endowment Foundation and a board member of the Investor Forum. It was concluded that the Chairman showed effective leadership of the Board and his actions continued to positively influence the Board and wider organisation. Mark Williamson discussed the feedback and areas for development with the Chairman.

Progress against actions from 2016/17 – culture

Last year's internally facilitated evaluation focused on the Company's culture, as well as the role of the Board in shaping, monitoring and overseeing the culture and a clear action plan was agreed. Throughout the year, the Board has discussed the progress of the actions identified, which have also been monitored by the Group General Counsel and

Company Secretary and the Chairman. A commentary regarding the Board's work in this area and reviewing progress against each action from last year's review is set out below. Progress against actions arising from last year's Board Committee evaluation has also been monitored throughout the year.

Actions	Commentary
Develop a common definition of 'culture' for the Board and Executive Committee. Responsibility: Chief Executive/Group General Counsel and Company Secretary/Human Resources.	The Board discussed and agreed a common definition of 'culture' for the Company, which reflects that culture results from the purpose, values, beliefs and behaviours that characterise our Company and guide our practices. Culture is evidenced and promoted by behaviours and actions of employees at all levels. As a purpose-led organisation, we are guided by our purpose and vision, which set out why we exist and how we create value for our shareholders, customers and wider society, and by our values, which shape how we expect to achieve our purpose and vision. Additionally, our leadership qualities build upon our values and are the common expected behaviours of our leaders. Ensuring clarity of these expectations and that the behaviours and actions of our employees are aligned to these expectations is a continuous focus for us.
Determine the Board's role in guiding the culture of the Company. Responsibility: Chairman/Chief Executive/Group General Counsel and Company Secretary/Human Resources/Corporate Affairs.	The Board considered the importance of the leadership role it plays in influencing and monitoring the Company's culture, setting the standards of good behaviour that align with our values, reinforcing these formally in the Boardroom and supporting management to embed our values, beliefs and behaviours throughout the organisation. The Board also reviewed the work that had already been undertaken during the current and previous financial year in relation to culture, including embedding the articulation of our purpose and the evolution of our vision and values across the Company. The Board discussed and agreed areas of focus for how it could specifically help to set the right tone from the top and support our culture, both within and outside the Boardroom, including how our Chairman's Awards and other formal and informal engagement events could be used to achieve this. The Board discussed the areas where the Board plays a key role in shaping and overseeing our culture and agreed an action plan to target these areas (set out below). The Board also considered the importance of remuneration strategy and diversity in supporting the desired culture, being areas where the Board has a clear role.
Develop a method for the Board to track culture within National Grid. Responsibility: Executive Directors/Human Resources.	The Board reviewed and endorsed a scorecard that would be used to monitor and assess culture and which would be regularly reviewed by the Board. The measurement system will highlight where our culture is currently, using both internal and external data, and generate insights that can lead to action.
Assist with the establishment of a desired culture throughout the National Grid businesses. Responsibility: Executive Directors/Group General Counsel and Company Secretary.	Following agreement of the role and areas of focus for the Board to influence and monitor culture, the Board has targeted these actions to set the tone at the top: Visible leadership on culture and open communication about the Board's priorities, activities and the tone set from the top • continue with Board dinners to informally engage with the business leaders; • actively promote the Chairman's Awards as the values-based recognition system; and • conduct on-site employee interactions aligned to Board meeting agendas and more informal engagement as appropriate. Alignment of the recruitment and appointment of Board and Executive Committee members with the desired culture • evaluate and recommend candidates for Board and Executive Committee roles on cultural fit, based on values and leadership qualities (balanced with technical qualifications and diversity). In addition, the Board considered how specific business areas, such as the core businesses and National Grid Ventures, should be encouraging our culture in a consistent and targeted way to achieve strategic priorities.

Investor engagement

We believe it is important to maintain effective channels of communication with our debt and equity institutional investors and individual shareholders. This engagement helps us to understand their views about the Company and allows us to make sure they are provided with timely and appropriate information on our strategy, performance, objectives, financing and other developments.

Institutional investors

We carry out a comprehensive engagement programme for institutional investors and research analysts, providing the opportunity for our current and potential investors to meet with executive and operational management.

This includes:

- meetings, presentations and webinars;
- attendance at investor conferences across the world;
- holding road shows in major investor centres, mainly in the UK, Europe and the US; and
- offering the opportunity for individual stewardship meetings.

In the last year, our engagement programme has focused on updating investors on the progress of our US rate case filings, raising the profile of the US business, and communicating the value presented by the UK business against the challenging UK political and regulatory backdrop.

In July 2017, we held a governance and stewardship event designed to update major investors on our activities over the year and future plans. It provided the opportunity for attendees to ask questions and meet Non-executive members of the Board and for our Non-executive Directors to further develop their understanding of our shareholders' views.

During the year, we also held a teach-in event for our New York business, hosting investors and analysts in London and New York. This event was designed to update investors and analysts on our rate filing progress in New York and provide context for the growth and opportunities in the New York regulated business. Following the success of the engagement programme over the last year, we will be hosting similar events this year, with an investor teach-in about our UK business, scheduled for September 2018. A copy of our event presentations and associated materials are available in the Investors section of our website.

In his capacity as Chairman of the Remuneration Committee, Jonathan Dawson engaged with a number

of our investors during the year regarding the resolutions put to shareholders at the 2017 Annual General Meeting in relation to the approval of the Company's remuneration policy and Remuneration Report.

The Board receives regular feedback on investor perceptions and opinions about the Company. Specialist advisors and the Director of Investor Relations provide updates on market sentiment. Additionally, each year, the Board receives the results of an independent audit of investor perceptions. Interviews are carried out with investors to establish their views on the performance of the business and management. The findings and recommendations of the audit are then reviewed by the Board.

Debt investors

Over the last year, senior group treasury representatives have met debt investors in the UK, continental Europe and the US to discuss various topics, such as our full year results and upcoming US rate case filings. We also hosted debt investors in New York at our teach-in event for our New York business and met with debt investors at various conferences over the course of the year.

We also communicated with our debt investors through regular announcements and the debt investor section of our website. This contains bond information, credit ratings and materials relating to the subsidiary year-end reports, and information about our long-term debt maturity profile, so investors can see our future refinancing needs.

Individual shareholders

Engagement with individual shareholders, who represent more than 95% of the total number of shareholders on our share register, is led by the Group General Counsel and Company Secretary.

Shareholders are invited to learn more about the Company through our shareholder networking programme. The programme includes visits to UK operational sites, presentations by senior managers and employees over two days and an opportunity to engage with Board members.

In November, Sir Peter Gershon hosted members of the UK Shareholders' Association for presentations given by John Pettigrew, Chief Executive, and Aarti Singhal, Director of Investor Relations, on our business operations; purpose, vision and values; and financial performance.

For information on the 2018 Annual General Meeting, please see page 62.

Stakeholders

Engagement with our stakeholders continues to be an important priority for us; it supports us in achieving our purpose and vision and is informed by our values.

The needs of our customers, shareholders and communities are at the heart of everything we do, and our vision statement clearly describes the challenge we have set ourselves – we will exceed the expectations of our customers, shareholders and communities today and make possible the energy systems of tomorrow.

As the owner and operator of regulated utilities and other large-scale infrastructure assets, we have a significant number of important stakeholders and you can read about who our key stakeholders are, why they are important to us and how we create value for them over the long-term on page 6.

The Board continues to be very mindful of the need to create value for our shareholders within a framework of high standards of corporate governance, and recognises our responsibilities to our wider stakeholders.

In addition to existing stakeholder engagement and reporting of this to the Board, a review of our current stakeholder engagement activities was undertaken and reviewed by the Board in April 2018. The review considered:

- who the Company's key stakeholders are;
- our engagement activities with each key stakeholder and the appropriateness of this engagement;
- the information the Board receives on our stakeholders, including as to the outcome of engagement activities;
- that stakeholder engagement is a two-way process and whether appropriate stakeholder feedback loops are in place; and
- whether there was a need for greater engagement with any stakeholders at Board level.

During 2018/19, the Board will further consider the Company's stakeholder engagement model and any appropriate enhancements to strengthen the views of our stakeholders in the Boardroom, including in relation to employees. Following the Government's announcement that it will be taking steps to strengthen stakeholder engagement and the development of a new UK Corporate Governance Code, the Board will also review the final legislative and Code changes and report on our activities accordingly.

In focus

368

meetings held with institutional and private investors during the year in 11 countries



Further details on:
investors.nationalgrid.com

Effective communications with engaged shareholders – dividend reunification programme

During 2017 we undertook a dividend reunification programme to reunite our shareholders with unclaimed dividend payments and to also find shareholders who had lost contact with us. Through the programme, we were able to reunite our shareholders with almost £2.5 million of unclaimed dividends during the year.

In focus



2018 Annual General Meeting:
For more information on the 2018 AGM, please see page 62, and the Investor section of our website:
investors.nationalgrid.com

Audit Committee



Mark Williamson
Committee Chairman

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 – statement of compliance.

The Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

Review of the year

This report provides an insight into the work of the Audit Committee over the year in relation to the UK and US businesses, the external auditors, and our role overseeing the Company's internal assurance functions, as well as the significant issues relating to the financial statements which were debated by the Committee during the year.

In November 2017 and January 2018, the Group Chief Information and Digital Officer attended our meeting to discuss cyber risk and improvements being made to access controls across all financial systems. Also in January 2018, I visited the UK Finance team, principally to better understand the progress being made in improving the control environment in the UK.

Continued focus on internal controls relating to financial reporting

We have continued to focus on improvements to the Group's financial controls, receiving regular reports from both management and Deloitte throughout the year. As noted in last year's Annual Report and Accounts, during the second half of 2016/17 the Group launched a comprehensive review of the design, operation and documentation in respect of its key controls relating to financial reporting, the SOX refresh programme (the Sarbanes-Oxley Act 2002 (SOX)).

As part of the SOX refresh, we have focused on improving the Group's IT access controls and controls in the UK finance environment. We have considered the impact of these on the year-end attestation relating to the effectiveness of internal controls in respect of financial reporting required under SOX. You can read more about these significant issues on the following pages.

Auditor transition

Following a formal tender process, Deloitte were appointed as our external auditors at the 2017 AGM. We have received regular updates from management and Deloitte on the transition process, including observations around the Company's processes, controls and accounting judgements. Management have worked closely with Deloitte through the transition and are establishing a strong transparent relationship. We welcome and encourage the insight and challenge Deloitte bring.

IFRS reporting matters

We spent time considering the impact of US tax reform, the Group's accounting in respect of its retained interest in the UK Gas Distribution business, and the judgements and methodologies applied by management in selecting discount rates in relation to long-term environmental provisions and for defined benefit pension scheme accounting.

The Committee also received regular updates on preparations for and the impact of the new accounting standards which will come into effect in 2018 and 2019 – IFRS 9 (Financial Instruments), IFRS 15 (Revenue from contracts) and IFRS 16 (Leases).

An additional meeting was held in January 2018 in advance of the year end to provide an update on the Group's implementation of IFRS 9 and IFRS 15 and a summary of the key matters where judgement, complexity or a change in the basis of accounting had been identified.

Use of Alternative Performance Measures ('APMs' or 'non-IFRS measures')

The Committee has played a key role in reviewing and challenging the APMs presented by management. At the September meeting we discussed the Company's response to a comment letter received from the SEC in relation to the 2016/17 Annual Report, recognising the need to maintain a careful balance between the ongoing scrutiny on the use of non-IFRS measures and the Company's ability to articulate the performance of the business and our results under IFRS. Planned enhancements to disclosures agreed by the Company have been implemented for the 2017/18 Annual Report.

Looking forward

Internal controls relating to financial reporting

The Committee will remain focused on ensuring that management delivers the planned internal control improvements in respect of IT access controls.

New IFRS accounting standards

The changes introduced by IFRS 9 and IFRS 15 were implemented with effect from 1 April 2018. We will receive reports from both management and Deloitte with regard to the effectiveness of the changes to processes, controls, and systems that have been implemented as a result of the new requirements.

IFRS 16, which will be implemented with effect from 1 April 2019 brings its own challenges around transition to the new standard, specifically that US GAAP and IFRS are not identical. Management's implementation timeline for this standard sees significant activity during 2018/19 and we will receive further updates in the coming year.

Climate-related financial disclosures

Following the publication of the final recommendations of the Financial Stability Board's Task force on Climate-related Financial Disclosures (Task Force, TCFD) a management working group has been meeting regularly to develop our roadmap to implementing the recommendations, as well as keeping abreast of other relevant developments. While the recommendations are not binding, they are seen as highly desirable and the Company has publicly committed to implement the recommendations, although there is a clear expectation that organisations will take time to implement the recommendations in full. We received progress reports from management in September 2017 and March 2018 and we will continue to receive updates in the coming year. The related financial disclosures included on page 192 are our first steps in the implementation of the recommendations.

Mark Williamson
Committee Chairman

In focus



Terms of Reference:
You can view the Audit Committee Terms of Reference on the Corporate Governance section of our website: www.nationalgrid.com

Corporate Governance continued

Areas of focus	Matters considered	Outcome and action
Significant issues	The most significant issues the Committee considered in relation to the financial statements are set out in the table below. In addition to commentary in these areas, the independent auditor's report (pages 83-91) also includes other areas of focus, including net pension obligations, environmental provisions, revenue recognition, classification of capital costs and treasury derivative transactions which were also considered by the Committee during the year.	
Internal controls relating to financial reporting, including the year-end SOX attestation	The Committee received reports at the May 2017, September 2017 and March 2018 meetings on the key findings and observations arising from the SOX refresh programme. The most significant findings related to IT access controls across the Group and specific observations in respect of certain business controls in UK Finance. Further details are provided below. The Committee has continued to receive updates from management on the progress to remediate the control deficiencies identified in the US financial controls environment (building on previous years). The Committee noted that good progress had been made in the US Finance team to recruit new talent to add further strength and depth to the team. At year end the Committee was pleased to note the historical US control deficiencies had been remediated. The SOX refresh programme had 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 SOX refresh programme in the short term. In September 2017, the UK CFO presented an update to the Committee on key developments in the UK Finance team, with a particular focus on financial controls. The Committee considered all the above matters as part of its final SOX conclusions.	The Committee asked management to explain the incremental increases in the number of processes and IT systems considered to be in scope for SOX purposes. The Committee 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 (in particular the IT control matters noted below), the identification of mitigating controls and the impact on the year-end aggregation exercise for SOX purposes. Following the update in September, the Committee asked management to look to lessons learned from the US finance transformation plan and improvements in the US financial control environment and how these could be applied to the UK financial control environment. The Committee noted the outcome of management's exercise to assess the impact of the control matters identified individually and in aggregate, and the conclusions of the relevance of these to the year-end SOX attestation (as described further on page 52). The Committee was pleased to note in May 2018 that there were no business control findings. After careful consideration the Committee concurred with management's overall assessment that the Group's internal control over financial reporting is effective.
IT controls	A number of improvements were identified as necessary by management and Deloitte in respect of access to the Group's financial systems. The Committee was provided with a specific update by the Group Chief Information & Digital Officer in January 2018 which focused on the key themes arising and management's action plans. Further updates were provided to the Committee in March and May. The extent of improvements required was more pronounced in the UK, primarily as a result of the UK's complex legacy IT infrastructure coupled with the US having benefited from a focus on the financial control environment in recent years. The IT control findings related primarily to six key focus areas: privileged access, segregation of duties, user access management, user access reviews, third-party general IT controls, and the quality of the information used in the control. This year, in conjunction with testing performed by Deloitte, the Company observed access control improvements required in the infrastructure layer relating to our finance administrative systems which are administered by outsourced service providers.	At its November meeting the Committee challenged management on the number of outstanding control improvement actions in the IT control environment. The Committee noted that to ensure appropriate and immediate focus on the matters identified, management had established governance mechanisms across the IS and Finance leadership. At its March meeting the Committee requested that a short and longer-term remediation plan to deliver sustainable IT-related controls, in particular user access, be presented to the Committee in May. Recognising the risk and criticality of executing the outstanding actions, the Committee continues to monitor progress closely and has requested regular updates from management.
US tax reform	On 22 December 2017 the Tax Cuts and Jobs Act (US tax reform) was signed into law, taking effect from 1 January 2018. The Committee received an update in March on the main impact on the Company's IFRS financial results: Exceptional gain from rate reduction: The principal impact under IFRS concerned the impact of the reduction in the headline federal tax rate from 35% to 21%. The change in the tax rate has given rise to a circa \$2 billion exceptional gain as deferred tax assets and liabilities are remeasured downwards accordingly. Reduction in US effective tax rate: The reduction in the federal tax rate has also resulted in a reduction in the statutory, adjusted and underlying effective tax rates this year, as a blended headline federal tax rate is applied to the US business's IFRS earnings.	The Committee noted the report received from management on the impact of this change on the Company. The Committee challenged the appropriateness of the recognition of a \$2 billion exceptional credit to income, in view of the fact that the Company will, over time, be required to return this benefit to customers. The Committee was satisfied that the treatment applied was in line with IFRS and requested that management ensure that adequate disclosures of the Company's commercial and regulatory arrangements be included in the Annual Report and Accounts to allow users of the financial statements to understand the economic impact of tax reform on the Company.
Carrying value of interests in Quadgas HoldCo Limited	On 30 April 2018, the Group signed an agreement with Quadgas Bidco Holdings Limited (the vehicle through which the Consortium hold their 61% interest in Quadgas HoldCo Limited) in relation to the potential sale of our remaining 25% interest (the Remaining Acquisition Agreement). At its May 2018 meeting the Committee considered the implications of this arrangement on the 2017/18 financial statements and, in particular, the £110 million derivative fair value gain recognised in relation to the Further Acquisition Agreement, and the £213 million impairment charged against the carrying value of the Group's equity interests in Quadgas HoldCo Limited.	The Committee reviewed and concurred with the accounting undertaken by management, noting that after accounting for our share of profits, and all other movements, the aggregate carrying value of our interests was £2.1 billion at 31 March 2018, consistent with management's initial determination of the fair value of the interests as at 31 March 2017.

Areas of focus	Matters considered	Outcome and action
Other areas of focus		
External auditors	The Committee is responsible for reviewing and monitoring the appropriateness of the provision of non-audit services by the external auditors in the context of reviewing the auditors' independence. You can read more about how the independence and objectivity of the external auditors is safeguarded on page 54 and the non-audit services provided by the external auditors on page 55. The Committee is also responsible for the external auditors selection procedure and making recommendations regarding the appointment and re-appointment of the external auditors to the Board for shareholder approval. For further details of how the external auditors' performance was reviewed and the outcome, see page 54.	Deloitte's audit plan for the Group audit, including the identification of significant audit risks and key areas of focus, was formally approved by the Committee in September 2017 and minor amendments to the plan in January and March 2018. In May 2018, the Committee considered an assessment by the Corporate Audit team of controls in place to ensure that our external auditors, Deloitte, are independent from National Grid. The controls testing did not find any items that would impact the auditors' objectivity and independence. The Committee Chairman also provided an oral update to the May Board meeting on the outcome of the audit and explained how the audit had contributed to the integrity of the year-end financial statements and the Committee's role in that process.
Financial reporting	The Committee monitors the integrity of the Group's financial information and other formal documents relating to its financial performance and makes appropriate recommendations to the Board before publication. An important factor in the integrity of financial statements is making sure that suitable and compliant accounting policies are adopted and applied consistently on a year-on-year basis and across the Group. While there have been no new significant corporate transactions in the year, and no new accounting standards are yet applicable, there were a number of changes to the basis of accounting compared with the 2016/17 financial statements that the Committee considered: • changes in pension assumptions since 31 March 2017; • the presentation of the results of National Grid Ventures (NGV); and • the adoption of a 'three column' approach for our consolidated Income Statement showing results before and after exceptional items and remeasurements. Under its Terms of Reference, the Committee is required to review the Annual Report and Accounts and any other report filed with the SEC containing financial statements, and make recommendations to the Board with respect to the disclosures contained therein. Alongside its consideration of the Annual Report and Accounts 2017/18, when reviewing the draft Form 20-F the Committee considered what information would be disseminated to the SEC at year-end, the basis of the preparation of the Form 20-F and the principal SEC disclosure matters considered this year.	The Committee noted that the change in the calculation performed to determine the discount rate and other assumptions applied to the UK pension obligations had resulted in a material reduction in the liabilities and had increased the net asset position reported for the UK pension schemes. Following consideration of the appropriateness of the change in pension assumptions, the Committee concurred with management's approach. The Committee discussed whether the results of NGV should be reported as a separate segment. The Committee noted that for the time being, management had chosen not to voluntarily report the results of NGV as a reportable segment, and that NGV would continue to be aggregated with 'Other activities' for segment disclosure purposes. The Committee agreed with management's approach. Additional disclosures have been added in the footnotes to the operating segment note (see pages 109-110) to show how NGV has contributed to revenue, operating profit and capital expenditure. The Committee approved management's proposal to amend the way in which the consolidated Income Statement was presented to adopt a three column approach showing results before and after exceptional items and remeasurements. The Committee noted that this would provide a more user-friendly approach to presenting results. The Committee recommended the Annual Report and Accounts 2017/18 and the Form 20-F for approval by the Board at its meeting in May 2018.
Fair, balanced and understandable	At its May 2018 meeting, the Committee considered the requirement of the Code to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable in the context of the applicable accounting standards and that it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. When considering this requirement the Committee took into consideration the viability statement, going concern statement and an update on significant accounting matters from management.	The Committee discussed and provided input to management on the disclosure and presentation of APMs and non-IFRS measures. The Committee noted the challenges faced by management in reflecting the economic performance of the Company within the confines of IFRS. This needed to be in the context of the regulations and guidance issued by the FRC, ESMA and the SEC concerning the need to ensure at least equal prominence between IFRS and non-IFRS measures. The Committee Chairman in his oral report to the Board in May confirmed that the Committee considered that the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable.
Viability statement	The Code requires the Board to confirm that it has undertaken a robust assessment of the principal risks facing the Company. The impact of these risks over the assessment period was tested to determine whether or not there was a reasonable expectation that the Company would be able to continue to operate and meet its liabilities as they fall due during that period. This review then informed the wording of the viability statement in the Annual Report and Accounts. The Committee received a draft viability statement in March and May 2018 for its review and comment in advance of the Board's consideration of the statement in May. In support of this review the Committee also received an update on the process and a summary of the outcome of the annual testing of our principal risks.	The Committee reviewed and challenged the clarity and completeness of the viability statement to be included in the Annual Report and Accounts at its meetings in March and May 2018 and provided comments for management to address. The Committee Chairman in his oral report to the Board in May recommended the statement to the Board for approval. You can find the viability statement on page 26.

Corporate Governance continued

Areas of focus	Matters considered	Outcome and action
Going concern statement	At half and full year the Board is required to consider whether the going concern assumption is appropriate in preparing the Group's financial statements. In support of this, at its November and May meetings, the Committee received a report on the Group's short-term liquidity and capital to assist in the going concern determination for the half and full-year financial information.	The Committee reviewed the paper and confirmed that it considered it appropriate to adopt the going concern basis in the half and full-year financial statements. The Committee Chairman made recommendations in this respect to the November and May Board meetings. The Board considered and approved the Committee's recommendation. The Company's going concern statement is set out on page 104, note 1A.
Sarbanes-Oxley Act 2002 (SOX) testing and attestations	The Sarbanes-Oxley Act requires the Company to undertake an annual assessment of the effectiveness of internal control over financial reporting. The Committee received regular updates on the status of testing as well as the identified deficiencies (including those discussed in the significant issues above). The Committee received updates on the SOX control findings in September, March and May. See page 21 for the Company's statement on the effectiveness of internal control over financial reporting.	In May the Committee noted and agreed with the conclusions of the review of the effectiveness of internal control over financial reporting as required under s.302 and s.404 of the Sarbanes-Oxley Act and the Disclosure and Transparency Rules and management's opinion on the effectiveness of these controls. The Committee Chairman reported this conclusion to the Board at its May meeting at which the effectiveness of the internal control and risk management processes were considered.
Disclosure Committee reports	The Committee receives a report from the Disclosure Committee on matters relevant to the half and full-year announcements in November and May. In November 2017 and May 2018, the Disclosure Committee reviewed the half and full-year results statement and the planned presentations, having regard to the European Securities and Markets Authority (ESMA) guidance and SEC guidance in relation to the presentation of statutory and adjusted measures. The Disclosure Committee also reports the results of its evaluation of the effectiveness of the Company's disclosure controls to the Audit Committee. See page 60 for more information on the role of the Disclosure Committee.	The Committee took into consideration the oral report received from the secretary to the Disclosure Committee when reviewing the half and full-year announcements. The Committee noted that the Disclosure Committee considered that the Company's disclosure controls had operated effectively over the year.
Corporate Audit	The Committee received regular controls updates from the Corporate Audit team. As set out above, this year there has been significant control remediation activity relating to SOX controls, driven by the refresh programme. These efforts have focused heavily on the UK finance and IS control environment and the audit findings highlighted the same focus areas. Corporate Audit have been supporting management's remediation plans in a number of ways, for example several audits provided direct insight around how to improve the control environment and by providing advisory support (subject to retaining independence). In March 2018, risk driven changes to the audit plan were proposed: audits added to the audit plan; audits merged due to linkage of business process; audits removed due to a reduced risk profile; and audits deferred to the following financial year due to business change. In accordance with best practice, the Corporate Audit Charter was reviewed against the Institute of Internal Auditors (IIA) international standards and the IIA model charter. The purpose of the review is to assess if the purpose, authority and responsibility, as defined in the charter, are sufficient to enable the Corporate Audit function to complete its objectives. No changes to the charter were proposed. As part of its annual review of the effectiveness of risk management and internal controls, the Committee assesses the effectiveness of Corporate Audit and satisfies itself that the function has the quality, experience and expertise appropriate for the business. See page 55 for more details on the work of the Corporate Audit team.	When considering the updates from the Head of Corporate Audit during the year, the Committee challenged management in relation to the progress made in closing the outstanding actions identified by Corporate Audit, in particular in relation to remediation of the significant issues as set out above. Management has prioritised the actions on controls required as part of SOX remediation as well as continuing work on the broader key strategic initiatives. The Committee considered and approved the proposed changes to the audit plan. The Committee considered the charter to be appropriate and noted that no changes were proposed. When assessing the effectiveness of Corporate Audit the Committee noted the annual self-assessment of the function against the IIA standards had resulted in a 'generally conforms' rating, the highest achievable, and that all the External Quality Assessment actions raised last year had been implemented. The Committee confirmed that it was satisfied that the Corporate Audit function had the quality, experience and expertise appropriate for the business. Additionally, in accordance with the Committee's Terms of Reference, the Committee considered and approved the appointment of the Head of Corporate Audit in September. The Committee also met privately with the Head of Corporate Audit during the year.

Areas of focus	Matters considered	Outcome and action
Risk management and internal control	The Committee has been delegated responsibility by the Board for monitoring and assessing the effectiveness of our risk management processes. In support of this responsibility, the Committee received regular updates on the risk management processes and any changes as well as updates on other risk management activities within the business. When undertaking its review of the effectiveness of the risk management and internal control processes (which included financial, operational and compliance controls) the Committee noted the sources of assurance and various controls that had operated during the last 12 months and the matters raised in the CEO's Certificate of Assurance (CoA). In September the Committee received a proposal from management to change the frequency of the CoA process from bi-annual to annual. The CoA provides a 'top-down' assurance process, which complements the core compliance and risk management procedures. Removing the requirement for the half yearly CoA process would enable the business to focus that time and resource on core compliance and risk management procedures and initiatives. You can read more about our risk management process and the review of effectiveness of our internal control and risk management on pages 18-21. Details of our internal control systems, including those relating to the financial reporting process, can be found on page 21.	The Committee noted that the planned enhancements continued to be developed and embedded into business processes to strengthen the management of our most important risks. For example risk classification had been added to the risk identification process. This classification system helps to identify accumulations of similar risks and which strategies, tactics and operations are most vulnerable, and guides the approach to risk mitigation. Following consideration of the significant aspects of the internal control and risk management systems and processes for the year under review, the Committee confirmed that the processes provided sufficient assurance and that the sources of assurance had sufficient authority, independence and expertise. The Committee Chairman reported to the May Board meeting on the outcome of its annual review and confirmed that management's process for monitoring and reviewing internal control and risk management processes are functioning effectively. The Committee approved the change in frequency of the CoA process to annual. When making this decision the Committee took into consideration the significant improvements made to the risk and compliance management processes over the last couple of years and the increased focus on risk and compliance in the business. The Committee will continue to receive regular reports and updates on the core risk and compliance management procedures.
Cyber security risk management	A report providing insight into the cyber risk control environment of the Company was presented to the Committee in September and March. The reports provided insight into the cyber risk control environment within the Company based on the findings of Corporate Audit. Additionally, following the Committee's discussion on cyber risk at the March 2017 meeting, Deloitte was asked to comment on the reporting Audit Committees receive on this subject at other complex companies. The report from Deloitte was presented to the Committee in November along with a paper from management commenting on the findings of the report.	The Committee noted the progress made by management during the year on the cyber security strategy and that Corporate Audit continued to deliver a balanced programme of audits across cyber risk. In relation to the matters identified by the audits, management had been remediating these issues and managing the associated risks, in line with the agreed action plans. In respect of the report from Deloitte, the Committee noted that reporting to the Board and Audit Committee was aligned with current market practice in terms of frequency and content. Reporting to the Executive Committee was a potential area for improvement which management was reviewing.
Compliance management	The Committee receives bi-annual reports on compliance with external legal obligations and regulatory commitments. In September management reported that there had been a significant increase in issues compared with the previous period. The majority of these issues were related to control framework and data issues as a result of preparing for compliance with the new EU General Data Protection Regulation (GDPR) that would come into effect in May 2018. Management would continue to improve and embed compliance obligations into the business to ensure that robust control frameworks are in place, understood and adhered to by the business.	Despite the increase in incidents, the Committee noted that significant improvements had been made in compliance performance as indicated by the overall reduction of new issues during the year, increased closure of issues, progress of action plans, and overall continued engagement on compliance issues within the business. The Committee also noted that the majority of action plans were on track to resolve the identified compliance issues.
Business separation compliance	National Grid Gas's Gas Transportation Licences require business separation between UK Gas Transmission and UK Gas Distribution to prevent any unfair advantage being obtained by the UK Gas Distribution business over other independent distribution networks. Reporting on this matter continues to be required as Ofgas considers that the Company's continued minority shareholding in Quadgas HoldCo Limited (Cadent) gives rise to a potential conflict of interest. Business separation compliance reports were submitted to the Committee twice in the year, in May 2017 and November 2017. In March 2018 management set out a proposal to the Committee that, instead of sending separate reports, the reports on business separation compliance be combined with the wider compliance reports which are provided to the Committee in March and September.	The Committee considered the reports received and noted that a high level of compliance was being maintained and no material business separation issues had been reported during the period. The Committee approved the proposal to include the business separation compliance reports in the wider compliance reports noting that the compliance reports already covered business separation and that any specific incidents which the Committee should be aware of would continue to be reported on an exceptional basis, as at present.
Business conduct	Ethics and business conduct programmes are part of the internal controls in place to ensure business conduct issues are identified and effectively managed. The Committee receives a bi-annual ethics and business conduct report so that it can monitor the management and mitigation of business conduct issues as part of the wider control framework. The reports provide a summary of significant cases and draw out any underlying themes and action plans to mitigate future occurrences. The Committee reviews the reporting and whistleblowing procedures annually to make sure that complaints are treated confidentially and that a proportionate, independent investigation is carried out in all cases. The Committee also received annual reports on the Company's anti-bribery procedures and reviewed their adequacy.	In March the Committee received a business conduct report for consideration which also included the whistleblowing report. This was following a request from the Committee earlier in the year that these reports be combined. The Committee noted the ethics and business conduct updates and concurred with management's view that the whistleblowing procedures continued to be effective. The Committee noted the procedures currently in place for the prevention and detection of bribery and that none of the investigations over the last 12 months had identified cases of bribery.
Committee performance evaluation	The Committee received updates on the action plan agreed following the 2016/17 Committee performance evaluation at its November 2017 and March 2018 meetings and noted the progress made against the actions identified. The 2017/18 Board and committee evaluation was conducted internally, see page 46 for more details.	The Committee considered its performance over the year generally and determined that it had operated effectively through the year. The recommended actions from the 2017/18 evaluation were considered and agreed by the Committee in March. The Committee will monitor progress against the action plan over the year.

External audit

The Committee is responsible for overseeing relations with the external auditors, including the proposed external audit plan, the approval of fees, and makes recommendations to the Board on their appointment or reappointment. Details of total remuneration paid to auditors for the year, including audit services, audit-related services and other non-audit services, can be found in note 3(e) of the consolidated financial statements on page 113.

Following a formal tender process concluded in November 2015, Deloitte was appointed by shareholders as the Group's statutory auditors at the AGM in July 2017.

The Company confirms that it complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the financial year under review.

Auditor transition

Deloitte's transition plan focused on developing a deeper understanding of the Group's businesses, processes and controls, and leveraging the experience and knowledge of PwC during the shadowing period. Deloitte shadowed PwC during the 2016/17 year-end close process and attended Audit Committee meetings in January, March and May 2017. They also undertook a review of the PwC audit files in the UK and US and held meetings with key management.

Auditor 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.

In assessing the mindset, professional scepticism and degree of challenge to management, the Committee took in to account the observations, recommendations and conclusions drawn by Deloitte, in particular in relation to the findings arising from the SOX refresh and concluded that the performance of Deloitte reflected the relevant skills, rigour, perseverance and robustness expected.

The independence of the external auditors is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Auditor independence and objectivity are safeguarded by a number of control measures, including:

- limiting the nature and value of non-audit services performed by the external auditors in accordance with the Company's policy on the provision of non-audit services. The Committee receives updates to each regular meeting on all non-audit services approved and confirmed in May 2018 that it is satisfied that the non-audit fees do not impair the auditors' independence.
- ensuring that employees of the external auditors who have worked on the audit in the past one year (two years for a partner of the audit team) are not appointed to roles with financial reporting oversight within the Company in line with our internal code.
- monitoring the changes in legislation related to auditor objectivity and independence to help ensure we remain compliant.
- providing a business conduct helpline that employees can use to report any concerns, including those relating to the relationships between Company personnel and the external auditors.
- the rotation of the lead engagement partner at least every five years. Douglas King, the current lead partner, will be required to rotate off in 2022.
- consideration of Deloitte's annual independence letters.
- independent reporting lines from Deloitte to the Committee and the opportunity to meet with the Committee privately. The Committee chairman has regular meetings with the auditors to discuss agenda items and other matters of importance.

- an annual review by Corporate Audit of the independence of the external auditors. They review compliance against the non-audit services policy and the recruitment of employees from the external auditors by National Grid into financial reporting oversight roles. Testing did not identify any items that would impact the objectivity and independence of the external auditors.

Audit quality

How the external auditors have demonstrated an appropriate mindset, the degree of challenge to management and the communication of contentious issues are all critical to delivering a high-quality audit.

To maintain audit quality the Committee reviews and challenges the proposed external audit plan, including its scope and materiality prior to approval, to make sure that Deloitte has identified all key risks and developed robust audit procedures and communication plans.

Deloitte's audit plan was formally approved by the Committee in September 2017 and minor amendments were approved in January and March 2018.

The Committee noted that Deloitte would engage specialists to assist in their audit of the Group IT systems, derivative financial instruments, pension obligations, discount rates, tax balances, as well as utilising employees within the core audit team who have significant experience of regulated utilities in the UK and US.

On a continuous basis throughout the year, the Committee looks at the quality of the auditors' reports and considers their response to accounting, financial control and audit issues as they arise.

The Committee also meets with Deloitte regularly without management present, providing the external auditors with the opportunity to raise any matters in confidence and provides the opportunity for open dialogue. This also gives the Committee the opportunity to monitor the performance of the lead engagement partner both in and outside Committee meetings.

Auditor performance

In assessing auditor performance this year, the Committee considered: the quality of planning, delivery and execution of the audit; quality and knowledge of the audit team; effectiveness of communications between management and the audit team; robustness of the audit including the audit team's ability to challenge management as well as demonstrate professional scepticism and independence; quality of the reports received; views of management to gauge the quality of the audit team and their knowledge and understanding of the business.

Since Deloitte are in the first year of their appointment, the Committee did not take length of tenure into account when assessing their independence and objectivity. In forming its conclusions, the Committee solicited views from the senior finance team members most directly involved in the year-end audit.

A more detailed feedback process involving a wider range of individuals from within the Company will take place in summer 2018. The feedback from this process will be taken into account in Deloitte's planning for the 2018/19 audit cycle.

Auditor appointment

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.

The Statutory Auditors and Third Country Auditors Regulations 2016 require that the external audit contract is put out to tender at least every 10 years and that the auditors are changed at least every 20 years. The audit will be put out to tender in accordance with the requirements.

Non-audit services provided by the external auditors

Last year the Committee approved changes to the Company's policy on the provision of non-audit services by the auditors to take account of the implementation of the EU Audit Regulation and Directive on non-audit services. The revised policy includes a cap on the financial value of non-audit services to 70% of the average annual audit fees paid in the last three financial years. The cap will be implemented once we have three years of history of fees charged by Deloitte, and so will be effective for the financial year ending in March 2021.

During the year the Committee approved amendments to the non-audit service policy. The Committee continues to be responsible for all non-audit service approvals but it now allows pre-approval for certain specified services.

Services that have fees of less than £50,000 and are on a defined list are considered to fall within the 'clearly trivial' concept used by the FRC. For any services which do not meet these criteria, no threshold is applied and approval will be sought from the Committee in advance of the work being performed.

The services for which pre-approval can be sought relate to:

- audit, review or attest services. These are services that generally only the external auditors can provide, in connection with statutory and regulatory filings. They include comfort letters, statutory audits, attest services, consents and assistance with review of filing documents;
- ongoing work with the UK property team on the review of its commercial property portfolio, which was approved and continues to evolve. Our history with Deloitte means that they are the clear choice for relevant expertise. Such work does not include valuation work, or any other prohibited services; and
- other areas such as training or provision of access to technical publications.

Our policy requires that a list of all approved non-audit work requests is presented to the Committee at each meeting (other than ad hoc meetings), as well as annually in aggregate to ensure the Committee is aware of all non-audit services provided.

Approval for the provision of non-audit services is given on the basis the service will not compromise independence and is a natural extension of the audit, or if there are overriding business or efficiency reasons making the external auditors most suited to provide the service. Certain services are prohibited from being performed by the external auditors.

Total billed non-audit services provided by Deloitte during the year ended 31 March 2018 were £1.9 million, representing 14% of total audit and audit-related fees. In 2016/17, PwC billed £17.3 million for non-audit services (87% of total audit and audit-related fees), a substantial proportion of which related to work associated with the disposal of the UK Gas Distribution business.

The most significant element of non-audit services provided by Deloitte relates to services provided to the UK property business, principally evaluating possible options for the use of property assets and support in the preparation and submission of planning applications and responses to resulting questions. The Company's relationship with Deloitte Real Estate in the UK dates back several years and Deloitte were advisors to the Company in 2014 on the establishment of the Group's St William joint venture (in partnership with the Berkeley Group), through which Deloitte have developed a detailed understanding of our UK property portfolio.

Following the appointment of Deloitte as external auditor, all existing projects were carefully considered through our independence processes throughout the auditor transition period. In particular, the Committee requested confirmation from both management and Deloitte that there are no valuation services or other prohibited services being provided, and no reliance is placed on analysis provided by Deloitte for any assessments in respect of asset carrying values for financial reporting purposes. These processes have continued throughout the year and the same confirmations have been provided for each service procured.

Total audit and audit-related fees include the statutory fee and fees paid to Deloitte for other services that the external auditors are required to perform, such as regulatory audits and SOX attestation. Non-audit fees represent all other services provided by Deloitte not included in the above.

Internal (corporate) audit

The corporate audit function provides independent, objective assurance to the Audit, Safety, Environment and Health and Executive Committees on whether our existing control and governance frameworks are operating effectively in order to meet our strategic priorities. In the provision of independent assurance, corporate audit reports functionally to the Chairman of the Audit Committee and represents the third line of defence within our three lines of defence model (see page 21). Assurance work is conducted and managed in accordance with the IIA international standards for the Professional Practice of Internal Auditing and Code of Ethics.

To keep the Committee informed of trends identified from the assurance work and to update on progress against the corporate audit plan, the Head of Corporate Audit reports to the Committee at least twice each year. These reports present information on specific audits, as appropriate, summarise common control themes arising from the work of the team and update on progress with implementing management actions.

In order to meet the objectives set out in the Corporate Audit Charter, audits of varying types and scopes are conducted as part of the annual corporate audit plan. The audit plan is based on a combination of risk-based cyclical reviews, reviews of emerging risks and business change activity, together with a small amount of work that is mandated, typically by US regulators. The audit plan is agile and regularly reviewed to prioritise audits relevant to the needs of and to reflect evolving risks and changes to the business.

Inputs to the audit plan include principal risks, risk registers, corporate priorities, 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.

To ensure that the audit plan remains agile and focused on key risks facing the business we have undertaken periodic reviews of our planned audit assurance activities. Our reviews take into account changes to risk registers, hot spots and emerging risks in the industry and changes based on engagement with the business.

Any in-year change to our audit plan therefore ensures Corporate Audit adds greater value to the business and can provide greater assurance to the Audit Committee. As a result of our reviews since the year end there have only been minor changes to the audit plan approved by the Committee in March 2017.

Finance Committee



Therese Esperdy
Committee Chairman

Review of the year

Following the successful sale of a majority interest in the UK Gas Distribution business, this year the Committee focused on supporting the reshaped Group in achieving its key business and strategic objectives. This included reviewing the Company's financing strategy and its interest rate risk management approach, to ensure they would continue to support the Company's earnings and dividend policy. The Committee also remained cognisant of changes in the external regulatory and political environment, including Brexit, tax reform in the US, and the ongoing debate around renationalisation, focusing on any resulting financial risk.

The Committee has continued to oversee key financial aspects of optimising our core business performance. In July, we reviewed the capital structure of our US operating companies, including how this benchmarked externally and how it is managed to reflect our regulatory filings. We received updates on the significant funding activity across our US business, with new long-term bonds issued across a number of different operating companies.

During the year, the Committee received a report from external advisors in relation to feedback from debt investors on Company performance and other factors that could impact the Company's funding programme. Management continue to undertake an extensive debt investor engagement programme, more details of which can be found on page 48.

In its role of monitoring financial risk, during the year and at its last meeting in April 2018, the Committee discussed and approved enhancements to how it assesses financial risk and how it gains assurance as to management decision-making and execution within the agreed financial risk appetite set by the Board. The Committee discussed the potential financial risks to the Company created by Brexit; the possible impact of Brexit on the Company's risk management activities; and the proposed actions to be taken in preparation for the outcome of the Brexit negotiation process.

In April 2017 and January 2018, the Committee also considered the potential impact of the upcoming UK bank ring-fencing reforms on the Company's risk management activities.

Following final approval in December 2017 of the US Tax Cuts and Jobs Act, and prior to wider consideration by the Board, the Committee reviewed the potential impact on the Company and its financing activities of tax reform, together with the actions being considered by management in response to the legislative changes. Our review included an assessment of the potential impacts on credit ratings across the Group as part of our ongoing focus in this area given the importance to the Company of maintaining appropriate ratings.

Following the appointment of a new Group Head of Pensions, the Committee received a report covering his proposed focus areas across the Company. At subsequent meetings, we have focused on scheme valuations, potential future risk management strategies and a review of organisational changes within the Pensions team. As noted on page 145, the Committee also received a summary of the proposed longevity swap in relation to the UK Electricity pension scheme and this was successfully enacted in March 2018.

The Committee continued to review the Company's insurance strategy and received updates on the captive optimisation programme, which was a key priority for the business this year. In order to ensure that we remained informed about insurance market conditions, we received a briefing from senior representatives of a global insurance broker on the current position and outlook for the wider insurance market for the coming year.

Examples of other key matters the Committee considered during the year included:

- funding requirements for the US, UK and National Grid Ventures businesses;
- engagement sessions with UK and US finance employees;
- preparations for the next UK regulatory price control;
- financial and treasury controls, including Sarbanes-Oxley controls;
- credit ratings of Group companies;
- treasury performance updates;
- publication of our tax strategy;
- the draft going concern statement for the half and full year results prior to consideration by the Board; and
- US energy procurement and UK energy trading activities.

Therese Esperdy
Committee Chairman

2017/18 key areas of focus

• Oversight of financial risk

Outcome: enhanced Committee oversight of financial risk and increased assurance over management decision-making and execution within the agreed financial risk appetite.

• US tax reform

Outcome: scrutiny and shaping of management's proposed response to US tax reform.

• Pensions

Outcome: review of future pension strategy and approval of scheme valuations.

• Insurance

Outcome: supervision of delivery of the Company's insurance captive optimisation programme and monitoring of implementation of the insurance renewal programme.

2018/19 key areas of focus

- The potential financial implications of the next UK regulatory price control;
- Financing strategy for ongoing capital programme;
- Oversight and assurance around potential Brexit financial risks and response;
- The implications of US tax reform; and
- Update of our long-term pension funding strategy.

In focus



Terms of Reference:

You can review the Finance Committee Terms of Reference on the Corporate Governance section of our website: www.nationalgrid.com

Safety, Environment and Health Committee



Paul Golby
Committee Chairman

Review of the year

During the year, the Committee has seen the Company make progress in improving its safety culture throughout the businesses, with specific focus on two key areas. Firstly, the simplification of key procedures, where we have encouraged the proposed development of new Business Management Systems (BMS) Standards to provide simple and fit for purpose procedures in relation to safety, process safety, environmental sustainability and wellbeing and health. Secondly, the Company has undertaken work to develop and encourage key safety leadership behaviours across the Group. We have ensured that time and attention is being focused on incidents with high potential for harm and the Committee will continue to monitor the progress in this area.

The Group employee lost time injury frequency rate at 0.10 remains in line with last year. However, November marked a year since the death of an employee working in our UK Electricity Transmission business. Since my report last year, the Committee has spent considerable time with the business to understand the cause of this fatality, to consider the findings of investigations and to monitor the implementation across the Company of the lessons learnt from this incident. The Committee received a closeout report on the progress at its April 2018 meeting.

The Committee has reviewed the impact of culture on safety and the behaviours underpinning this. For example, whether employees feel able to speak out where there might be safety concerns. We found that while our people are generally good at speaking out, encouragement of positive behaviour still needs to be increased. To further understand this issue, in September, the Committee held a workshop with external behavioural safety experts, which considered how to promote a positive and engaging safety culture across the Company. The Committee is pleased to note that this workshop has been cascaded to all senior leadership across the Company.

The US business continues to focus on switching errors, which although slightly improved from last year, still remains at an unacceptable level. I previously reported that the US business had engaged an external consultant to review these issues and through this five key categories have been identified to drive improvements. The Committee continues to monitor progress in this area.

The process safety management systems of the Company remain an area of focus for the Committee. In January, the Committee members received a briefing and reviewed the process safety management systems currently in place. Areas for simplification and improvement were identified and the Committee will receive further updates to demonstrate the implementation of the new BMS Standards in this area. The Committee has also continued to receive updates on the measures being taken to address and mitigate levels

of risk for major hazard assets, including key US LNG plants and the Company's US gas pipeline safety compliance programme.

In relation to the environment, the Committee continues to review the Company's strategy and approach to sustainability, as well as its external reporting of environmental performance, including greenhouse gas emissions (GHG). The Committee has been pleased to see progress against the Company's continued ambition to reduce GHG while also challenging the businesses on GHG reduction activities. The Committee approved a Group target of a 70% reduction in GHG emissions by 2030, including those from electricity system energy losses, to provide a clear milestone between the 2020 and 2050 Company targets. The Company continues to drive this reduction through mains replacement programmes, reductions in SF₆ leakage and energy efficiency measures and the Committee will continue to monitor progress.

In terms of health, the Committee has seen a continued focus by the Company in this area, particularly around mental health where the Committee noted that 12% of the workforce are now trained in mental health first aid. Interest and support in this area remains strong throughout the Company.

Examples of other matters the Committee reviewed during the year included:

- compliance and risk reporting for safety, environment and health matters;
- consideration of the introduction of new EU legislation on EU Security of Gas supply regulations which came into force in September 2017;
- Engineering Assurance Committee Reports on Electricity and Gas; and
- review of the Company's environmental strategy. (You can read about the Company's response to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures on page 192.)

Paul Golby
Committee Chairman

2017/18 key areas of focus

• US Gas Pipeline Safety:

Outcome: Supervision of delivery of the Company's US gas pipeline safety compliance programme.

• Carbon Reduction:

Outcome: The Committee approved a Group target of 70% reduction in GHG emissions by 2030.

• Health and wellbeing:

Outcome: Monitoring of the Company's move from its previous five year programme structure to a rolling one year analysis of the health challenges in the business.

• Engineering Assurance:

Outcome: Monitoring measures being taken to mitigate risks at major hazard sites, including key US LNG plants.

2018/19 key areas of focus

- Monitoring the implementation of key Safety, Environment and Health BMS Standards
- Development of leading indicators of safety
- Monitoring action plan to achieve long-term carbon reduction targets
- Analysis and understanding of near miss incidents
- Monitoring the progress of switching error improvements in the US business

In focus



Terms of Reference:

You can view the Safety, Environment and Health Committee Terms of Reference on the Corporate Governance section of our website: www.nationalgrid.com

Nominations Committee



Sir Peter Gershon
Committee Chairman

Review of the year

Succession planning has remained the main area of focus for the Committee this year. It is important for the Board to anticipate and prepare for the future and to ensure that the skills, experience and knowledge at Director and senior management level reflect the changing demands of the business.

Board composition

We recognise that the success of the Company begins with a high-quality Board and senior management team. Key to this is the make up of the individual members.

During the year a formal process was undertaken by the Committee to find an appropriate new Non-executive Director, to strengthen the experience and skills on the Board and its Committees.

Following a thorough and rigorous process, Amanda Mesler was appointed as a Non-executive Director to the Board with effect from 17 May 2018. Amanda brings a wealth of experience in different sectors to National Grid's Board, in particular in the area of the application of technology.

Amanda's appointment is part of our ongoing commitment to build and maintain an effective Board which is high-quality in terms of expertise, diversity and background. On appointment Amanda will join the Audit, Finance and Nominations Committees. See opposite for more details on the search and appointment process.

Talent pipeline

During the year the Committee received an update on the current strength of the pipeline to our Executive Committee roles and specific actions to mitigate succession risk including development of internal candidates and the viability of external hiring as part of the longer-term succession plan.

The succession pipeline to the Executive Committee and health of the talent pool further down the organisation is discussed at quarterly Executive Global Talent Pool meetings. Each member of the Executive Committee has specific talent and succession targets.

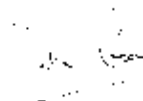
The Board has also met with high-potential employees both in the UK and the US on several occasions during the year.

Diversity

The creation of an inclusive and diverse culture supports the attraction and retention of talented people, improves effectiveness, delivers superior performance and enhances the success of the Company.

While traditional diversity criteria such as gender, age and ethnicity are important, we also value diversity of thought, skills, experience, knowledge and expertise including educational and professional backgrounds.

Our Board diversity policy sets out our approach to diversity on the Board and senior management of National Grid. You can read more about our Board diversity policy and progress towards our objectives opposite.



Sir Peter Gershon
Committee Chairman

In focus



Terms of Reference:

You can view the Nominations Committee Terms of Reference on the Corporate Governance section of our website: www.nationalgrid.com

2017/18 key areas of focus

- Board succession planning
- Non-executive Director search and appointment
- Review of Executive Committee succession
- Updates on the external reviews on diversity
- Review of the Chairman's performance, led by Mark Williamson, the Senior Independent Director
- Review of Director independence and potential conflicts

2018/19 key areas of focus

- Board succession planning to optimise the regeneration of the Board while maintaining a degree of continuity of knowledge and experience through the next UK regulatory review
- Executive Committee succession planning and the development of high potential internal candidates
- Meeting high potential employees below Executive Committee level

Non-executive search and appointment process

Spencer Stuart were appointed to undertake a search for a new Non-executive Director, together with a small US boutique firm specialising in technology, Hobbs & Towne, Inc.

- The Committee reviewed and agreed the Non-executive Director candidate profile which was formulated taking into account the current skills matrix of the Board members.
- The search agencies conducted initial searches and produced a list of potential candidates which was reduced to a shortlist by the Chairman.
- At the November 2017 Committee meeting it was agreed that the Chairman would interview the shortlisted candidates and a sub-group of the Nominations Committee (John Pettigrew, Therese Esperdy, Mark Williamson and Jonathan Dawson) would interview the final candidate(s).
- At the January 2018 Committee meeting, the shortlisted candidates from Spencer Stuart were reviewed and the Committee members gave feedback on the prospective candidates they had met.
- Following discussion, it was agreed one candidate would progress to the next stage of the process to meet with the Nominations Committee sub-group.
- Subsequent to the January meeting, one further candidate from Spencer Stuart and two candidates from Hobbs & Towne, Inc. were selected to meet with the Chairman in March.
- At the March 2018 Committee meeting, Committee members and the Chairman gave feedback on the initial shortlisted candidates. The Chairman met with the preferred candidate shortly after the March Committee meeting to further test the candidate's credentials and ensure that the majority of requirements set out in the specification would be met by the appointment.
- The Committee agreed the preferred candidate and made a recommendation to the Board in April 2018.
- The Board approved the recommendation and Amanda Mesler was appointed to the Board with effect from 17 May 2018.

Board diversity policy

As reported last year, in April 2017 the Committee approved updates to the Board diversity policy and the associated objectives.

In January 2018, the Nominations Committee approved a few minor updates to the policy including valuing diversity of age and educational and professional backgrounds, expanding the remit of the policy to include the Executive Committee and its direct reports, and adding a new item in relation to the development of the talent pipeline to the Board and the senior management team in support of the two objectives approved last year.

The policy applies to the Board, the Executive Committee and direct reports to the Executive Committee. It does not apply directly to diversity in relation to the remaining employees of National Grid as this is covered by other policies and the National Grid Inclusion Charter.

As set out in our Board diversity policy:

- All Board appointments will be made on merit, in the context of the skills and experience that are needed for the Board to be effective.
- We will only engage executive search firms who have signed up to the UK Voluntary Code of Conduct on Gender Diversity. Hobbs & Towne, Inc., a small US firm, is not a signatory to the UK Voluntary Code of Conduct on Gender Diversity (but they did provide us with a number of diverse candidates). This deviation from the policy was felt to be appropriate to ensure a comprehensive search of the marketplace in the niche area of technology and innovation. Our new Non-executive Director, Amanda Mesler, was a candidate from Spencer Stuart.
- We will continue to make key diversity data, both about the Board and our wider employee population, available in the Annual Report and Accounts.

We will continue to review our progress against the Board diversity policy annually and report on our progress against the policy and our objectives in the Annual Report and Accounts along with details of initiatives to promote gender and other forms of diversity among our Board, Executive Committee and other senior management.

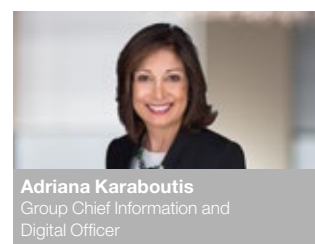
Examples of the initiatives to promote and support inclusion and diversity throughout our Company are set out below and on page 37.

Objectives	Progress
The Board aspires to meet the target of 33% of Board and Executive Committee positions, and direct reports to the Executive Committee, to be held by women by 2020.	Objective ongoing Following the departure of Ruth Kelly from the Board in July 2017 the percentage of women on the Board has fallen to 27.3%. Following the recent appointment of Amanda Mesler to the Board there will be 33.3% women on the Board. In our Executive and Non-executive Director searches we take this into consideration, however all appointments are made on merit. We currently have 33% women on our Executive Committee and 31% women direct reports to the Executive Committee. We are undertaking the following actions to help achieve our target: • All senior external recruitment requires a diverse list of candidates to be considered as part of the selection process. • All talent meetings have inclusion and diversity moments at the start to ensure an inclusive mind set when discussing talent moves and promotions. • All Executive Directors have diversity targets.
The Board aspires to meet the Parker Review target for FTSE 100 boards to have at least one director from a non-white ethnic minority by 2021.	Objective met We currently have one Director from a non-white ethnic minority on the Board. Additionally, our mandatory requirement for a diverse candidate pool should ensure that we continue to have the opportunity to recruit further persons from non-white ethnic minorities in the future.

Our Executive Committee

Membership Key

- Member of the Board and Executive Committee
Full biographies on page 42
- Secretary to the Board and member of the Executive Committee
Full biography on page 43
- Member of Executive Committee



Badar joined the Company in 2017. He is responsible for competitive businesses globally including interconnectors, LNG, metering, renewables and distributed energy. He also leads group strategy and technology & innovation globally. Previously, he worked at Centrica plc for 14 years in the UK and US, including 4 years as CEO of Direct Energy, the North American subsidiary which provides electricity, natural gas and home services.

External Appointments: None.

Mike is responsible for setting and delivering the global HR agenda and driving long-term sustainable value from our surplus property portfolio. Previously, he worked for Diageo plc for 14 years in a number of senior HR roles, including HR Director at Diageo International Markets and HR Director for North America.

External Appointments: Board of Trustees at SportsAid and Board of Centrepoint.

George is responsible for setting and delivering the Group's public policy, legislative and communications strategy. Prior to joining National Grid, he worked at BAE Systems plc, Centrica plc and Granada Media Group undertaking a number of corporate and public affairs roles.

External Appointments: None.

Adriana is responsible for the development of a Group-wide digital strategy, delivery of information systems and services, digital security and risk as well as overall security. Previously, she worked as an innovative technology executive and a business leader for Biogen, Dell, Ford, and General Motors.

External Appointments: Board of Directors of Perrigo Company plc and of Advance Auto Parts.

Examples of key areas of focus during 2017/18

- Progress towards a generative safety culture.
- Delivering improved operational performance.
- Delivering successful regulatory outcomes.
- Building capacity and capability to enable future growth and deepening succession cover.
- Progressing the execution of our corporate strategy.

Examples of key areas of focus for 2018/19

- Continue progress towards a generative safety culture.
- Drive our operational and customer performance.
- Deliver on our regulatory strategy.
- Develop and source talent and leaders to deliver our strategy and vision.
- Position National Grid as a purpose-led business and as a leading voice in energy transformation.

Led by the Chief Executive, the Executive Committee oversees the safety, operational and financial performance of the Company. It is responsible for making day-to-day management and operational decisions it considers necessary to safeguard the interests of the Company and to furthering the strategy, business objectives and targets established by the Board. It approves expenditure and other financial commitments within its authority levels and discusses, formulates and approves proposals to be considered by the Board.

The nine Committee members have a broad range of skills and expertise, which are updated through training and development. Some members also hold external non-executive directorships, giving them valuable board experience. As previously announced, Andrew Bonfield will be stepping down from his role on the Board and the Committee at the end of the 2018 AGM. Andy Agg, currently Group Tax and Treasury Director, will be appointed as Interim Finance Director pending the appointment of a permanent Finance Director and will become a member of the Committee.

The Committee officially met 12 times this year, but the members interact much more regularly. Those members of the Committee who are not Directors regularly attend Board and committee meetings for specific agenda items. This means that knowledge is shared and all members are kept up to date with business activities and developments.

Disclosure Committee

The Disclosure Committee assists the Chief Executive and the Finance Director in fulfilling their responsibility for overseeing the accuracy and timeliness of disclosures made – whether in connection with our presentations to analysts, financial reporting obligations, or other material stock exchange announcements, including the disclosure of price sensitive information. The Committee is chaired by the Finance Director and its members are the Group General Counsel and Company Secretary, the Group Tax and Treasury Director, the Group Financial Controller, the Director of Investor Relations and the Head of Corporate Audit. Others attended as appropriate.

This year the Committee met to consider the announcements for the full and half-year results as well as the announcement relating to completion of the sale of the UK Gas Distribution business and the issue of the notice of the General Meeting to approve the return of cash following the sale. The Committee reported on relevant matters to the Audit Committee.

The Committee reports the results of its evaluation of the effectiveness of the Company's disclosure controls to the Audit Committee.

Statement of compliance with and application of the UK Corporate Governance Code

For the year ended 31 March 2018, the Board considers that for the period under review it has complied in full with the provisions of the UK Corporate Governance Code 2016 (the Code), available in full at www.frc.org.uk. Our statement of compliance below, together with the rest of the Corporate Governance report, explains the main aspects of the Company's governance structure to give a greater understanding of how the Company has applied the principles and complied with the provisions in the Code. The Corporate Governance report also explains compliance with the Disclosure Guidance and Transparency Sourcebook. The index on page 62 sets out where to find each of the disclosures required in the Directors' Report in respect of Listing Rule 9.8.4.

A. Leadership

A.1 The role of the Board

Our Board is collectively responsible for the effective oversight and long-term success of the Company. It also determines the strategic direction, business plan, objectives, principal risks, viability of the Company and governance structure that will help achieve the long-term success of the Company and deliver sustainable shareholder value.

The Board sets the risk appetite and principal risks for the Company and takes the lead in areas such as safeguarding the reputation of the Company and its financial policy, as well as making sure we maintain a sound system of internal control and risk management (see pages 18-21).

There is a clear schedule of matters reserved for the Board and a schedule of delegation, which were both reviewed and updated in January 2018. The schedule of matters reserved for the Board is available on our website, together with other governance documentation.

A.2 A clear division of responsibilities

The Board supports the separation of the roles of the Chairman and Chief Executive. The key responsibilities are clearly documented and reviewed when appropriate. The Chief Executive is responsible for the executive leadership and day-to-day management of the Company and the Group's businesses, to ensure the delivery of the strategy agreed by the Board. The Chairman manages and leads the Board (see below for more information).

A.3 Role of the Chairman

The Chairman, who was independent on appointment, is responsible for the leadership and management of the Board and its governance. He makes sure the Board is effective in its role by promoting a culture of openness and debate, facilitating the effective contribution of all Directors and helping to maintain constructive relations between Executive and Non-executive Directors. The Chairman sets the Board's agenda making sure consideration is given to the main challenges and opportunities facing the Company, and adequate time is available to discuss all agenda items, including strategic issues.

A.4 Role of the Non-executive Directors

Independent of management, our Non-executive Directors bring diverse skills and experience, vital to constructive challenge and debate. Exclusively, they form the Audit, Nominations and Remuneration Committees, and their views are actively sought when developing proposals on strategy. The Non-executive Directors monitor the delivery of the agreed strategy and objectives within the risk and governance framework set by the Board.

Our Senior Independent Director (SID) acts as a sounding board for the Chairman and serves as an intermediary for the other Directors, as well as shareholders when required.

Around each of the eight scheduled Board meetings, the Chairman held meetings with the Non-executive Directors without the Executive Directors present.

B. Effectiveness

B.1 The composition of the Board

The Board believes it operates effectively with an appropriate balance of independent Non-executive and Executive Directors who have the right balance of skills, experience, independence and knowledge of the Company. Details of our Board, their individual biographies and committee membership are set out on pages 42-43. Board and committee attendance during the year to 31 March 2018 is set out on page 45. The size and composition of the Board and its committees is kept under review by the Nominations Committee to ensure the appropriate balance of skills, experience, independence and knowledge. The independence of the Non-executive Directors is considered at least annually along with their character, judgement, commitment and performance on the Board and Board committees. The Board took into consideration the Code and indicators of potential non-independence, including length of service. Following due consideration, the Board determined that all the Non-executive Directors were independent in character and judgement. As such the Board confirmed that with the exception of the Chairman, whose independence is only determined on appointment, all Non-executive Directors remained independent throughout the year as defined in the Code.

B.2 Appointments to the Board

The Nominations Committee, which comprises the Chairman and Non-executive Directors, leads the process for Board appointments and makes recommendations to the Board. The Nominations Committee also considers Board succession planning and the leadership needs of the Company. As they will have been Board members for more than six years by the time of the 2018 AGM, a particularly rigorous review of Sir Peter Gershon, Paul Golby and Nora Mead Brownell was undertaken, taking into account the need for progressive refreshing of the Board.

Further details of the formal, rigorous and transparent appointment processes for Amanda Mesler and the role of the Nominations Committee can be found on page 59. Spencer Stuart, Hobbs & Towne, Inc and Korn Ferry provided external search consultancy services in relation to the appointment of a new Non-executive Director. Hobbs & Towne, Inc does not have any other connections with the Company. Spencer Stuart provided other recruitment services to the Company's subsidiaries and Korn Ferry provided other HR-related services for example, the employee engagement survey and consultancy services to the Company and its subsidiaries.

B.3 Time commitment

Non-executive Directors are advised of the time commitment and travel, expected from them on appointment. The time commitment of each Director is kept under review by the Nominations Committee. External commitments, which may impact existing time commitments, must be agreed with the Chairman. Details of external appointments are set out in the biographies on pages 42-43. As part of the evaluation of the Chairman, the Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman, taking into account other significant appointments.

With the agreement of the Board, Executive Directors gain experience of other companies' operations, governance frameworks and boardroom dynamics through non-executive appointments. The fees for these positions are retained by the individual. For further details about the Directors' service contracts and letters of appointment, see page 70 of the Directors' Remuneration Report.

B.4 Development

All new Directors are provided with a full and tailored induction programme when they are appointed to the Board. Details of Director induction and ongoing development can be found on page 45.

B.5 Information and support

The Group General Counsel and Company Secretary makes sure that appropriate and timely information is provided to the Board and its committees and is responsible for advising and supporting the Chairman and the Board on all governance matters. All Directors have access to the Group General Counsel and Company Secretary and may take independent professional advice at the Company's expense in conducting their duties. To support discussion and decision-making, Board and committee members receive papers sufficiently in advance of meetings so that they can prepare for and consider agenda items. Additionally, the Chairman holds a short meeting with the Non-executive Directors before each Board meeting to discuss the focus of the upcoming meeting as well as afterwards to share feedback from the meeting. Similarly, the Chief Executive holds a short meeting with the Executive Directors and the Group General Counsel and Company Secretary after each meeting and shares the feedback from these meetings with the Chairman. A clear set of guidelines is in place to assist the Executive Directors and management on the content and presentation of papers to the Board and committees; and the quality of Board and committee reporting is an area of continuous focus for management to ensure the Board receives timely, clear and accurate information.

B.6 Evaluation

The 2017/18 performance evaluations of the Board, Board Committees and individual Directors were carried out internally. Led by the SID, and with input from the Executive Directors, the Non-executive Directors reviewed the Chairman's performance. See pages 46-47 for more information on this year's Board, Committee, individual Director and Chairman performance evaluations.

Following the evaluation process, it was agreed that the Board and its Committees continue to operate effectively and that each Director, including the Chairman, contributes effectively and demonstrates commitment to their role.

In line with the Corporate Governance code, the Board expects that the 2018/19 Board performance evaluation will be carried out externally.

B.7 Election/re-election

Each Director is subject to election at the first AGM following their appointment, and re-election at each subsequent AGM. Following recommendations from the Nominations Committee, the Board considers all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties. Therefore, in accordance with the Code, Amanda Mesler will seek election and all other Directors (with the exception of Andrew Bonfield and Pierre Dufour) will seek re-election at the 2018 AGM.

C. Accountability

C.1 Financial and business reporting

The requirement for Directors to state that they consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, remains a key consideration in the drafting and review process. The coordination and review of the Annual Report and Accounts is conducted in parallel with the formal audit process undertaken by the external auditors and the review by the Board and its committees (of relevant sections).

The drafting and assurance process supports the Audit Committee's and Board's assessment of the overall fairness, balance and clarity of the Annual Report and Accounts and the statement of Directors' responsibilities as set out on page 82. The independent auditor's report is on pages 83-91 and the Company's business model is on page 2.

C.2 Internal control and risk management

The Board has carried out a robust assessment of the nature and extent of the principal risks facing the Company in achieving its objectives including those that would threaten the business model, future performance, solvency or liquidity. Further details can be found on pages 19-20.

The Board also sets the Company's risk appetite, internal controls and risk management processes. The Board monitors the Company's risk management and internal control systems and undertakes a review of their effectiveness annually. Further details are set out on pages 18-21.

The activities of the Audit Committee, which assists the Board with its responsibilities in relation to risk and assurance, are set out on pages 49-55.

C.3 Audit Committee and auditors

The Audit Committee is comprised entirely of independent Non-executive Directors. In accordance with the Disclosure and Transparency Rules and the Code, the composition and competence of the Audit Committee was considered by the Nominations Committee at its April meeting. The Board confirmed the recommendations of the Nominations Committee: that all members of the Committee are independent (including the chairman of the Committee), that Mark Williamson as a chartered accountant is considered to have competence in accounting, and that the Committee as a whole has competence relevant to the sector in which it operates. In reaching a determination regarding the Committee's competence, the skills and experience of the Committee members were considered.

The report on pages 49-55 sets out details of how the Committee has discharged its duties during the year, matters reviewed by the Committee and how it ensures the auditors' objectivity, effectiveness and continued independence.

D. Remuneration

D.1 The level and components of remuneration

The Remuneration Committee, comprised entirely of independent Non-executive Directors, is responsible for recommending to the Board the remuneration policy for Executive Directors and other members of the Executive Committee and for the Chairman, and for implementing this policy. The aim is to align remuneration policy to Company strategy and key business objectives and make sure it reflects our shareholders', customers' and regulators' interests.

The Remuneration Report on pages 63-79 sets out key aspects of the remuneration policy as approved by shareholders at the 2017 AGM and outlines the activities of the Committee during the year.

D.2 Procedure

For further information on the work of the Remuneration Committee and Directors' remuneration packages, see the Directors' Remuneration Report on pages 63-79.

E. Relations with shareholders

E.1 Dialogue with shareholders

The Board as a whole is responsible for making sure that satisfactory dialogue with shareholders takes place, and members take an active role in engaging with shareholders. We believe that effective channels of communication with the Company's debt and equity institutional investors and individual shareholders are very important. More information about our approach to relations with shareholders can be found on page 48.

E.2 Constructive use of General Meetings

The AGM provides a key opportunity for the Board to communicate with and meet shareholders. Shareholders are able to learn more about the Company through exhibits and can ask questions directly of the Board both formally and informally. Company representatives and our Registrar are also on hand to answer any questions shareholders might have.

Our AGM will be held on Monday, 30 July 2018, at The International Convention Centre in Birmingham, and broadcast via our website. The Notice of Meeting for the 2018 AGM, available on our website, sets out in full the resolutions for consideration by shareholders, together with explanatory notes and further information on the Directors standing for election and re-election.

Index to Directors' Report and other disclosures

AGM	62
Articles of Association	197
Audit information	82
Board of Directors	42
Business model	2
Change of control provisions	203
Code of Ethics	203
Conflicts of interest	203
Contractual and other arrangements	186
Directors' indemnity	203
Directors' service contracts and letters of appointment	70
Directors' share interests	76
Diversity	37
Dividends	8
Events after the reporting period	198
Financial instruments	135
Future developments	4
Greenhouse gas emissions	16
Human rights	204
Important events affecting the Company during the year	10
Internal control	18
Internal control over financial reporting	21
Listing Rule 9.8.4 R cross reference table	204
Material interests in shares	199
People	36
Political donations and expenditure	204
Research and development	204
Risk management	18
Share capital	199

Annual statement from the Remuneration Committee Chairman



Jonathan Dawson
Remuneration Committee Chairman

Introduction

Last year, our shareholders approved National Grid's remuneration policy for the period 2017 to 2020, with over 97% in favour. At the same time, more than 87% approved the annual Remuneration Report. The Remuneration Committee and the whole Board are grateful to shareholders for their support for our policy and our implementation of it. This year, through the annual advisory shareholder vote, we are seeking shareholder support for the implementation of the approved remuneration policy during 2017/18.

National Grid has had another successful year, delivering on all our key measures. Underlying operating profit was up by around 6% in constant currency terms to around £3.5 billion and underlying EPS was up by more than 3% to 60.4p despite adverse movements in exchange rates. Strong Return on Equity (RoE) was achieved at 12.3% and dividends were increased in line with policy. Value Added of £2 billion was achieved in the year and contributed to the three-year measure of Value Growth of 11.8%. Value Growth is an internal equivalent to Total Shareholder Return (TSR). We also invested £4.3 billion into the business this year, growing our asset base by 6%.

What is our remuneration policy seeking to achieve?

Our objective in developing our remuneration policy is to ensure we pay our senior executives in a way that incentivises stretching performance, is fully aligned to the way National Grid earns its returns for shareholders, and actively supports our strategy and values.

The main features of our remuneration policy are as follows:

1. Significant weighting towards business performance over the long term

Nearly three quarters of John Pettigrew's variable pay opportunity is represented by the Long Term Performance Plan (LTPP). We emphasise this over the Annual Performance Plan (APP) because National Grid is a long-term business. We want to make sure investment decisions are made, and operating efficiencies achieved, against this background.

Most of senior executives' variable pay is settled in National Grid's shares. For Executive Directors, some 85% of their variable pay opportunity is delivered in shares.

We also require senior executives to maintain very high shareholdings in National Grid. As CEO, John Pettigrew has to hold at least five times his pre-tax salary in National Grid's shares, which is equivalent to around nine times his post-tax

salary. Other UK-based Executive Directors must hold at least four times their pre-tax salary in National Grid's shares, which is equivalent to around seven times their post-tax salary. For the US-based Executive Director, the minimum shareholding requirement is also four times his pre-tax salary, which is equivalent to around six times his post-tax salary. This requirement ensures that executives have a longer-term view in their decision-making, are rewarded for achieving success over the long term, and have interests aligned to our private and institutional shareholders – gaining if the share price increases, and sharing in the consequences of share price falls.

The largest element of our incentive pay, the LTPP, is measured against the two components through which National Grid earns returns for our shareholders. These are RoE, which measures management's ability to grow the business profitably; and Value Growth, which comprises growth in assets, less net debt plus dividends paid. The two measures are designed to provide a balance, deterring excessive debt-financed asset growth, while incentivising management to maintain an efficient balance sheet.

Consistent with our approach for aligning executive interests to the long term, LTPP awards are determined after a three-year performance period. Furthermore, the shares that are then allocated to Executive Directors have to be held for at least a further two years.

2. Achievement of short-term (APP) and long-term (LTPP) incentive opportunities are linked to National Grid financial performance

We focus largely on visible financial measures to assess the level against which incentive payouts are determined. Over 90% of John Pettigrew's potential incentive pay is calculated on that basis.

3. Discretion and independent judgement is applied

As a committee, we are willing to exercise discretion when approving remuneration outcomes for Executive Directors. We reflect on whether the Company's overall performance is correctly represented by the financial measures we have set, and we shall take account of the performance of non-financial measures, and the demonstration of leadership qualities and living our values, before agreeing APP awards.

Last year, for example, we reduced senior executives' APP awards to acknowledge the importance of maintaining a strong safety culture following the tragic fatality of one of National Grid's employees in the UK. Also last year, we included within the LTPP a portion of the Value Added from the sale of a majority interest in the UK Gas Distribution business to reflect the Executive Directors' role in crystallising shareholder value from the Gas Distribution sale.

This year, the Committee has not exercised discretion either positively or negatively. I also wish to confirm that the LTPP and APP plans both state that the Committee has absolute discretion to determine whether exceptional circumstances exist which justify whether any or all of an award should be forfeited, even if already paid. Examples of exceptional circumstances include, but are not limited to, material misstatement, misconduct of the participant, a significant environmental or health and safety issue, failure of risk management, and if certain other facts emerge after termination of employment. We would not hesitate to use this ability to clawback incentive awards paid to executives where we determine that the payment levels were unjustified given new information.

To summarise, in setting Executive Director pay, we take account of a wide range of factors to inform decisions that are fair given each executive's accountabilities, individual contribution, business performance, and the wider workforce pay outcomes. We illustrate this overleaf.

Directors' Remuneration Report

How our variable pay is determined

	Financial measures Specific financial performance measures considered	Individual objectives	Committee discretion Other performance considered	Malus/clawback
APP 1-year performance period (up to 125% of salary)	Return on Equity Value Added Adjusted EPS	Objectives are set on an individual basis, dependent on role remit and requirements. Includes wider business measures as appropriate	Committee considers wider business performance as well as individual demonstration of leadership qualities and values, and will adjust as appropriate	Committee has absolute discretion to apply malus/clawback in exceptional circumstances
LTPP 3-year performance period (up to 350% of salary for CEO, 300% for other EDs)	Return on Equity Value Growth	n/a		

How do we report on Directors' remuneration?

Our aim is to be highly transparent so shareholders can assess whether remuneration paid to executives is appropriate, given both the financial and operational performance of the Company and executives' individual performance. We have reviewed feedback from last year's report and have further enhanced how we analyse and describe executives' individual performance.

A particular focus has been to provide further detail of their individual objectives, as set out on pages 71-73. This includes an explanation both on positive aspects and on areas where we consider performance fell short of stretch targets. We continue to include full retrospective disclosure of performance against the financial targets we set last year in respect of the APP, as set out on page 71.

Review of performance for the year

APP

APP payouts for Executive Directors comprise 70% based on the achievement of Company financial measures and 30% based on the achievement of individual objectives. As in prior years, technical adjustments are made to the EPS outturn to account for the impact of timing and storms, and to target to reflect the net effect of currency adjustments, certain actuarial assumptions on pensions, scrip dividend uptake, and to ensure consistency of accounting treatment. Thus, the reported figure was adjusted down from 59.5p to 58.0p and the target was reduced from 57.7p to 57.0p. Technical adjustments have also been made to Group RoE which has resulted in an increase to target of 0.2% primarily to reflect the net effect of currency adjustments and to ensure consistency of accounting treatment. This year there have been no discretionary adjustments made by the Committee to any of the APP financial results.

The performance of the respective financial measures has resulted in outturns ranging from 58.7% to 85.0% of the maximum for the financial portion. The performance against individual objectives has resulted in outturns ranging from 74.0% to 81.0% of the maximum for the individual portion. Taking both financial and individual performance together, the overall APP awards to Executive Directors on the Board at 31 March 2018 range from 63% to 83% of the maximum award which amounts to payments of between 79% and 104% of salary. Details of the APP payouts are presented on pages 71-73, including the full range of performance levels for each of the financial measures and also commentary on each of the Executive Directors' performance against individual objectives.

LTPP

The 2015 LTPP awards vest in July 2018. The three-year performance period ended on 31 March 2018 and vesting outcomes ranged from 66.3% to 86.0%. As with last year, this year's LTPP vesting also benefitted from the inclusion of a portion of the value arising from the sale of a majority interest in the UK Gas Distribution business in 2016/17 in the Value Growth measure, as this event occurred within the 2015-2018 performance period measured.

Executive Director alignment

As I stated above, a key element in our remuneration strategy is to require senior executives to have a substantial shareholding in the Company. The purpose of this is to make sure executives share the benefit of any growth in the share price and the effects of any fall. The last year has seen a decline in our share price. We have examined carefully whether this was a consequence of executives' performance or the result of other factors. We concluded that the decline in the share price over the period was driven by a combination of factors, including rises in bond yields and negative sentiment around political and regulatory uncertainty in the UK. Additionally, we noted the continued strong operational and financial performance of the Company. This includes Group RoE and Value Growth, which are key performance indicators for the Company and key measures of value creation for shareholders.

We also noted that during the year, the value of John Pettigrew's shareholding, taking account of the value of shares after the share consolidation exercise and shares vested in the year, fell by some £750,000 – equivalent to around 160% of his post-tax salary. This serves to illustrate powerfully what we mean by alignment of interest with shareholders and why we regard it as a central feature of our remuneration strategy.

Annual salary review

As I have stated in the last two remuneration reports, the Committee decided not to award John Pettigrew and Nicola Shaw salaries at our assessment of the appropriate levels for their roles when they were initially appointed. Instead, I wrote that over time we would make increases in excess of the managerial salary increase budget, subject to their individual performance. This approach is consistent with that for the wider employee population, where employees may begin a role at up to 20% below our assessment of market levels, but subsequently may receive significantly larger salary increases than budget when justified by individual performance.

Last year, following a review of both John Pettigrew's and Nicola Shaw's performance in their respective roles, the Committee increased their base salaries by 9% (comprising the UK budget of 2.6% and a further 6.4%). I indicated that we would follow a similar approach this year, and we have therefore considered John Pettigrew's and Nicola Shaw's individual performance during the year to assess whether this approach continues to be justified.

In John Pettigrew's case, the Committee concluded that in his second year as CEO he had continued to build on his strong first year in the role. We considered, taking account also of the employee opinion survey, that he had made robust progress in developing National Grid as both a purpose and performance-led organisation. He has focused the US business on advancing its strategy, with successful new rate case filings and new capital delivery and gas enablement capabilities.

The US is now a critical part of National Grid's growth strategy. It has an annual capital expenditure of some £2.5 billion, has some 16,000 employees, and is delivering a strong and growing return on equity. In the UK, John has been actively engaged on consultations over RIIO-T2 and making good progress in preparing our business to operate successfully in the RIIO-T2 period. John has also overseen the work culminating in the recent announcement of an option agreement with Quadgas for the potential sale of the remaining 25% stake in Cadent.

He has also focussed National Grid in both the US and the UK on the new energy agenda, the challenges and opportunities brought by the emergence of new technology and their implications for transmission and distribution. National Grid Ventures, established as a new business in 2017/18, has taken shape and begun to deliver on its strategic priorities. He has also further strengthened the senior team, in particular appointing Adriana Karaboutis our new Chief Information and Digital Officer, while developing our talented people across the Company.

As Executive Director for the UK, Nicola Shaw has led the complex and time-critical work with Ofgem on preparing for the successful separation of the Electricity System Operator from the rest of the UK business. She has also enhanced our focus on making the UK regulated businesses more responsive to the needs of our customers.

Nicola has made excellent progress in leading the development of plans that will enable the UK regulated transmission network businesses to operate successfully in the anticipated RIIO-T2 environment. She has facilitated the smooth decoupling of the Gas Distribution business from National Grid and its success in establishing itself as an independent company, while ensuring our interests as a minority shareholder were properly protected. In addition, she has significantly strengthened the pool of our talented people across the UK business.

For the coming year, the Committee has decided to reflect progress in role and to reduce the gap to our mid-market policy level by awarding a salary increase of 6% to each of John Pettigrew and Nicola Shaw. This comprises, as last year, an element representing the overall UK managerial salary increase budget which this year is 2.2%, coupled with a further 3.8%. We intend to apply a similar approach next year, subject again to individual performance, which should result in salaries that are in line with the Committee's assessment of the appropriate salaries for the roles. Our expectation is that from 2020, we shall employ the same approach as for the other Executive Directors, i.e. setting increases that are aligned to the managerial salary increase budget, again subject to individual performance.

The Committee agreed a salary increase for Dean Seavers of 3% in line with the US managerial salary increase budget.

Resignation of Andrew Bonfield

As has been announced, Andrew Bonfield will be leaving National Grid at the end of July to take up a new role in the United States. In accordance with our policy for executive resignations he will not be eligible to receive a June 2018 salary increase, a 2018 LTPP award, or a discretionary prorata APP payment in respect of his four months' contribution within the 2018/19 financial year. Andrew remains eligible for an APP award in respect of the 2017/18 financial year and he is also eligible to receive the 2015 LTPP shares that will vest on 1 July 2018. Details of the values of these awards can be found on pages 71-74. He will forfeit all unvested LTPP shares granted to him under the 2016 LTPP and 2017 LTPP. Andrew is subject to a 12 months' notice period and as a condition for releasing him early the Committee has required him to maintain a holding in National Grid shares to the value of at least 200% of his current salary for a period of three years ending on 31 July 2021. This reflects the significance of Andrew's role to date within National Grid, in particular regarding our preparation for the RIIO-T2 regulatory period which commences in April 2021.

Committee membership

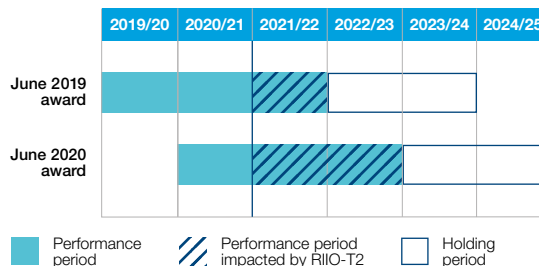
There has been no change in the composition of the Committee since the end of last year. Pierre Dufour is not seeking re-election and will leave the Board on 30 July.

Developments for 2018/19

Looking ahead, the Committee's work will be dominated by considering the impact of RIIO-T2 on our remuneration structure.

Shareholders will know that National Grid's first eight-year RIIO regulatory period in the UK will conclude on 31 March 2021. Given the bulk of senior executive remuneration comes from the LTPP, we shall need to consider what arrangements should be made for the LTPP awards whose performance periods straddle the two regulatory periods.

The challenge is illustrated below:



The first such LTPP will be granted in June 2019, the outturn of which will be based on two years of RIIO-T1 performance and one year of RIIO-T2 performance. The second will be granted in June 2020, the outturn of which will be based on one year of RIIO-T1 performance and two years of RIIO-T2 performance.

We shall not know what Ofgem will determine as National Grid's regulatory allowances for RIIO-T2 at the time the 2019 grant is made, so we shall need to agree the most suitable set of measures to put to shareholders at the 2019 AGM. We are assessing several alternative ways of addressing this challenge and I anticipate consulting our leading shareholders from late autumn of 2018 to establish what would be the most suitable approach. Our proposals will be put to shareholders at the 2019 AGM for policy approval. We shall also take the opportunity at that time to review all aspects of our policy.

Separately, we have already decided to make a small change to the composition of the financial measures for the APP for the performance year 2018/19. Last year, I said we were planning to sharpen the focus on regional business performance by adopting a combination of business specific Value Added and business specific regional Return on Equity as the primary financial measures for senior executives with responsibilities specific to a business unit. We have decided to augment this approach this year by adding a further measure – business specific operating profit. The financial measures together will continue to represent 70% of the overall APP award for all Executive Directors, the other 30% being based on achievement of personal objectives. We shall be reporting on this in the 2019 Remuneration Report. We are not making any changes to the financial measures for the CEO or Finance Director.

Conclusion

We have carefully considered the outcomes of the APP and LTPP for this year and we believe they are a fair reflection of the performance of the senior executive team. We also consider that the shareholding requirement for senior executives has ensured that they have been significantly exposed to the fall over the last year in National Grid's share price, thereby demonstrating real alignment with the wider shareholder body.

Accordingly, on behalf of the Committee, I commend this report to you and ask for your approval at the AGM in July.

Jonathan Dawson

Jonathan Dawson
Committee Chairman

Directors' Remuneration Report continued

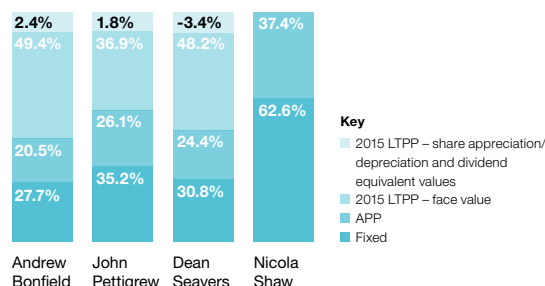
At a glance

Performance

A comparison of the total 2017/18 single figure of remuneration with the maximum remuneration if variable pay had vested in full is set out below for the four Executive Directors in office for the full year. For Dean Seavers a depreciation in 2015 LTTP value is shown due to a reduction in ADS price between the grant price, \$66.9618 and the estimated vesting price of \$55.1600.

Total remuneration

Executive Director	Maximum if variable pay vested in full £'000	2017/18 single figure remuneration £'000
Andrew Bonfield	4,345	3,847
John Pettigrew	3,945	3,519
Dean Seavers	3,952	3,038
Nicola Shaw	1,247	1,026



	Key features of remuneration policy	Annual report on remuneration for 2017/18
Salary	Target broadly mid-market against FTSE 11-40 for UK Directors and general industry and energy services companies with similar revenue for US Directors	- Salary increases of 2.6% for Andrew Bonfield and 2.5% for Dean Seavers. These increases (June 2017) being in line with the respective budgets for UK and US managerial employees - Salary increases of 9.0% for each of John Pettigrew and Nicola Shaw (June 2017). These higher increases were awarded to help reduce the gap and bring their pay closer to appropriate levels for their roles and based on assessment of strong individual performance
Annual Performance Plan (APP)	- Maximum opportunity is 125% of salary 50% paid in cash, 50% paid in shares which must be retained until later of two years and meeting shareholding requirement - Subject to both clawback and malus	70% based on financial measures and 30% based on individual objectives - Financial metrics for CEO and Finance Director comprise 35% adjusted EPS and 35% Group RoE - Financial metrics for Executive Director, US and Executive Director, UK comprise 35% US/UK Value Added respectively and 35% US/UK RoE respectively - Individual objectives cover putting our customers first, optimising the performance of our core business, seeking out growth opportunities in a disciplined way and evolving the business for the future
Long Term Performance Plan (LTTP)	- Maximum award level is 350% of salary for CEO and 300% for other Executive Directors - Vesting subject to long-term performance conditions over a three-year performance period - Shares must be retained until later of two years from vesting and meeting shareholding requirement - Subject to both clawback and malus	2017 LTTP award, 50% Group RoE and 50% Value Growth 2015 LTTP vesting in 2018, 50% RoE and 50% Value Growth - 50% Group RoE for CEO and Finance Director - 25% Group RoE and 25% US/UK RoE for Executive Director, US and Executive Director, UK respectively
Pension and other benefits	- Eligible to participate in defined contribution (or defined benefit if already a member) - Pensionable pay is salary only in UK and salary and APP in US in alignment with market - Other benefits as appropriate	- UK cash allowance (Andrew Bonfield, John Pettigrew and Nicola Shaw): 30% of pensionable pay - US defined contribution (Dean Seavers): 9% of pensionable pay with additional match of up to 4% - Other benefits include private medical insurance, life assurance, and for UK-based Executive Directors either a fully expensed car or a cash alternative, and a car and driver when required
Shareholding requirement	500% of salary for CEO 400% of salary for other Executive Directors	- Andrew Bonfield has a shareholding of 632% and has met his shareholding requirement - John Pettigrew, Dean Seavers and Nicola Shaw have not yet met their shareholding requirement due to their relatively short time in role; their shareholdings are 326%, 144% and 13% respectively

Directors' remuneration policy – approved by shareholders in 2017

Key aspects of the Directors' remuneration policy, along with elements particularly applicable to the 2017/18 financial year are shown on pages 67 to 69 for ease of reference only. This policy was approved for three years from the date of the 2017 AGM, held on 31 July 2017. A shareholder vote on the remuneration policy is not required in 2018. A copy of the full remuneration policy is available within the 2016/17 Annual Report and Accounts on the Company's investor website (investors.nationalgrid.com). From time to time, the Committee may consider it appropriate to apply some judgement and discretion in respect of the approved policy. This is highlighted where relevant in the policy, and the use of discretion will always be in the spirit of the approved policy.

Our peer group

The Committee reviews its remuneration policy against appropriate peer groups annually to make sure we remain competitive in the relevant markets. The primary focus for reward market comparisons is the FTSE 11-40 for UK-based Executive Directors and general industry and energy services companies with similar levels of revenue for US-based Executive Directors. These peer groups are considered appropriate for a large, complex, international and predominantly regulated business.

Approved policy table – Executive Directors

Salary

Purpose and link to strategy: to attract, motivate and retain high-calibre individuals, while not overpaying.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Salaries are targeted broadly at mid-market level. They are generally reviewed annually. Salary reviews take into account: - business and individual contribution; - the individual's skills and experience; - scope of the role, including any changes in responsibility; and - market data in the relevant comparator group.	No prescribed maximum annual increase. Any increases are generally aligned to salary increases received by other Company employees and to market movement. Increases in excess of this may be made at the Committee's discretion in circumstances such as a significant change in responsibility, progression in the role and alignment to market level.	Not applicable.

Benefits

Purpose and link to strategy: to provide competitive and cost-effective benefits to attract and retain high-calibre individuals.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Benefits provided include: - company car or a cash alternative (UK only); - use of a car and driver when required; - private medical insurance; - life assurance; - personal accident insurance; - opportunity to purchase additional benefits under flexible benefits schemes available to all employees; and - opportunity to participate in the following HMRC (UK) or Internal Revenue Service (US) tax-advantaged all-employee share plans: Sharesave: UK employees may make monthly contributions from net salary for a period of three or five years. The savings can be used to purchase shares at a discounted price, set at the launch of each plan period. Share Incentive Plan (SIP): UK employees may use gross salary to purchase shares. These shares are placed in trust. Incentive Thrift Plans (401(k) plans): US employees may participate in these tax-advantaged savings plans. They are DC pension plans in which employees can invest their own and Company contributions. Employee Stock Purchase Plan (ESPP) (423(b) plan): eligible US employees may purchase ADSs on a monthly basis at a discounted price. Other benefits may be offered at the discretion of the Committee.	Benefits have no predetermined maximum, as the cost of providing these varies from year to year. Participation in tax approved all-employee share plans is subject to limits set by the relevant tax authorities from time to time.	Not applicable.

Directors' Remuneration Report continued

Pension

Purpose and link to strategy: to reward sustained contribution and assist attraction and retention.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Pension for an Executive Director will reflect whether they were internally promoted or externally appointed. If internally promoted: - retention of existing DB benefits without enhancement, with capping of pensionable pay increases following promotion to the Board; or - retention of existing UK DC benefits with discretion to enhance contribution rate to up to 30%; or - cash in lieu; or - retention of existing US DC benefits plus 401(k) plan match, provided through 401(k) plan and non-qualified plans. If externally appointed: - UK DC benefits or equivalent cash in lieu; or - US DC benefits plus 401(k) plan match. In line with market practice, pensionable pay for UK-based Executive Directors includes salary only and for US-based Executive Directors it includes salary and APP award.	UK DB: a maximum pension on retirement, at age 60, of two thirds final capped pensionable pay or up to one sixtieth accrual. On death in service, a lump sum of four times pensionable pay and a two thirds dependant's pension is provided. UK DC: annual contributions of up to 30% of salary. Life assurance provision of four times pensionable salary and a dependant's pension equal to one third of the Director's salary are provided on death in service. Cash in lieu: annual payments of up to 30% of salary. Life assurance and dependant's pension in line with UK DC (or UK DB where the Director was previously a member of a UK DB scheme). US DB: an Executive Supplemental Retirement Plan provides for an unreduced pension benefit at age 62. For retirements at age 62 with 35 years of service, the pension benefit would be approximately two thirds of pensionable pay. Upon death in service, the spouse would receive 50% of the pension benefit (100% if the participant died while an active employee after the age of 55). US DC: annual contributions of up to 9% of base salary plus APP with additional 401(k) plan match of up to 4%.	Not applicable.

Annual Performance Plan

Purpose and link to strategy: to incentivise and reward the achievement of annual financial and strategic business targets and the delivery of annual individual objectives.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Performance metrics and targets are agreed at the start of each financial year and are aligned with strategic business priorities. Targets are set with reference to the budget. Awards are paid in June. 50% of awards are paid in shares, which (after any sales to pay associated income tax) must be retained until the shareholding requirement is met, and in any event for two years after receipt. Awards are subject to clawback and malus provisions.	The maximum award is 125% of salary.	A majority of the APP is based on performance against corporate financial measures, with the remainder based on performance against individual objectives. Individual objectives are role-specific. The Committee may use its discretion to set measures that it considers appropriate in each financial year and reduce the amount payable, taking account of significant safety or customer service standard incidents, environmental and governance issues. The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100%, respectively.

Long Term Performance Plan

Purpose and link to strategy: to drive long-term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Awards of shares may be granted each year, with vesting subject to long-term performance conditions. The performance metrics have been chosen as the Committee believes they reflect the creation of long-term value within the business. Targets are set each year with reference to the business plan. Participants may receive ordinary dividend equivalents on vested shares at the discretion of the Committee. Awards are subject to clawback and malus provisions. Notwithstanding the level of award achieved against the performance conditions, the Committee may use its discretion to reduce the amount vesting, and in particular will take account of compliance with the dividend policy. Participants must retain vested shares (after any sales to pay tax) until the shareholding requirement is met, and in any event for a further two years after vesting.	The maximum award for the CEO is 350% of salary and it is 300% of salary for the other Executive Directors.	For awards from 2017, the performance measures are Value Growth and Group RoE for all Executive Directors. All are measured over a three-year period. The weightings of these measures may vary year to year, but would always remain such that the Value Growth metric would never fall below a 25% weighting and never rise above a 75% weighting. Only 20% of the award vests at threshold.

Approved policy table – Non-executive Directors (NEDs)

Fees for NEDs

Purpose and link to strategy: to attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
NED fees (excluding those of the Chairman) are set by the Executive Committee in conjunction with the Chairman; the Chairman's fees are set by the Committee. Fee structure: - Chairman fee; - basic fee, which differs for UK- and US-based NEDs; - committee membership fee; - committee chair fee; and - Senior Independent Director fee. Fees are reviewed every year taking into account those in companies of similar scale and complexity. NEDs do not participate in incentive, pension or benefit plans. However, they are eligible for reimbursement for all Company-related travel expenses. In instances where these costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC. Additionally, the Chairman is covered by the Company's private medical and personal accident insurance plans and receives a fully expensed car or cash alternative to a car, and the use of a car and driver, when required. NEDs who also sit on National Grid subsidiary boards may receive additional fees related to service on those boards. There is no provision for termination payments. NEDs stand for re-election every year.	There are no maximum fee levels. The benefits provided to the Chairman are not subject to a predetermined maximum cost, as the cost of providing these varies from year to year.	Not applicable.

Shareholding requirement

The requirement of Executive Directors to build up and hold a relatively high value of National Grid shares ensures they share a significant level of risk with shareholders and aims to align their interests.

Executive Directors are required to build up and retain shares in the Company. The level of holding required is 500% of salary for the CEO and 400% of salary for the other Executive Directors.

Unless the shareholding requirement is met, Executive Directors will not be permitted to sell shares, other than to pay income tax liabilities on shares just vested or in exceptional circumstances approved by the Remuneration Committee.

Directors' Remuneration Report continued

Annual report on remuneration

Statement of implementation of remuneration policy in 2017/18

Role of Remuneration Committee

The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors, the other members of the Executive Committee and the Chairman, and for implementing this policy. The aim is to align remuneration policy to Company strategy and key business objectives, and ensure it reflects our shareholders', customers' and regulators' interests. The members of the Remuneration Committee in 2017/18 were Nora Mead Brownell, Jonathan Dawson (chair), Pierre Dufour, and Mark Williamson.

The Committee's activities during the year

Meeting	Main areas of discussion
April	2016/17 individual objectives scoring for Executive Committee Approval of 2017/18 objectives for Executive Committee Discussion on 2016/17 expected incentive plan outturns
May	2016/17 APP financial outturns and confirmation of awards for Executive Committee Approval of 2017/18 objectives for new Executive Committee appointment Annual salary review and LTPP proposals for Executive Committee Review of Chairman's fees
June	Items related to new Executive Committee appointment
January	Review of 2018/19 APP financial measures
March	Market data review for Executive Committee remuneration Discussion of measures and targets for 2018 LTPP First review of 2018/19 individual objectives of Executive Committee Review first draft of Committee Chairman's Annual Statement and Directors' Remuneration Report

Service Contracts

In line with our policy, all Executive Directors have service contracts which are terminable by either party with 12 months' notice. Appointment of Non-executive Directors are subject to letters of appointment. The Chairman's appointment is subject to six months' notice by either party; for other Non-executive Directors, notice is one month. Both Executive Directors and Non-executive Directors are required to be re-elected at each AGM.

Single Total Figure of Remuneration – Executive Directors (audited information)

The following table shows a single total figure in respect of qualifying service for 2017/18, together with comparative figures for 2016/17:

	Salary £'000		Benefits in kind £'000		APP £'000		LTPP £'000		Pension £'000		Other £'000		Total £'000	
	17/18	16/17	17/18	16/17	17/18	16/17	17/18	16/17	17/18	16/17	17/18	16/17	17/18	16/17
Andrew Bonfield	768	749	69	60	787	684	1,993	4,154	230	225	–	–	3,847	5,872
John Pettigrew	887	825	85	497	919	762	1,362	2,291	266	248	–	–	3,519	4,623
Dean Seavers	771	800	24	25	740	694	1,361	1,553	142	145	–	–	3,038	3,217
Nicola Shaw	484	338	14	23	383	315	–	–	145	101	–	485	1,026	1,262
Total	2,910	2,712	192	605	2,829	2,455	4,716	7,998	783	719	–	485	11,430	14,974

Notes:

Salary: Base salaries were last increased on 1 June 2017. The decrease in Dean Seavers' salary is due to exchange rate fluctuations (\$1.3578:£1 for 2017/18 and \$1.2767:£1 for 2016/17).

Benefits in kind: Benefits in kind include private medical insurance, life assurance and for UK-based Executive Directors, either a fully expensed car or a cash alternative to a car and the use of a car and a driver when required. For John Pettigrew the 2016/17 figure (as disclosed last year) includes reimbursement for costs relating to his relocation to London on appointment as CEO. Nicola Shaw's 2016/17 benefits in kind figure has been restated to include a Sharesave option award granted on 22 December 2016. There were no Sharesave options granted to any of the Executive Directors during 2017/18.

LTPP: The 2015 LTPP is due to vest in July 2018. The average share price over the three months from 1 January 2018 to 31 March 2018 of 787.8 pence (\$55.16 per ADS) has been applied. The 2016/17 LTPP figure includes both the 2013 LTPP award and the 2014 LTPP award due to a change in the vesting period of four years to three years between the 2013 LTPP and 2014 LTPP awards. The 2016/17 LTPP figures have been restated because last year they were estimated using the average share price (January–March 2017) and they now include the actual share price on vesting at 1 July 2017 and all dividend equivalent shares. Due to a lower share price at vesting of 954.0 pence versus the estimate of 963.0 pence, the actual value at vesting was £18,911 and £13,146 lower than the estimate (last year) for Andrew Bonfield and John Pettigrew, respectively. Due to a higher ADS price at vesting of \$62.40 versus the estimate of \$59.84, the actual value at vesting was £52,065 higher than the estimate (last year) for Dean Seavers.

Other: The 2016/17 'Other' figure for Nicola Shaw of £485,000 was disclosed last year and is a cash payment to compensate her for the forfeiture of short-term and long-term incentive cash awards at her former employer that were due to vest in June 2016.

Nicola Shaw: Nicola Shaw joined on 1 July 2016 and therefore the 2016/17 figures stated for salary, benefits in kind, APP and pension are all prorated based on her start date. Additionally, Nicola did not receive a 2015 LTPP award.

Performance against targets for APP 2017/18 (audited information)

APP awards are earned by reference to the financial year and paid in June. Financial measures determine 70% of the APP and individual objectives determine 30% of the APP.

Payment of the APP award is made in shares (50% of the award) and cash (50%). Shares (after any sales to pay income tax) must be retained until the shareholding requirement is met, and in any event for two years after receipt. Threshold, target and stretch performance levels for the financial measures are pre-determined by the Committee and pay out at 0%, 50% and 100% of the maximum potential for each part and on a straight-line basis in between threshold and target performance and target and stretch performance. Target and stretch performance levels for the individual objectives are also pre-determined by the Committee and an assessment of the performance relative to the target and stretch performance levels and outcomes is made at the end of the performance year on each objective.

The outcomes of APP awards earned for financial and individual performance in 2017/18 are summarised in the table below:

Performance measure	Proportion of max opportunity	Threshold	Target	Stretch	Actual	Proportion of max achieved
CEO and Finance Director						
Adjusted EPS (p/share)	35%	54.5	57.0	59.5	58.0	70.0%
Group RoE (%)	35%	11.2	11.6	12.0	12.32	100.0%
Executive Director, UK						
UK Value Added (£m)	35%	1,566	1,619	1,672	1,629	59.4%
UK RoE (%)						
(Percentage points above average allowed regulatory return)	35%	1.75	2.00	2.25	2.04	58.0%
Executive Director, US						
US Value Added (\$m)	35%	1,463	1,513	1,562	1,513	50.0%
US RoE (%)	35%	8.5	8.7	8.9	8.92	100.0%
All Executive Directors						
Individual objectives (%)	30%	Detail expanded in tables below				74%-81%

Notes:

Adjusted EPS: Technical adjustments have been made reducing adjusted EPS actual by 1.5 pence to account for the impact of timing and storms, and reducing the target by 0.7p to reflect the net effect of currency adjustments, certain actuarial assumptions on pensions, scrip dividend uptake, and to ensure consistency of accounting treatment.

Group RoE: Technical adjustments have been made to increase the target by 0.2% primarily to reflect the net effect of currency adjustments and to ensure consistency of accounting treatment.

UK RoE and Value Added: No adjustments have been made.

US RoE and Value Added: No adjustments have been made to US RoE. The target for US Value Added has been increased by \$109m to ensure consistency of accounting treatment.

For 2017/18, the individual objectives of the Executive Directors when taken together were designed to deliver against each of our business priorities. Performance against these objectives is set out in the tables below and overleaf. As with the financial measures, the achievement of 'stretch' performance and 'target' performance results in 100% and 50% respectively of the maximum payout.

Andrew Bonfield

Individual objective & performance commentary	Weighting
Optimising the performance of our core UK business - Financing workstream has been a key input to RIIIO-T2 regulatory framework development - UK Business Services launched during the year £4 billion of capital was returned to investors following the partial sale of UK Gas Distribution	30%
Evolving the business for the future - Operating model successfully revised and new Business Excellence function and communities of practice developed and implemented, resulting in third party cost reductions - New Business Management System (BMS) and business reporting process implemented to ensure effective and efficient controls across the company - Improvement on identification and development of high potential talent. Further strides yet to be made in relation to employee enablement	25%
Optimising the performance of our core US business - Facilitated successful rate case filings for Massachusetts Gas and Rhode Island Gas during the year - Financing successfully executed with cost savings against budget - Responded quickly to US tax reform, updating rates for jurisdictions with rate filings underway	20%
Optimising the performance of the Group - Sarbanes-Oxley refresh has been completed - Further work is required on delivering more efficient controls and in improving employee enablement	15%
Seeking out growth opportunities in a disciplined way Board approved a finance strategy for growth with stakeholder communication plan developed	10%
Summary Andrew Bonfield has provided excellent support to the US and UK businesses on regulatory agreements this year. Strong management of the balance sheet has been exhibited, as has a focus on driving efficiency. Additionally, Andrew has delivered on business initiatives key to delivering on National Grid's business strategy for the future. Further work is required on ensuring controls are efficient and in improving employee enablement. As a result, the proportion of maximum achieved is 75%.	

Directors' Remuneration Report continued

John Pettigrew

Individual objective & performance commentary	Weighting
Evolving the business for the future - Clear articulation of long-term drivers of success for leadership teams and external stakeholders: Customer first; Performance Optimisation; Growth; Evolve for the Future - Clear succession plans in place, improvement in identification and development of high potential talent - Implemented revised operating model and new Business Excellence function - Further work remains on strengthening employee enablement and to implement outcomes of a talent strategy review that was conducted	30%
Optimising the performance of our core US business - Guided on the development of new regulatory strategy. NIMO rate filing completed with allowed RoE of 9% and capex allowance of \$2.5 billion over three years - Established new Capital Delivery function taking learnings from UK, to deliver construction projects more efficiently - Developed organisation structure and processes that benefit from synergies of scale. US jurisdictions reinforced with stronger and more focused operational support	25%
Optimising the performance of our core UK business - Drove strong focus on performance optimisation, a key theme for all senior leadership engagement - Supported UK with positive management of key stakeholder engagement and debate on regulatory frameworks, e.g. SO legal separation, RIIIO-T2, though there is more work to be done to achieve an acceptable position on Hinkley-Seabank - Ensured recognition of the Group's significant customer-led investment and strong operational performance	25%
Seeking out growth opportunities in a disciplined way - New National Grid Ventures team set up to support evolution of National Grid and drive incremental growth opportunities with similar risk/reward profile - Established National Grid's voice as a leader in the energy industry, with National Grid Ventures now fully recognised internally and externally giving National Grid more visibility and leadership on the energy transition agenda - Further progress to be made in emerging technologies	20%
Summary John Pettigrew has had a strong year, cementing himself as a leader to the Company and in the industry, developing National Grid as both a purpose and performance led organisation, successfully engaging with regulatory and political change, and achieving significant milestones across the individual businesses, including the creation of a new business in National Grid Ventures. Further work is to be done on Hinkley-Seabank arrangements, implementing our talent strategy and emerging technologies. As a result, the proportion of maximum achieved is 78%.	

Dean Seavers

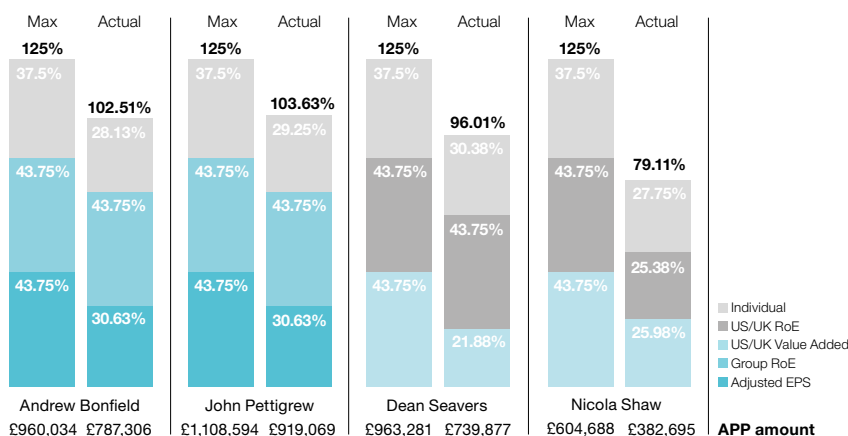
Individual objective & performance commentary	Weighting
Optimising the performance of our core US business - Achieved new rates for 80% of the core US business, including Niagara Mohawk, Massachusetts Gas, and Rhode Island Gas - Capital Delivery function implemented - Improvements have been made in relation to safety, with a reduction in switching errors year on year, although there remains more to do on injury rates - Material work order issues were addressed during the year, although further process efficiencies are still to be implemented	40%
Evolving the business for the future - An advanced analytics team has been set up and a refreshed US strategy was developed and agreed - Filings made on Electric Vehicles in all jurisdictions - New agile reporting process has improved ability to assess and manage performance against key indicators - Employees' understanding of the Company's purpose, vision and values has been embedded, as evidenced by results from employee surveys - Succession plans were delivered; however, further improvements are needed in relation to employee enablement and driving a performance culture through continuous feedback	35%
Putting our customers first - In-year milestones for the Gas Enablement programme met to improve customer service - Implementation of a pilot programme to significantly improve end-to-end customer experience - While operational model changes have been introduced, more needs to be done to fully embed them	25%
Summary Dean Seavers has delivered strong results in the execution of a sustainable improvement plan, driven by the advancement of the regulatory strategy and successful rate filings. In addition to achievement of his objectives, Dean led a strong response to major winter storms with good restoration times for the vast majority of our customers. Further work is needed on process efficiency implementation and in embedding the operational model changes. As a result, the proportion of maximum achieved is 81%.	

Nicola Shaw

Individual objective & performance commentary	Weighting
Optimising the performance of our core UK business - A continued focus on efficiency and removing unnecessary processes contributed to savings in the year - New electricity balancing system delivered, though some implementation aspects have taken time to resolve - The safety action plan was implemented in line with the agreed milestones and focus on a 'generative' safety culture was good during the year; however, there remains more to do in this area - Cadent performing in line with expectation and risk managed appropriately	50%
Putting our customers first - Customer satisfaction scores have been strong and customer journeys have been mapped, albeit slightly behind planned timescales - There has been a constructive approach to RIIO-T2 with Ofgem, with our focus of putting consumers at the centre of the process in line with Ofgem's proposals. There is more work to be done to achieve an acceptable position on Hinkley-Seabank, despite the work of the UK regulation team - The new regime for System Operator incentives has been agreed with Ofgem and work on the legal separation of the electricity System Operator has progressed in line with expectation	20%
Evolving the business for the future - Strategic initiatives are on track, employees' understanding of the Company's purpose, vision and values is strong based on employee survey results, and strides have been made in the identification and development of high potential talent in the organisation - Further work remains in relation to realising the potential of emerging technologies to enhance the effectiveness of our operations and strengthening employee engagement and enablement	20%
Seeking out growth opportunities in a disciplined way Gas Transmission published the 'Future of Gas' as well as developing an asset health plan to the agreed timescales, with implementation on track	10%
Summary Nicola Shaw has led the UK business strongly this year. There has been strong progress on key initiatives relating to safety and focus on our customers, with good progress too on regulatory topics other than Hinkley-Seabank. Further work is to be done in certain areas, e.g. improving employee engagement and enablement. As a result, the proportion of maximum achieved is 74%.	

2017/18 APP as a proportion of base salary

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.



Note: US RoE and US Value Added pertain to Dean Seavers Executive Director, US and UK RoE and UK Value Added pertain to Nicola Shaw, Executive Director, UK.

Directors' Remuneration Report continued

2017/18 LTPP performance (audited information)

The LTPP value included in the 2017/18 single total figure relates to vesting of the conditional LTPP awards granted in 2015.

2015 LTPP

The 2015 award is determined by performance over the three years ending 31 March 2018 of RoE (50% weighting) and Value Growth (50% weighting), which will vest on 1 July 2018. LTPP vesting is based upon the position held at the award date. For the UK and US Executive Directors in position at the award date, the RoE component is split equally between Group RoE and UK and US RoE respectively. For the Chief Executive Officer and the Finance Director in position at the award date, the entire RoE component is based on Group RoE.

The performance achieved against the 2015 LTPP award performance targets was:

Performance measure	Threshold – 20% vesting	Maximum – 100% vesting	Actual/expected vesting	Actual/expected proportion of maximum achieved
Group RoE (50% weighting for the CEO and Finance Director, 25% weighting for the Executive Director, UK and the Executive Director, US)	11.0%	12.5% or more	12.1%	78.7%
UK RoE (25% weighting for the Executive Director, UK)	RoE is 1 percentage point above the average allowed regulatory return	RoE is 3.5 percentage points or more above the average allowed regulatory return	2.7 percentage points above the average allowed regulatory return	75.5%
US RoE (25% weighting for the Executive Director, US)	90% of the average allowed regulatory return	105% of the average allowed regulatory return	88% of the average allowed regulatory return	0.0%
Value Growth (50% weighting)	10.0%	12.0% or more	11.83%	93.3%

The Value Growth outturn includes an amount to reflect the value added from the sale of a majority interest in the UK Gas Distribution business in 2016/17 as this event occurred within the 2015-2018 performance period measured.

The amounts expected to vest under the 2015 LTPP for the performance period ended on 31 March 2018 and included in the 2017/18 single total figure are shown in the table below. The valuation is based on the average share price over the three months from 1 January 2018 to 31 March 2018 of 787.80 pence (\$55.16 per ADS).

	Original number of share awards in 2015 LTPP	Overall vesting percentage	Number of awards vesting	Number of dividend equivalent shares	Total value of awards vesting and dividend equivalent shares (£'000)
Andrew Bonfield	259,668	86.0%	223,314	29,697	1,993
John Pettigrew	179,072	85.2%	152,569	20,289	1,362
Dean Seavers (ADSs)	44,801	66.3%	29,714	3,786	1,361

Note:

Nicola Shaw was appointed in July 2016 and therefore did not receive any share awards under the 2015 LTPP.

Total pension benefits (audited information)

Andrew Bonfield, John Pettigrew and Nicola Shaw received a cash allowance in lieu of participation in a pension arrangement. Dean Seavers participated in a defined contribution pension arrangement in the US. There are no additional benefits on early retirement. The values of these benefits, received during this year, are shown in the single total figure of remuneration table.

In addition, John Pettigrew has accrued defined benefit (DB) entitlements. He opted out of the DB arrangement on 31 March 2016 with a deferred pension and lump sum payable from the normal retirement date. At 31 March 2018, John Pettigrew's accrued DB pension was £153,761 per annum and his accrued lump sum was £461,285 payable at the normal retirement date of 26 October 2031. There have been no increases to these benefits over the period, other than an increase for inflation due under the Scheme rules and legislation. Under the terms of the Scheme, were he to satisfy the Scheme's ill health requirements, an unreduced pension would be payable or he may receive an unreduced pension from age 50 if made redundant. A lump sum death in service benefit may also be payable.

Single total figure of remuneration – Non-executive Directors (audited information)

The following table shows a single total figure in respect of qualifying service for 2017/18, together with comparative figures for 2016/17:

	Fees £'000		Other emoluments £'000		Total £'000	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Nora Mead Brownell	98	96	8	9	106	105
Jonathan Dawson	106	102	0	1	106	103
Pierre Dufour	99	11	13	–	112	11
Therese Esperdy	136	133	15	12	151	145
Sir Peter Gershon	511	499	74	68	585	567
Paul Golby	100	105	4	8	104	113
Ruth Kelly	28	84	–	0	28	84
Mark Williamson	128	124	6	5	134	129
Total	1,206	1,154	120	103	1,326	1,257

Notes:

Therese Esperdy: Fees for 2017/18 include £25,000 in fees for serving on the National Grid USA Board.

Sir Peter Gershon: Other emoluments comprise private medical insurance, cash in lieu of a car and the use of a car and driver when required.

Ruth Kelly: Ruth Kelly stepped down at the 2017 AGM.

Other emoluments: In accordance with the Company's expenses policies, Non-executive Directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where these costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC. Amounts for travel expenses relating to both 2017/18 and 2016/17 have been provided in the table above (the figures for 2016/17 have been restated to include these). Nora Mead Brownell, Pierre Dufour and Therese Esperdy are US-based Non-executive Directors.

The total emoluments paid to Executive and Non-executive Directors in the year was £12.8 million (2016/17: £19.5 million). The 2016/17 figure includes both the 2013 and 2014 LTPP award for Executive Directors.

2017 LTPP (conditional award) granted during the financial year (audited information)

The face value of the awards is calculated using the volume weighted average share price at the date of grant (28 June 2017) (£9.738 per share and \$63.94 per ADS) and is used to determine the value of the awards granted.

	Basis of award	Face value '000	Proportion vesting at threshold performance	Number of shares	Performance period end date
Andrew Bonfield	300% of salary	£2,314	20%	237,610	31 March 2020
John Pettigrew	350% of salary	£3,147	20%	323,205	31 March 2020
Dean Seavers (ADSs)	300% of salary	\$3,152	20%	49,294 (ADSs)	31 March 2020
Nicola Shaw	300% of salary	£1,471	20%	151,109	31 March 2020

Note:

The 2017 LTPP grant will vest on 1 July 2020.

Performance conditions for LTPP awards granted during the financial year (audited information)

Performance measure	Conditional share awards granted – 2017		
	Weighting for all Executive Directors	Threshold 20% vesting	Maximum 100% vesting
Group RoE	50%	11.0%	12.5% or more
Group Value Growth	50%	10.0%	12.0% or more

Payments for loss of office (audited information)

There were no payments made for loss of office during 2017/18.

Directors' Remuneration Report continued

Payments to past Directors (audited information)

Steve Holliday stepped down from the Board and retired from the Company on 22 July 2016. Mr Holliday held awards over shares that were prorated for time served. Nick Winser stepped down from the Board at the 2014 AGM and left the Company on 31 July 2015. Tom King stepped down from the Board and left the Company on 31 March 2015. Both Mr Winser and Mr King held awards over shares and ADSs, respectively, that were prorated according to their departure. The vesting of all these awards will occur at the normal vesting dates subject to satisfaction of their specified performance conditions at that time.

Past Director	Prorated number of share awards	Overall vesting percentage	Number of awards vesting	Number of dividend equivalent shares	Total value of awards vesting and dividend equivalent shares (£'000)
Steve Holliday					
2013 LTPP (RoE portion)	57,711	50.00%	28,855	5,553	328
2014 LTPP	271,425	84.89%	230,412	33,066	2,514
Tom King (ADSs)					
2014 LTPP	11,917	67.44%	8,036	1,206	452
Nick Winser					
2013 LTPP (RoE portion)	19,451	50.00%	9,725	1,871	111

Note:

The 2013 LTPP (RoE portion) is the remaining 25% of the 2013 LTPP award which vested on 1 July 2017. The 2014 LTPP fully vested on 1 July 2017.

Shareholder dilution

Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive share-based incentives will not exceed 5% in any 10-year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any 10-year period. The Committee reviews dilution against these limits regularly and under these limits the Company, as at 31 March 2018, had headroom of 3.95% and 7.73% respectively.

Statement of Directors' shareholdings and share interests (audited information)

The Executive Directors are required to build up and hold a shareholding from vested share plan awards. The following table shows how each Executive Director complies with the shareholding requirement and also the number of shares owned by the Non-executive Directors, including connected persons (as Non-executive Directors do not have a shareholding requirement). The shareholding is as at 31 March 2018 and the salary used to calculate the value of the shareholding is the gross annual salary as at 31 March 2018.

Andrew Bonfield has met his shareholding requirement of 400% of base salary. As John Pettigrew, Dean Seavers and Nicola Shaw are relatively new in post, they have not yet met the requirement, but are expected to do so in 2021, 2021 and 2023 respectively. They will not be allowed to sell shares until this requirement is met.

The normal vesting dates for the conditional share awards subject to performance conditions are 1 July 2018, 1 July 2019 and 1 July 2020 for the 2015 LTPP, 2016 LTPP and 2017 LTPP respectively. In April 2018, a further 18 shares were purchased on behalf of each of Andrew Bonfield, John Pettigrew and Nicola Shaw and again in May 2018. These shares were purchased via the Share Incentive Plan (an HMRC approved all-employee share plan), thereby increasing their beneficial interests. There have been no other changes in Directors' shareholdings between 1 April 2018 and 16 May 2018.

Directors	Share ownership requirements (multiple of salary)	Number of shares owned outright (including connected persons)	Value of shares held as a multiple of current salary	Number of options granted under the Sharesave Plan	Conditional share awards subject to performance conditions (LTPP 2015, 2016 & 2017)
Executive Directors					
Andrew Bonfield	400%	607,810	632%	3,230	718,161
John Pettigrew	500%	358,897	320%	4,286	785,087
Dean Seavers (ADSs)	400%	26,764	144%	–	138,542
Nicola Shaw	400%	8,270	13%	4,070	273,273
Non-executive Directors					
Nora Mead Brownell (ADSs)	–	4,583	n/a	–	–
Jonathan Dawson	–	36,705	n/a	–	–
Pierre Dufour (ADSs)	–	3,700	n/a	–	–
Therese Esperdy (ADSs)	–	1,508	n/a	–	–
Sir Peter Gershon	–	90,128	n/a	–	–
Paul Golby	–	2,291	n/a	–	–
Mark Williamson	–	47,460	n/a	–	–

Notes:

Andrew Bonfield: On 31 March 2018 Andrew Bonfield held 3,230 options granted under the Sharesave Plan. 1,208 options were granted at a value of 745 pence per share and they can be exercised at 745 pence per share between April 2019 and September 2019. 2,022 options were granted at a value of 749 pence and they can be exercised at 749 pence per share between April 2020 and September 2020. For Andrew Bonfield, the number of conditional share awards subject to performance conditions is as follows: 2015 LTPP: 259,668; 2016 LTPP: 220,883; 2017 LTPP: 237,610. However, in consequence of his resignation only the 2015 LTPP is now eligible for vesting in July 2018.

John Pettigrew: On 31 March 2018 John Pettigrew held 4,286 options granted under the Sharesave Plan. 1,252 options were granted at a value of 599 pence per share and they can be exercised at 599 pence per share between April 2019 and September 2019. 3,034 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020. The number of conditional share awards subject to performance conditions is as follows: 2015 LTPP: 179,072; 2016 LTPP: 282,810; 2017 LTPP: 323,205.

Dean Seavers: The number of conditional share awards subject to performance conditions is as follows: 2015 LTPP: 44,801; 2016 LTPP: 44,447; 2017 LTPP: 49,294.

Nicola Shaw: On 31 March 2018 Nicola Shaw held 4,070 options granted under the Sharesave Plan. 4,070 options were granted at a value of 737 pence per share and they can be exercised at 737 pence per share between April 2022 and September 2022. The number of conditional share awards subject to performance conditions is as follows: 2016 LTPP: 122,164; 2017 LTPP: 151,109.

Dean Seavers, Nora Mead Brownell, Pierre Dufour and Therese Esperdy: Holdings and, for Dean Seavers, awards are shown as ADSs and each ADS represents five ordinary shares.

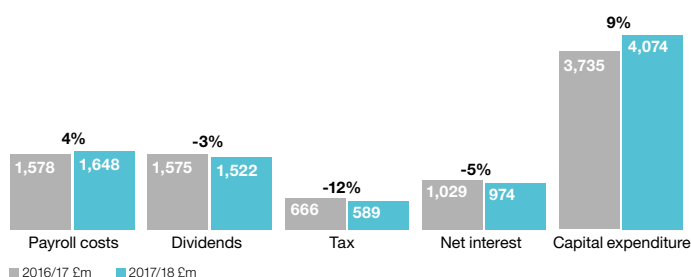
External appointments and retention of fees

The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2018:

	Company	Retained fees (£)
Andrew Bonfield	Kingfisher plc	£83,917
John Pettigrew	Rentokil Initial (from 1 January 2018)	£15,000
Nicola Shaw	Ellevio AB (until 31 December 2018) International Consolidated Airlines Group S.A. (from 1 January 2018)	£34,398 (SEK 377,434) £26,498 (Euros 30,000)

Relative importance of spend on pay

This chart shows the relative importance of spend on pay compared with other costs and disbursements (dividends, tax, net interest and capital expenditure). Given the capital-intensive nature of our business and the scale of our operations, these costs were chosen as the most relevant for comparison purposes. All amounts exclude exceptional items and remeasurements and amounts relating to the UK Gas Distribution business which was sold on 31 March 2017, including the subsequent special dividend.



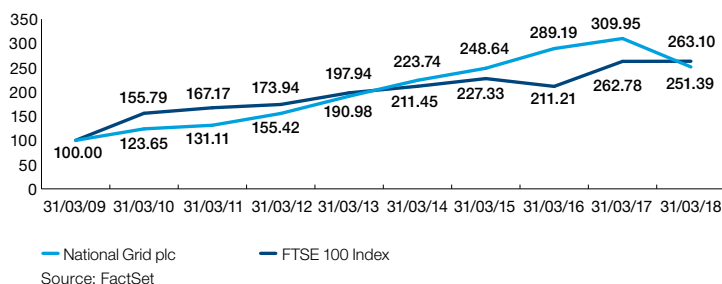
Note:

The Dividends figure for 2016/17 has been restated at £1,575 million (from £1,572 million) to reflect the actual value of dividends paid.

Performance graph

This chart shows National Grid plc's nine-year annual Total Shareholder Return (TSR) performance against the FTSE 100 Index since 31 March 2009. The FTSE 100 Index has been chosen because it is the widely recognised performance benchmark for large companies in the UK. The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30-day period up to and including that date. It assumes dividends are reinvested.

Total shareholder return



Note:

The data source for the above graph has been changed for 2017/18 from Thomson Reuters to FactSet. This has not resulted in any changes to prior year figures.

Directors' Remuneration Report continued

Chief Executive's pay in the last nine financial years

Steve Holliday was CEO throughout the seven-year period from 2009/10 to 2015/16. John Pettigrew became CEO on 1 April 2016.

	Steve Holliday							John Pettigrew	
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Total single figure of remuneration (£'000)	3,931	3,738	3,539	3,170	4,801	4,845	5,151	4,623	3,519
APP (proportion of maximum awarded)	95.33%	81.33%	68.67%	55.65%	77.94%	94.80%	94.60%	73.86%	82.90%
PSP/LTPP (proportion of maximum vesting)	100.00%	65.15%	49.50%	25.15%	76.20%	55.81%	63.45%	90.41%	85.20%

Notes:

Total single figure 2017/18: The figure for 2017/18 for John Pettigrew is explained in the single total figure table for Executive Directors.

Total single figure 2016/17: The 2016/17 single figure includes both the 2013 LTPP and the 2014 LTPP and has been restated to reflect actual share price at 1 July 2017, consistent with comparative figures shown in this year's single total figure of remuneration table.

Vesting: The vesting outcome for 2016/17 of 90.41% reflects the combined (actual) vesting performance outcomes for the 2013 LTPP (90.00%) and the 2014 LTPP (90.58%) as stated last year.

PSP/LTPP plans: Prior to 2014, LTPP awards were made under a different LTI framework which incorporated a four-year performance period for the RoE element of the awards. The last award under this framework was made in 2013 and was fully vested in 2017. Awards made from 2014 are subject to a three-year performance period, the first of these awards vested in 2017.

Percentage change in CEO's remuneration

The table below shows how the percentage change in the CEO's salary, benefits and APP between 2016/17 and 2017/18 compares with the percentage change in the average of each of those components of remuneration for non-union employees in the UK and the US. The Committee views this group as the most appropriate comparator group, as this group excludes employees represented by trade unions whose pay and benefits are negotiated with each individual union.

	Salary			Taxable benefits			APP		
	£'000 2017/18	£'000 2016/17	Change	£'000 2017/18	£'000 2016/17	Change	£'000 2017/18	£'000 2016/17	Change
John Pettigrew	887	825	7.5%	85	497	-82.9%	919	762	20.6%
Non-union employees (average increase)			2.8%			3.9%			1.9%

Notes:

Chief Executive Officer: Taxable benefits for John Pettigrew in 2016/17 include a one-time relocation benefit.

Non-union employees: Pay data for US employees have been converted at \$1.3578:£1.

Statement of implementation of remuneration policy in 2018/19

The remuneration policy adopted at the 2017 AGM will be implemented during 2018/19 as described below.

Salary

Salary increases, subject to individual performance, will normally be in line with the increase awarded to other employees in the UK and US, unless there is a change in role or responsibility. In line with the policy on recruitment remuneration, salaries for new directors may be set below market level initially and aligned to market level over time (provided the increase is merited by the individual's contribution and performance).

	From 1 June 2018	From 1 June 2017	Increase
Andrew Bonfield	£771,285	£771,285	n/a
John Pettigrew	£953,205	£899,250	6.0%
Dean Seavers	\$1,082,144	\$1,050,625	3.0%
Nicola Shaw	£519,930	£490,500	6.0%

Note:

Andrew Bonfield: Andrew will be leaving at the end of July 2018 and therefore is not eligible to receive a 1 June 2018 salary increase.

APP measures for 2018/19

The APP targets are considered commercially sensitive and consequently will be disclosed in the 2018/19 Directors' Remuneration Report.

John Pettigrew	Weighting	Dean Seavers and Nicola Shaw	Weighting
Adjusted EPS	35%	UK or US Value Added	23.3%
Group RoE	35%	UK or US RoE	23.3%
Individual objectives	30%	UK or US Operating Profit	23.3%
		Individual objectives	30.0%

Performance measures for LTPP to be awarded in 2018

	Weighting for all Executive Directors	Threshold 20% vesting	Maximum 100% vesting
Group RoE	50%	11.0%	12.5% or more
Value Growth	50%	10.0%	12.0% or more

Fees for NEDs

Committee chair fees are in addition to committee membership fees. Therese Esperdy was appointed as Non-executive Director to the National Grid USA Board in 2015 with an annual fee of £25,000 in addition to her current NED fees.

Role	From 1 June 2018 £'000	From 1 June 2017 £'000	Increase
Chairman	525.0	513.0	2.3%
Senior Independent Director	22.5	22.0	2.3%
Board fee (UK-based)	67.5	66.0	2.3%
Board fee (US-based)	79.7	78.0	2.2%
Committee membership fee	10.5	10.3	1.9%
Chair Audit Committee	19.8	19.4	2.1%
Chair Remuneration Committee	19.8	19.4	2.1%
Chair (Other Board Committees)	12.8	12.5	2.4%

Advisors to the Remuneration Committee

The Committee received advice during 2017/18 from independent consultants as follows: firstly, New Bridge Street (NBS), a trading name for Aon Hewitt Ltd (part of Aon plc), provided advice until stepping down on 31 July 2017; secondly, following a competitive tendering process, Willis Towers Watson was selected by the Committee to become its independent advisor from 23 October 2017.

Willis Towers Watson is a member of the Remuneration Consultants Group and have signed up to that group's code of conduct. The Committee is satisfied that any potential conflicts were appropriately managed.

Work undertaken by NBS and Willis Towers Watson in their role as independent advisors to the Committee included providing market information for the Executive Directors and other senior employees and governance matters. This work has incurred fees of £14,063 for NBS, and of £136,283 for Willis Towers Watson. The Committee also received legal advice from Linklaters LLP and this has incurred fees of approximately £15,000.

The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that they all provided credible and professional advice.

The Committee considers the views of the Chairman on the performance and remuneration of the CEO, and of the CEO on the performance and remuneration of the other members of the Executive Committee. The Committee is also supported by the Group General Counsel and Company Secretary who acts as Secretary to the Committee, the Group HR Director, the Group Head of Reward, and as required the Group Head of Pensions and Group Financial Controller. No other advisors have provided significant services to the Committee in the year.

Voting on 2016/17 Directors' Remuneration Policy at 2017 AGM

The voting figures shown refer to votes cast at the 2017 AGM and represent 61.62% of the issued share capital. In addition, shareholders holding 9.4 million shares abstained.

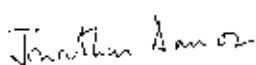
	For	Against
Number of votes	2,060,765,320	52,015,518
Proportion of votes	97.54%	2.46%

Voting on 2016/17 Directors' Remuneration Report at 2017 AGM

The voting figures shown refer to votes cast at the 2017 AGM and represent 61.18% of the issued share capital. In addition, shareholders holding 24.5 million shares abstained.

	For	Against
Number of votes	1,828,221,066	269,507,926
Proportion of votes	87.15%	12.85%

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:



Jonathan Dawson
Committee Chairman
16 May 2018

Financial Statements

Contents

81 Introduction to the Financial Statements

Directors' statement and independent auditor's reports

82 Statement of Directors' responsibilities

83 Independent auditor's report

92 Report of independent registered public accounting firm

Consolidated financial statements under IFRS

Primary statements

94 Consolidated income statement

97 Consolidated statement of comprehensive income

98 Consolidated statement of changes in equity

99 Consolidated statement of financial position

101 Consolidated cash flow statement

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

104 Note 1 – Basis of preparation and recent accounting developments

108 Note 2 – Segmental analysis

112 Note 3 – Operating costs

114 Note 4 – Exceptional items and remeasurements

116 Note 5 – Finance income and costs

117 Note 6 – Tax

123 Note 7 – Earnings per share (EPS)

124 Note 8 – Dividends

125 Note 9 – Discontinued operations

127 Note 10 – Goodwill

128 Note 11 – Other intangible assets

129 Note 12 – Property, plant and equipment

130 Note 13 – Other non-current assets

131 Note 14 – Financial and other investments

132 Note 15 – Investments in joint ventures and associates

135 Note 16 – Derivative financial instruments

139 Note 17 – Inventories and current intangible assets

139 Note 18 – Trade and other receivables

140 Note 19 – Cash and cash equivalents

140 Note 20 – Borrowings

142 Note 21 – Trade and other payables

142 Note 22 – Other non-current liabilities

142 Note 23 – Pensions and other post-retirement benefits

151 Note 24 – Provisions

153 Note 25 – Share capital

154 Note 26 – Other equity reserves

155 Note 27 – Net debt

Notes to the consolidated financial statements – supplementary information

157 Note 28 – Commitments and contingencies

158 Note 29 – Related party transactions

158 Note 30 – Financial risk management

165 Note 31 – Borrowing facilities

166 Note 32 – Subsidiary undertakings, joint ventures and associates

169 Note 33 – Sensitivities

171 Note 34 – Additional disclosures in respect of guaranteed securities

177 Note 35 – Post balance sheet events

Company financial statements under FRS 101

Basis of preparation

178 Company accounting policies

Primary statements

180 Company balance sheet

181 Company statement of changes in equity

Notes to the Company financial statements

182 Note 1 – Fixed asset investments

182 Note 2 – Debtors

182 Note 3 – Creditors

183 Note 4 – Derivative financial instruments

183 Note 5 – Investments

183 Note 6 – Borrowings

183 Note 7 – Share capital

183 Note 8 – Shareholders' equity and reserves

183 Note 9 – Parent Company guarantees

183 Note 10 – Audit fees

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. In places we have also highlighted 'Our strategy in action', drawing out the key elements of our business model (set out in the Strategic Report on page 2), and showing how the disclosures reflect this strategy.

Audit opinions

We have two audit opinions on our financial statements, reflecting our listing on both the London Stock Exchange and the New York Stock Exchange. Due to the different reporting requirements for each listing, our auditors are required to confirm compliance with each set of standards in a prescribed format. The audit opinion as required under our UK listing (starting on page 83) continues to provide more detail as to how our auditors have planned and conducted their audit, as well as their views on significant matters they have noted and that were discussed by the Audit Committee.

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 (see note 1) provides details of accounting policies that apply to transactions and balances in general. There are also additional specific disclosure requirements due to our US listing which are included in the notes.

Unaudited commentary

We have presented with the financial statements certain analysis as part of the Strategic Report of our Annual Report and Accounts. This approach provides a clearer narrative, a logical flow of information and reduces duplication. We have created a combined financial review, including a commentary on items within the primary statements, on pages 94-103. Unless otherwise indicated, all analysis provided in the financial statements is on a statutory IFRS basis. All information in ruled boxes styled in the same manner as this one does not form part of the audited financial statements. This has been further highlighted by including the word 'unaudited' at the start of each box header. Unaudited commentary boxes appear on pages 96-98, 100, 102-103, 111, 121-122, 124, 131 and 141.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company on a consolidated

and individual basis, and to enable them to ensure that the consolidated financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Parent Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Each of the Directors, whose names and functions are listed on pages 42 and 43, confirms that:

- to the best of their knowledge, the consolidated financial statements and the parent company financial statements, which have been prepared in accordance with IFRSs as issued by the IASB and IFRS as adopted by the European Union and UK GAAP FRS 101 respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Company on a consolidated and individual basis;
- to the best of their knowledge, the Strategic Report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces; and
- they consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibilities statement was approved by the Board and signed on its behalf.

Directors' Report

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Listing Rules, and Disclosure Rules and Transparency Rules, comprising pages 2–79 and 184–217, was approved by the Board and signed on its behalf.

Strategic Report

The Strategic Report, comprising pages 2–39, was approved by the Board and signed on its behalf.

By order of the Board

Alison Kay

Group General Counsel & Company Secretary

16 May 2018

Company number: 4031152

Independent auditor's report to the Members of National Grid plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of National Grid plc (the 'Company') and its subsidiaries (the 'Group') 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 35 of the consolidated financial statements;
- the Company accounting policies;
- the Company balance sheet;
- the Company statement of changes in equity; and
- the related notes 1 to 10 of the Company financial statements.

We have not audited the unaudited commentaries on:

- 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 results of our principal operations by segment – continuing operations (accompanying note 2);
- tax (accompanying note 6);
- dividends (accompanying note 8);
- financial and other investments (accompanying note 14); or
- borrowings (accompanying note 20).

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRS as adopted by the European Union and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year are in relation to:

- the internal control refresh programme;
- IT user access management controls;
- environmental provisions;
- net pension obligations;
- revenue recognition;
- classification of capital costs; and
- treasury derivative transactions.

Two key audit matters identified by the previous auditor and described in their report for the year ended 31 March 2017 are not included in our report for the year ended 31 March 2018. These were:

- accounting for the disposal of the UK Gas Distribution business** – the transaction was completed and accounted for in the previous financial year and accordingly it does not have such a significant impact on the result for the current period; and
- US financial controls** which have been subject to a programme of process and control improvements – this programme has been subsumed within the group-wide **internal control refresh programme** which we have identified as a key audit matter in the current period.

This year we have identified **IT user access management controls** as a new key audit matter.

Within this report, any key audit matters which are similar to those identified by the previous auditor in the prior year are identified with . New key audit matters are identified with .

Materiality

We have set materiality for the current year at £130 million based on 5% of profit before tax, exceptional items and remeasurements for the year.

Scoping

Our scope covered eight components of the Group. Of these, four were subjected to a full-scope audit whilst the remaining four were subject to specific procedures on certain account balances.

First year audit transition

The year ended 31 March 2018 is our first as auditor of the Group. We have been independent since 1 January 2017 and commenced our transition from that date. The transition has included:

- establishing a detailed audit transition plan;
- shadowing the previous auditor through the 31 March 2017 audit, including attendance at key meetings;
- holding transition workshops with key component finance and operational management, Internal Audit, the treasury function, the pensions, tax and legal teams and Group finance management in order to inform our audit planning;
- holding a Group audit planning meeting with our component audit teams;
- performing Group audit team oversight visits to components throughout the transition process;
- reviewing the previous auditor's audit file; and
- reviewing historic accounting policies and accounting judgements through discussion with management and review and challenge of management's papers and supporting documentation.

This process built our understanding of the Group which informed our risk assessment process, from which we identified the risks of material misstatement to the Group's financial statements.

We presented our audit plan and transition observations to the Group's senior management and to the Audit Committee throughout the transition process, including in a transition report and audit plan presented in September 2017 and updates to our audit plan in January 2018 and March 2018.

Independent auditor's report

to the Members of National Grid plc continued

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in note 1 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of our audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 18-21 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 26 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on pages 26-27 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

in making the assessment. Certain risks are classified as 'significant' or 'higher' depending on their severity. The category of the risk determines the level of evidence we seek in providing assurance that the associated financial statement item is not materially misstated.

We have described herein the risk categorisation assigned to each of our key audit matters and the reasoning behind that judgement.

Throughout the course of our audit we identify risks of material misstatement ('risks') and classify those risks according to their severity. In assigning a category we consider both the likelihood of a risk of a material misstatement and the potential magnitude of a misstatement

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Internal control refresh programme

Key audit matter description



Throughout the period the Group has undertaken a refresh of its internal control over financial reporting framework including the scoping, risk assessment, process and design of control documentation, and the evaluation and testing of controls ('the refresh programme').

As a result of the programme undertaken by management a significant focus has been placed on the understanding of the Group's processes and the assessment of the design, implementation and operating effectiveness of the Group's internal control framework.

The assessment of the Group's control framework is a key part of our audit and core to the Group's ability to maintain financial records, prepare financial statements in accordance with IFRSs and, where material, prevent or detect unauthorised acquisition, use or disposition of the Group's assets. In particular, in the current period, the refresh programme has meant that the control environment has evolved through the period and accordingly has required additional resource to perform procedures on new or enhanced controls as they are designed and implemented by the Group.

The internal control refresh programme is pervasive to the Group's operations and accordingly the level of risk ascribed to our work in this area is dependent on the nature and complexity of the control itself and the balance or balances within the Financial Statements to which the control relates.

Refer additionally to the Audit Committee's discussion of significant issues on pages 50-53.

How the scope of our audit responded to the key audit matter



In performing our assessment of the Group's control environment we have performed a number of procedures, including:

- detailed walkthroughs of the processes associated with each of the Group's key business cycles including financial reporting, revenue, purchase-to-pay, order-to-cash and property, plant and equipment;
- identification of the audit risks impacted by a change in process or control during the period;
- testing of relevant controls where the control has changed in the period following the refresh programme;
- identifying reports and other information used in the operation of relevant controls and performing appropriate procedures to determine their accuracy and completeness;
- identifying relevant IT applications, infrastructure and operating systems used in the operation of the Group's relevant controls and performing testing of the general IT controls over those systems, including the use of our automated controls testing tool; and
- where deficiencies in internal control were identified testing compensating controls or performing alternative procedures, including modifying our audit approach, where appropriate.

Key observations



We identified weaknesses relating to user access controls over some IT systems in both the UK and US which could have had a negative impact on other controls by allowing unauthorised access to the financial reporting systems. As a result of our findings we identified a further key audit matter in relation to IT user access management controls discussed below.

IT user access management controls

Key audit matter description



Due to the reliance on IT systems within the Group, controls over access rights are critical to maintaining an effective control environment. As a result of our procedures over internal control, we identified a number of deficiencies relating to segregation of duties, control over privileged access and user access management, both within the Group and the Group's IT service organisations (together 'access deficiencies'). The access deficiencies identified increase the risk that individuals within the Group and at service organisations had inappropriate access during the period. The existence of deficiencies during the year and at the year end result in an increased risk that data and reports from the affected systems are not reliable. The issues identified impact all components of the Group but particularly the UK-based operations.

The Group put in place a programme of activities to remediate the deficiencies during the year which is ongoing at year end.

The IT user access management controls are pervasive to the Group's operations and accordingly the level of risk ascribed to our work in this area is dependent on the nature and complexity of the control itself and balances within the financial statements the control addresses.

Refer additionally to the Audit Committee's discussion of significant issues on pages 50-53.

How the scope of our audit responded to the key audit matter



In responding to the identified deficiencies in user access we have:

- obtained and reviewed reports on the internal controls implemented and operated by relevant service organisations and, where necessary, directly tested certain third party controls or identified business controls that do not rely on information that is potentially affected by the IT access management controls which mitigate reported control issues;
- determined the impact that utilising inappropriate levels of access could feasibly have had on the affected systems including assessing the likelihood of inappropriate user access impacting the financial statements, and testing controls implemented by management to identify instances of the use of inappropriate access; and
- identified and tested alternative or compensating controls where such controls existed within the Group's control framework or where no such controls existed extended the scope of our audit such that we have not placed reliance on controls for information produced or held in the impacted systems, including expanding the scope of our substantive testing.

Key observations



We confirmed that the mitigating business controls address the risk of a material misstatement to the financial statements. Furthermore, we conducted a largely substantive audit in the UK Electricity Transmission (UKET), UK Gas Transmission (UKGT) and US Regulated components and all other areas impacted by the access deficiencies. We have, however, continued to rely on revenue and environmental provisions controls in the UKET and UKGT components.

Environmental provisions

Key audit matter description



The Group's environmental provisions relate to a number of sites owned and managed by the Group together with certain US sites, which are no longer owned. In the US, the most significant provisions relate to former manufacturing gas plant facilities that are subject both to state and federal law. In the UK, the most significant portion of the provision relates to old gas manufacturing and electricity sites.

Environmental provisions as at 31 March:

	2018			2017		
	Discounted £m	Undiscounted £m	Real discount rate	Discounted £m	Undiscounted £m	Real discount rate
UK sites	213	235	1%	242	270	1%
US sites	1,318	1,410	1%	1,479	1,619	1%
	1,531	1,645		1,721	1,889	

The key audit matter arises from a number of estimation uncertainties that exist in relation to the environmental provisions including the impact of regulation, the form and extent of remediation needed at each site including timing and cost assumptions thereon, methods and technologies used in remediation and the discount rates applied to the cash flow assumptions.

We have identified the discount rate used in calculating the present value of the environmental provisions as a 'significant' risk within our audit plan due to the level of sensitivity, estimation uncertainty and judgement involved in determining the rate used. Other assumptions have been assessed as 'higher' or 'lower' risk within our audit plan depending on the significance of the judgement and the sensitivity of those assumptions within the calculation.

Refer additionally to notes 24 and 33 of the financial statements for further discussion on environmental provisions.

How the scope of our audit responded to the key audit matter



We have tested the effectiveness of controls over the determination of the discount rate and additionally in the US over the cash flow assumptions.

The expenditure required to remediate the sites is determined by management with the support of their internal and external specialists. We have reviewed the reports provided by those specialists and agreed they are reflected in the expenditure forecasts prepared. We have also assessed the independence, objectivity and competence of the internal and external specialists used.

We have challenged the methodology that management has adopted for calculating the discount rate with reference to common practice and publicly available papers released by relevant organisations. In addition, we have independently calculated an appropriate discount rate range and used this to benchmark management's rate. We have performed a sensitivity analysis of the environmental provisions using our independently calculated range. We have also tested the mechanical accuracy of the calculations performed including the reversal or utilisation of provisions in the current period.

Key observations



The results of our testing were satisfactory – we consider the estimated costs of remediation for identified sites to be reasonable and that the discount rate used by management is within our internally developed 'reasonable range', albeit the rate used for provisions in the US is towards the upper end of that range.

Independent auditor's report

to the Members of National Grid plc continued

Net pension obligations

Key audit matter description



Substantially all of the Group's employees are members of one of a number of pension schemes in either the UK or US. These pension schemes include both defined benefit and defined contribution schemes. Healthcare and life insurance benefits are also provided to eligible retired US employees.

We have identified a key audit matter specifically in relation to the assumptions used in the valuations of the defined benefit schemes which as at 31 March 2018 represent an obligation of £23.7 billion and scheme assets of £23.9 billion.

The key judgements relating to the pension obligations include inflation assumptions, discount rates, mortality assumptions and future salary changes applied to active members.

The setting of these assumptions is complex and changes to these assumptions can have a material impact on the value of pension liabilities. The increase or decrease in the Group's net asset position caused by a change in each of the key assumptions is set out below:

	2018		2017	
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
Pensions and other post-retirement benefits (pre-tax):				
UK discount rate change of 0.5%	8	1,075	9	1,305
US discount rate change of 0.5%	15	623	17	669
UK RPI rate change of 0.5%	5	965	8	1,114
UK long-term rate of increase in salaries change of 0.5%	—	61	2	80
US long-term rate of increase in salaries change of 0.5%	3	44	3	51
UK change of one year to life expectancy at age 65	2	588	2	673
US change of one year to life expectancy at age 65	4	359	4	365
Assumed US healthcare cost trend rates change of 1%	31	448	37	510

The pension schemes also include a number of 'level 3' assets, being those assets which do not have market-observable inputs to use in calculating their fair value. As such there is significant judgement in determining the fair value of these assets including the selection of the valuation methodology and other key assumptions.

We have identified the discount rates applied to net pension obligations as a 'significant' risk within our audit plan due to the sensitivity of the balance to changes in the rate and the level of estimation uncertainty and judgement involved in determining the level of liability. We have assessed other areas of the net pension obligations to be 'higher' or 'lower' risk in our audit plan.

We additionally note that during the year there has been a change in the specialist actuary used by the Group to calculate net pension obligations for the UK schemes.

Refer additionally to note 23 for further discussion on the Group's net pension obligations and note 33 for sensitivity analysis.

How the scope of our audit responded to the key audit matter



We have tested the operating effectiveness of controls over the pension assets and liabilities.

We have engaged our actuarial experts to assist in testing of the discount rate used in calculating the pension liabilities. We have independently calculated an appropriate discount rate and compared this to management's rate. We have performed a sensitivity analysis of the pension liabilities using our independently calculated rate.

Further, our actuarial experts have assisted us in benchmarking and challenging the other assumptions used by management in determining the value of pension liabilities particularly focusing on inflation, salary growth and mortality rates; this has included comparing the inputs and assumptions used in determining the valuation of the Group's schemes to those used in comparable pension plans and our internal benchmarks.

Additionally, we have considered the independence, objectivity and competence of the independent actuaries engaged by management to perform valuations of the relevant schemes.

We have performed audit procedures relating to the assets held within the pension schemes through seeking third party confirmation from asset managers and/or custodians or other supporting evidence as appropriate. Additionally, we have engaged internal specialists to challenge the valuation of scheme assets, in particular the 'level 3' assets. Our work has included reviewing publicly available information on these assets, comparing to internal benchmarks and reconciling inputs used by management to determine the asset values.

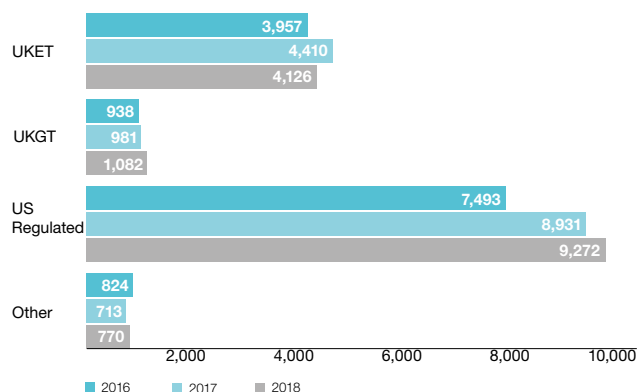
Key observations



We judge the discount rate and other key pension assumptions used by management to be in the middle of our internally developed reasonable range.

Revenue recognition **Key audit matter description**

In the year to 31 March 2018 the Group has recognised revenue of £15.3 billion (31 March 2017: £15.0 billion, 31 March 2016: £13.2 billion) from four segments: UKET, UKGT, US Regulated and National Grid Ventures and Other ('Other').

Revenue profile by segment for the past three years (£m)

We have identified aspects of revenue recognition as 'higher' risks in our audit plan within the UKET, UKGT and US Regulated components of our audit. We have rebutted the presumption set out in Auditing Standards that there is a significant risk of fraud in revenue recognition given the nature of the Group's primary revenue streams. As the first year of our audit tenure however, significant resource has been invested in understanding the regulatory environment and methodologies used and this has led us to identify revenue recognition as a key audit matter.

Revenue has historically been predictable across the segments which is a function of both the nature of the business and, where relevant, the regulatory price controls.

In the UKET and UKGT components, the Group is a transmission owner and operator and operates in a highly regulated market. Accordingly there is little judgement with regard to revenue recognition.

In the US Regulated component, the Group sells electricity and gas directly to private consumers. Whilst the Group operates in a highly regulated market this requires estimates to be included within the Financial Statements concerning the level of accrued income to be recognised for energy delivered but not yet billed. The methodology used for this is well established and the Group has a significant amount of historic data on which to base such estimates.

Refer additionally to note 2(a).

How the scope of our audit responded to the key audit matter

We have tested the effectiveness of controls over revenue recognition including the controls over the calculation of accrued income.

In the UKET and UKGT components, we have developed analytical tools designed to use third party data and known regulatory prices to recalculate the Group's revenue for the period. We have tested whether the amounts charged to customers are consistent with the rates which are set by the Group's regulators.

In the US Regulated component, we have used analytical tools to develop expectations for relevant revenue streams based on volumes and knowledge of the rates set by regulators adjusted for other factors such as the impact of weather. Specific focus has been given to the impact of rate changes resulting from new rate proceedings.

Key observations

On the basis of the procedures performed we are satisfied that the Group has recognised revenue in accordance with its policy and IAS 18 Revenue.

Independent auditor's report

to the Members of National Grid plc continued

Classification of capital costs

Key audit matter description



The Group has an extensive capital investment programme with capital expenditure across the Group totalling £3.9 billion (2017: £4.1 billion).

Judgement is required to determine whether certain activities should be treated as operating expenditure (maintenance or network repair) or capital expenditure (additions of or enhancement to network assets).

The Group has significant experience in determining the classification of expenditure as operating cost or capital expenditure. We do not consider this to be a 'significant' risk for our audit. We have however identified the accuracy of capital expenditure as a 'higher' risk within our audit plan as there is judgement in classifying expenditure albeit the level of judgement is not as significant as in other areas of the financial statements. Due to the magnitude and significance of the asset base to the Group's operations we do consider it to be a key audit matter requiring the allocation of significant audit resource.

Additionally we note that the previous auditor identified a risk in the US Regulated business that the controls over:

- the classification of costs between property, plant and equipment and expenses in relation to small value work orders; and
- the transfer of assets in the course of construction to assets in service may not have been working effectively throughout the previous period.

Refer to note 12 for further discussion of the Group's capital expenditure.

How the scope of our audit responded to the key audit matter



We have tested the effectiveness of controls over the classification of expenditure and the transfer between assets in the course of construction and property, plant and equipment.

We have tested an audit sample of additions to assets which are classified as assets in the course of construction and validated their classification as capital expenditure.

Key observations



The results of our procedures were satisfactory and on the basis of these procedures we conclude that the capital expenditure recorded is appropriate.

In particular we have not found any of the issues highlighted by the previous auditor in their 31 March 2017 audit opinion.

Treasury derivative transactions

Key audit matter description



At 31 March 2018 the Group had total borrowings of £26.6 billion (31 March 2017: £28.6 billion). The Group mitigates the exposure to interest rate and foreign exchange rate risks with risk management activities including the use of derivatives such as cross-currency and variable interest rate swaps. The Group designates derivatives in hedge relationships where possible.

The valuation of the derivative portfolio requires management to make certain assumptions and judgments in particular around the valuation methodologies adopted and the discount rate to be applied to forecast cash flows.

The portfolio also includes 'level 3' derivatives for which no directly observable inputs for their fair value are available (such as a quoted market price). Accordingly there is judgement involved in determining the methodology used to fair value these derivatives.

We have identified the accuracy and valuation of certain treasury derivatives as a 'higher' risk within our audit plan due to the level of judgement and the technical nature of determining derivative values. We have also identified certain of the hedge accounting requirements adopted for certain of the Group's derivative financial instruments as a 'higher' risk.

Refer additionally to notes 16 and 30 to the financial statements for further detail on derivatives.

How the scope of our audit responded to the key audit matter



We have tested the design, implementation and operating effectiveness of controls over the recording and valuation of derivative financial instruments. This has included testing of the review-type controls performed by management over the valuations and challenge of the estimates made.

In conjunction with our treasury specialists we have tested a sample of the models used by management, including a challenge of the assumptions therein, to confirm the appropriateness of the valuation methodology adopted and the assumptions applied. Where relevant we have obtained third party confirmations to test the completeness and accuracy of the information held within the Group's treasury management system.

We have analysed the hedge effectiveness testing performed by management and tested the disclosure within the financial statements.

In the performance of our testing we have considered the requirements of IAS 39 Financial Instruments: Recognition and Measurement to determine whether the appropriate accounting treatment has been adopted by the Group.

Key observations



The results of our procedures were satisfactory and on the basis of these procedures we conclude that the accounting for derivatives, including the Group's use of hedge accounting, is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	Materiality has been set at £130 million for the current year. In 2017 the previous auditor used a materiality of £175 million.	Materiality has been set at £125 million for the current year.
Component materiality	The majority of the audit work is performed at a component level and is audited to a lower materiality. The component performance materiality used ranges from £24.5 million to £52.5 million – refer to the table below for more details.	Component materiality is not relevant to our audit of the Company financial statements.
Basis for determining materiality	We have set materiality for the current year at £130 million based on 5% of profit before tax, exceptional items and remeasurements for the year as disclosed in the consolidated income statement. In 2017 the previous auditor also set materiality on the same basis.	We have set materiality for the current year at £125 million. We have set materiality based on 2% of the net assets of the Company.
Rationale for the benchmark applied	We consider profit before tax, exceptional items and remeasurements to be a critical benchmark of the performance of the Group. We consider it appropriate to adjust for exceptional items and remeasurements as these items are one-off in nature or relate to derivative items which are volatile and not reflective of the underlying performance of the Group. We consider this measure suitable having considered also other benchmarks: our materiality equates to 3.8% of operating profit; 0.2% of gross non-current assets; and 0.7% of net assets.	As the Company is non-trading and operates primarily as a holding company for the Group's trading entities we believe the net asset position is the most appropriate benchmark to use.

We set performance materiality for the Group at £87.5 million which represents 67% of our materiality. We use performance materiality to determine the extent of our testing; it is lower than materiality to reflect our assessment of the risk of errors remaining undetected by our sample testing and uncorrected in the financial statements.

In the performance of our audit we also allocated a specific component materiality to each of the component audit teams. We use component performance materiality to determine the extent of our testing at each component individually; it is lower than the Group performance materiality to reduce the risk of the aggregation of errors across components remaining undetected in the Group's financial statements. The performance materialities used for each component reflect the fact that this is our first year as auditor and are summarised below:

	£m
UKET	43.8
UKGT	35.0
US Regulated	52.5
Quadgas HoldCo	24.5

We have agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £6.3 million (in 2017 the previous auditor used a threshold of £9 million), as well as differences below that threshold which, in our view, warrant reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report

to the Members of National Grid plc continued

An overview of the scope of our audit

The following significant components of the Group were identified in our audit planning: UKET, UKGT, US Regulated and Quadgas HoldCo. Each of these components was subjected to a full-scope audit for Group reporting purposes, completed to the individual component materiality level discussed above.

As each of the financially significant components maintains separate financial records we have engaged component auditors, from the Deloitte member firms in the US or the UK, to perform procedures at these components on our behalf. This approach also allows us to engage local auditors who have appropriate knowledge of local regulations to perform this audit work. We have issued detailed instructions to the component auditors and directed and supervised their work through a number of visits to the component auditors during the planning and performance stages of our audit alongside frequent remote communication and review of their work.

Our oversight of component auditors focused on the planning of their audit work and key judgements made. In particular our supervision and direction focused on the work performed in relation to key audit matters including internal controls (including general IT controls), environmental provisions, pensions, revenue recognition, capital expenditure and derivative financial instruments. As part of our monitoring of component auditors we have also attended key local audit meetings.

Additionally our audit planning identified the following non-significant components where we consider there to be a reasonable possibility of material misstatement in specific items within the Financial Statements: UK Property, NG Insurance, the Isle of Grain LNG terminal and the Metering business. Accordingly, we have directed component auditors to perform specific audit procedures in relation to material account balances and analytical procedures on the respective income statements and statements of financial position for these components. The work on these components is carried out by the same component audit team as for the UKET and UKGT components.

In addition to the work performed at a component level the Group audit team also performs audit procedures on corporate activities such as treasury and pensions as well as on the consolidated Financial Statements themselves, including the consolidation, Financial Statement disclosures and risk assessment work on components not included elsewhere in the scope of our audit. The Group audit team also co-ordinates certain procedures performed on key areas, such as environmental provisions, where audit work is performed by both the Group and component audit teams.

Other information

The Directors are responsible for the other information. The other information comprises all information included in the Annual Report other than the Financial Statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial 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 of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and 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 Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial 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 Financial Statements.

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report 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 Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if, in our opinion, certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

We became independent and commenced our audit transition on 1 January 2017. Following the recommendation of the Audit Committee, we were appointed by the Shareholders at the Annual General Meeting on 31 July 2017 to audit the Financial Statements for the year ending 31 March 2018. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is accordingly one year.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Douglas King FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor

London
United Kingdom
16 May 2018

Report of independent registered public accounting firm

To the Shareholders and the Board of Directors of National Grid plc

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of National Grid plc and subsidiaries (the 'Company') as at 31 March 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at 31 March 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as at and for the year ended 31 March 2018, of the Company and our report dated 16 May 2018, expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying internal control over financial reporting section appearing on page 193 of the Additional Information section. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Deloitte LLP

London
United Kingdom
16 May 2018

Report of independent registered public accounting firm

To the Shareholders and the Board of Directors of National Grid plc

Opinion on the financial statements

We have audited the accompanying consolidated statement of financial position of National Grid plc and subsidiaries (the "Company") as at 31 March 2018, the consolidated income statement, the statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 March 2018, and the related notes (collectively referred to as the "financial statements"). We have not audited the unaudited commentaries on: the consolidated income statement, the statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the cash flow statement, the results of our principal operations by segment – continuing operations (accompanying note 2), tax (accompanying note 6), dividends (accompanying note 8), financial and other investments (accompanying note 14), and borrowings (accompanying note 20), which are not part of the financial statements. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2018, and the results of its operations and its cash flows for the year ended 31 March 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as at 31 March 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated 16 May 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Deloitte LLP

London
United Kingdom
16 May 2018

The first accounting period we audited was the 12 months ended 31 March 2018. In 2017, we began preparing for audit firm transition.

Consolidated income statement

for the years ended 31 March

2018	Notes	Before exceptional items and remeasurements £m	Exceptional items and remeasurements (see note 4) £m	Total £m
Continuing operations				
Revenue	2(a)	15,250	–	15,250
Operating costs	3,4	(11,793)	36	(11,757)
Operating profit	2(b)	3,457	36	3,493
Finance income	5	154	–	154
Finance costs	4,5	(1,128)	229	(899)
Share of post-tax results of joint ventures and associates	15,4	167	(207)	(40)
Profit before tax	2(b),4	2,650	58	2,708
Tax	6	(589)	1,473	884
Profit after tax from continuing operations	4	2,061	1,531	3,592
Loss after tax from discontinued operations	9	–	(41)	(41)
Total profit for the year (continuing and discontinued)		2,061	1,490	3,551
Attributable to:				
Equity shareholders of the parent		2,060	1,490	3,550
Non-controlling interests ¹		1	–	1
Earnings per share (pence)				
Basic earnings per share (continuing)	7			103.8
Diluted earnings per share (continuing)	7			103.3
Basic earnings per share (continuing and discontinued)	7			102.6
Diluted earnings per share (continuing and discontinued)	7			102.1

1. The non-controlling interests for the year ended 31 March 2018 relate to continuing operations.

2017 ¹	Notes	Before exceptional items and remeasurements £m	Exceptional items and remeasurements (see note 4) £m	Total £m
Continuing operations				
Revenue	2(a)	15,035	–	15,035
Operating costs	3,4	(11,262)	(565)	(11,827)
Operating profit	2(b)	3,773	(565)	3,208
Finance income	5	53	–	53
Finance costs	4,5	(1,082)	(58)	(1,140)
Share of post-tax results of joint ventures and associates	15	63	–	63
Profit before tax	2(b),4	2,807	(623)	2,184
Tax	6	(666)	292	(374)
Profit after tax from continuing operations	4	2,141	(331)	1,810
Profit after tax from discontinued operations	9	606	5,378	5,984
Total profit for the year (continuing and discontinued)		2,747	5,047	7,794
Attributable to:				
Equity shareholders of the parent		2,747	5,048	7,795
Non-controlling interests ²		–	(1)	(1)
Earnings per share (pence)				
Basic earnings per share (continuing)	7			48.1
Diluted earnings per share (continuing)	7			47.9
Basic earnings per share (continuing and discontinued)	7			207.1
Diluted earnings per share (continuing and discontinued)	7			206.2

1. Comparatives have been re-presented to reflect the change to a columnar format (see note 1).

2. The non-controlling interests for the year ended 31 March 2017 relate to discontinued operations.

2016 ¹	Notes	Before exceptional items and remeasurements £m	Exceptional items and remeasurements (see note 4) £m	Total £m
Continuing operations				
Revenue	2(a)	13,212	–	13,212
Operating costs	3,4	(9,998)	11	(9,987)
Operating profit	2(b)	3,214	11	3,225
Finance income	5	22	–	22
Finance costs	4,5	(878)	(99)	(977)
Share of post-tax results of joint ventures and associates		59	–	59
Profit before tax	2(b),4	2,417	(88)	2,329
Tax	4,6	(604)	177	(427)
Profit after tax from continuing operations	4	1,813	89	1,902
Profit after tax from discontinued operations	9	576	116	692
Total profit for the year (continuing and discontinued)		2,389	205	2,594
Attributable to:				
Equity shareholders of the parent		2,386	205	2,591
Non-controlling interests ²		3	–	3
Earnings per share (pence)				
Basic earnings per share (continuing)	7			50.4
Diluted earnings per share (continuing)	7			50.2
Basic earnings per share (continuing and discontinued)	7			68.7
Diluted earnings per share (continuing and discontinued)	7			68.4

1. Comparatives have been re-presented to reflect the change to a columnar format (see note 1).

2. The non-controlling interests for the year ended 31 March 2016 relate to both continuing and discontinued operations.

Consolidated income statement continued

Unaudited commentary on the consolidated income statement

The consolidated income statement shows income earned and expenditure for the year, with the difference being the overall profit for the year.

The commentary below relates to continuing operations only.

Revenue

Revenue for the year ended 31 March 2018 increased by £215 million to £15,250 million. This increase was driven by higher revenues in our US Regulated and NGV and Other businesses, partially offset by lower revenues in our UK Electricity Transmission business. US Regulated revenues were £341 million higher year-on-year including increased pass-through costs, the impact of new rate plans and the benefit of capital trackers, partially offset by an unfavourable impact from foreign exchange. UK Electricity Transmission revenues decreased by £285 million, including a reduction in pass-through costs, the absence of last year's recovery of outstanding timing balances and higher adjustments this year to return the benefits of efficiencies and lower required outputs to customers. Revenue from NGV and Other businesses increased by £63 million, primarily driven by support services provided to Cadent.

Operating costs

Operating costs for the year ended 31 March 2018 of £11,757 million were £70 million lower than the prior year. This decrease in costs included a £601 million decrease in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £531 million higher, principally due to higher pass-through costs in the US, £142 million of major storm costs incurred in the US and higher depreciation as a result of continued asset investment, partially offset by the impact of movement in exchange rates.

Net finance costs

For the year ended 31 March 2018, net finance costs before exceptional items and remeasurements were £55 million lower than 2016/17 at £974 million, mainly as a result of the impact of the weaker US dollar, higher gains on the sale of financial assets and lower pension interest expense due to a reduction in pension deficits, partially offset by the impact of higher UK RPI inflation. Net finance costs in 2017/18 included remeasurement gains of £119 million on derivative financial instruments used to hedge our borrowings, compared to £58 million of remeasurement losses in 2016/17. In addition, during 2017/18 we had a £110 million remeasurement gain on a derivative financial instrument relating to the put/call option over a 14% interest in Quadgas HoldCo Limited.

Share of post-tax results of joint ventures and associates

Share of post-tax results of joint ventures and associates before exceptional items and remeasurements was £104 million higher at £167 million, primarily due to the inclusion of our 39% share of the results of Cadent this year.

Tax

The tax charge on profits before exceptional items and remeasurements of £589 million was £77 million lower than 2016/17. This was primarily due to lower UK and US corporate tax rates partially offset by lower tax credits in respect of prior years.

Exceptional items and remeasurements

Operating costs for the year ended 31 March 2018 included a £26 million gain on settlement of outstanding balances related to the LIPA Management Services Agreement, together with a net £10 million gain on remeasurement of commodity contracts. In the previous year, operating costs included £565 million of exceptional costs primarily associated with environmental charges and gas holder decommissioning.

Finance costs for the year ended 31 March 2018 included a gain of £229 million on financial remeasurements of derivative financial instruments, including a £110 million gain on the put option to dispose of a 14% interest in Cadent. For the previous year ended 31 March 2017, we incurred a loss of £58 million on financial remeasurements.

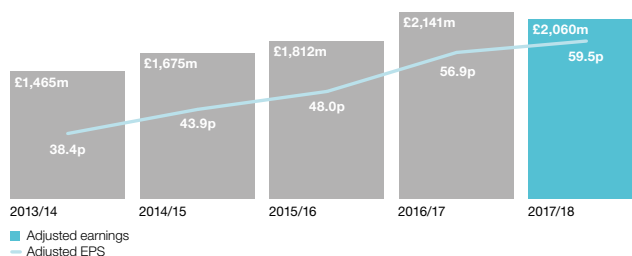
Share of post-tax results of joint ventures and associates for the year ended 31 March 2018 included a £207 million exceptional loss, principally relating to an impairment of the carrying value of our investment in Cadent following the agreement to potentially dispose of our remaining 25% holding.

Exceptional items and remeasurements relating to taxation for 2017/18 comprised a credit of £1,473 million, which primarily related to a decrease in net deferred tax liabilities due to the reduction in the US corporate tax rate.

Adjusted earnings and adjusted EPS from continuing operations

Adjusted earnings and adjusted EPS, which exclude exceptional items and remeasurements, are provided to reflect results of the Group on a 'business performance' basis, described further in note 4. The following chart shows the five-year trend in adjusted profit attributable to equity shareholders of the parent (adjusted earnings) and adjusted earnings per share. See note 7 for a reconciliation of adjusted basic EPS to EPS.

Adjusted earnings and adjusted EPS from continuing operations¹



1. Adjusted earnings and adjusted EPS are attributable to equity shareholders of the parent.

The above earnings performance translated into adjusted EPS growth in 2017/18 of 2.6p (5%).

Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars, so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate. The table below shows the average and closing exchange rates of sterling to US dollars.

	2017/18	2016/17	% change
Weighted average (income statement)	1.36	1.28	6%
Year-end (statement of financial position)	1.40	1.25	12%

The movement in foreign exchange during 2017/18 has resulted in a £536 million reduction in revenue, a £98 million reduction in adjusted operating profit, and a £73 million reduction in operating profit.

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2018 £m	2017 £m	2016 £m
Profit after tax from continuing operations		3,592	1,810	1,902
Other comprehensive income from continuing operations				
Items from continuing operations that will never be reclassified to profit or loss:				
Remeasurement gains of pension assets and post-retirement benefit obligations	23	1,313	423	410
Share of other comprehensive income of associates, net of tax ¹		142	–	–
Tax on items that will never be reclassified to profit or loss	6	(530)	(277)	(95)
Total items from continuing operations that will never be reclassified to profit or loss		925	146	315
Items from continuing operations that may be reclassified subsequently to profit or loss:				
Exchange adjustments		(505)	346	69
Net gains in respect of cash flow hedges		19	70	88
Transferred to profit or loss in respect of cash flow hedges		(3)	(6)	26
Net (losses)/gains on available-for-sale investments		(30)	81	43
Transferred to profit or loss on sale of available-for-sale investments		(73)	(25)	–
Share of other comprehensive income of associates, net of tax ¹		5	–	–
Tax on items that may be reclassified subsequently to profit or loss	6	33	(34)	(39)
Total items from continuing operations that may be reclassified subsequently to profit or loss		(554)	432	187
Other comprehensive income for the year, net of tax from continuing operations		371	578	502
Other comprehensive income for the year, net of tax from discontinued operations	9	–	42	71
Other comprehensive income for the year, net of tax		371	620	573
Total comprehensive income for the year from continuing operations		3,963	2,388	2,404
Total comprehensive income for the year from discontinued operations	9	(41)	6,026	763
Total comprehensive income for the year		3,922	8,414	3,167
Attributable to:				
Equity shareholders of the parent				
From continuing operations		3,963	2,389	2,403
From discontinued operations		(41)	6,026	761
		3,922	8,415	3,164
Non-controlling interests				
From continuing operations		–	(1)	1
From discontinued operations		–	–	2
		–	(1)	3

1. The share of other comprehensive income of associates relates to items of other comprehensive income of Cadent (investment through Quadgas HoldCo Limited), comprising £142 million (2017: £nil; 2016: £nil) remeasurement gains on pension assets and post-retirement benefit obligations and a £5 million (2017: £nil; 2016: £nil) net gain in respect of cash flow hedges. Both items are shown net of tax.

Unaudited commentary on consolidated statement of comprehensive income

The consolidated statement of comprehensive income records certain items as prescribed by the accounting rules. For us, the majority of the income or expense included here relates to movements in actuarial assumptions on defined benefit pension schemes and the associated tax impact. These items are not part of profit for the year, yet are important to allow the reader to gain a more comprehensive picture of our performance as a whole.

Remeasurement gains of pension assets and post-retirement benefit obligations

We had a net gain after tax of £925 million (2016/17: £146 million; 2015/16: £315 million) on our pension assets and other post-retirement benefit obligations which is due to changes in key assumptions made in the valuation calculation of pension liabilities and differences between the expected and actual pension asset returns.

Exchange adjustments

Adjustments are made when we translate the results and net assets of our companies operating outside the UK, as well as debt and derivative transactions designated as a net investment hedge of our foreign currency operations. The net movement for the year resulted in a loss of £505 million (2016/17: £346 million gain; 2015/16: £69 million gain).

Net gains in respect of cash flow hedges

The value of derivatives held to hedge cash flows is impacted by changes in expected interest rates and exchange rates. The net gain for the year was £19 million (2016/17: £70 million; 2015/16: £88 million).

Consolidated statement of changes in equity

for the years ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Other equity reserves ¹ £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
At 31 March 2015	443	1,331	14,870	(4,682)	11,962	12	11,974
Profit for the year	–	–	2,591	–	2,591	3	2,594
Other comprehensive income for the year	–	–	414	159	573	–	573
Total comprehensive income for the year	–	–	3,005	159	3,164	3	3,167
Equity dividends	–	–	(1,337)	–	(1,337)	–	(1,337)
Scrip dividend-related share issue ²	4	(5)	–	–	(1)	–	(1)
Purchase of treasury shares	–	–	(267)	–	(267)	–	(267)
Issue of treasury shares	–	–	16	–	16	–	16
Purchase of own shares	–	–	(6)	–	(6)	–	(6)
Other movements in non-controlling interests	–	–	–	–	–	(5)	(5)
Share-based payments	–	–	22	–	22	–	22
Tax on share-based payments	–	–	2	–	2	–	2
At 31 March 2016	447	1,326	16,305	(4,523)	13,555	10	13,565
Profit/(loss) for the year	–	–	7,795	–	7,795	(1)	7,794
Other comprehensive income for the year	–	–	84	536	620	–	620
Total comprehensive income/(loss) for the year	–	–	7,879	536	8,415	(1)	8,414
Equity dividends	–	–	(1,463)	–	(1,463)	–	(1,463)
Scrip dividend-related share issue ²	2	(2)	–	–	–	–	–
Purchase of treasury shares	–	–	(189)	–	(189)	–	(189)
Issue of treasury shares	–	–	18	–	18	–	18
Purchase of own shares	–	–	(6)	–	(6)	–	(6)
Other movements in non-controlling interests	–	–	–	–	–	7	7
Share-based payments	–	–	35	–	35	–	35
Tax on share-based payments	–	–	3	–	3	–	3
At 31 March 2017	449	1,324	22,582	(3,987)	20,368	16	20,384
Profit for the year	–	–	3,550	–	3,550	1	3,551
Other comprehensive income/(loss) for the year	–	–	925	(553)	372	(1)	371
Total comprehensive income/(loss) for the year	–	–	4,475	(553)	3,922	–	3,922
Equity dividends	–	–	(4,487)	–	(4,487)	–	(4,487)
Scrip dividend-related share issue ²	3	(3)	–	–	–	–	–
Purchase of treasury shares	–	–	(1,017)	–	(1,017)	–	(1,017)
Issue of treasury shares	–	–	33	–	33	–	33
Purchase of own shares	–	–	(5)	–	(5)	–	(5)
Share-based payments	–	–	16	–	16	–	16
Tax on share-based payments	–	–	2	–	2	–	2
At 31 March 2018³	452	1,321	21,599	(4,540)	18,832	16	18,848

1. For further details of other equity reserves, see note 26.

2. Included within the share premium account are costs associated with scrip dividends.

3. Refer to note 7 for the effect of the share consolidation and the special dividend.

Unaudited commentary on consolidated statement of changes in equity

The consolidated statement of changes in equity shows additions and reductions to equity. For us, the main items are profit earned and dividends paid in the year.

Dividends

The Directors are proposing a final dividend of 30.44 pence per share, bringing the total dividend for the year to 45.93 pence per share, a 3.7% increase on 2016/17. The Directors intend to target increasing the annual dividend per share by at least the rate of RPI inflation for the foreseeable future.

Special dividend

Following completion of the sale of the majority interest in UK Gas Distribution, the Company paid a special interim dividend on 2 June 2017 of 84.375 pence per existing ordinary share (\$5.4224 per existing American Depositary Share). This returned approximately £3,170 million to shareholders.

Consolidated statement of financial position

as at 31 March

	Notes	2018 £m	2017 ¹ £m
Non-current assets			
Goodwill	10	5,444	6,096
Other intangible assets	11	899	923
Property, plant and equipment	12	39,853	39,825
Other non-current assets	13	115	69
Pension assets	23	1,409	603
Financial and other investments	14	899	1,100
Investments in joint ventures and associates	15	2,168	2,083
Derivative financial assets	16	1,319	1,567
Total non-current assets		52,106	52,266
Current assets			
Inventories and current intangible assets	17	341	403
Trade and other receivables	18	2,798	2,728
Current tax assets		114	317
Financial and other investments	14	2,694	8,741
Derivative financial assets	16	405	246
Cash and cash equivalents	19	329	1,139
Total current assets		6,681	13,574
Total assets		58,787	65,840
Current liabilities			
Borrowings	20	(4,447)	(5,496)
Derivative financial liabilities	16	(401)	(1,147)
Trade and other payables	21	(3,453)	(3,345)
Current tax liabilities		(123)	(107)
Provisions	24	(273)	(416)
Total current liabilities		(8,697)	(10,511)
Non-current liabilities			
Borrowings	20	(22,178)	(23,142)
Derivative financial liabilities	16	(660)	(1,246)
Other non-current liabilities	22	(1,317)	(1,370)
Deferred tax liabilities	6	(3,636)	(4,479)
Pensions and other post-retirement benefit obligations	23	(1,672)	(2,536)
Provisions	24	(1,779)	(2,172)
Total non-current liabilities		(31,242)	(34,945)
Total liabilities		(39,939)	(45,456)
Net assets		18,848	20,384
Equity			
Share capital	25	452	449
Share premium account		1,321	1,324
Retained earnings		21,599	22,582
Other equity reserves	26	(4,540)	(3,987)
Total shareholders' equity		18,832	20,368
Non-controlling interests		16	16
Total equity		18,848	20,384

1. Comparative amounts have been represented to reflect the reclassification of commodity derivative contracts from trade and other receivables and payables, and from other non-current assets and liabilities to derivative financial assets and derivative financial liabilities (see note 16).

The consolidated financial statements set out on pages 94 to 177 were approved by the Board of Directors on 16 May 2018 and were signed on its behalf by:

Sir Peter Gershon Chairman
Andrew Bonfield Finance Director

National Grid plc
Registered number: 4031152

Consolidated statement of financial position continued

Unaudited commentary on consolidated statement of financial position

The consolidated statement of financial position shows all the Group's assets and liabilities at the year end. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

Goodwill and other intangible assets

Goodwill and other intangibles decreased by £676 million to £6,343 million as at 31 March 2018. This decrease primarily relates to foreign exchange movements of £707 million with software additions of £173 million mostly offset by software amortisation of £138 million.

Property, plant and equipment

Property, plant and equipment remained steady, showing a £28 million increase to £39,853 million as at 31 March 2018. This was principally due to additions of £3,901 million primarily related to capital expenditure on the renewal and extension of our regulated networks less depreciation of £1,392 million in the year, disposals of £45 million and the impact of foreign exchange movements of £2,428 million. See note 2 for further details of our capital expenditure.

Investments and other non-current assets

Investments in joint ventures and associates, financial and other investments and other non-current assets (including the non-current corporate tax asset) have decreased by £70 million to £3,182 million. This is primarily due to the net effect of the sale of our shares in Dominion driving a decrease of £173 million in the year; additions to our joint ventures and associates of £129 million partially offset by a net reduction in our investment in Quadgas HoldCo Limited of £17 million as a result of the impairment recorded, the actuarial gains in the pension scheme and dividends received largely offsetting profits; and the recognition of a non-current corporation tax asset of £51 million in respect of tax repayments due in the US.

Inventories and current intangible assets and trade and other receivables

Inventories and current intangible assets and trade and other receivables have increased by £286 million, excluding £278 million of foreign exchange, to £3,139 million as at 31 March 2018. The increase in trade receivables reflects the colder winter, higher gas costs and Balancing Services Incentives Scheme cost recoveries. This is partly offset by a decrease in inventories following lower levels of gas on hand held at 31 March 2018 due to the increased demand at that time and to lower current intangible assets of £30 million following the settlement of outstanding emissions credits.

Current tax balances

The net current tax liability of £9 million as at 31 March 2018 has changed by £219 million from a net current tax asset of £210 million as at 31 March 2017. This is primarily due to the current tax charge in the year.

Deferred tax balances

Deferred tax balances have decreased by £843 million to £3,636 million as at 31 March 2018. This is primarily due to the deferred tax credit arising on the reduction in the US corporate tax rate partially offset by the deferred tax charge on actuarial gains in reserves.

Trade and other payables

Trade and other payables have increased by £313 million, excluding foreign exchange of £209 million, to £3,453 million. This is principally due to an increase in storm accruals in the US.

Provisions and other non-current liabilities

Provisions and other non-current liabilities decreased by £324 million, excluding foreign exchange of £265 million, to £3,369 million as at 31 March 2018.

This primarily relates to provisions, which decreased by £341 million in the year excluding the impact of foreign exchange. The underlying movements included £93 million utilisation and reversal of unused provisions for costs associated with the sale of UK Gas Distribution and £75 million utilisation of the environmental provision. In 2016/17 we recognised a provision of £150 million relating to a voluntary distribution to be made for the benefit of energy customers from the proceeds arising from the sale of UK Gas Distribution. During the year we paid out £33 million, and the remaining balance of £117 million is now classified within trade and other payables, reflecting our Funding Agreement with Affordable Warmth Solutions.

Net debt

Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and all derivative financial assets and liabilities excluding commodity contract derivatives and excluding the Further Acquisition Agreement derivative. See further analysis with the consolidated cash flow statement on page 101 and further breakdowns and analysis within note 27.

Net pension and other post-retirement obligations

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

	UK £m	US £m	Total £m
Net plan surplus/(deficit)			
As at 1 April 2017	(156)	(1,777)	(1,933)
Exchange movements	–	175	175
Current service cost	(49)	(144)	(193)
Net interest cost	(3)	(62)	(65)
Curtailements and other	(15)	(20)	(35)
Actuarial gains/(losses)			
– on plan assets	103	465	568
– on plan liabilities	1,074	(329)	745
Employer contributions	150	325	475
As at 31 March 2018	1,104	(1,367)	(263)
Represented by:			
Plan assets	15,330	8,528	23,858
Plan liabilities	(14,226)	(9,895)	(24,121)
	1,104	(1,367)	(263)

The principal movements in net obligations during the year include net actuarial gains of £1,313 million and employer contributions of £475 million. Actuarial gains include gains of £568 million arising on plan assets resulting from actual asset returns being greater than assumed returns which are based upon the discount rates at the start of the year. Actuarial gains on plan liabilities of £745 million arose primarily as a consequence of an increase in the real UK discount rate giving an actuarial gain of £604 million combined with updated UK demographic assumptions reducing liabilities by £565 million and a decrease in the US nominal discount rate resulting in actuarial losses of £430 million.

Further information on our pension and other post-retirement obligations can be found in note 23 to the consolidated financial statements.

Off balance sheet items

There were no significant off balance sheet items other than the commitments and contingencies detailed in note 28.

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.

Consolidated cash flow statement

for the years ended 31 March

	Notes	2018 £m	2017 £m	2016 £m
Cash flows from operating activities				
Total operating profit from continuing operations	2(b)	3,493	3,208	3,225
Adjustments for:				
Exceptional items and remeasurements	4	(36)	565	(11)
Depreciation, amortisation and impairment		1,530	1,481	1,311
Share-based payments charge		16	32	21
Gain on exchange of associate for available-for-sale investment		–	–	(49)
Changes in working capital		118	151	416
Changes in provisions		(206)	(181)	(58)
Changes in pensions and other post-retirement benefit obligations		(239)	(768)	(293)
Cash flows relating to exceptional items		26	(36)	(40)
Cash generated from operations – continuing operations		4,702	4,452	4,522
Tax recovered/(paid)		8	(132)	(230)
Net cash inflow from operating activities – continuing operations		4,710	4,320	4,292
Net cash (used in)/inflow from operating activities – discontinued operations	9	(207)	909	1,076
Cash flows from investing activities				
Acquisition of investments		(2)	–	–
Investments in joint ventures and associates		(129)	(76)	(116)
Loans to joint ventures and associates		(68)	(61)	–
Disposal of investments		134	–	–
Disposal of UK Gas Distribution	9,15	(20)	5,454	–
Purchases of intangible assets		(173)	(223)	(196)
Purchases of property, plant and equipment		(3,738)	(3,296)	(2,855)
Disposals of property, plant and equipment		10	18	4
Dividends received from joint ventures and associates		213	99	72
Interest received		57	51	23
Net movements in short-term financial investments ¹		5,953	(5,600)	(391)
Net cash flow from/(used in) investing activities – continuing operations		2,237	(3,634)	(3,459)
Net cash flow used in investing activities – discontinued operations		–	(680)	(577)
Cash flows from financing activities				
Purchase of treasury shares		(1,017)	(189)	(267)
Proceeds from issue of treasury shares		33	18	16
Purchase of own shares		(5)	(6)	(6)
Proceeds received from loans		1,941	2,463	2,726
Repayment of loans		(2,156)	(1,616)	(896)
Net movements in short-term borrowings and derivatives		(772)	90	(730)
Interest paid		(853)	(839)	(711)
Dividends paid to shareholders		(4,487)	(1,463)	(1,337)
Net cash flow used in financing activities – continuing operations		(7,316)	(1,542)	(1,205)
Net cash flow (used in)/from financing activities – discontinued operations	9	(231)	1,611	(123)
Net (decrease)/increase in cash and cash equivalents	27(a)	(807)	984	4
Disposal of bank overdraft in UK Gas Distribution		–	15	–
Exchange movements		(3)	16	4
Net cash and cash equivalents at start of year		1,139	124	116
Net cash and cash equivalents at end of year¹	19	329	1,139	124

1. Net of bank overdrafts of £nil (2017: £nil; 2016: £3 million).

Consolidated cash flow statement continued

Unaudited commentary on the consolidated cash flow statement

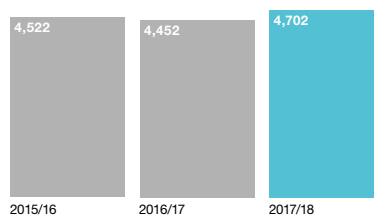
The consolidated cash flow statement shows how the cash balance has moved during the year. Cash inflows and outflows are presented to allow users to understand how they relate to the day-to-day operations of the business (Operating activities); the money that has been spent or earned on assets in the year, including acquisitions of physical assets or other businesses and the disposal of UK Gas Distribution (Investing activities); and the cash raised from debt, share issues or share buybacks, restructuring of borrowings for the disposal of UK Gas Distribution and other loan borrowings or repayments (Financing activities).

Reconciliation of cash flows to net debt

	2018 £m	2017 £m
Cash generated from continuing operations	4,702	4,452
Cash generated from discontinued operations	(207)	987
	4,495	5,439
Net capital investment – continuing operations	(4,098)	(3,638)
Net capital investment – discontinued operations	–	(605)
	(4,098)	(4,243)
Business net cash flow	397	1,196
Net interest paid – continuing operations	(796)	(788)
Net interest paid – discontinued operations	–	(1,167)
	(796)	(1,955)
Tax recovered/(paid) – continuing operations	8	(132)
Tax paid – discontinued operations	–	(78)
	8	(210)
Ordinary dividends paid and scrip buybacks	(1,494)	(1,652)
Return of capital	(4,010)	–
Disposal of UK Gas Distribution	(20)	11,344
Other cash movements	239	110
Non-cash movements	1,948	(2,782)
(Increase)/decrease in net debt	(3,728)	6,051
Opening net debt	(19,274)	(25,325)
Closing net debt	(23,002)	(19,274)

Cash generated from continuing operations

£m



Cash flows from our operations are largely stable when viewed over the longer term. Our electricity and gas transmission operations in the UK are subject to multi-year rate agreements with regulators. In the UK, we have largely stable cash flows. However, in the US our short-term cash flows are dependent on the price of gas and electricity and the timing of customer payments. The regulatory mechanisms for recovering costs from customers can result in significant cash flow swings from year to year. Changes in volumes in the US, for example as a consequence of abnormally mild or extreme weather can affect revenues, and hence cash flows, particularly in the winter months.

For the year ended 31 March 2018, cash flows from continuing operations increased by £250 million to £4,702 million. The outflow of £239 million from changes in pensions and other post-retirement obligations was £529 million lower than 2016/17 due to higher levels of contributions into the UK and US schemes in the prior year.

Cash flows from discontinued operations decreased by £1,194 million to a £207 million outflow in 2017/18. Discontinued operations in 2016/17 included the cash flows of the UK Gas Distribution business. In 2017/18, discontinued operations included cash outflows for residual transaction costs related to the disposal.

Unaudited commentary on the consolidated cash flow statement continued

Net capital investment

Net cash capital investment for continuing operations in the year of £4,098 million comprising investments and loans to joint ventures and associates of £197 million (including St William) and purchases of intangibles and property, plant and equipment (net of disposals) of £3,901 million was £460 million higher than the prior year. This was a result of higher spend in our US Regulated and UK Gas Transmission businesses, along with increased levels of investment in interconnectors, offset by exchange movements of £133 million and lower spend in UK Electricity Transmission.

Net interest paid (including exceptional interest)

Net interest paid for continuing operations was £796 million, £8 million higher than 2016/17 with increased payments at constant currency mostly offset by the impact of exchange rates on our US dollar denominated finance costs. Net interest paid and exceptional finance costs for discontinued operations in 2016/17 were £1,167 million, primarily due to £1,052 million of debt buyback costs incurred as part of the Group's liability management programme in relation to the disposal of the UK Gas Distribution business.

Tax recovered/paid

Tax recovered for continuing operations in the year to 31 March 2018 was £8 million. This was primarily due to refunds in the US and UK of tax previously overpaid of £46 million and £67 million respectively, offset by UK tax payments which were lower than 2016/17 as a result of tax deductible costs incurred in respect of the disposal of UK Gas Distribution.

Dividends paid and scrip buybacks

Ordinary dividends paid in the year ended 31 March 2018 amounted to £1,316 million. This was £147 million lower than 2016/17 reflecting the decrease in the number of shares following the share consolidation, offset by an increase in the final dividend paid in August 2017. Share buybacks of £178 million, related to the repurchase of the scrip uptake, were £11 million lower than 2016/17.

Return of capital

A total cash outflow of £4,010 million related to the return to shareholders of proceeds from the disposal of the UK Gas Distribution business. This comprised a £3,171 million outflow related to the special dividend on 2 June 2018 (accompanied by an 11 for 12 share consolidation) and £839 million of share buybacks.

Disposal of UK Gas Distribution

The inflow in 2016/17 reflects the cash proceeds received of £5,454 million and the £5,890 million of net debt deconsolidated on disposal of UK Gas Distribution (see note 27). The outflow of £20 million in 2017/18 relates to the completion account settlement in November 2017.

Other cash movements

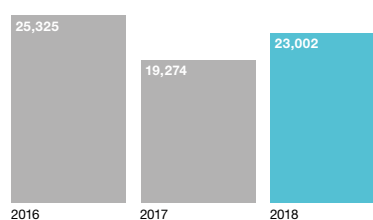
Other cash flows principally arise from the disposal of a financial investment in Dominion for £126 million and dividends from joint ventures and associates of £213 million (£114 million higher than 2016/17), partly offset by movements in treasury shares.

Non-cash movements

The non-cash movements are predominantly due to the weakening of the US dollar against sterling, resulting in movements in foreign exchange arising on net debt held in US dollars. In the year, the dollar weakened from \$1.25 at 31 March 2017 to \$1.40 at 31 March 2018. Other non-cash movements primarily arise from changes in fair values of financial assets and liabilities and interest accretions and accruals.

Net debt

£m



Notes to the consolidated financial statements

– analysis of items in the primary statements

1. Basis of preparation and recent accounting developments

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.

National Grid's principal activities involve the transmission and distribution of electricity and gas in Great Britain and northeastern US. The Company is a public limited liability company incorporated and domiciled in England and Wales, with its registered office at 1–3 Strand, London WC2N 5EH.

The Company, National Grid plc, which is the ultimate parent of the Group, has its primary listing on the London Stock Exchange and is also quoted on the New York Stock Exchange.

These consolidated financial statements were approved for issue by the Board on 16 May 2018.

These consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations as issued by the 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 ended 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 consolidated financial statements have been prepared on a historical cost basis, except for the recording of pension assets and liabilities, the revaluation of derivative financial instruments and certain commodity contracts 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 notes to the financial statements have been prepared on a continuing basis unless otherwise stated.

Our income statement and segmental analysis separately identify financial results before and after exceptional items and remeasurements. The Directors believe that presentation of the results in this way is relevant to an understanding of the Group's financial performance. Presenting financial results before exceptional items and remeasurements is consistent with the way that financial performance is measured by management and reported to the Board and Executive Committee and aids the comparability of reported financial performance from year to year in this context.

Further, this year we have adopted a columnar presentation as we consider it improves the clarity of the presentation, and is consistent with the way that financial performance is measured by management and reported to the Board and Executive Committee, and better enables users of the financial statements to understand the results. The inclusion of total profit for the period from continuing operations before exceptional items and remeasurements forms part of the incentive target set annually for remunerating certain Executive Directors. Accordingly we believe it is important for users of the financial statements to understand how this compares to our results on a statutory basis and year-on-year.

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).

A. Going concern

The Directors considered it appropriate to prepare the financial statements on a going concern basis, having considered the Company's cash flow forecasts with respect to business planning and treasury management activities. 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.

B. Basis of consolidation

The consolidated financial statements incorporate the results, assets and liabilities of the Company and its subsidiaries, together with a share of the results, assets and liabilities of joint operations. The Group accounts for joint ventures and associates using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the share of net assets of the joint venture or associate, less any provision for impairment.

A subsidiary is defined as an entity controlled by the Group. Control is achieved where the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the power to affect those returns through its power over the entity.

Losses in excess of the consolidated interest in joint ventures and associates are not recognised, except where the Company or its subsidiaries have made a commitment to make good those losses.

Where necessary, adjustments are made to bring the accounting policies used in the individual financial statements of the Company, subsidiaries, joint operations, joint ventures and associates into line with those used by the Group in its consolidated financial statements under IFRS. Intercompany transactions are eliminated.

The results of subsidiaries (other than relating to UK Gas Distribution as described in C below), joint operations, joint ventures and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

C. Disposal of UK Gas Distribution

As described further in note 9, on 8 December 2016 the Group entered into a sale and purchase agreement to dispose of a 61% controlling stake in the UK Gas Distribution business. The disposal completed on 31 March 2017 and the Group has retained a 39% interest in the business. As a result, all assets and liabilities of UK Gas Distribution were deemed to be disposed of and a 39% interest reacquired. The 39% retained interest is classified as an associate on the basis that the Group retains significant influence over the business through its retained stake. The Group has the ability to appoint 4 of the 12 directors on the board of Quadgas HoldCo Limited.

In addition, the Group entered into a Further Acquisition Agreement (FAA) over a further 14% interest. Refer to note 15 for further details.

The Group classified UK Gas Distribution as held for sale as of 8 December 2016, when it became highly probable that the value of the business to the Group would be recovered through sale rather than continuing ownership. As UK Gas Distribution represents a separate major line of business, the business was classified as a discontinued operation in the 2016/17 consolidated income statement. This continues to be reflected in the consolidated income statement and the consolidated statement of comprehensive income, as well as earnings per share (EPS) split between continuing and discontinued operations.

In the current year, any true-ups relating to the disposal of the controlling stake are recorded within discontinued operations.

1. Basis of preparation and recent accounting developments continued

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 application of hedge accounting requires inclusion in other comprehensive income see note 16.

On consolidation, the assets and liabilities of operations that have a functional currency different from the Company's functional currency of pounds sterling, principally our US operations that have a functional currency of US dollars, are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period where these do not differ materially from rates at the date of the transaction. Exchange differences arising are recognised in other comprehensive income and transferred to the consolidated translation reserve within other equity reserves see note 26.

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 below.

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

- categorisation of certain items as exceptional items and the definition of adjusted earnings see notes 4 and 7.

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

- valuation of liabilities for pensions and other post-retirement benefits see note 23; and
- the discount rate and cash flows applied in determining the environmental provisions see note 24.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analyses in note 33.

F. Accounting policy choices

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 after tax from continuing operations, together with additional subtotals excluding exceptional items and remeasurements as a result of the three columnar layout described earlier. Exceptional items and remeasurements are presented in a separate column 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. For net investment hedges, we have chosen to use the spot rate method, rather than the alternative forward rate method.

New IFRS accounting standards effective for the year ended 31 March 2018

The Group has adopted the following amendments to standards:

- annual improvements to IFRSs 2014-2016 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 Group's results or financial statement disclosures.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

1. Basis of preparation and recent accounting developments continued

New IFRS accounting standards and interpretations not yet adopted

The Group enters into a significant number of transactions that fall within the scope of IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. We are assessing the likely impact of these standards on the Group's financial statements.

i) IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' is effective for National Grid for the year ending 31 March 2019. The change to IFRS 9 principally impacts the accounting for the classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

The Group 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 an 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). It is not expected that the adoption of IFRS 9 will materially impact our profits or net assets on transition or prospectively.

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. Where assets or liabilities are measured at FVTPL, any fair value movements will be reported as remeasurements. 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 largest reallocation of financial assets will be from available-for-sale investments to FVTPL and relates to over £2 billion Group investments in money market funds and insurance company investments in mutual funds, where the contractual terms are such that they do not qualify for any other category. All other available-for-sale investments will be categorised as FVOCI under IFRS 9.

The change to the asset classification rules will have no impact on reported Group net assets, although there will be some changes to reserves at transition.

Classification and measurement: financial liabilities

Under IFRS 9 financial liabilities can be designated at FVTPL to eliminate an accounting mismatch. Where financial liabilities are designated at FVTPL, changes in their fair value due to credit risk are presented in other comprehensive income. Remaining changes in fair value are presented in the income statement.

With effect from 1 April 2018 the Group will take the fair value option for one issued zero coupon liability to reduce the measurement mismatch against some derivatives. This change will result in a reduction of reported net assets of less than £50 million.

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.

The Group expects to apply the simplified approach, recognising lifetime expected losses for its trade receivables. The Group's preliminary calculation of the loss allowance for these assets as at 31 March 2018 results in an immaterial impact compared to under IAS 39.

The Group's 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 Group 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 this 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 Group has elected to apply the IFRS 9 hedge accounting requirements because they more closely align with the Group's risk management policies.

An assessment of the Group's designated hedging relationships under IAS 39 has been performed and it has been determined that all would qualify as continuing hedge relationships under IFRS 9. However, in order to apply elective changes to the treatment of costs of hedging, certain relationships will be formally redesignated from the date of adoption. The Group is considering additional opportunities to apply hedge accounting 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.

1. Basis of preparation and recent accounting developments continued

ii) IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' is effective for National Grid 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 in the UK and US 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 £1,056 million lower, with no impact to profit as a result of this change. There will be no transition adjustment as a result of this change; and
- Across our subsidiaries in the UK and the US, our customers provide contributions for certain capital works (e.g. connections) which we continue to own on completion of the works. In our electricity business in the UK, we currently recognise customer contributions for connections over time as we have an ongoing contractual condition to maintain connections over their lives. In our UK Gas Transmission business, we recognise customer contributions when the connection is completed (the contractual conditions of the connection agreement do not explicitly require connections to be maintained over the life of the connection). In the US, revenue is also recognised when the connection is completed.

Under IFRS 15, connection contributions in our subsidiaries will 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.

In the UK, we also have arrangements where our customers make contributions for diversions. 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 approximately £83 million lower, as revenues from connections in the US and in UK Gas Transmission that were recognised up-front would have been deferred over the life of the network. The decrease in profit after tax in our subsidiaries would have been £56 million.

The transition adjustment through retained earnings of £167 million will result in an increase to deferred revenues of approximately £240 million and a corresponding deferred tax impact of £73 million.

iii) IFRS 16 'Leases'

IFRS 16 'Leases' is effective for National Grid for the year ending 31 March 2020. The Group enters into a significant number of operating lease transactions. 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, will result in an increase in finance costs and depreciation and a reduction in operating costs. The outcome of our conclusions will have an impact on how we account for our operating leases. We are also performing an assessment of our revenue, service contracts and power purchase 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.

iv) Other

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

- Amendments to IFRS 2 'Share-based payment';
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration';
- IFRIC 23 'Uncertainty over Income Tax Treatments';
- Amendments to IAS 40 'Investment Property';
- Amendments to IAS 28: 'Investments in associates' – 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 Group is currently assessing the impact of the above standards, but they are not expected to have a material impact. The Group has not early adopted any other standard, amendment or interpretation that was issued but is not yet effective.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

2. Segmental analysis

This note sets out the financial performance for the year split into the different parts of the business (operating segments). The performance of these operating segments is monitored and managed on a day-to-day basis. Revenue and the results of the business are analysed by operating segment, based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between operating segments. The Board is National Grid's chief operating decision maker (as defined by IFRS 8 'Operating Segments') and assesses the profitability of operations principally on the basis of operating profit before exceptional items and remeasurements (see note 4). As a matter of course, the Board also considers profitability by segment, excluding the effect of timing. However, the measure of profit disclosed in this note is operating profit before exceptional items and remeasurements as this is the measure that is most consistent with the IFRS results reported within these financial statements.

Our strategy in action

The Group owns a portfolio of businesses that range from businesses with high levels of investment and growth to cash generative developed assets with lower investment requirements (such as National Grid Metering, included within NGV and Other). The majority of revenue is generated from regulated operating segments in the UK and US. The Group works with its regulators to obtain agreements that balance the risks faced with the opportunity to deliver reasonable returns for investors. When investing in NGV and Other, the Group aims to leverage its core capabilities to deliver higher returns for investors. The regulated businesses earn revenue for the transmission, distribution and generation services they have provided during the year. In any one year, the revenue recognised may differ from that allowed under the Group's regulatory agreements and any such timing differences are adjusted through future prices. NGV and Other businesses earn revenue in line with their contractual terms.

The following table describes the main activities for each reportable operating segment:

UK Electricity Transmission	High-voltage electricity transmission networks in England and Wales
UK Gas Transmission	High-pressure gas transmission networks in Great Britain and LNG storage activities
US Regulated	Gas distribution networks, electricity distribution networks and high-voltage electricity transmission networks in New York and New England and electricity generation facilities in New York

NGV was formed on 1 April 2017 and brought together our businesses that are adjacent to our core regulated operations to create a new division with its own leadership. NGV is led by a member of the Group Executive Committee and its results are reported separately to the Board of Directors. This operating segment represents our key strategic growth area outside our regulated core business in competitive markets across the US and the UK. The business comprises all commercial operations in metering, LNG at the Isle of Grain in the UK and electricity interconnectors, with a focus on investment and future activities in emerging growth areas. NGV does not meet the thresholds set out in IFRS 8 to be identified as a separate reportable segment and therefore its results have not been disaggregated. The results of the businesses that now form NGV were previously reported in the Other activities segment and therefore, although the segment has been renamed NGV and Other, the results of previous periods have not been affected.

Other activities that do not form part of any of the segments in the above table or NGV primarily relate to UK property development together with insurance and corporate activities in the UK and US.

Discontinued operations in 2017 and 2016 comprise the profits and losses associated with the UK Gas Distribution business, up to and including the point at which it was sold to Quadgas HoldCo Limited (see note 9). In the current year, transactions within discontinued operations relate solely to the business prior to the sale and the sale transaction itself.

Revenue primarily represents the sales value derived from the generation, transmission and distribution of energy, together with the sales value derived from the provision of other services to customers. 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. This is estimated based on historical consumption and weather patterns.

Where revenue exceeds the maximum amount permitted by a regulatory agreement, adjustments will be made to future prices to reflect this over-recovery. No liability is recognised, as such an adjustment relates to the provision of future services. Similarly, no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. As part of our regulatory agreements we are entitled to recover certain costs directly from customers (pass-through costs). These amounts are included in the overall calculation of allowed revenue as stipulated by regulatory agreements and explained further in the unaudited commentary on pages 186–191.

Sales between operating segments are priced considering the regulatory and legal requirements to which the businesses are subject. The analysis of revenue by geographical area is on the basis of destination. There are no material sales between the UK and US geographical areas.

2. Segmental analysis continued

(a) Revenue

	2018			2017			2016		
	Total sales £m	Sales between segments £m	Sales to third parties £m	Total sales £m	Sales between segments £m	Sales to third parties £m	Total sales £m	Sales between segments £m	Sales to third parties £m
Operating segments – continuing operations:									
UK Electricity Transmission	4,154	(28)	4,126	4,439	(29)	4,410	3,977	(20)	3,957
UK Gas Transmission	1,091	(9)	1,082	1,080	(99)	981	1,047	(109)	938
US Regulated	9,272	–	9,272	8,931	–	8,931	7,493	–	7,493
NGV and Other ¹	776	(6)	770	713	–	713	824	–	824
Total revenue from continuing operations	15,293	(43)	15,250	15,163	(128)	15,035	13,341	(129)	13,212
Split by geographical areas – continuing operations:									
UK			5,938			6,064			5,619
US			9,312			8,971			7,593
			15,250			15,035			13,212

1. Included within NGV and Other is £593 million (2017: £604 million; 2016: £719 million) of revenue relating to NGV.

(b) Operating profit

A reconciliation of the operating segments' measure of profit to profit before tax from continuing operations is provided below. Further details of the exceptional items and remeasurements are provided in note 4.

	Before exceptional items and remeasurements			After exceptional items and remeasurements		
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m
Operating segments – continuing operations:						
UK Electricity Transmission	1,041	1,372	1,173	1,041	1,361	1,173
UK Gas Transmission	487	511	486	487	507	486
US Regulated	1,698	1,713	1,185	1,734	1,278	1,196
NGV and Other ¹	231	177	370	231	62	370
Total operating profit from continuing operations	3,457	3,773	3,214	3,493	3,208	3,225
Split by geographical area – continuing operations:						
UK	1,840	2,118	2,007	1,840	1,988	2,007
US	1,617	1,655	1,207	1,653	1,220	1,218
	3,457	3,773	3,214	3,493	3,208	3,225

Below we reconcile total operating profit from continuing operations to profit before tax from continuing operations. We have shown the share of post-tax results of joint ventures and associates disaggregated between those held within NGV and Other and our retained 39% interest in the UK Gas Distribution business (Cadent²). Operating exceptional items and remeasurements of £nil (2017: £11 million cost; 2016: £nil) detailed in note 4 are attributable to UK Electricity Transmission; £nil (2017: £4 million cost; 2016: £nil) to UK Gas Transmission; £36 million gain (2017: £435 million cost; 2016: £11 million gain) to US Regulated; and £nil (2017: £115 million cost; 2016: £nil) to NGV and Other.

Reconciliation to profit before tax:						
Operating profit from continuing operations	3,457	3,773	3,214	3,493	3,208	3,225
Finance income	154	53	22	154	53	22
Finance costs	(1,128)	(1,082)	(878)	(899)	(1,140)	(977)
Share of post-tax results of joint ventures and associates:						
Cadent ²	123	–	–	(89)	–	–
NGV and Other	44	63	59	49	63	59
Profit before tax from continuing operations	2,650	2,807	2,417	2,708	2,184	2,329

1. Included within NGV and Other is £234 million (2017: £239 million; 2016: £394 million) of operating profit (both before and after exceptional items and remeasurements) relating to NGV.

2. Investment held through Quadgas HoldCo Limited.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

2. Segmental analysis continued

(c) Capital expenditure

	Net book value of property, plant and equipment and other intangible assets			Capital expenditure ¹			Depreciation and amortisation		
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m
Operating segments:									
UK Electricity Transmission	13,028	12,515	11,907	999	1,027	1,084	(475)	(421)	(390)
UK Gas Transmission	4,280	4,165	4,140	310	214	186	(194)	(186)	(178)
US Regulated	20,953	21,638	17,490	2,424	2,247	1,856	(635)	(642)	(535)
NGV and Other ²	2,491	2,430	2,291	341	247	201	(226)	(232)	(208)
Total from continuing operations	40,752	40,748	35,828	4,074	3,735	3,327	(1,530)	(1,481)	(1,311)
Split by geographical area – continuing operations:									
UK	18,772	18,102	17,491	1,527	1,357	1,386	(804)	(753)	(715)
US	21,980	22,646	18,337	2,547	2,378	1,941	(726)	(728)	(596)
	40,752	40,748	35,828	4,074	3,735	3,327	(1,530)	(1,481)	(1,311)
Asset type:									
Property, plant and equipment	39,853	39,825	35,074	3,901	3,507	3,130	(1,392)	(1,348)	(1,207)
Non-current intangible assets	899	923	754	173	228	197	(138)	(133)	(104)
Total from continuing operations	40,752	40,748	35,828	4,074	3,735	3,327	(1,530)	(1,481)	(1,311)

1. Represents additions to property, plant and equipment and non-current intangibles but excludes additional investments in and loans to joint ventures and associates.

2. Included within NGV and Other are assets with a net book value of £1,454 million (2017: £1,432 million; 2016: £1,482 million), capital expenditure of £186 million (2017: £98 million; 2016: £93 million) and depreciation and amortisation of £143 million (2017: £143 million; 2016: £144 million) relating to NGV.

Total non-current assets other than financial instruments and pension assets located in the UK and US were £20,816 million and £27,663 million respectively as at 31 March 2018 (31 March 2017: UK £20,045 million, US £28,951 million; 31 March 2016: UK £26,261 million, US £23,774 million).

Unaudited commentary on the results of our principal operations by segment – continuing operations

Commentary on segmental adjusted operating profit results

Below we summarise the results of our operating segments. This analysis has been prepared based on adjusted operating profit (operating profit before exceptional items and remeasurements) as set out in note 2(b).

UK Electricity Transmission

For the year ended 31 March 2018, revenue in the UK Electricity Transmission segment decreased by £285 million to £4,154 million and adjusted operating profit decreased by £331 million to £1,041 million.

The revenue reduction of £285 million included a reduction in pass-through costs such as system balancing costs charged on to customers. Excluding pass-through costs, net revenue was £235 million lower, reflecting the absence of last year's recovery of outstanding timing balances along with higher adjustments this year to return the benefits of efficiencies and lower required outputs to customers. Regulated controllable costs were £35 million higher reflecting inflation, increased headcount and workload and initiative spend. Depreciation and amortisation was £54 million higher, reflecting the continued capital investment programme. Other costs were in line with the prior year.

Capital expenditure decreased by £28 million compared with last year to £999 million.

UK Gas Transmission

Revenue in the UK Gas Transmission segment increased by £11 million to £1,091 million and adjusted operating profit decreased by £24 million to £487 million.

After deducting pass-through costs, net revenue was £23 million lower than prior year. Increases in allowed revenues this year were more than offset by the end of certain legacy revenue allowances and the refund of prior year over-recoveries to customers. Regulated controllable costs were £9 million higher than last year, mainly as a result of higher employee numbers to deliver additional outputs. Depreciation and amortisation costs were £8 million higher, reflecting ongoing investment. Other operating costs were £16 million lower than last year, including the release of unused provisions relating to LNG plant closures.

Capital expenditure increased to £310 million, £96 million higher than last year, with increases in asset health spend and higher investment on compressor projects.

US Regulated

Revenue in our US Regulated business increased by £341 million to £9,272 million and adjusted operating profit decreased by £15 million to £1,698 million.

The weaker US dollar decreased revenue and operating profit in the year by £534 million and £102 million respectively. Excluding the impact of foreign exchange rate movements, revenue increased by £875 million. Of this increase, £597 million was due to increases in pass-through costs charged on to customers. Excluding pass-through costs, net revenue increased by £278 million at constant currency, reflecting increased revenue allowances under new rate plans in downstate New York and Massachusetts Electric, and the benefit of capital trackers.

We have incurred £142 million of major storm costs in 2017/18 including a sequence of heavy storms this winter causing substantial damage to our electricity networks. Separate from these costs, regulated controllable costs were broadly in line with last year at constant currency, and bad debt costs were £13 million lower. Depreciation and amortisation was £31 million higher this year at constant currency as a result of ongoing investment in our networks. Other operating costs were £34 million higher at constant currency, reflecting higher property taxes.

Capital expenditure in the US Regulated business increased to £2,424 million this year, £177 million more than in 2016/17. At constant currency, this represented a £311 million increase in investment driven by higher investment in new and replacement gas mains.

NGV and Other

Revenue in NGV and Other increased by £63 million to £776 million and adjusted operating profit increased by £54 million to £231 million. This reflects higher revenues and profit on disposal of property sites in the UK and lower levels of business change costs incurred, partially offset by lower auction revenues in the French Interconnector.

Capital expenditure in NGV and Other was £94 million higher than last year at £341 million, including the start of construction of a second French Interconnector and increases in smart meter installations in the UK.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

3. Operating costs

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

Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

	Before exceptional items and remeasurements			Exceptional items and remeasurements			Total		
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m
Depreciation and amortisation	1,530	1,481	1,311	–	–	–	1,530	1,481	1,311
Payroll costs	1,648	1,578	1,337	–	–	–	1,648	1,578	1,337
Purchases of electricity	1,299	1,143	1,304	(14)	(46)	8	1,285	1,097	1,312
Purchases of gas	1,539	1,241	986	4	(22)	(19)	1,543	1,219	967
Rates and property taxes	1,057	1,042	899	–	–	–	1,057	1,042	899
Balancing Services Incentive Scheme	1,012	1,120	907	–	–	–	1,012	1,120	907
Payments to other UK network owners	1,043	1,008	971	–	–	–	1,043	1,008	971
Other	2,665	2,649	2,283	(26)	633	–	2,639	3,282	2,283
	11,793	11,262	9,998	(36)	565	(11)	11,757	11,827	9,987
Operating costs include:									
Inventory consumed							367	296	274
Operating leases							102	98	91
Research and development expenditure							13	14	19

(a) Payroll costs

	2018 £m	2017 £m	2016 £m
Wages and salaries ¹	1,998	1,852	1,553
Social security costs	157	145	120
Defined contribution scheme costs	65	58	47
Defined benefit pension costs (see note 23)	156	151	154
Share-based payments	16	32	21
Severance costs (excluding pension costs)	7	5	4
	2,399	2,243	1,899
Less: payroll costs capitalised	(751)	(665)	(562)
Total payroll costs	1,648	1,578	1,337

1. Included within wages and salaries are US other post-retirement benefit costs of £46 million (2017: £53 million; 2016: £52 million). For further information refer to note 23.

(b) Number of employees

	31 March 2018	Monthly average 2018	31 March 2017	Monthly average 2017	31 March 2016	Monthly average 2016
UK	6,517	6,431	6,265	6,291	6,224	6,067
US	16,506	16,274	15,867	15,752	14,830	14,775
Total number of employees	23,023	22,705	22,132	22,043	21,054	20,842

3. Operating costs continued

(c) Key management compensation

	2018 £m	2017 £m	2016 £m
Short-term employee benefits	8	8	9
Post-employment benefits	1	1	1
Share-based payments	3	6	4
Total key management compensation	12	15	14

Key management compensation relates to the Board, including the Executive Directors and Non-executive Directors for the years presented.

(d) Directors' emoluments

Details of Executive Directors' emoluments are contained in the Remuneration Report on page 70 and those of Non-executive Directors on page 75.

(e) Auditors' remuneration

Auditors' remuneration is presented below in accordance with the requirements of the Companies Act 2006 and the principal accountant fees and services disclosure requirements of Item 16C of Form 20-F:

	2018 £m	2017 £m	2016 £m
Audit fees payable to the parent Company's auditors¹ and their associates in respect of:			
Audit of the parent Company's individual and consolidated financial statements ²	2.7	1.5	1.3
The auditing of accounts of any associate of the Company	7.5	13.7	9.2
Other services supplied ³	3.9	4.6	3.6
	14.1	19.8	14.1
Total other services⁴			
Tax fees:			
Tax compliance services	0.3	0.4	0.5
Tax advisory services	–	0.1	–
All other fees:			
Other assurance services ⁵	0.7	4.6	4.3
Services relating to corporate finance transactions not covered above ⁶	–	5.9	1.6
Other non-audit services not covered above ⁷	0.9	6.3	2.5
	1.9	17.3	8.9
Total auditors' remuneration	16.0	37.1	23.0

1. Deloitte LLP became the Group's principal auditor for the year ended 31 March 2018. PricewaterhouseCoopers LLP (PwC) was the principal auditor for the years ended 31 March 2017 and 31 March 2016.

2. Audit fees in each year represent fees for the audit of the Company's financial statements and regulatory reporting for the years ended 31 March 2018, 2017 and 2016.

3. Other services supplied represent fees payable for services in relation to other statutory filings or engagements that are required to be carried out by the auditors. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley), audit reports on regulatory returns and the review of interim financial statements for the six-month periods ended 30 September 2017, 2016 and 2015 respectively.

4. There were no audit related fees as described in Item 16C(b) of Form 20-F.

5. Principally amounts relating to assurance services provided in relation to comfort letters for debt issuances. In 2016/17, amounts represented assurance services undertaken by PwC in relation to the sale of UK Gas Distribution and data assurance work in respect of financial information included in US rate filings.

6. Vendor due diligence and other transaction services in relation to the sale of UK Gas Distribution.

7. Fees for other non-audit services – projects including services provided to the UK Property business, relating to evaluating possible options for the use of property assets. In 2016/17, services related principally to PwC assisting the Company with separation activities in relation to the sale of UK Gas Distribution.

For the year ended 31 March 2017, PwC contracted with Ofgem to assess the UK gas industry's readiness for the introduction of new settlement processes and systems. Fees for these services were paid by Xoserve Limited, a subsidiary of National Grid (until 31 March 2017), on behalf of the industry, under instruction from Ofgem. As PwC had no contract with or duty of care to Xoserve Limited, these amounts were not included above.

The Audit Committee considers and makes recommendations to the Board, to be put to shareholders for approval at each AGM, in relation to the appointment, re-appointment, removal and oversight of the Company's independent auditors. The Board of Directors, in accordance with a resolution approved at the 2016 AGM, is authorised to agree the auditors' remuneration. The Audit Committee considers and approves the audit fees on behalf of the Board in accordance with the Competition and Market Authority Audit Order 2014. The Board of Directors will seek to renew this authority at the 2018 AGM. Details of our policies and procedures in relation to non-audit services to be provided by the independent auditors are set out within page 55 of the Corporate Governance Report.

Certain services are prohibited from being performed by the external auditors under the Sarbanes-Oxley Act. Of the above services, none were prohibited.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

4. Exceptional items and remeasurements

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

Our financial performance is analysed into two components: business performance, which excludes exceptional items and remeasurements; and exceptional items and remeasurements. Business performance is used by management to monitor financial performance as it is considered that it improves the comparability of our reported financial performance from year to year. Business performance sub-totals 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 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 significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and significant debt redemption costs as a consequence of transactions such as significant disposals or issues of equity, and the related tax as well as deferred tax arising on changes to corporation tax rates.

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

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

Exceptional items and remeasurements from continuing operations

	2018 £m	2017 £m	2016 £m
Included within operating profit			
Exceptional items:			
Environmental charges	–	(526)	–
Gas holder demolition costs	–	(107)	–
Final settlement of LIPA MSA Transition	26	–	–
	26	(633)	–
Remeasurements – commodity contract derivatives	10	68	11
	36	(565)	11
Included within finance costs			
Remeasurements – net gains/(losses) on derivative financial instruments	229	(58)	(99)
Included within share of post-tax results of joint ventures and associates			
Remeasurements – net gains on financial instruments	1	–	–
Exceptional items:			
Deferred tax arising on the reduction in US corporation tax rate	5	–	–
Impairment of investment in Quadgas HoldCo Limited	(213)	–	–
	(207)	–	–
Total included within profit before tax	58	(623)	(88)
Included within tax			
Exceptional items – credits arising on items not included in profit before tax:			
Deferred tax arising on the reduction in the UK corporation tax rate	–	94	162
Deferred tax arising on the reduction in the US corporation tax rate	1,510	–	–
Tax on exceptional items	(9)	227	–
Tax on remeasurements	(28)	(29)	15
	1,473	292	177
Total exceptional items and remeasurements after tax	1,531	(331)	89
Analysis of total exceptional items and remeasurements after tax			
Exceptional items after tax	1,319	(312)	162
Remeasurements after tax	212	(19)	(73)
Total exceptional items and remeasurements after tax	1,531	(331)	89

4. Exceptional items and remeasurements continued

Operating exceptional items

2017/18

During the year, the Group reached an agreement with LIPA on an amount in final settlement of receivables and payables that arose following the cessation of the Management Services Agreement with LIPA in December 2013. The settlement has resulted in a gain of £26 million, which has been recorded as exceptional, consistent with the treatment of gains and losses on the original transaction.

In assessing the value of the Group's interests in Quadgas HoldCo Limited (the holding company for Cadent Gas) at 31 March 2018, the Company has considered the fair market value of its interests as implied by the agreement relating to the potential sale of a 25% interest in Quadgas HoldCo Limited (equity and shareholder loans), announced on 1 May 2018 and described in note 15.

The associated accounting implications are the recognition of a £110 million fair value gain on the Further Acquisition Agreement (FAA) which is detailed in the remeasurements section below and a £213 million impairment against the equity carrying value of investment in Quadgas HoldCo Limited. We have assessed the carrying value of all our interests in Quadgas HoldCo Limited (including the FAA derivative asset noted above) against the cash flows we expect to receive under the agreement for the 25% (comprising future dividends, shareholder loan interest income and the proceeds on exercise of the option arrangement plus a cost of carry), discounted to present value using an estimate of Quadgas Investments BidCo Limited's marginal cost of borrowing. Following the recognition of this charge, the total carrying value of our interests in Quadgas HoldCo Limited is £2.1 billion. Neither of these two accounting entries are taxable.

2016/17

In the US, the Group's most significant environmental liabilities relate to former manufacturing gas plant (MGP) facilities formerly owned or operated by the Group. The sites are subject to both state and federal law in the US. Environmental reserves are re-evaluated at each reporting period. The expenditure is expected to be largely recoverable from rate payers but, under IFRS, no asset can be recorded for this. During the second half of 2016/17, the Group updated its assessment of the gross remediation costs at three key sites in New York, resulting in an increase of £481 million on an undiscounted basis.

The charge booked reflects the Group's best estimate of future cash outflow, based on notices received from state and federal authorities, and plans developed in response, supported by external consultants where appropriate. In some cases, judgement is also required regarding the Group's share of the estimated cost, principally at sites where other parties are also potentially liable but where no cost sharing agreement exists.

Also included within the above are charges relating to the impact of a change in the real discount rate from 2% to 1% on our provisions.

A provision of £107 million was made for the demolition of certain non-operational gas holders in the UK. Following the disposal of UK Gas Distribution, the land on which the gas holders are sited was transferred to the Group's UK property division. The Group's property division maximises our return from our land portfolio and therefore a constructive obligation exists to demolish the gas holders.

Remeasurements

As described further in note 30(f), the FAA signed on 31 March 2017 relating to a 14% interest in the equity and shareholder loans of Quadgas HoldCo Limited is treated as a derivative at fair value through profit and loss. In assessing the fair value of this derivative at 31 March 2018, we have compared the pricing mechanism within the FAA against that of the agreement concerning our remaining 25% interest. The £110 million gain reflects the pricing differential between the two contracts. At 31 March 2017, being the date on which the FAA was signed, the fair value was taken to be zero.

Commodity contract derivatives represent mark-to-market movements on certain physical and financial commodity contract obligations in the US. These contracts primarily relate to the forward purchase of energy for supply to customers, or to the economic hedging thereof, that are required to be measured at fair value and that do not qualify for hedge accounting. Under the existing rate plans in the US, commodity costs are recoverable from customers although the timing of recovery may differ from the pattern of costs incurred.

Net losses or gains on derivative financial instruments comprise losses or gains arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt. Therefore, these are always excluded from business performance.

Net gains on financial instruments comprise the gains on financial instruments of Quadgas HoldCo Limited reported through their income statement.

Items included within tax

The Tax Cuts and Jobs Act (Tax Reform) which was enacted on 22 December 2017 reduced the US corporate rate from 35% to 21% with effect from 1 January 2018. Deferred taxes at the reporting date have been measured using these enacted tax rates. Since we are in a net deferred tax liability position in the US, this results in a deferred tax credit in the year. As described further in note 10, however, we expect the overall impact of Tax Reform to be economically neutral for the Group.

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 for the years ended 31 March 2017 and 31 March 2018.

The Finance Act 2015 (No. 2) was enacted on 18 November 2015 which reduced the main rate of UK corporation tax to 19% with effect from 1 April 2017 and 18% from 1 April 2020. Deferred tax balances were calculated at 18% for the year ended 31 March 2016.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

5. 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 net interest on our pensions and other post-retirement assets. 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, significant debt redemption costs are typically treated as exceptional (see note 4).

	Notes	2018 £m	2017 £m	2016 £m
Finance income				
Interest income on financial instruments:				
Bank deposits and other financial assets		81	28	22
Gains on disposal of available-for-sale investments		73	25	–
		154	53	22
Finance costs				
Net interest on pensions and other post-retirement benefit obligations	23	(65)	(107)	(111)
Interest expense on financial liabilities held at amortised cost:				
Bank loans and overdrafts		(87)	(59)	(28)
Other borrowings		(1,030)	(927)	(792)
Derivatives		12	(8)	37
Unwinding of discount on provisions	24	(75)	(73)	(69)
Other interest		(11)	(17)	(27)
Less: interest capitalised ¹		128	109	112
		(1,128)	(1,082)	(878)
Remeasurements				
Net gains/(losses) on derivative financial instruments included in remeasurements ² :				
Ineffectiveness on derivatives designated as:				
Fair value hedges ³		34	33	39
Cash flow hedges		10	(12)	(15)
Net investment hedges – undesignated forward rate risk		5	60	(34)
Derivatives not designated as hedges or ineligible for hedge accounting ⁴		180	(139)	(89)
		229	(58)	(99)
		(899)	(1,140)	(977)
Net finance costs from continuing operations		(745)	(1,087)	(955)

1. Interest on funding attributable to assets in the course of construction in the current year was capitalised at a rate of 4.1% (2017: 3.4%; 2016: 3.3%). In the UK, capitalised interest qualifies for a current year tax deduction with tax relief claimed of £20 million (2017: £18 million; 2016: £19 million). In the US, capitalised interest is added to the cost of plant and qualifies for tax depreciation allowances.

2. Includes a net foreign exchange loss on financing activities of £314 million (2017: £264 million loss; 2016: £407 million loss) 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 £90 million (2017: £27 million loss; 2016: £34 million gain) and a net gain of £124 million (2017: £60 million gain; 2016: £5 million gain) arising from fair value adjustments to the carrying value of debt.

4. Includes £110 million gain on the Further Acquisition Agreement (FAA) derivative financial instrument relating to the put/call option over a 14% interest in Quadgas HoldCo Limited. Further details can be found in note 15.

6. Tax

Tax is payable in the territories where we operate, mainly the UK and the US. 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 the accounting and tax bases.

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

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

The Group operates internationally in territories with different and complex tax codes. Management exercises judgement in relation to the level of provision required for uncertain tax outcomes. There are a number of tax positions not yet agreed with the tax authorities where different interpretations of legislation could lead to a range of outcomes. Judgements are made for each position having regard to particular circumstances and advice obtained.

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.

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 the taxable profit or loss.

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

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

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

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

Tax (credited)/charged to the income statement – continuing operations

	2018 £m	2017 £m	2016 £m
Tax before exceptional items and remeasurements	589	666	604
Exceptional tax on items not included in profit before tax (see note 4)	(1,510)	(94)	(162)
Tax on other exceptional items and remeasurements	37	(198)	(15)
Tax on total exceptional items and remeasurements	(1,473)	(292)	(177)
Total tax (credit)/charge from continuing operations	(884)	374	427

Tax as a percentage of profit before tax

	2018 %	2017 %	2016 %
Before exceptional items and remeasurements – continuing operations	22.2	23.7	25.0
After exceptional items and remeasurements – continuing operations	(32.6)	17.1	18.3

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

6. Tax continued

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

	2018 £m	2017 £m	2016 £m
Current tax:			
UK corporation tax at 19% (2017: 20%; 2016: 20%)	205	225	239
UK corporation tax adjustment in respect of prior years	(18)	(47)	(5)
	187	178	234
Overseas corporation tax	15	–	38
Overseas corporation tax adjustment in respect of prior years	(4)	1	(19)
	11	1	19
Total current tax from continuing operations	198	179	253
Deferred tax:			
UK deferred tax	65	(9)	(80)
UK deferred tax adjustment in respect of prior years	(2)	(18)	24
	63	(27)	(56)
Overseas deferred tax	(1,155)	224	229
Overseas deferred tax adjustment in respect of prior years	10	(2)	1
	(1,145)	222	230
Total deferred tax from continuing operations	(1,082)	195	174
Total tax (credit)/charge from continuing operations	(884)	374	427

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

	2018 £m	2017 £m	2016 £m
Current tax:			
Share-based payments	(3)	(4)	(1)
Available-for-sale investments	(11)	6	5
Deferred tax:			
Available-for-sale investments	(18)	8	12
Cash flow hedges	(4)	20	22
Share-based payments	1	1	–
Remeasurements of gains of pension assets and post-retirement benefit obligations ¹	530	277	95
	495	308	133
Total tax recognised in the statements of comprehensive income from continuing operations	497	311	134
Total tax recognised in the statements of comprehensive income from discontinued operations	–	10	23
Total tax relating to share-based payments recognised directly in equity from continuing operations	(2)	(3)	(1)
Total tax relating to share-based payments recognised directly in equity from discontinued operations	–	–	(1)
	495	318	155

1. Remeasurements of gains of pension assets and post-retirement benefit obligations includes a deferred tax charge of £281 million arising on the reduction in the US corporation tax rate.

6. Tax continued

The tax credit for the year after exceptional items and remeasurements, for the continuing business, is lower (2017: lower tax charge; 2016: lower tax charge) than the standard rate of corporation tax in the UK of 19% (2017: 20%; 2016: 20%):

	Before exceptional items and remeasurements 2018 £m	After exceptional items and remeasurements 2018 £m	Before exceptional items and remeasurements 2017 £m	After exceptional items and remeasurements 2017 £m	Before exceptional items and remeasurements 2016 £m	After exceptional items and remeasurements 2016 £m
Profit before tax from continuing operations						
Before exceptional items and remeasurements	2,650	2,650	2,807	2,807	2,417	2,417
Exceptional items and remeasurements	–	58	–	(623)	–	(88)
Profit before tax from continuing operations	2,650	2,708	2,807	2,184	2,417	2,329
Profit before tax from continuing operations multiplied by UK corporation tax rate of 19% (2017: 20%; 2016: 20%)	503	515	561	437	483	465
Effect of:						
Adjustments in respect of prior years ¹	(22)	(14)	(67)	(67)	2	1
Expenses not deductible for tax purposes ²	20	21	35	442	25	114
Non-taxable income ²	(16)	(47)	(24)	(425)	(25)	(112)
Adjustment in respect of foreign tax rates	153	157	180	104	124	129
Deferred tax impact of change in UK tax rate	(7)	(7)	–	(94)	–	(162)
Deferred tax impact of change in US tax rate due to Tax Reform	–	(1,510)	–	–	–	–
Other ³	(42)	1	(19)	(23)	(5)	(8)
Total tax charge/(credit) from continuing operations	589	(884)	666	374	604	427
	%	%	%	%	%	%
Effective tax rate – continuing operations	22.2	(32.6)	23.7	17.1	25.0	18.3

1. Prior year adjustment is primarily due to agreement of prior period tax returns.

2. For the years ended 31 March 2017 and prior, the adjustments after exceptional items and remeasurements primarily represent the impact of the Group's net investment hedging following significant US dollar currency fluctuations.

3. Other primarily comprises tax on joint ventures and associates.

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.

We will continue to monitor the developments driven by Brexit, the OECD's Base Erosion and Profit Shifting (BEPS) project and European Commission initiatives including fiscal state aid investigations. At this time we do not expect this to cause any material impact on our future tax charges.

On 22 December 2017, the Tax Cuts and Jobs Act (Tax Reform) was signed into law in the US. The Tax Reform includes significant changes to various federal tax provisions applicable to National Grid. The most significant changes include the reduction in the corporate federal income tax rate from 35% to 21% effective 1 January 2018 and the elimination of bonus depreciation deduction on utility property, plant and equipment acquired after 27 September 2017 but the allowance for 100% expensing of non-utility property, plant and equipment. The reduction in the US corporate tax rate is the only item we would expect to materially impact our future effective tax rate.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

6. 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:

	Accelerated tax depreciation £m	Share- based payments £m	Pensions and other post- retirement benefits £m	Financial instruments £m	Other net temporary differences¹ £m	Total £m
Deferred tax liabilities/(assets)						
At 1 April 2016	7,063	(14)	(1,038)	(53)	(1,324)	4,634
Exchange adjustments and other²	681	1	(144)	(7)	(50)	481
Charged/(credited) to income statement	402	–	177	23	(481)	121
Charged to other comprehensive income and equity	–	1	264	46	5	316
Disposal of UK Gas Distribution	(1,072)	–	(6)	–	5	(1,073)
At 1 April 2017	7,074	(12)	(747)	9	(1,845)	4,479
Exchange adjustments and other²	(559)	–	69	1	221	(268)
(Credited)/charged to income statement	(1,641)	2	(55)	12	598	(1,084)
Charged/(credited) to other comprehensive income and equity	–	1	530	(1)	(21)	509
At 31 March 2018	4,874	(9)	(203)	21	(1,047)	3,636

1. The deferred tax asset of £1,047 million as at 31 March 2018 in respect of other net temporary differences primarily relates to US net operating losses (£390 million) and environmental provisions (£378 million).

2. Exchange adjustments and other comprises of foreign exchange arising on translation of the US dollar deferred tax balances together with a reclassification of £43 million (2017: £143 million) being the opening deferred tax balance in respect of US net operating losses to offset against US current tax liabilities.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £3,636 million (2017: £4,479 million). This balance is after offset of a deferred tax asset of £390 million (2017: £798 million) which has been recognised in respect of net operating losses. The deferred tax credited to the income statement of £1,084 million is after offset of a £293 million deferred tax charge in respect of net operating losses.

Deferred tax assets in respect of capital losses, trading losses and non-trade deficits have not been recognised as their future recovery is uncertain or not currently anticipated. The deferred tax assets not recognised are as follows:

	2018 £m	2017 £m
Capital losses	510	362
Non-trade deficits	4	4
Trading losses	4	9

The capital losses arise in the UK and are available to carry forward indefinitely. However, the capital losses can only be offset against future capital gains. The UK non-trade deficits arose prior to 1 April 2017 and therefore can only be offset against future non-trade profits.

At 31 March 2018 there was no recognised deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's subsidiaries or its associates as there are no significant corporation tax consequences of the Group's UK, US or overseas subsidiaries or associates paying dividends to their parent companies. There are also no significant income tax consequences for the Group attaching to the payment of dividends by the Group to its shareholders.

Unaudited commentary on tax

Tax strategy

National Grid is a responsible tax payer. Our approach to tax is consistent with the Group's broader commitments to doing business responsibly and upholding the highest ethical standards. This includes managing our tax affairs, as we recognise that our tax contribution supports public services and the wider economy. We endeavour to manage our tax affairs so that we pay and collect the right amount of tax, at the right time, in accordance with the tax laws in all the territories in which we operate. We will claim valid tax reliefs and incentives where these are applicable to our business operations, but only where they are widely accepted through the relevant tax legislation such as those established by government to promote investment, employment and economic growth.

We have a strong governance framework and our internal control and risk management framework helps us manage risks, including tax risk, appropriately. We take a conservative approach to tax risk. However, there is no prescriptive level or pre-defined limit to the amount of acceptable tax risk.

We act with openness and honesty when engaging with relevant tax authorities and seek to work with tax authorities on a real time basis. We engage proactively in developments on external tax policy and engage with relevant bodies where appropriate.

Ultimate responsibility and oversight of our tax strategy and governance rests with the Finance Committee, with executive management delegated to our Finance Director.

For more detailed information, please refer to our published global tax strategy on our website.

Total UK tax contribution (continuing and discontinued operations combined)

This year we have again disclosed additional information in respect of our total UK tax contribution for consistency and to aid transparency in an area in which there remains significant public interest. As was the case in prior years, the total amount of taxes we pay and collect in the UK year-on-year is significantly more than just the corporation tax which we pay on our UK profits. Within the total, we again include other taxes paid such as business rates and taxes on employment together with employee taxes and other indirect taxes.

The most significant amounts making up the 2017/18 total tax contribution are shown in the charts below:

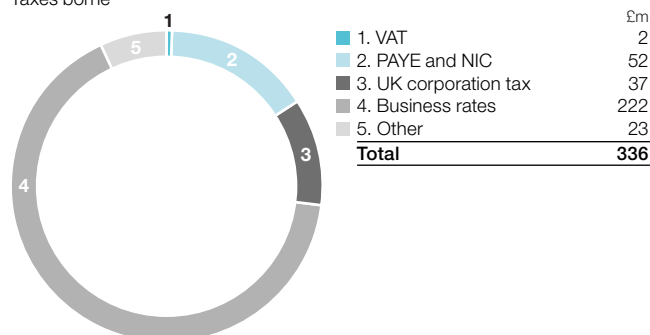
For 2017/18 our total tax contribution to the UK Exchequer was £0.9 billion (2016/17: £1.5 billion), taxes borne in 2017/18 were £336 million (2016/17: £644 million) and taxes collected were £603 million (2016/17: £887 million). The fall in our total tax contribution against prior year is primarily due to the sale of the UK Gas Distribution business in the previous year, which reduced the overall size of the UK business. This reduction was expected and as such forecasted in the total UK tax contribution commentary included in our prior year accounts.

Our 2016/17 total tax contribution of £1.5 billion meant that National Grid was the 15th highest contributor of UK taxes (2015/16: 15th) based on the results of the 100 Group's 2017 Total Tax Contribution Survey (being the most recent available), a position commensurate with the size of our business and capitalisation during that year relative to other contributors to the survey. In 2016/17 we ranked 9th in respect of taxes borne (2015/16: 9th). Due to the sale of the UK Gas Distribution business on 31 March 2017, our ranking in future 100 Group surveys is expected to fall, commensurate with the ongoing size of the business.

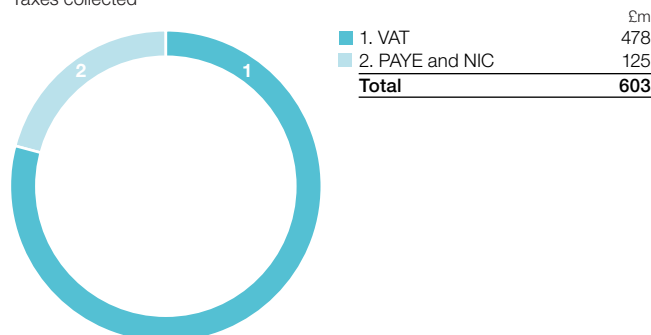
National Grid's contribution to the UK economy is again broader than just the taxes it pays over to and collects on behalf of HMRC. The 100 Group's 2017 Total Tax Contribution Survey ranks National Grid in 3rd place in respect of UK capital expenditure on fixed assets, retaining 3rd place from 2016. National Grid's economic contribution also supports a significant number of UK jobs in our supply chain.

UK total tax contribution 2017/18 (taxes paid/collected)

Taxes borne



Taxes collected



Notes to the consolidated financial statements

– analysis of items in the primary statements continued

Unaudited commentary on tax continued

Tax transparency

The UK tax charge for the year disclosed in the financial statements in accordance with accounting standards and the UK corporation tax paid during the year will differ. To aid transparency we have included a reconciliation below of the tax charge per the income statement to the UK corporation tax paid in 2017/18.

The tax credit for the Group from continuing operations as reported in the income statement is £884 million (2016/17: £374 million charge). The UK tax charge is £250 million (2016/17: £151 million) and UK corporation tax paid was £37 million (2016/17: £129 million), with the principal differences between these two measures as follows:

Reconciliation on continuing operations of UK total tax charge to UK corporation tax paid	Year ended 31 March	
	2018 £m	2017 £m
Total UK tax charge (current tax £187m (2017: £178m) and deferred tax charge £63m (2017: credit £27m))	250	151
Adjustment for non-cash deferred tax (charge)/credit	(63)	27
Adjustments for current tax credit in respect of prior years	18	47
UK current tax charge	205	225
UK corporation tax instalment payments not payable until the following year	(101)	(216)
UK corporation tax instalment (refunds)/payments in respect of prior years paid in current year	(67)	120
UK corporation tax paid	37	129

Tax losses

We have total unrecognised deferred tax assets in respect of losses of £518 million (2016/17: £375 million) of which £510 million (2016/17: £362 million) are capital losses in the UK as set out on page 120. These losses arose as a result of the disposal of certain businesses or assets and may be available to offset against future capital gains in the UK.

Development of future tax policy

We believe that the continued development of a coherent and transparent tax policy in the UK is critical to help drive growth in the economy.

We continue to contribute to research into the structure of business tax and its economic impact by contributing to the funding of the Oxford University Centre for Business Tax at the Saïd Business School.

We are a member of a number of industry groups which participate in the development of future tax policy, including the 100 Group, which represents the views of Finance Directors of FTSE 100 companies and several other large UK companies. Our Finance Director is Chairman of the 100 Group. This helps to ensure that we are engaged at the earliest opportunity on tax issues which affect our business. In the current year we have reviewed and responded to a number of HMRC consultations, the subject matter of which directly impacts taxes borne or collected by our business, with the aim of openly contributing to the debate and development of UK tax legislation. We undertake similar activities in the US, where the Company is an active member in the Edison Electric Institute, the American Gas Association and the Organization for International Investment.

7. Earnings per share (EPS)

EPS is the amount of post-tax profit attributable to each ordinary share. Basic EPS is calculated on profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS shows what the impact would be if all outstanding share options were exercised and treated as ordinary shares at year end. The weighted average number of shares is increased by additional shares issued as scrip dividends and reduced by shares repurchased by the Company during the year. The earnings per share calculations are based on profit after tax attributable to equity shareholders of the Company which excludes non-controlling interests.

Adjusted earnings and EPS, which exclude exceptional items and remeasurements, are provided to reflect the business performance sub-totals used by the Company. We have included reconciliations from this additional EPS measure to earnings for both basic and diluted EPS to provide additional detail for these items. For further details of exceptional items and remeasurements, see note 4.

Following the sale of the UK Gas Distribution business on 31 March 2017, National Grid plc returned approximately £3,170 million of proceeds to shareholders through a special dividend, paid on 2 June 2017. In order to maintain the comparability of the Company's share price before and after the special dividend, this was preceded by a share consolidation undertaken on 22 May 2017, replacing every 12 existing ordinary shares with 11 new ordinary shares. The weighted average number of ordinary shares outstanding for the period includes the effect of both the share consolidation and the special dividend from the date that the special dividend was paid. The associated share buyback programme which commenced on 2 June 2017 is now complete. Purchased shares are held as treasury shares.

(a) Basic earnings per share

	Earnings 2018 £m	Earnings per share 2018 pence	Earnings 2017 £m	Earnings per share 2017 pence	Earnings 2016 £m	Earnings per share 2016 pence
Adjusted earnings from continuing operations	2,060	59.5	2,141	56.9	1,812	48.0
Exceptional items after tax from continuing operations	1,319	38.1	(312)	(8.3)	162	4.3
Remeasurements after tax from continuing operations	212	6.2	(19)	(0.5)	(73)	(1.9)
Earnings from continuing operations	3,591	103.8	1,810	48.1	1,901	50.4
Adjusted earnings from discontinued operations	–	–	607	16.1	574	15.2
Exceptional items and remeasurements after tax from discontinued operations	(41)	(1.2)	5,378	142.9	116	3.1
Earnings from discontinued operations	(41)	(1.2)	5,985	159.0	690	18.3
Total adjusted earnings	2,060	59.5	2,748	73.0	2,386	63.2
Total exceptional items and remeasurements after tax (including discontinued operations)	1,490	43.1	5,047	134.1	205	5.5
Total earnings	3,550	102.6	7,795	207.1	2,591	68.7
		2018 millions		2017 millions		2016 millions
Weighted average number of ordinary shares – basic		3,461		3,763		3,774

(b) Diluted earnings per share

	Earnings 2018 £m	Earnings per share 2018 pence	Earnings 2017 £m	Earnings per share 2017 pence	Earnings 2016 £m	Earnings per share 2016 pence
Adjusted earnings from continuing operations	2,060	59.3	2,141	56.7	1,812	47.8
Exceptional items after tax from continuing operations	1,319	37.9	(312)	(8.3)	162	4.3
Remeasurements after tax from continuing operations	212	6.1	(19)	(0.5)	(73)	(1.9)
Earnings from continuing operations	3,591	103.3	1,810	47.9	1,901	50.2
Adjusted earnings from discontinued operations	–	–	607	16.0	574	15.1
Exceptional items and remeasurements after tax from discontinued operations	(41)	(1.2)	5,378	142.3	116	3.1
Earnings from discontinued operations	(41)	(1.2)	5,985	158.3	690	18.2
Total adjusted earnings	2,060	59.3	2,748	72.7	2,386	62.9
Total exceptional items and remeasurements after tax (including discontinued operations)	1,490	42.8	5,047	133.5	205	5.5
Total earnings	3,550	102.1	7,795	206.2	2,591	68.4
		2018 millions		2017 millions		2016 millions
Weighted average number of ordinary shares – diluted		3,476		3,780		3,790

(c) Reconciliation of basic to diluted average number of shares

	2018 millions	2017 millions	2016 millions
Weighted average number of ordinary shares – basic	3,461	3,763	3,774
Effect of dilutive potential ordinary shares – employee share plans	15	17	16
Weighted average number of ordinary shares – diluted	3,476	3,780	3,790

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

8. 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 pay out the remainder in accordance with our dividend policy.

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

	2018			2017			2016		
	Pence per share	Cash dividend paid £m	Scrip dividend £m	Pence per share	Cash dividend paid £m	Scrip dividend £m	Pence per share	Cash dividend paid £m	Scrip dividend £m
Interim dividend in respect of the current year	15.49	346	176	15.17	540	32	15.00	532	31
Special dividend	84.375	3,171	–	–	–	–	–	–	–
Final dividend in respect of the prior year	29.10	970	33	28.34	923	151	28.16	805	248
	128.965	4,487	209	43.51	1,463	183	43.16	1,337	279

The Directors are proposing a final dividend for the year ended 31 March 2018 of 30.44p per share that will absorb approximately £1.0 billion of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 15 August 2018 to shareholders who are on the register of members at 1 June 2018 (subject to shareholders' approval at the AGM). A scrip dividend will be offered as an alternative.

Following completion of the sale of the majority interest in UK Gas Distribution, the Company paid a special dividend on 2 June 2017 of 84.375p per existing ordinary share (\$5.4224 per existing American Depositary Share). This returned approximately £3,170 million to shareholders. No scrip dividend was offered as an alternative.

Unaudited commentary on dividends

Following the announcement of our dividend policy in March 2013, the Board remains confident that National Grid is able to support a dividend per share growing at least in line with RPI inflation for the foreseeable future, while continuing to invest as required in our regulated assets.

In August 2014 we began a share buyback programme that will allow us to offer the scrip dividend option for both the full year and interim dividend. The buyback programme is designed to balance shareholders' appetite for the scrip dividend option with our desire to operate an efficient balance sheet with appropriate leverage. At this stage we do not expect to buyback scrip issuances in 2019 and 2020, unless we have higher than anticipated balance sheet capacity.

9. Discontinued operations

Our results and cash flows of significant assets or businesses sold during the year are shown separately from our continuing operations. Assets and businesses are classified as held for sale when their carrying amounts are recovered through sale rather than through continuing use. It only meets the held for sale condition when the assets are ready for immediate sale in their present condition, management is committed to the sale and it is highly probable that the sale will complete within one year. Depreciation ceases on assets and businesses when they are classified as held for sale and the assets and businesses are impaired if the proceeds less sale costs fall short of the carrying value.

As a result of the sale of a 61% controlling interest in UK Gas Distribution on 31 March 2017, we are required to report our earnings for the Group excluding UK Gas Distribution ('continuing operations') separately from the results of that business, which we report within 'discontinued operations'. The gain recognised by the Group on sale is analysed in the detail of the note below. All costs associated with the transaction, including those associated with separation and setting up UK Gas Distribution are shown as a deduction from the proceeds received. Any adjustments arising as part of the completion adjustments finalised within the measurement period would result in a further gain or loss on disposal to be reported within discontinued operations in the current period.

Disposal of UK Gas Distribution

On 31 March 2017 the Group completed the disposal of a 61% equity interest in the UK Gas Distribution business, principally comprising the Group's equity and debt interests in National Grid Gas Distribution Limited together with certain other assets (principally property and a 45% interest in Xoserve Limited). Further details are included in the Annual Report and Accounts 2016/17.

The Group sold its 100% equity interest in UK Gas Distribution to Quadgas HoldCo Limited, a newly incorporated UK limited company 61% owned by Quadgas Investments BidCo Limited and 39% by the Group's subsidiary National Grid Holdings One plc. In exchange, the Group received cash consideration of £3,679 million, loan proceeds of £1,775 million and recognised a shareholder loan receivable of £429 million and a 39% equity interest in Quadgas HoldCo Limited.

The UK Gas Distribution business met the criteria to be classified as held for sale at 8 December 2016, the date that the Group initially entered into the sale agreement, and depreciation and amortisation (circa £25 million per month) on tangible and intangible fixed assets ceased from this date. The disposal of UK Gas Distribution resulted in a £5.3 billion gain on disposal. The provisional purchase price allocation reported in the Annual Report and Accounts 2016/17 has been finalised and there were no significant adjustments arising on finalisation of this exercise in the current year.

The business represented a reportable segment and a separate major line of business and accordingly was presented as a discontinued operation in the consolidated income statement, consolidated statement of comprehensive income and the consolidated cash flow statement in 2016/17.

In 2017/18 a loss of £41 million is reported in discontinued operations, with £33 million relating to the completion accounts settlement in November 2017. In addition, this reflects a net charge of £8 million representing further transaction costs and gains principally relating to the reversal of provisions.

In addition, there was a cash outflow from operating activities of £207 million related to the utilisation of provisions, principally relating to payments of professional fees in respect of the disposal of the UK Gas Distribution business. Net cash flows used in financing activities were £231 million for the settlement of RPI swaps relating to the final stages of the Group-wide liability management programme executed as part of the sale process (2017: cash flows comprising £4.8 billion of debt issued and term debt raised, offset by £3.2 billion in respect of bond buybacks).

On 1 May 2018, the Group announced that it had entered into an agreement with Quadgas Investments BidCo Limited regarding the potential sale of its remaining 25% interest in Quadgas HoldCo Limited. Further details are given in notes 4, 15 and 35.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

9. Discontinued operations continued

Summary income statement – discontinued operations

The summary income statement for discontinued operations for the years ended 31 March 2017 and 2016 are as follows:

	2017 £m	2016 £m
Revenue	1,887	1,903
Operating costs	(993)	(1,043)
Operating profit ¹	894	860
Finance costs	(152)	(157)
Profit before tax from discontinued operations	742	703
Tax from discontinued operations	(79)	(11)
Profit after tax from discontinued operations	663	692
Gain on disposal of UK Gas Distribution	5,009	–
Tax on gain on disposal of UK Gas Distribution	312	–
Gain on disposal of UK Gas Distribution after tax	5,321	–
Total profit after tax from discontinued operations	5,984	692

1. 2016 includes sale preparation costs of £22 million in respect of the disposal of the UK Gas Distribution business. 2017 costs have been included as part of transaction costs in determining the gain on disposal.

The total gain on the disposal after tax of £5,321 million was comprised of total consideration of £7,494 million before transaction costs of £1,837 million and a tax credit of £312 million compared to net assets on disposal of £648 million.

Statement of comprehensive income – discontinued operations

for the years ended 31 March

	Notes	2017 £m	2016 £m
Profit after tax from discontinued operations		5,984	692
Other comprehensive (loss)/income			
Items that will never be reclassified to profit or loss:			
Remeasurement (losses)/gains of pension assets and post-retirement benefit obligations	23	(75)	129
Tax on items that will never be reclassified to profit or loss	6	13	(30)
Total items from discontinued operations that will never be reclassified to profit or loss		(62)	99
Items that may be reclassified subsequently to profit or loss:			
Net losses in respect of cash flow hedges		(106)	(38)
Transferred to profit or loss in respect of cash flow hedges		233	3
Tax on items that may be reclassified subsequently to profit or loss	6	(23)	7
Total items from discontinued operations that may be reclassified subsequently to profit or loss		104	(28)
Other comprehensive income/(loss) for the year, net of tax from discontinued operations		42	71
Total comprehensive income for the year from discontinued operations		6,026	763

10. Goodwill

Goodwill represents the excess of what we paid to acquire businesses over the fair value of their net assets at the acquisition date. We assess whether goodwill is recoverable each year by performing an impairment review.

Goodwill is recognised as an asset and is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

Goodwill is allocated to cash-generating units and this allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Impairment is recognised where there is a difference between the carrying value of the cash-generating unit and the estimated recoverable amount of the cash-generating unit to which that goodwill has been allocated. Any impairment loss is first allocated to the carrying value of the goodwill and then to the other assets within the cash-generating unit. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value-in-use at the date the impairment review is undertaken.

Value-in-use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

	Total £m
Net book value at 1 April 2016	5,315
Exchange adjustments	781
Net book value at 31 March 2017	6,096
Exchange adjustments	(652)
Net book value at 31 March 2018	5,444

The cost of goodwill at 31 March 2018 was £5,458 million (2017: £6,112 million) with an accumulated impairment charge of £14 million (2017: £16 million).

The amounts disclosed above as at 31 March 2018 include balances relating to the following cash-generating units: New York £3,137 million (2017: £3,512 million); Massachusetts £1,173 million (2017: £1,313 million); Rhode Island £436 million (2017: £488 million); and Federal £699 million (2017: £783 million).

Goodwill is reviewed annually for impairment and the recoverability of goodwill has been assessed by comparing the carrying amount of our operations described above (our cash-generating units) with the expected recoverable amount on a value-in-use basis. In each assessment, the value-in-use has been calculated based on five-year plan projections that incorporate our best estimates of future cash flows, customer rates, costs (including changes in commodity prices), future prices and growth. Such projections reflect our current regulatory rate plans taking into account regulatory arrangements to allow for future rate plan filings and recovery of investment. Our plans have proved to be reliable guides in the past and the Directors believe the estimates are appropriate.

The future economic growth rate used to extrapolate projections beyond five years is 2.3% (2017: 2.0%). The growth rate has been determined having regard to data on projected growth in US real gross domestic product (GDP). Based on our business' place in the underlying US economy, it is appropriate for the terminal growth rate to be based upon the overall growth in real GDP and, given the nature of our operations, to extend over a long period of time. Cash flow projections have been discounted to reflect the time value of money, using a post-tax discount rate of 5.3% (2017: 5.4%). The equivalent pre-tax discount rate is 5.3% (2017: 5.4%) as no cash tax is payable in our five-year plan projections. The discount rate represents the estimated weighted average cost of capital of these operations.

In reaching this conclusion, the Directors have considered the potential future consequences regarding the manner in which Tax Reform will impact the Group and its future cash flows. The full implications of the new legislation on earnings and cash flows are still being reviewed, and will depend on the outcome of discussions with regulators.

In our US business, we are subject to federal and state taxes, however our regulatory arrangements require us to pass this cost back to our customers. The reduction in the corporation tax rate from 35% to 21% will be reflected through lower bills to customers, reducing our revenues (and tax costs) in future periods. For the purposes of the goodwill impairment exercise, we have reflected the lower billing levels through lower revenue forecasts as well as lower tax charges.

Historically, as a result of tax losses arising from claiming accelerated depreciation allowances, we have not paid substantial amounts of tax in the US. Accordingly, for IFRS purposes, we have recognised significant deferred tax liabilities in respect of these accelerated allowances. In accounting terms, Tax Reform triggers the remeasurement of our deferred tax liabilities from 35% to 21% which has resulted in the exceptional gain under IFRS (as disclosed in notes 4 and 6). However, the impact for our US business is that the amounts we have previously received from customers assuming a 35% federal tax rate must now be returned to customers. The precise manner and timing over which this occurs remains subject to agreement with our regulators. We are currently in discussions with regulators as to how best to adjust the customer bills for this purpose, and over what time period.

Offsetting this change will be the additional income we earn, since the rate base will grow faster. (Our rate base is net of deferred tax liabilities, which, as a result of Tax Reform, will now be smaller.) In overall terms we expect the outcome to be economically neutral.

In assessing the carrying value of goodwill, we have sensitised our forecasts to factor in a reduction in revenues and lower tax costs into our cash flow forecasts, but not reflected the impact of additional rate base growth on future earnings. While it is possible that a key assumption in the calculation could change, the Directors believe that no reasonably foreseeable change would result in an impairment of goodwill, in view of the long-term nature of the key assumptions and the margin by which the estimated value-in-use exceeds the carrying amount.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

11. Other intangible assets

Other intangible assets include software which is written down (amortised) over the length of period we expect to receive a benefit from the asset.

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

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

Other intangible assets are amortised on a straight-line basis over their estimated useful economic lives. Amortisation periods for categories of intangible assets are:

	Years
Software	3 to 10
	Software £m
Cost at 1 April 2016	1,744
Exchange adjustments	105
Additions	234
Disposals	(43)
Disposal of UK Gas Distribution	(304)
Reclassifications ¹	(4)
Cost at 31 March 2017	1,732
Exchange adjustments	(98)
Additions	173
Disposals	(18)
Reclassifications ¹	8
Cost at 31 March 2018	1,797
Accumulated amortisation at 1 April 2016	(857)
Exchange adjustments	(43)
Amortisation charge for the year	(164)
Accumulated amortisation of disposals	40
Disposal of UK Gas Distribution	215
Accumulated amortisation at 31 March 2017	(809)
Exchange adjustments	43
Amortisation charge for the year	(138)
Accumulated amortisation of disposals	6
Accumulated amortisation at 31 March 2018	(898)
Net book value at 31 March 2018²	899
Net book value at 31 March 2017	923

1. Reclassifications includes amounts transferred (to)/from property, plant and equipment (see note 12).

2. Included in software is £160 million relating to the US ERP system, which still has a remaining amortisation period of six years.

12. Property, plant and equipment

The following note shows the physical assets controlled by us. The cost of these assets primarily represents the amount initially paid for them. This includes both their purchase price and the construction and other costs associated with getting them ready for operation. 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 energy networks business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and 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 as well as the cost of any associated asset retirement obligations.

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. All costs associated with projects or activities which have not been fully commissioned at the period end are classified within assets in the course of construction.

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:

	Years
Freehold and leasehold buildings	up to 101
Plant and machinery:	
Electricity transmission plant and wires	15 to 100
Electricity distribution plant	29 to 75
Electricity generation plant	20 to 93
Interconnector plant and other	5 to 60
Gas plant – mains, services and regulating equipment	10 to 95
Gas plant – storage	5 to 65
Gas plant – meters	7 to 65
Motor vehicles and office equipment	up to 29

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised 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 if immaterial are included within depreciation charge for the year.

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

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

12. 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	2,758	54,772	3,874	1,171	62,575
Exchange adjustments	196	3,157	93	76	3,522
Additions	55	822	3,080	132	4,089
Disposals ¹	(22)	(572)	(70)	(204)	(868)
Disposal of UK Gas Distribution	(112)	(11,861)	(88)	(300)	(12,361)
Reclassifications ²	104	2,913	(2,938)	(41)	38
Cost at 31 March 2017	2,979	49,231	3,951	834	56,995
Exchange adjustments	(169)	(2,862)	(89)	(67)	(3,187)
Additions	38	430	3,358	75	3,901
Disposals ¹	(16)	(216)	(21)	(34)	(287)
Reclassifications ²	98	2,791	(2,926)	49	12
Cost at 31 March 2018	2,930	49,374	4,273	857	57,434
Accumulated depreciation at 1 April 2016	(640)	(17,828)	–	(743)	(19,211)
Exchange adjustments	(29)	(780)	–	(44)	(853)
Depreciation charge for the year	(84)	(1,338)	–	(113)	(1,535)
Disposals ¹	42	545	–	203	790
Disposal of UK Gas Distribution	29	3,425	–	207	3,661
Reclassifications ²	(2)	(20)	–	–	(22)
Accumulated depreciation at 31 March 2017	(684)	(15,996)	–	(490)	(17,170)
Exchange adjustments	28	695	–	36	759
Depreciation charge for the year	(28)	(1,276)	–	(88)	(1,392)
Disposals ¹	10	199	–	33	242
Reclassifications ²	–	(20)	–	–	(20)
Accumulated depreciation at 31 March 2018	(674)	(16,398)	–	(509)	(17,581)
Net book value at 31 March 2018	2,256	32,976	4,273	348	39,853
Net book value at 31 March 2017	2,295	33,235	3,951	344	39,825

1. Includes the reversal of assets with cost of £51 million (2017: £107 million) and accumulated depreciation of £51 million (2017: £107 million) disposed in previous years that remain in use in the Group. It also includes £334 million of adjustments from accumulated depreciation to cost for historical disposals relating to assets acquired as part of the KeySpan acquisition in 2008 which were disposed of in subsequent periods. Both of these adjustments have a nil net book value impact.
2. Represents amounts transferred between categories, (to)/from other intangible assets (see note 11), reclassifications from inventories and reclassifications between cost and accumulated depreciation.

	2018 £m	2017 £m
Information in relation to property, plant and equipment		
Capitalised interest included within cost	1,861	1,749
Net book value of assets held under finance leases (all relating to motor vehicles and office equipment)	253	289
Additions to assets held under finance leases (all relating to motor vehicles and office equipment)	58	98
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	85	89
Non-current liabilities	844	839

13. Other non-current assets

Other non-current assets include assets that do not fall into any other non-current asset category (such as goodwill or property, plant and equipment) where the benefit to be received from the asset is not due to be received until after 31 March 2019.

	2018 £m	2017 ¹ £m
Other receivables	36	45
Non-current tax assets	51	–
Prepayments and accrued income	28	24
	115	69

1. Comparative amounts have been represented to reflect the reclassification of commodity derivative contracts from other non-current assets to derivatives (see note 16).

14. Financial and other investments

Financial and other investments include three 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 comprises long-term loans to our associates and joint ventures. The third category is other 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 against derivative holdings.

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 plus transaction costs 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
Non-current		
Available-for-sale investments	417	605
Loans to joint ventures and associates ¹	482	495
	899	1,100
Current		
Available-for-sale investments	2,304	7,432
Other loans and receivables	390	1,309
	2,694	8,741
	3,593	9,841
Financial and other investments include the following:		
Investments in short-term money funds ²	1,999	6,899
Managed investments in equity and bonds ³	530	939
Cash surrender value of life insurance policies	198	202
Loans to joint ventures and associates	482	495
Restricted balances:		
Collateral ⁴	335	1,262
Other	49	44
	3,593	9,841

1. Comprises £352 million (2017: £434 million) relating to a shareholder loan to Quadgas HoldCo Limited, and the remainder is a loan to a joint venture.

2. Includes £69 million (2017: £14 million) held by insurance captives and therefore restricted.

3. Includes restricted amounts of £301 million (2017: £434 million) held by insurance captives and £214 million (2017: £225 million) relating to US non-qualified plan investments.

4. Refers to collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA (International Swaps and Derivatives Association) Master Agreement.

Available-for-sale investments are recorded at fair value. The carrying value of current loans and receivables is approximate to their fair values, due to short-dated maturities. The carrying value of the non-current loans to joint ventures and associates approximates their fair values as at 31 March 2018 and 31 March 2017. The exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our credit risk, refer to note 30(a). None of the financial investments are impaired.

Unaudited commentary on financial and other investments

Current available-for-sale investments at 31 March 2018 were £5,128 million lower than the prior year. The balance at 31 March 2017 included the proceeds received from the sale of the UK Gas Distribution business. £4,010 million of these proceeds were distributed in the current year through the special dividend and share buyback.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

15. Investments in joint ventures and associates

Investments in joint ventures and associates represent businesses we do not control, but instead exercise joint control or significant influence.

A joint venture is an arrangement established to engage in economic activity, which the Group jointly controls with other parties and has rights to the net assets of the arrangement. An associate is an entity which is neither a subsidiary nor a joint venture, but over which the Group has significant influence.

	2018			2017		
	Associates £m	Joint ventures £m	Total £m	Associates £m	Joint ventures £m	Total £m
Share of net assets at 1 April	1,776	307	2,083	84	313	397
Exchange adjustments	(19)	7	(12)	16	19	35
Additions	65	64	129	74	63	137
Acquisition of stake in Quadgas HoldCo Limited	–	–	–	1,611	–	1,611
Capitalisation of shareholder loan to Quadgas HoldCo Limited	69	–	69	–	–	–
Impairment charge against investment in Quadgas HoldCo Limited	(213)	–	(213)	–	–	–
Share of post-tax results for the year	147	26	173	15	48	63
Share of other comprehensive income of associates, net of tax	147	–	147	–	–	–
Dividends received	(170)	(43)	(213)	(24)	(75)	(99)
Other movements	5	–	5	–	(61)	(61)
Share of net assets at 31 March	1,807	361	2,168	1,776	307	2,083

A list of joint ventures and associates including the name and proportion of ownership is provided in note 32.

Further information on the Group's acquisition of an associate interest in Quadgas HoldCo Limited is provided in note 9 and opposite.

On 1 May 2018, the Group announced that it had entered into the Remaining Acquisition Agreement (RAA) with Quadgas Investments BidCo Limited (the Consortium) regarding the potential sale of its remaining 25% interest in Quadgas HoldCo Limited, the holding company for Cadent Gas Limited. The RAA contains both put and call options for both the Group and the Consortium that can be exercised in the period between 1 March 2019 and 31 October 2019 (subject to giving six months' notice) for cash proceeds of approximately £1.2 billion.

The nature of the contractual arrangements in the RAA are substantially the same as those within the Further Acquisition Agreement (FAA), which also contains put and call options that can be exercised by either party during the same time-frame.

The carrying value of the Group's equity interest in Quadgas HoldCo Limited at 31 March 2017 was £1.6 billion, reflecting our best estimate of the fair value of that stake, as it was treated as an asset acquired at fair value following the disposal of a controlling interest in the UK Gas Distribution business.

As set out in note 16, at 31 March 2018 we recognised a derivative financial asset of £110 million relating to the FAA agreement. In addition, an impairment review of the Group's interests in Quadgas HoldCo Limited, (comprising the FAA derivative, a 39% equity interest and £352 million in shareholder loans), was undertaken, comparing the aggregated carrying value of these interests against the future dividend income and proceeds we would expect to receive under the FAA and RAA. This resulted in a charge of £213 million, recorded as impairment against the carrying value of the equity. The impairment largely offsets pension accounting gains, and the recognition of the FAA derivative asset.

Following recognition of the FAA derivative asset and the impairment charge, the aggregate carrying value of Group's interests associated with Quadgas HoldCo Limited is £2.1 billion, which is close to our original assessment of fair market value as determined at 31 March 2017. Of this, £1.6 billion relates to our equity interest.

In 2017 the Group first entered into an arrangement with San Francisco-based Sunrun Neptune Investor 2016 LLC, a leading US provider of residential solar energy systems to provide investment capital. In the period to 31 March 2018, the Group invested £38 million (2017: £41 million) alongside Sunrun into a newly incorporated partnership vehicle. The investment is classified as an associate as the Group has significant influence over the activities of the partnership vehicle. The fair value gain on this investment of £7 million has been reflected within the share of post-tax results for the year.

The joint ventures and associates have no significant contingent liabilities to which the Group is exposed, and the Group has no significant contingent liabilities in relation to its interests in the joint ventures and associates. The Group has capital commitments of £120 million (2017: £235 million) in relation to joint ventures.

Outstanding balances with joint ventures and associates are shown in note 29.

At 31 March 2018, the Group had one material joint venture, being its 50% equity stake in BritNed Development Limited, and one material associate being its 39% equity stake in Quadgas HoldCo Limited.

15. Investments in joint ventures and associates continued

BritNed Development Limited (joint venture)

BritNed Development Limited is a joint venture with transmission system operator TenneT and operates the subsea electricity link between Great Britain and the Netherlands, commissioned in 2011.

BritNed Development Limited has a reporting period end of 31 December with monthly management reporting information provided to National Grid. Summarised financial information of this joint venture, as at 31 March, together with the carrying amount of the investment in the consolidated financial statements is as follows:

	2018 £m	2017 £m
Statement of financial position – BritNed Development Limited		
Non-current assets	390	392
Cash and cash equivalents	50	45
All other current assets	4	1
Non-current liabilities	(10)	(10)
Current liabilities	(28)	(20)
Equity	406	408
Carrying amount of the Group's investment (National Grid ownership 50%)	203	204
	2018 £m	2017 £m
Income statement – BritNed Development Limited		
Revenue	429	399
Depreciation and amortisation	(13)	(13)
Other costs	(324)	(257)
Operating profit	92	129
Income tax expense	(20)	(23)
Profit for the year	72	106
Group's share of profit (National Grid ownership 50%)	36	53

Quadgas HoldCo Limited (associate)

As set out in note 9, on disposal of the Group's interest in the UK Gas Distribution business, the Group retained an equity interest in UK Gas Distribution through its parent, Quadgas HoldCo Limited, and a shareholder loan asset of £0.4 billion (see note 14).

The Group has the power to appoint 4 of the 12 members of the board of Quadgas HoldCo Limited, which confers significant influence, but not joint control. In general, the key strategic, operational and financial decisions can be effected by a simple majority of votes. However, in limited circumstances, certain decisions require the consent of both parties. While these circumstances are not expected to occur regularly, given the rights conferred, and in view of the Group's equity stake, the investment has been accounted for as an equity investment in an associate.

The Group initially recognised its 39% interest in Quadgas HoldCo Limited at fair value, being the market price of the investment as at 31 March 2017. The FAA was signed concerning a 14% interest in Quadgas HoldCo Limited, which contains put and call options for both the Group and the Consortium that can be exercised in the period between 1 March 2019 and 31 October 2019. The FAA is accounted for as a derivative financial instrument (see notes 16 and 30(f)).

Quadgas HoldCo Limited is an unlisted entity, and so no quoted price exists. The fair value on initial recognition was determined with reference to the equity value of the business implicit in the sale transaction, adjusted to reflect a deduction for the estimated premium paid for control by the Consortium. In assigning value to the retained interests, the Group valued 14% of its 39% interest based on the price implied by the FAA. The deduction for control premium was applied to the residual 25% interest.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

15. Investments in joint ventures and associates continued

The Group has completed a purchase price allocation exercise for its interest in Quadgas HoldCo Limited. There were adjustments arising from the finalisation of the purchase price allocation. A £33 million loss was recognised relating to the completion accounts settlement, resulting in a £20 million payment being made to Quadgas BidCo Limited.

The fair values of the assets and liabilities of Quadgas HoldCo Limited as at 31 March 2017, as previously reported, are set out below, along with the reconciliation to the carrying value of the investment in the associate at that date:

	2017 £m
Statement of financial position – Quadgas HoldCo Limited (as previously reported)	
Non-current assets	15,559
Current assets	299
Non-current liabilities	(10,408)
Current liabilities	(519)
Equity	4,931
Proportion of the Group's ownership interest in associate	1,923
Discount for non-controlling interest	(312)
Carrying amount of the Group's interest in associate (National Grid ownership 39%)	1,611

Summarised financial information of this associate (incorporating the purchase price allocation completion adjustments), as at 31 March, together with the carrying amount of the investment in the consolidated financial statements is as follows:

	2018 £m	2017 £m
Statement of financial position – Quadgas HoldCo Limited		
Non-current assets	16,735	16,047
Current assets	427	299
Non-current liabilities	(11,195)	(10,864)
Current liabilities	(534)	(551)
Equity	5,433	4,931
Proportion of the Group's ownership interest in associate	2,119	1,923
Discount for non-controlling interest (arising on initial acquisition)	(312)	(312)
Impairment charge against investment	(213)	–
Carrying amount of the Group's interest in associate (National Grid ownership 39%)	1,594	1,611

The sale of the previously owned subsidiary and subsequent acquisition of the 39% equity interest occurred (see note 9) on 31 March 2017. All profit or loss impact for the year ended 31 March 2017 is disclosed as discontinued operations. The summarised income statement for the year ended 31 March 2018 is set out below:

	2018 £m
Income statement – Quadgas HoldCo Limited	
Revenue	1,468
Depreciation and amortisation	(378)
Other costs	(423)
Operating profit	667
Net interest payable	(272)
Income tax expense	(76)
Profit for the year	319
Group's share of profit (National Grid ownership 39%)	124

16. 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, commodities, equity or other indices. In accordance with Board approved policies, derivatives are transacted generally to manage our exposure to fluctuations in interest rate, foreign exchange and our operational market risks from our commodity activities. Our derivatives are split into the broad categories analysed below:

- derivatives managing risks to interest rate and foreign exchange rate. Specifically we use these derivatives to manage risks from the financing portfolio, to optimise the overall cost of accessing the debt capital markets, managing the exposure to holdings in foreign operations and other contractual operational cash flows; and
- derivatives managing our price and supply risks from our commodity activity.

Derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value at each reporting date. Changes in fair values are recorded in the period they arise, in either the income statement or other comprehensive income as required by IAS 39. Where the gains or losses recorded in the income statement arise from changes in the fair value of commodity contract derivatives and of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective, these are recorded as remeasurements, detailed in notes 4 and 5. Where the fair value of a derivative is positive it is carried as a derivative asset, and where negative as a derivative liability.

The total fair value of derivatives split by category is as follows:

	2018			2017		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Financing derivatives	1,545	(945)	600	1,707	(2,223)	(516)
Commodity derivatives ¹	69	(116)	(47)	106	(170)	(64)
Further Acquisition Agreement derivative ²	110	–	110	–	–	–
	1,724	(1,061)	663	1,813	(2,393)	(580)

1. Comparative amounts have been re-presented to reflect the reclassification of commodity derivative contracts from trade and other receivables (31 March 2017: £54 million), trade and other payables (31 March 2017: £93 million), other non-current assets (31 March 2017: £52 million) and other non-current liabilities (31 March 2017: £77 million), to current and non-current derivative financial assets and derivative financial liabilities.

2. This year a further derivative category has been added for the Further Acquisition Agreement (FAA) derivative. This relates to the put/call option over a 14% interest in Quadgas HoldCo Limited. Refer to note 15 for further details.

(a) Financing derivatives

We calculate fair value of the financial derivatives by discounting all future cash flows using the market yield curve at the reporting date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. Analysis of these derivatives and the various methods used to calculate their respective fair values is detailed below and in note 30.

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

	2018			2017		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Interest rate swaps	678	(457)	221	849	(657)	192
Cross-currency interest rate swaps	687	(207)	480	676	(909)	(233)
Foreign exchange forward contracts ¹	174	(2)	172	160	(113)	47
Inflation linked swaps	5	(278)	(273)	7	(529)	(522)
Equity options	1	(1)	–	15	(15)	–
	1,545	(945)	600	1,707	(2,223)	(516)

1. Included within the foreign exchange forward contracts balance is £67 million (2017: £69 million) of derivatives in relation to hedging of capital expenditure.

The maturity profile of financing derivative instruments is as follows:

	2018			2017		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Current						
Less than 1 year	375	(325)	50	192	(1,054)	(862)
	375	(325)	50	192	(1,054)	(862)
Non-current						
In 1 to 2 years	83	(88)	(5)	199	(305)	(106)
In 2 to 3 years	25	(27)	(2)	122	(160)	(38)
In 3 to 4 years	418	(5)	413	39	(83)	(44)
In 4 to 5 years	12	–	12	419	(36)	383
More than 5 years	632	(500)	132	736	(585)	151
	1,170	(620)	550	1,515	(1,169)	346
	1,545	(945)	600	1,707	(2,223)	(516)

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

16. Derivative financial instruments continued

(a) Financing derivatives continued

For each class of financing derivative the notional contract¹ amounts are as follows:

	2018 £m	2017 £m
Interest rate swaps	(8,390)	(9,469)
Cross-currency interest rate swaps	(6,925)	(8,631)
Foreign exchange forward contracts	(5,793)	(8,253)
Inflation linked swaps	(1,191)	(1,423)
Equity options	(800)	(800)
	(23,099)	(28,576)

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

(b) Commodity risk

We purchase electricity and gas to supply our customers in the US and to meet our own energy needs. Substantially all our costs of purchasing electricity and gas for supply to customers are recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular year that can lead to large fluctuations in the income statement. We follow approved policies to manage price and supply risks for our commodity activities.

Our energy procurement risk management policy and delegations of authority govern our US commodity trading activities for energy transactions. The purpose of this policy is to ensure we transact within pre-defined risk parameters and only in the physical and financial markets where we or our customers have a physical market requirement. In addition, state regulators require National Grid to manage commodity risk and cost volatility prudently through diversified pricing strategies. In some jurisdictions we are required to file a plan outlining our strategy to be approved by regulators. In certain cases we might receive guidance with regard to specific hedging limits.

Energy purchase contracts for the forward purchase of electricity or gas that are used to satisfy physical delivery requirements to customers, or for energy that the Group uses itself, meet the expected purchase or usage requirements of IAS 39. They are, therefore, not recognised in the financial statements until they are realised. Disclosure of commitments under such contracts is made in note 28.

US states have introduced a variety of legislative requirements with the aim of increasing the proportion of our electricity that is derived from renewable or other forms of clean energy. Annual compliance filings regarding the level of Renewable Energy Certificates (and other similar environmental certificates) are required by the relevant department of utilities. In response to the legislative requirements, National Grid has entered into long-term, typically fixed-price, energy supply contracts to purchase both renewable energy and environmental certificates. We are entitled to recover all costs incurred under these contracts through customer billing.

Under IFRS, where these supply contracts are not accounted for as finance leases, they are considered to comprise two components, being a forward purchase of power at spot prices, and a forward purchase of environmental certificates at a variable price (being the contract price less the spot power price). With respect to our current contracts, neither of these components meets the requirement to be accounted for as a derivative. The environmental certificates are currently required for compliance purposes, and at present there are no liquid markets for these attributes. Accordingly, this component meets the expected purchase or usage requirements of IAS 39. We expect to enter into an increasing number of these contracts, in order to meet our compliance requirements in the short to medium term. It is possible that in future, if and when liquid markets develop, and to the extent that we are in receipt of environmental certificates in excess of our required levels, this exemption may cease to apply and we may be required to account for forward purchase commitments for environmental certificates as derivatives at fair value through profit and loss.

Some forward contracts for the purchase of commodities do not meet the exemption for accounting purposes and hence are accounted for as derivatives. We also enter into derivative financial instruments linked to commodity prices, including index-linked futures, swaps, and option contracts. These derivative financial instruments are used to manage market price volatility and are carried at fair value on the statement of financial position, with the mark-to-market changes reflected through remeasurements.

For each class of commodity contract derivative type, the fair value amounts are as follows:

	2018			2017		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Commodity purchase contracts accounted for as derivative contracts						
Forward purchases of electricity	–	–	–	–	(10)	(10)
Forward purchases of gas	60	(64)	(4)	82	(97)	(15)
Derivative financial instruments linked to commodity prices						
Electricity capacity	1	–	1	2	–	2
Electricity swaps	7	(46)	(39)	11	(61)	(50)
Electricity options	–	(1)	(1)	–	–	–
Gas swaps	1	(4)	(3)	11	(2)	9
Gas options	–	(1)	(1)	–	–	–
	69	(116)	(47)	106	(170)	(64)

16. Derivative financial instruments continued

(b) Commodity risk continued

The maturity profile of commodity contracts is as follows:

	2018			2017		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Current						
Less than one year	30	(76)	(46)	54	(93)	(39)
	30	(76)	(46)	54	(93)	(39)
Non-current						
In 1 to 2 years	6	(17)	(11)	8	(36)	(28)
In 2 to 3 years	6	(11)	(5)	7	(9)	(2)
In 3 to 4 years	6	(3)	3	6	(7)	(1)
In 4 to 5 years	5	(2)	3	6	(5)	1
More than 5 years	16	(7)	9	25	(20)	5
	39	(40)	(1)	52	(77)	(25)
	69	(116)	(47)	106	(170)	(64)

For each class of commodity contract derivative, our exposure based on the notional quantities is as follows:

	2018	2017
Forward purchases of electricity ¹	0 GWh	159 GWh
Forward purchases of gas ²	54m Dth	54m Dth
Electricity swaps	12,839 GWh	12,776 GWh
Electricity options	13,897 GWh	17,793 GWh
Electricity capacity	0.6 GWm	0.7 GWm
Gas swaps	100m Dth	83m Dth
Gas options	7m Dth	9m Dth
NYMEX gas futures ³	0 Dth	3m Dth

1. Forward electricity purchases expired on 30 September 2017. The contractual obligations under these contracts are £nil (2017: £15 million).

2. Forward gas purchases have terms up to three years. The contractual obligations under these contracts are £96 million (2017: £131 million).

3. NYMEX gas futures have been offset with related margin accounts (see note 30(a)).

(c) Further Acquisition Agreement derivative

The Group signed a Further Acquisition Agreement (FAA) concerning a 14% interest in Quadgas HoldCo Limited, which contains put and call options. The fair value of these derivatives is £110 million asset at 31 March 2018 (2017: £nil). The derivative notional was £739 million (2017: £690 million). The options can be exercised in the period between 1 March 2019 and 31 October 2019. The fair value of the option has been disclosed as a non-current derivative asset.

(d) Hedge accounting

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

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

Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates and foreign exchange 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 £m	2017 £m
Cross-currency interest rate/interest rate swaps	496	548

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

16. Derivative financial instruments continued

(d) Hedge accounting 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 in other comprehensive income as gains or losses recognised in equity and transferred to the cash flow hedge reserve, 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 forecast 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	138	(180)
Foreign exchange forward contracts	66	69
	204	(111)

Net investment hedges

Borrowings, cross-currency swaps and forward currency contracts are used in the management of the foreign exchange exposure arising from the investment in non-sterling denominated subsidiaries. Where these contracts qualify for hedge accounting they are designated as net investment hedges.

	2018 £m	2017 £m
Cross-currency interest rate/interest rate swaps	(104)	(544)
Foreign exchange forward contracts	87	(56)
	(17)	(600)

The cross-currency swaps and forward foreign currency contracts are hedge accounted using the spot to spot method. The foreign exchange gain or loss on retranslation of the borrowings and the spot to spot movements on the cross-currency swaps and forward currency contracts are transferred to equity to offset gains or losses on translation of the net investment in the non-sterling denominated subsidiaries, with any ineffective portion recognised immediately in the income statement.

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	171	135
Foreign exchange forward contracts	19	34
Inflation linked swaps	(273)	(522)
Equity options	–	–
Commodity derivatives (all categories)	(47)	(64)
Further Acquisition Agreement derivative	110	–
	(20)	(417)

Discontinuation of hedge accounting

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement in the same periods in which the previously hedged item affects profit or loss, unless the hedged item is no longer expected to occur and then the amounts would be recognised immediately. Amounts deferred in equity with respect to net investment hedges are subsequently recognised in the income statement in the event of the disposal of the overseas operations concerned. For fair value hedges, the cumulative adjustment recorded to the carrying value of the hedged item at the date hedge accounting is discontinued is amortised to the income statement using the effective interest method.

Embedded derivatives

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

17. Inventories and current intangible assets

Inventories represent assets that we intend to use in order to generate revenue in the short-term, either by selling the asset itself (for example, fuel stocks) or by using it to fulfil a service to a customer or to maintain our network (consumables).

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

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

Emission allowances, principally relating to the emissions of carbon dioxide in the UK and sulphur and nitrous oxides in the US, are recorded as intangible assets within current assets, and are initially recorded at cost and subsequently at the lower of cost and net realisable value. A liability is recorded in respect of the obligation to deliver emission allowances, and emission charges are recognised in the income statement in the period in which emissions are made.

	2018 £m	2017 £m
Fuel stocks	78	101
Raw materials and consumables	190	191
Work in progress	–	8
Current intangible assets – emission allowances	73	103
	341	403

There is a provision for obsolescence of £18 million against inventories as at 31 March 2018 (2017: £26 million).

18. 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 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.

	2018 £m	2017 ¹ £m
Trade receivables	1,674	1,591
Accrued income	817	811
Prepayments	229	228
Other receivables	78	98
	2,798	2,728

1. Comparative amounts have been represented to reflect the reclassification of commodity contract derivatives from trade and other receivables to derivatives (see note 16).

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

Provision for impairment of receivables

	2018 £m	2017 £m
At 1 April	424	349
Exchange adjustments	(42)	51
Charge for the year, net of recoveries	36	147
Uncollectible amounts written off against receivables	(109)	(121)
Disposal of UK Gas Distribution	–	(2)
At 31 March	309	424

Trade receivables past due but not impaired

	2018 £m	2017 £m
Up to 3 months past due	271	238
3 to 6 months past due	73	67
Over 6 months past due	131	143
	475	448

For further information on our wholesale and retail credit risk, refer to note 30(a).

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

19. Cash and cash equivalents

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

Net cash and cash equivalents reflected in the cash flow statement are net of bank overdrafts, which are reported in borrowings. The carrying amounts of cash and cash equivalents and bank overdrafts approximate their fair values.

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

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 30(d).

	2018 £m	2017 £m
Cash at bank	54	199
Short-term deposits	275	940
Cash and cash equivalents	329	1,139

20. 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 RPI. As indicated in note 16, we use derivatives to manage risks associated with interest rates and foreign exchange. Further details on our net debt can be found in note 27.

Our strategy in action

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

Borrowings, which include interest-bearing and inflation-linked debt and overdrafts, are recorded at their initial fair values which normally reflect 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	2,020	1,339
Bonds	2,156	2,209
Commercial paper	206	1,881
Finance leases	64	66
Other loans	1	1
	4,447	5,496
Non-current		
Bank loans	2,384	2,343
Bonds	19,418	20,368
Finance leases	207	242
Other loans	169	189
	22,178	23,142
Total borrowings	26,625	28,638

20. Borrowings continued

Total borrowings are repayable as follows:

	2018 £m	2017 £m
Less than 1 year	4,447	5,496
In 1 to 2 years	1,694	1,941
In 2 to 3 years	2,347	1,821
In 3 to 4 years	1,873	2,453
In 4 to 5 years	1,469	1,921
More than 5 years:		
By instalments	1,010	1,043
Other than by instalments	13,785	13,963
	26,625	28,638

The fair value of borrowings at 31 March 2018 was £30,164 million (2017: £32,239 million). Where market values were available, fair value of borrowings (Level 1) was £13,018 million (2017: £12,547 million). Where market values were not available, fair value of borrowings (Level 2) was £17,146 million (2017: £19,692 million), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2018 was £26,363 million (2017: £28,310 million).

The assets of the Colonial Gas Company and the Niagara Mohawk Power Corporation and certain gas distribution assets of the Narragansett Electric Company are subject to liens and other charges and are provided as collateral over borrowings totalling £392 million at 31 March 2018 (2017: £440 million).

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 £878 million (2017: £709 million) in respect of cash received under collateral agreements. For further details of our borrowing facilities, refer to note 31. For further details of our bonds in issue, please refer to the debt investor section of our website. Unless included herein, the information on our website is unaudited.

Assets held under finance leases are recognised at their fair value or, if lower, the present value of the minimum lease payments on inception. The corresponding liability is recognised as a finance lease obligation within borrowings. Rental payments are apportioned between finance costs and reduction in the finance lease obligation, so as to achieve a constant rate of interest.

Assets held under finance leases are depreciated over the shorter of their useful life and the lease term.

Finance lease obligations

	2018 £m	2017 £m
Gross finance lease liabilities are repayable as follows:		
Less than 1 year	64	66
1 to 5 years	177	213
More than 5 years	72	89
	313	368
Less: finance charges allocated to future periods	(42)	(60)
	271	308
The present value of finance lease liabilities is as follows:		
Less than 1 year	64	66
1 to 5 years	144	174
More than 5 years	63	68
	271	308

Unaudited commentary on borrowings

As at 31 March 2018, total borrowings of £26,625 million (2017: £28,638 million) including bonds, bank loans, commercial paper, collateral, finance leases and other debt had decreased by £2,013 million. We expect to repay £4,447 million of our total borrowings in the next 12 months including commercial paper, collateral and interest, and to fund this repayment through the capital and money markets and surplus cash. The average long-term debt maturity of the portfolio is 11 years (2017: 11 years). Further information on our bonds can be found in the debt investor section of our website. Unless included herein, the information on our website is unaudited.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

21. Trade and other payables

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

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

	2018 £m	2017 ¹ £m
Trade payables	1,977	2,135
Deferred income ²	440	298
Social security and other taxes	173	136
Other payables	863	776
	3,453	3,345

1. Comparative amounts have been represented to reflect the reclassification of commodity derivative contracts from trade and other payables to derivatives (see note 16).
2. Included within deferred income is £85 million (2017: £89 million) relating to customer contributions.

Due to their short maturities, the fair value of trade payables approximates their book value.

22. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2019. It also includes payables that are not due until after that date.

Non-current liabilities are initially recognised at fair value and subsequently measured at amortised cost.

	2018 £m	2017 ¹ £m
Deferred income ²	958	1,032
Other payables	359	338
	1,317	1,370

1. Comparative amounts have been represented to reflect the reclassification of commodity derivative contracts from other non-current liabilities to derivatives (see note 16).
2. Included within deferred income is £844 million (2017: £839 million) relating to customer contributions.

There is no material difference between the fair value and the carrying value of other payables.

23. Pensions and other post-retirement benefits

The majority of employees are either members of a DB (defined benefit) or a DC (defined contribution) pension scheme. In the US we also provide healthcare and life insurance benefits to eligible retired US employees.

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

We separately present our UK and US pension schemes to show geographical split. Below we provide a more detailed analysis of the amounts recorded in the primary financial statements and the actuarial assumptions used to value the DB obligations.

Defined contribution plans

Most new hires are able to join DC plans in the UK or US. These plans are designed to provide members with a pension pot for their retirement. The risks associated with these plans are assumed by the member.

Payments to these DC plans are charged as an expense as they fall due. There is no legal or constructive obligation on National Grid to pay additional contributions into a DC plan if the fund has insufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

Defined benefit schemes

The principal UK schemes are the National Grid UK Pension Scheme (NGUKPS) and the National Grid Electricity Group of the Electricity Supply Pension Scheme (NGEG of the ESPS). In the US, we have four plans and a number of healthcare and life insurance plans.

For DB pension schemes, members receive benefits on retirement, the value of which is dependent on factors such as salary and length of pensionable service. National Grid underwrites both financial and demographic risks associated with this type of scheme.

National Grid's obligation in respect of DB pension schemes is calculated separately for each DB scheme 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. Current service cost and any unrecognised past service cost are recognised immediately. The discount rate used is the yield at the valuation date on high-quality corporate bonds.

Advice is taken from independent actuaries relating to the appropriateness of the key assumptions applied, including life expectancy, expected salary and pension increases, and inflation. Comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the income statement, the statement of other comprehensive income and the net liability recognised in the statement of financial position.

Remeasurements of pension assets and post-retirement benefit obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

23. Pensions and other post-retirement benefits continued

UK pension plans

Defined Contribution

The National Grid YouPlan

National Grid pays contributions into YouPlan to provide DC benefits on behalf of employees. National Grid provides a double match of member contributions, up to a maximum of 6% of member salary.

YouPlan was established in 2013 and is the qualifying scheme used for automatic enrolment of new hires. Prior to its establishment, DC benefits were provided through the NGUKPS, which transferred all historical DC benefits to YouPlan in 2013.

Defined Benefit

National Grid's DB pension arrangements are held in separate trustee administered funds. The arrangements are managed by trustee companies with boards consisting of company and member appointed directors.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with us, the qualified actuary certifies the employers' contributions, which, together with the specified contributions payable by the employees and proceeds from the plans' assets, are expected to be sufficient to fund the benefits payable.

The results of the most recent actuarial valuations are shown below. See page 145 for the assumptions used for IAS 19 purposes.

	Section A of NGUKPS	Section B of NGUKPS	NGEG of ESPS
Latest full actuarial valuation	31 March 2017	31 March 2017	31 March 2016
Actuary	Willis Towers Watson	Willis Towers Watson	Aon Hewitt
Market value of scheme assets at latest valuation	£6,716m	£5,849m	£2,553m
Actuarial value of benefits due to members	£6,627m	£6,057m	£3,053m
Market value as percentage of benefits	101%	97%	84%
Funding surplus/(deficit)	£89m	(£208m)	(£500m)
Funding surplus/(deficit) net of tax	£74m	(£173m)	(£415m)

National Grid UK Pension Scheme

With effect from 1 January 2017 the scheme was split into three sections, each of which is legally and actuarially separate. Sections A and B are supported by companies within the National Grid Group, and National Grid makes payments to Sections A and B to cover administration costs and the Pension Protection Fund levy. The scheme closed to new hires on 1 April 2002.

Section C is supported by Cadent Gas Limited which is no longer part of the National Grid Group following the disposal of UK Gas Distribution which completed on 31 March 2017. The disclosures for the current year do not include Section C data. However, the actuarial assumptions adopted will influence our equity accounting for Quadgas HoldCo Limited (the ultimate parent of Cadent Gas Limited).

Section A

Following the actuarial valuation at 31 March 2017, Section A was in surplus. As such, no deficit funding contributions are being made to the section. National Grid and the Trustees have agreed a schedule of contributions whereby the employers will contribute 51.8% of pensionable salary, less member contributions, in respect of ongoing service cost. This rate is deemed to be sufficient to meet the statutory funding objective during the period for which it is in force.

The next actuarial valuation will be performed at 31 March 2019.

Section B

The actuarial valuation as at 31 March 2017 determined that Section B was in deficit. National Grid and the Trustee agreed on a schedule of contributions, whereby deficit funding contributions of approximately £32 million payable by 30 September each year from 2017 onwards until 30 September 2022, with an additional £8 million payable by 30 September 2023. All deficit funding amounts due will be adjusted for the change in the Retail Price Index (RPI) from 31 December 2016 up to three months prior to the date of payment. As a result, the funding shortfall is expected to be eliminated by 30 September 2023.

The employers will also contribute 51.4% of pensionable salary, less member contributions, in respect of ongoing service cost.

The next actuarial valuation will be performed as at 31 March 2019.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

23. Pensions and other post-retirement benefits continued

National Grid Electricity Group of the Electricity Supply Pension Scheme

The scheme closed to new hires from 1 April 2006.

The last full actuarial valuation for the NGEG of the ESPS 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 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 member contributions).

The next actuarial valuation is required with an effective date of no later than 31 March 2019.

Security arrangements

National Grid has also established security arrangements with charges in favour of the Trustees. As at 31 March 2018 the required value of these arrangements and principal supporting employers were:

- Section A of NGUKPS: £315 million, National Grid plc and National Grid UK Limited;
- Section B of NGUKPS: £179 million, National Grid Gas plc (NGG); and
- NGEG of ESPS: £250 million, National Grid Electricity Transmission plc (NGET).

The majority of the security is provided in the form of letters of credit with the remainder in surety bonds. The assets held in security will be paid to the respective section or scheme in the event that the relevant supporting employer is subject to an insolvency event or fails to make the required contributions. In addition, counter indemnities have also been taken out to ensure the obligations will be fulfilled.

The following specific conditions apply to the security arrangements:

- Section B of NGUKPS: The assets will be paid to Section B if NGG is given notice of less than 12 months that Ofgem intends to revoke its licence under the Gas Act 1986, or if NGG grants any charges over its assets other than where agreed with the Trustee.
- NGEG of ESPS: The asset and an amount in respect of the deficit (to a maximum of £500 million) will be paid to the scheme if NGET ceases to hold a licence granted under the Electricity Act 1989.

In addition to the above, if the credit rating of the supporting employer, as determined by two out of three specified agencies, falls below certain agreed levels for 40 days, the following amounts will be payable:

- Section A of NGUKPS: £72 million (increased in line with RPI).
- Section B of NGUKPS: £65 million (increased in line with RPI).
- NGEG of ESPS: A maximum of £500 million in respect of the deficit.

US pension plans

National Grid has multiple DC pension plans, primarily comprised of employee savings and Company matching contributions. Non-union employees hired after 1 January 2011, as well as new hires in the majority of represented union employees, receive a core contribution into the DC plan, irrespective of the employee's contribution into the plan.

National Grid also sponsors numerous non-contributory DB pension plans. The DB plans provide retirement benefits to vested union employees, as well as vested non-union employees hired before 1 January 2011. Benefits under these plans generally reflect age, years of service and compensation and are paid in the form of an annuity or lump sum. An independent actuary performs valuations annually. The Company funds the DB plans by contributing no less than the minimum amount required, but no more than the maximum tax deductible amount allowed under US Internal Revenue Service regulations. The range of contributions determined under these regulations can vary significantly depending upon the funded status of the plans. At present, there is some flexibility in the amount that is contributed on an annual basis. In general, the Company's policy for funding the US pension plans is to contribute the amounts collected in rates and capitalised in the rate base during the year, to the extent that the funding is no less than the minimum amount required. The assets of the plans are held in trusts and administered by fiduciary committees comprised of appointed employees of the Company.

US retiree healthcare and life insurance plans

National Grid provides healthcare and life insurance benefits to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in most cases retirees contribute to the cost of their healthcare coverage. In the US, there is no governmental requirement to pre-fund post-retirement healthcare and life insurance plans. However, in general, the Company's policy for funding the US retiree healthcare and life insurance plans is to contribute amounts collected in rates and capitalised in the rate base during the year.

23. Pensions and other post-retirement benefits continued

Risks

National Grid underwrites the financial and demographic risks associated with DB plans, the most significant of which are:

- **Asset volatility:** The schemes invest 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, impacting on the net balance sheet asset or liability. Each scheme seeks to balance the level of investment return sought with the aim of reducing volatility and risk by means of liability matching asset strategies, diversification of asset portfolios, interest rate hedging and management of foreign exchange exposure. In taking this approach, reference is made to both the maturity of liabilities and the funding level of that scheme.
- **Changes in bond yields:** Liabilities are calculated using discount rates set with reference to yields on high-quality corporate bonds prevailing in the US and UK debt markets and will fluctuate as yields change.
- **Inflation risk:** Changes in inflation will affect current and future pensions, but are partially mitigated through investing in inflation matching assets and hedging instruments.
- **Member longevity:** Longevity is a key driver of liabilities and changes in expected mortality will have a direct impact on liabilities. In aggregate, the liabilities are relatively mature which mitigates the risk to a certain extent. The NGEF of ESPS holds a longevity insurance contract which covers exposure to improvements in longevity, providing long-term protection and income to the scheme in the event that members live longer than currently expected.

Actuarial assumptions

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

	UK pensions		
	2018 %	2017 %	2016 %
Discount rate ¹ – past service ²	2.60	2.40	3.30
Discount rate ¹ – future service ²	2.65	2.65	3.30
Rate of increase in salaries ³	3.40	3.50	3.20
Rate of increase in RPI – past service ⁴	3.15	3.20	2.90
Rate of increase in RPI – future service ⁴	3.10	3.15	2.90

1. The discount rates for pension liabilities have been determined by reference to appropriate yields on high-quality corporate bonds prevailing in the UK debt markets at the reporting date.
2. In the UK for 2018, National Grid has adopted a different discount rate assumption by increasing the duration of the scheme liabilities to 25 years for future service obligations. This has led to a future service discount rate in the UK of 2.65% for both the 2017 and 2018 year-ends. The 2017 discount rate was 2.40% based on an expected duration of scheme liabilities of 17 years.
3. A promotional scale has also been used where appropriate. The UK assumption stated is that relating to service prior to 1 April 2013. The UK assumption for the rate of increase in salaries for past service after this date is 2.20% (2017: 2.20%; 2016: 2.10%) and for future service 2.15% (2017: 2.20%; 2016: 2.10%). The rates of increase stated are not indicative of historical increases awarded or a guarantee of future increases, but merely an appropriate assumption utilised in assessing DB liabilities.
4. This is the key assumption that determines assumed increases in pensions in payment and deferment in the UK only. 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%; 2016: 2.90%), as compared to the 2017 published assumption of 3.20% for both past service and future service.

	US pensions			US other post-retirement benefits		
	2018 %	2017 %	2016 %	2018 %	2017 %	2016 %
Discount rate ¹	4.00	4.25	4.25	4.00	4.25	4.25
Rate of increase in salaries	3.50	3.50	3.50	3.50	3.50	3.50
Initial healthcare cost trend rate	n/a	n/a	n/a	7.50	7.00	7.50
Ultimate healthcare cost trend rate ²	n/a	n/a	n/a	4.50	4.50	4.50

1. The discount rates for pension liabilities have been determined by reference to appropriate yields on high-quality corporate bonds prevailing in the US debt markets at the reporting date with an expected duration of plan liabilities of 17 years.
2. The ultimate healthcare cost trend rate will reach the ultimate trend in 2026/28 (2017 and 2016: 2024/25).

For sensitivity analysis see note 33.

	2018		2017		2016	
	UK years	US years	UK years	US years	UK years	US years
Assumed life expectations for a retiree age 65						
Males	22.3	22.0	22.9	21.9	22.8	21.8
Females	23.9	24.2	24.7	24.1	25.2	24.0
In 20 years:						
Males	23.7	23.6	25.1	23.6	25.1	23.5
Females	25.5	25.8	27.1	25.7	27.6	25.6

Maturity profile of DB obligations

The weighted average duration of the DB obligation for each category of scheme is 16 years for UK pension schemes; 13 years for US pension schemes and 15 years for US other post-retirement benefits.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

23. Pensions and other post-retirement benefits continued

Amounts recognised in the statement of financial position

	2018 £m	2017 £m	2016 £m
Present value of funded obligations ¹	(23,747)	(25,890)	(28,648)
Fair value of plan assets	23,858	24,375	26,434
	111	(1,515)	(2,214)
Present value of unfunded obligations	(307)	(340)	(304)
Other post-employment liabilities	(67)	(78)	(67)
Net defined benefit liability	(263)	(1,933)	(2,585)
Represented by:			
Liabilities	(1,672)	(2,536)	(2,995)
Assets	1,409	603	410
	(263)	(1,933)	(2,585)

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK Pensions			US Pensions			US other post-retirement benefits		
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m
Present value of funded obligations ¹	(14,152)	(15,565)	(19,341)	(6,349)	(6,790)	(5,916)	(3,246)	(3,535)	(3,391)
Fair value of plan assets	15,330	15,489	19,401	6,030	6,322	5,136	2,498	2,564	1,897
	1,178	(76)	60	(319)	(468)	(780)	(748)	(971)	(1,494)
Present value of unfunded obligations	(74)	(80)	(75)	(233)	(260)	(229)	–	–	–
Other post-employment liabilities	–	–	–	–	–	–	(67)	(78)	(67)
Net defined benefit asset/(liability)	1,104	(156)	(15)	(552)	(728)	(1,009)	(815)	(1,049)	(1,561)
Represented by:									
Liabilities	(74)	(536)	(300)	(783)	(951)	(1,134)	(815)	(1,049)	(1,561)
Assets	1,178	380	285	231	223	125	–	–	–
	1,104	(156)	(15)	(552)	(728)	(1,009)	(815)	(1,049)	(1,561)

1. Present value of funded obligations split approximately as follows:

- UK pensions at 31 March 2018: 10% active members (2017: 12%; 2016: 12%); 18% deferred members (2017: 19%; 2016: 18%); 72% pensioner members (2017: 69%; 2016: 70%)
- US pensions at 31 March 2018: 38% active members (2017: 38%; 2016: 39%); 8% deferred members (2017: 9%; 2016: 9%); 54% pensioner members (2017: 53%; 2016: 52%)
- US other post-retirement benefits at 31 March 2018: 38% active members (2017: 39%; 2016: 41%); 0% deferred members (2017: 0%; 2016: 0%); 62% pensioner members (2017: 61%; 2016: 59%)

The recognition of the pension assets in both the UK in relation to the National Grid UK Pension Scheme (NGUKPS) and the Niagara Mohawk Plan in the US reflect legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14. In both cases we have concluded that the Group has an unconditional right to a refund from the individual plans, including from each Section of the NGUKPS, in the event of a winding up. In the UK, the Trustees must seek the agreement of the Company to any benefit augmentation beyond the provisions set out in the Scheme Rules. In the US, the surplus assets may be used to pay benefits under other Plans, thereby allowing the Company to settle other liabilities under other Plans.

23. Pensions and other post-retirement benefits continued

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

	2018 £m	2017 £m	2016 £m
Included within operating costs			
Administration costs	16	16	16
Included within payroll costs			
Defined benefit scheme costs:			
Current service cost	193	232	221
Past service cost – augmentations	1	1	3
Past service credit – redundancies	(1)	(1)	(1)
Special termination benefit cost – redundancies	9	7	11
	202	239	234
Included within finance income and costs			
Net interest cost	65	105	112
Included within gain on disposal of discontinued operations			
Administration costs	–	5	2
Disposal of UK Gas Distribution	–	34	–
	–	39	2
Total included in income statement^{1, 2}	283	399	364
Remeasurement gains of pension assets and post-retirement benefit obligations	1,313	348	539
Exchange adjustments	175	(345)	(81)
Total included in the statement of other comprehensive income²	1,488	3	458

1. Amounts recognised in the income statement include operating costs of £nil (2017: £1 million; 2016: £1 million); payroll costs of £nil (2017: £35 million; 2016: £28 million); and net interest of £nil (2017: £2 million income; 2016: £1 million cost) presented within profit from discontinued operations. These amounts all relate to UK pensions.

2. Amounts recognised in the statement of other comprehensive income include remeasurements of pension assets and post-retirement benefit obligations of £nil (2017: £75 million loss; 2016: £129 million gain) presented within discontinued operations. These amounts all relate to UK pensions.

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK Pensions			US Pensions			US other post-retirement benefits		
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m
Included within operating costs									
Administration costs	6	6	9	9	9	6	1	1	1
Included within payroll costs									
Defined benefit scheme costs:									
Current service cost	49	76	74	98	103	95	46	53	52
Past service cost – augmentations	1	1	3	–	–	–	–	–	–
Past service credit – redundancies	(1)	(1)	(1)	–	–	–	–	–	–
Special termination benefit cost – redundancies	9	7	11	–	–	–	–	–	–
	58	83	87	98	103	95	46	53	52
Included within finance income and costs									
Net interest cost	3	–	18	27	43	36	35	62	58
Included within gain on disposal of discontinued operations									
Administration costs	–	5	2	–	–	–	–	–	–
Disposal of UK Gas Distribution	–	34	–	–	–	–	–	–	–
	–	39	2	–	–	–	–	–	–
Total included in income statement	67	128	116	134	155	137	82	116	111
Remeasurement gains/(losses) of pension assets and post retirement benefit obligations	1,177	(541)	534	27	319	(67)	109	570	72
Exchange adjustments	–	–	–	75	(140)	(33)	100	(205)	(48)
Total included in the statement of other comprehensive income	1,177	(541)	534	102	179	(100)	209	365	24

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

23. Pensions and other post-retirement benefits continued

Reconciliation of the net defined benefit liability

	2018 £m	2017 £m	2016 £m
Opening net defined benefit liability	(1,933)	(2,585)	(3,258)
Cost recognised in the income statement	(283)	(399)	(364)
Remeasurement and foreign exchange effects recognised in the statement of other comprehensive income	1,488	3	458
Employer contributions	475	1,073	587
Other movements	(10)	(25)	(8)
Closing net defined benefit liability	(263)	(1,933)	(2,585)

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m
Opening net defined benefit liability	(156)	(15)	(672)	(728)	(1,009)	(1,003)	(1,049)	(1,561)	(1,583)
Cost recognised in the income statement	(67)	(128)	(116)	(134)	(155)	(137)	(82)	(116)	(111)
Remeasurement and foreign exchange effects recognised in the statement of other comprehensive income	1,177	(541)	534	102	179	(100)	209	365	24
Employer contributions	150	528	239	208	257	231	117	288	117
Other movements	–	–	–	–	–	–	(10)	(25)	(8)
Closing net defined benefit asset/(liability)	1,104	(156)	(15)	(552)	(728)	(1,009)	(815)	(1,049)	(1,561)

Changes in the present value of defined benefit obligations (including unfunded obligations)

	2018 £m	2017 £m	2016 £m
Opening defined benefit obligations	(26,230)	(28,952)	(29,592)
Current service cost	(193)	(232)	(221)
Interest cost	(775)	(1,057)	(1,026)
Actuarial (losses)/gains – experience	(100)	166	659
Actuarial gains – demographic assumptions	671	225	–
Actuarial gains/(losses) – financial assumptions	174	(3,377)	218
Past service credit – redundancies	1	1	1
Special termination benefit cost – redundancies	(9)	(7)	(11)
Past service cost – augmentations	(1)	(1)	(3)
Medicare subsidy received	(21)	(14)	(15)
Obligations transferred on disposal of UK Gas Distribution	–	6,970	–
Employee contributions	(1)	(1)	(2)
Benefits paid	1,285	1,443	1,348
Exchange adjustments	1,145	(1,394)	(308)
Closing defined benefit obligations	(24,054)	(26,230)	(28,952)

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m
Opening defined benefit obligations	(15,645)	(19,416)	(20,125)	(7,050)	(6,145)	(6,055)	(3,535)	(3,391)	(3,412)
Current service cost	(49)	(76)	(74)	(98)	(103)	(95)	(46)	(53)	(52)
Interest cost	(366)	(615)	(649)	(273)	(285)	(242)	(136)	(157)	(135)
Actuarial (losses)/gains – experience	(95)	106	552	(38)	(2)	15	33	62	92
Actuarial gains – demographic assumptions	565	214	–	30	2	–	76	9	–
Actuarial gains/(losses) – financial assumptions	604	(3,751)	–	(279)	37	120	(151)	337	98
Past service credit – redundancies	1	1	1	–	–	–	–	–	–
Special termination benefit cost – redundancies	(9)	(7)	(11)	–	–	–	–	–	–
Past service cost – augmentations	(1)	(1)	(3)	–	–	–	–	–	–
Medicare subsidy received	–	–	–	–	–	–	(21)	(14)	(15)
Obligations transferred on disposal of UK Gas Distribution	–	6,970	–	–	–	–	–	–	–
Employee contributions	(1)	(1)	(2)	–	–	–	–	–	–
Benefits paid	770	931	895	362	349	310	153	163	143
Exchange adjustments	–	–	–	764	(903)	(198)	381	(491)	(110)
Closing defined benefit obligations	(14,226)	(15,645)	(19,416)	(6,582)	(7,050)	(6,145)	(3,246)	(3,535)	(3,391)

23. Pensions and other post-retirement benefits continued

Changes in the value of plan assets

	2018 £m	2017 £m	2016 £m
Opening fair value of plan assets	24,375	26,434	26,408
Interest income	710	952	914
Return on plan assets in excess of/(less than) interest	568	3,334	(338)
Administration costs	(16)	(21)	(18)
Employer contributions	475	1,073	587
Employee contributions	1	1	2
Benefits paid	(1,285)	(1,443)	(1,348)
Exchange adjustments	(970)	1,049	227
Assets transferred on disposal of UK Gas Distribution	–	(7,004)	–
Closing fair value of plan assets	23,858	24,375	26,434
Actual return on plan assets	1,278	4,286	576
Expected contributions to plans in the following year	363	491	686

The geographical split of pensions and other post-retirement benefits is as shown below:

	UK pensions			US pensions			US other post-retirement benefits		
	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m	2018 £m	2017 £m	2016 £m
Opening fair value of plan assets	15,489	19,401	19,453	6,322	5,136	5,052	2,564	1,897	1,903
Interest income	363	615	631	246	242	206	101	95	77
Return on plan assets in excess of/(less than) interest	103	2,890	(18)	314	282	(202)	151	162	(118)
Administration costs	(6)	(11)	(11)	(9)	(9)	(6)	(1)	(1)	(1)
Employer contributions	150	528	239	208	257	231	117	288	117
Employee contributions	1	1	2	–	–	–	–	–	–
Benefits paid	(770)	(931)	(895)	(362)	(349)	(310)	(153)	(163)	(143)
Exchange adjustments	–	–	–	(689)	763	165	(281)	286	62
Assets transferred on disposal of UK Gas Distribution	–	(7,004)	–	–	–	–	–	–	–
Closing fair value of plan assets	15,330	15,489	19,401	6,030	6,322	5,136	2,498	2,564	1,897
Actual return on plan assets	466	3,505	613	560	524	4	252	257	(41)
Expected contributions to plans in the following year	140	128	228	221	229	220	2	134	238

Investment strategy

Each plan's investment strategy is formulated specifically in order to target specific asset allocations, asset returns and to manage risk. The asset allocation of the plans as at 31 March 2018 is as follows:

	UK pensions ¹ %	US pensions ² %	US other post-retirement benefits ³ %
Equities	14.6	42.0	60.9
Corporate bonds	25.8	24.8	1.0
Government securities	36.7	16.2	20.4
Property	6.3	4.6	–
Diversified alternatives	5.1	10.3	12.2
Liability matching assets	7.7	–	–
Other	3.8	2.1	5.5
	100.0	100.0	100.0

1. Of total assets at year-end date, 57.8% is invested in the UK, 18.4% in the US and 23.7% in other countries, including the EU.

2. Of total assets at year-end date, 88.5% is invested in the US, 1.2% in the UK and 10.3% in other countries.

3. Of total assets at year-end date, 91.8% is invested within the US, 0.2% in the UK and 8.0% in other countries.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

23. Pensions and other post-retirement benefits continued

Investment strategy continued

In the UK, the Trustees as governing body of each scheme are solely responsible for setting the investment strategy and managing risk. The Trustees' responsibilities are set out in the Trust Deeds and Rules. In the US, the fiduciary committee for each respective retirement plan is the Retirement Plan Committee (RPC). The RPC is solely responsible for setting the investment strategy and managing the risk of each plan. The RPC is structured in accordance with US laws governing retirement plans under the Employee Retirement Income Security Act (ERISA).

The Trustees or the RPC where applicable, will perform the following duties:

- After taking advice from professional investment advisers and consultation with the sponsoring employers, set the key principles, including expected returns, risk and liquidity requirements, after taking into account expected contributions, maturity of the pension liabilities and in the UK, the strength of the covenant.
- Formulate an investment strategy to manage risk through diversification, including the use of liability matching assets, which move in line with long-term liabilities of the scheme, return seeking assets, some of which are designed to mitigate downside risk and exposure. Where appropriate, the strategies may include interest rate and inflation hedging instruments, and currency hedging to hedge foreign holdings.
- Review the investment strategies' performance and risk regularly and amend the portfolios if required.
- Appoint investment managers with the necessary skills, expertise and credit worthiness to manage the investments. On a regular basis, the performance of the asset managers and their adherence to the investment strategies will be reviewed.

Investments are made predominantly in regulated markets and investments outside of these markets are kept to prudent levels and subject to agreed control ranges.

Asset allocations

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

UK pensions

	2018			2017			2016		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities ¹	1,420	813	2,233	2,624	596	3,220	3,272	962	4,234
Corporate bonds ²	3,949	–	3,949	3,526	–	3,526	5,601	–	5,601
Government securities	5,629	–	5,629	5,406	–	5,406	6,059	–	6,059
Property	129	834	963	90	708	798	90	1,081	1,171
Diversified alternatives ³	99	690	789	250	628	878	159	505	664
Liability matching assets ⁴	1,174	–	1,174	1,162	–	1,162	1,020	–	1,020
Other ⁵	211	382	593	63	436	499	649	3	652
	12,611	2,719	15,330	13,121	2,368	15,489	16,850	2,551	19,401

1. Included within equities at 31 March 2018 were ordinary shares of National Grid plc with a value of £nil (2017: £2 million; 2016: £7 million).

2. Included within corporate bonds at 31 March 2018 was an investment in a number of bonds issued by subsidiary undertakings with a value of £nil (2017: £nil; 2016: £70 million).

3. Includes return seeking non-conventional asset classes which include hedge funds, private debt, mezzanine debt, infrastructure debt and fixed income debt instruments.

4. Includes liability-driven investment vehicles.

5. Includes cash and cash type instruments.

US pensions

	2018			2017			2016		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	577	1,954	2,531	698	1,915	2,613	625	1,508	2,133
Corporate bonds	1,085	413	1,498	1,130	537	1,667	954	483	1,437
Government securities	414	565	979	872	71	943	711	–	711
Property	–	279	279	–	335	335	–	276	276
Diversified alternatives ¹	198	421	619	209	433	642	163	334	497
Other ²	20	104	124	31	91	122	–	82	82
	2,294	3,736	6,030	2,940	3,382	6,322	2,453	2,683	5,136

1. Includes return seeking non-conventional asset classes which include hedge funds, real estate debt and limited partnerships.

2. Includes collateral, liquid investments and cash deposits, debtors and creditors.

US other post-retirement benefits

	2018			2017			2016		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	412	1,110	1,522	405	1,162	1,567	281	853	1,134
Corporate bonds	24	–	24	19	–	19	37	1	38
Government securities	508	2	510	520	1	521	390	–	390
Diversified alternatives ¹	161	144	305	166	149	315	122	104	226
Other ²	–	137	137	–	142	142	–	109	109
	1,105	1,393	2,498	1,110	1,454	2,564	830	1,067	1,897

1. Includes return seeking non-conventional asset classes which include hedge funds, real estate debt and limited partnerships.

2. Includes collateral, liquid investments and cash deposits, debtors and creditors.

24. 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 and decommissioning costs for various sites we own or have owned and other provisions, including restructuring plans and lease contracts we have entered into that are now loss making. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, the likelihood could alter.

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 businesses which have, during the course of their operations, created an environmental impact. Therefore we have a provision that reflects the expected cost to remediate these sites. Current operations will seldom result in new sites with significant expected costs being added to the provision.

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

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

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

The unwinding of the discount is included within the income statement as finance costs.

	Environmental £m	Decommissioning £m	Restructuring £m	Emissions £m	Other £m	Total provisions £m
At 1 April 2016	1,169	141	30	18	361	1,719
Exchange adjustments	137	13	–	2	36	188
Additions	572	107	16	12	308	1,015
Unused amounts reversed	(75)	–	(5)	–	(6)	(86)
Unwinding of discount	60	–	1	–	12	73
Utilised	(110)	(19)	(25)	–	(73)	(227)
Disposal of UK Gas Distribution	(32)	(21)	–	–	(41)	(94)
At 31 March 2017	1,721	221	17	32	597	2,588
Exchange adjustments	(158)	(9)	–	(2)	(26)	(195)
Additions	27	2	10	12	23	74
Unused amounts reversed ¹	(45)	(19)	(6)	–	(37)	(107)
Unwinding of discount	61	5	1	–	8	75
Utilised ²	(75)	(6)	(7)	(34)	(146)	(268)
Transfers ³	–	–	(12)	–	(103)	(115)
At 31 March 2018	1,531	194	3	8	316	2,052

	2018 £m	2017 £m
Current	273	416
Non-current	1,779	2,172
	2,052	2,588

1. Unused amounts reversed from other provisions include £16 million in relation to discontinued operations.

2. Utilised amounts for other provisions include £77 million in relation to discontinued operations.

3. Represents net amounts transferred to trade and other payables (see note 21) of £115 million (2017: £nil).

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

24. Provisions continued

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to a number of sites owned and managed by subsidiary undertakings, together with certain US sites that National Grid no longer owns. The environmental provision is as follows:

	2018			2017		
	Discounted £m	Undiscounted £m	Real discount rate	Discounted £m	Undiscounted £m	Real discount rate
UK sites	213	235	1%	242	270	1%
US sites	1,318	1,410	1%	1,479	1,619	1%
	1,531	1,645		1,721	1,889	

The remediation expenditure in the UK relates to old gas manufacturing sites and also to electricity transmission sites. Cash flows are expected to be incurred until 2075 although the weighted average duration of the cash flows is 11 years. A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the real discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

The remediation expenditure in the US is expected to be incurred until 2069. The weighted average duration of the cash flows is nine years. The increase in the US provision last year principally related to the reduction in real discount rate and expected expenditure in relation to three industrial sites located on or near waterways in New York that are subject to both state and federal law in the US. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK sites. This expenditure is expected to be largely recoverable from ratepayers under the terms of various rate agreements in the US.

Decommissioning provision

The decommissioning provision represents £71 million (2017: £78 million) of expenditure relating to asset retirement obligations estimated to be incurred until 2115, and £104 million (2017: £107 million) of expenditure relating to the demolition of gas holders estimated to be incurred until 2023. It also includes the net present value of the estimated expenditure (discounted at a real rate of 1%) expected to be incurred until 2033 in respect of the decommissioning of certain US nuclear generating units that National Grid no longer owns. A pre-existing decommissioning provision formed part of the net assets sold as part of the UK Gas Distribution transaction.

Other provisions

Included within other provisions at 31 March 2018 are the following amounts in respect of the disposal of UK Gas Distribution:

- £50 million (2017: £143 million) in respect of business restructuring costs following the sale of UK Gas Distribution. We expect the majority of this provision to be utilised within one year; and
- Last year, other provisions included £150 million voluntary distribution to be made for the benefit of energy customers on the successful sale of UK Gas Distribution. During the year, this was transferred to trade and other payables and has a closing balance of £117 million.

Other provisions also include:

- Amounts provided in respect of onerous lease commitments and rates payable on surplus properties of £48 million (2017: £84 million) with expenditure expected to be incurred until 2043;
- £152 million (2017: £166 million) of estimated liabilities in respect of past events insured by insurance subsidiary undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date; and
- £13 million (2017: £13 million) in respect of obligations associated with investments in joint ventures and associates.

25. Share capital

Ordinary share capital represents the total number of shares issued which are publicly traded. We also disclose the number of treasury shares the Company holds, which are shares that the Company has bought itself, predominately to actively manage scrip issuances and employee share option plan liabilities.

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.

	Allotted, called up and fully paid	
	million	£m
At 1 April 2016	3,924	447
Issued during the year in lieu of dividends ¹	19	2
At 31 March 2017	3,943	449
Effect of share consolidation ²	(328)	–
Issued during the year in lieu of dividends ¹	23	3
At 31 March 2018	3,638	452

1. The issue of shares under the scrip dividend programme is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

2. On 22 May 2017 the ordinary share capital was consolidated with 11 new ordinary shares of 12²⁰⁴/₄₇₃ pence nominal value issued for every 12 existing ordinary shares of 11¹⁷/₄₃ pence nominal value. This consolidation was completed to maintain the comparability of the Company's share price before and after the special dividend.

The share capital of the Company consists of ordinary shares of 12²⁰⁴/₄₇₃ pence nominal value each including ADSs. The ordinary shares and ADSs allow holders to receive dividends and vote at general meetings of the Company. The Company holds treasury shares but may not exercise any rights over these shares including the entitlement to vote or receive dividends. There are no restrictions on the transfer or sale of ordinary shares.

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.

Treasury shares

At 31 March 2018, the Company held 283 million (2017: 193 million) of its own shares. The market value of these shares as at 31 March 2018 was £2,270 million (2017: £1,958 million).

The Company made the following transactions in respect of its own shares during the year ended 31 March 2018:

- During the year, the Company completed a share repurchase programme as part of the return of cash to shareholders following the sale of UK Gas Distribution in addition to the management of the dilutive effect of share issuances under the scrip dividend programme. As a result the Company repurchased 114 million (2017: 20 million) ordinary shares for aggregate consideration of £1,017 million (2017: £189 million), including transaction costs. The shares repurchased had a nominal value of £14 million (2017: £2 million) and represented approximately 3.1% (2017: 0.5%) of the ordinary shares in issue as at 31 March 2018.
- During the year, 3 million (2017: 3 million) treasury shares were gifted to National Grid Employee Share Trusts and 5 million (2017: 3 million) treasury shares were re-issued in relation to employee share schemes, in total representing approximately 0.2% (2017: 0.2%) of the ordinary shares in issue as at 31 March 2018. The nominal value of these shares was £1 million (2017: £1 million) and the total proceeds received were £33 million (2017: £18 million).
- During the year, the Company made payments totalling £5 million (2017: £6 million) to National Grid Employee Share Trusts, outside its share repurchase programme, to enable the trustees to make purchases of National Grid plc shares in order to satisfy the requirements of employee share option and reward plans.

The maximum number of ordinary shares held in treasury during the year was 283 million (2017: 194 million) representing approximately 7.8% (2017: 4.9%) of the ordinary shares in issue as at 31 March 2018 and having a nominal value of £35 million (2017: £22 million).

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

26. Other equity reserves

Other equity reserves are different categories of equity as required by accounting standards and represent the impact of a number of our historical transactions.

Other equity reserves comprise the translation reserve (see accounting policy D in note 1), cash flow hedge reserve (see note 16), available-for-sale reserve (see note 14), the capital redemption reserve and the merger reserve. The merger reserve arose as a result of the application of merger accounting principles under the then prevailing UK GAAP, which under IFRS 1 was retained for mergers that occurred prior to the IFRS transition date. Under merger accounting principles, the difference between the carrying amount of the capital structure of the acquiring vehicle and that of the acquired business was treated as a merger difference and included within reserves.

As the amounts included in other equity reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

	Translation £m	Cash flow hedge £m	Available- for-sale £m	Capital redemption £m	Merger £m	Total £m
At 1 April 2015	479	(109)	94	19	(5,165)	(4,682)
Exchange adjustments ¹	69	–	–	–	–	69
Net gains taken to equity	–	50	43	–	–	93
Transferred to profit or loss	–	29	–	–	–	29
Tax	–	(15)	(17)	–	–	(32)
At 31 March 2016	548	(45)	120	19	(5,165)	(4,523)
Exchange adjustments ¹	346	–	–	–	–	346
Net (losses)/gains taken to equity	–	(36)	81	–	–	45
Transferred to/(from) profit or loss	–	227	(25)	–	–	202
Tax	–	(43)	(14)	–	–	(57)
At 31 March 2017	894	103	162	19	(5,165)	(3,987)
Exchange adjustments ¹	(504)	–	–	–	–	(504)
Net gains/(losses) taken to equity	–	19	(30)	–	–	(11)
Share of net gains taken to equity of associates	–	5	–	–	–	5
Transferred from profit or loss	–	(3)	(73)	–	–	(76)
Tax	–	4	29	–	–	33
At 31 March 2018	390	128	88	19	(5,165)	(4,540)

1. The exchange adjustments recorded in the translation reserve comprise a loss of £1,304 million (2017: gain of £1,364 million; 2016: gain of £275 million) relating to the translation of foreign operations offset by a gain of £800 million (2017: loss of £1,018 million; 2016: loss of £206 million) relating to borrowings, cross-currency swaps and foreign exchange forward contracts used to hedge the net investment in the non-sterling denominated subsidiaries.

The merger reserve represents the difference between the carrying value of subsidiary undertaking investments and their respective capital structures following the Lattice demerger from BG Group plc and the 1999 Lattice refinancing.

The cash flow hedge reserve will amortise as the committed future cash flows from borrowings are paid or capitalised in fixed assets (as described in note 16). The amount due to be released from reserves next year is a gain of £23 million (pre-tax) of which £20 million relates to capital expenditure. The majority of the remaining reserve will be released over the next four years as forecast capital expenditure is incurred and over a similar maturity profile as the hedged borrowings.

27. Net debt

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

Funding and liquidity risk management is carried out by the treasury function under policies and guidelines approved by the Finance Committee of the Board. The Finance Committee is responsible for the regular review and monitoring of treasury activity and for the approval of specific transactions, the authority for which fall outside the delegation of authority to management.

The primary objective of the treasury function is to manage our funding and liquidity requirements. A secondary objective is to manage the associated financial risks, in the form of interest rate risk and foreign exchange risk, to within pre-authorised parameters. Details of the main risks arising from our financing and commodity hedging activities can be found in the risk factors discussion starting on page 193 and in note 30 to the consolidated financial statements on pages 158 to 164.

Investment of surplus funds, usually in short-term fixed deposits or placements with money market funds that invest in highly liquid instruments of high credit quality, is subject to our counterparty risk management policy.

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

	2018 £m	2017 £m	2016 £m
(Decrease)/increase in cash and cash equivalents	(807)	984	4
(Decrease)/increase in financial investments	(5,953)	5,675	391
Decrease/(increase) in borrowings and related derivatives ¹	1,209	(3,715)	(1,100)
Net interest paid on the components of net debt ²	808	1,955	810
Change in debt resulting from cash flows	(4,743)	4,899	105
Changes in fair value of financial assets and liabilities and exchange movements	2,098	(2,273)	(515)
Net interest charge on the components of net debt	(1,017)	(2,401)	(913)
Disposal of UK Gas Distribution	–	5,890	–
Other non-cash movements	(66)	(64)	(87)
Movement in net debt (net of related derivative financial instruments) in the year	(3,728)	6,051	(1,410)
Net debt (net of related derivative financial instruments) at start of year	(19,274)	(25,325)	(23,915)
Net debt (net of related derivative financial instruments) at end of year	(23,002)	(19,274)	(25,325)

Composition of net debt

Net debt is made up as follows:

	2018 £m	2017 £m	2016 £m
Cash, cash equivalents and financial investments	3,023	9,880	3,125
Borrowings and bank overdrafts	(26,625)	(28,638)	(28,344)
Financing derivatives ¹	600	(516)	(106)
	(23,002)	(19,274)	(25,325)

1. The financing derivatives balance included in net debt excludes the commodity derivatives and the Further Acquisition Agreement (FAA) derivative (see note 16). Included within the financing derivatives balance is £12 million (2017: £18 million; 2016: £(16) million) of derivative cash flows in relation to capital expenditure. This is included within investing activities and not financing activities in the cash flow statement.

2. Excludes £27 million (2017: £nil; 2016: £nil) cash interest from the Quadgas HoldCo Limited shareholder loan included within interest received in the cash flow statement.

Notes to the consolidated financial statements

– analysis of items in the primary statements continued

27. Net debt continued

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Financing derivatives £m	Total ¹ £m
At 1 April 2016	127	(3)	124	2,998	(28,341)	(106)	(25,325)
Cash flow	1,001	(17)	984	5,624	(2,196)	487	4,899
Fair value gains and losses and exchange movements	16	–	16	141	(1,527)	(903)	(2,273)
Interest income/(charges) ²	–	–	–	53	(2,221)	(233)	(2,401)
Other non-cash movements	–	–	–	–	(294)	230	(64)
Disposal	(5)	20	15	(75)	5,941	9	5,890
At 31 March 2017	1,139	–	1,139	8,741	(28,638)	(516)	(19,274)
Cash flow ²	(807)	–	(807)	(5,983)	2,108	(61)	(4,743)
Fair value gains and losses and exchange movements	(3)	–	(3)	(149)	1,088	1,162	2,098
Interest income/(charges) ²	–	–	–	85	(1,117)	15	(1,017)
Other non-cash movements	–	–	–	–	(66)	–	(66)
At 31 March 2018	329	–	329	2,694	(26,625)	600	(23,002)
Balances at 31 March 2018 comprise:							
Non-current assets	–	–	–	–	–	1,170	1,170
Current assets	329	–	329	2,694	–	375	3,398
Current liabilities	–	–	–	–	(4,447)	(620)	(5,067)
Non-current liabilities	–	–	–	–	(22,178)	(325)	(22,503)
	329	–	329	2,694	(26,625)	600	(23,002)

1. Includes accrued interest at 31 March 2018 of £197 million (2017: £210 million; 2016: £243 million).

2. An exceptional income of £3 million (2017: £1,313 million expense; 2016: £nil) is included in net interest charge on the components of net debt and an exceptional cash outflow of £231 million (2017: £1,052 million; 2016: £nil) is included in cash flow on the components of net debt.

Notes to the consolidated financial statements

– supplementary information

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

We also include specific disclosures for British Transco Finance Inc., Niagara Mohawk Power Corporation and National Grid Gas plc in accordance with various rules including Rule 3-10 of Regulation S-X (a US SEC requirement), as they have issued public debt securities which have been guaranteed by National Grid plc and one of its subsidiary companies, National Grid Gas plc. Additional disclosures have also been included in respect of the two guarantor companies. These disclosures are in lieu of publishing separate financial statements for these companies. See note 34 for further information.

28. 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, energy purchase agreements and contracts for the purchase of assets which, in many cases, extend over a long period of time. We also disclose any contingencies, which include guarantees that companies have given, where we pledge assets against current obligations that will remain for a specific period.

	2018 £m	2017 £m
Future capital expenditure		
Contracted for but not provided ¹	1,843	1,913
Operating lease commitments		
Less than 1 year	68	95
In 1 to 2 years	44	82
In 2 to 3 years	40	58
In 3 to 4 years	37	56
In 4 to 5 years	35	54
More than 5 years	219	274
	443	619
Energy purchase commitments²		
Less than 1 year	1,237	1,325
In 1 to 2 years	700	744
In 2 to 3 years	563	587
In 3 to 4 years	449	507
In 4 to 5 years	410	436
More than 5 years	1,969	2,100
	5,328	5,699
Guarantees		
Guarantee of sublease for US property (expires 2040)	178	225
Guarantees of certain obligations of Grain LNG Import Terminal (expire up to 2028)	46	100
Guarantees of certain obligations for construction of HVDC West Coast Link (expires 2018)	213	281
Guarantees of certain obligations of Nemo Link Limited (various expiry dates)	63	140
Guarantees of certain obligations of National Grid North Sea Link Limited (various expiry dates) ³	1,009	1,059
Guarantees of certain obligations of St William Homes LLP (various expiry dates) ⁴	98	147
Guarantees of certain obligations for construction of IFA 2 SAS (expected expiry 2021) ³	729	354
Other guarantees and letters of credit (various expiry dates)	333	474
	2,669	2,780

1. Following a review in the year, the basis on which we disclose capital commitments has been refined.

2. Energy purchase commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves (i.e. normal purchase, sale or usage) and hence are accounted for as ordinary purchase contracts. Details of commodity contract derivatives that do not meet the normal purchase, sale or usage criteria, and hence are accounted for as derivative contracts, are shown in note 16(b).

3. Included within total guarantees are guarantees to both joint ventures and EPC contractors regarding the construction of interconnectors of £739 million (2017: £555 million).

4. Includes guarantees to related parties.

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £42 million (2017: £15 million).

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.

Notes to the consolidated financial statements

– supplementary information continued

29. Related party transactions

Related parties include joint ventures, associates, investments and key management personnel.

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

	2018 £m	2017 £m	2016 £m
Sales: Goods and services supplied to a pension plan	3	3	3
Sales: Goods and services supplied to joint ventures ¹	14	78	9
Sales: Goods and services supplied to associates ²	220	–	4
Purchases: Goods and services received from joint ventures ³	135	168	183
Purchases: Goods and services received from associates ³	160	169	83
Receivable from joint ventures ⁴	160	64	7
Receivable from associates ⁴	376	457	–
Payable to joint ventures ⁵	–	84	96
Payable to associates	17	27	7
Interest income from joint ventures	4	–	–
Interest income from associates	27	–	–
Dividends received from joint ventures ⁶	43	75	48
Dividends received from associates ⁷	170	24	24

1. In 2018 £5 million (2017: £68 million) of property sites were sold to joint venture St William Homes LLP.

2. Sales in the year relate to transactions with Quadgas HoldCo Limited. Within this is other income of £54 million relating to a Transitional Service Agreement following the sale of the UK Gas Distribution business to Quadgas HoldCo Limited.

3. During the year the Group received goods and services from a number of US associates, both for the transportation of gas and for pipeline services in the US. Additionally, goods and services were received from UK joint ventures for the construction of a transmission link in the UK.

4. Amounts receivable from associates includes a loan receivable balance from Quadgas HoldCo Limited of £352 million (2017: £434 million) and a loan receivable balance of £130 million (2017: £61 million) from Nemo Link Limited (a joint venture).

5. In previous years the amounts payable to joint ventures include deposits received for National Grid property sites from St William Homes LLP which have been settled during the year.

6. Dividends in respect of joint ventures were received from BritNed Development Limited.

7. Within dividends received from associates in 2018, £144 million (2017: £nil) was from Quadgas HoldCo Limited.

Details of investments in principal subsidiary undertakings, joint ventures and associates are disclosed in note 32 and information relating to pension fund arrangements is disclosed in note 23. For details of Directors' and key management remuneration, refer to the Remuneration Report and note 3(c).

As a result of an overpayment due to a payroll processing error in September 2017, the Company was owed \$70,767 by Dean Seavers (Executive Director, US and a Director of National Grid plc), which was repaid in full in early October 2017.

30. Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate risk, commodity price 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 Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

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

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

30. Financial risk management continued

(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 wholesale and retail customers, including outstanding receivables and committed transactions.

Treasury credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. As at 31 March 2018, the following limits were in place for investments held with banks and financial institutions:

	Maximum limit £m	Long-term limit £m
Triple 'A' G7 sovereign entities (AAA)	1,853	927
Triple 'A' vehicles (AAA)	500	–
Triple 'A' range institutions and non G7 sovereign entities (AAA)	1,011	506
Double 'A+' G7 sovereign entities (AA+)	1,685	843
Double 'A' range institutions (AA)	674 to 843	337 to 421
Single 'A' range institutions (A)	236 to 337	118 to 169

The maximum limit applies to all transactions, including long-term transactions. The long-term limit applies to transactions which mature in more than 12 months' time.

As at 31 March 2017 and 2018, 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.

Commodity credit risk

The credit policy for US-based commodity transactions is owned by the Finance Committee to the Board, which establishes controls and procedures to determine, monitor and minimise the credit exposure to counterparties. Authority to administer the policy has been delegated to the Energy Procurement Risk Management Committee by the Board and the Executive Committee.

Wholesale and retail credit risk

Our principal commercial exposure in the UK is governed by the credit rules within the regulated codes: Uniform Network Code and Connection and Use of System Code. These set out the level of credit relative to the RAV for each credit rating. In the US, we are required to supply electricity and gas under state regulations. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash, cheques, electronic bank payments or by using major credit cards. We are committed to measuring, monitoring, minimising and recording counterparty credit risk in our wholesale business. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 18.

Notes to the consolidated financial statements

– supplementary information continued

30. Financial risk management continued

(a) Credit risk continued

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's net exposure.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a currently enforceable 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 agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Commodity contract derivatives that have not been offset on the balance sheet may be settled net in certain circumstances under ISDA or NAESB (North American Energy Standards Board) agreements.

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

				Related amounts available to be offset but not offset in statement of financial position		
	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
At 31 March 2018						
Assets						
Financing derivatives	1,545	–	1,545	(523)	(772)	250
Commodity contract derivatives	69	–	69	(16)	–	53
Further Acquisition Agreement derivative¹	110	–	110	–	–	110
	1,724	–	1,724	(539)	(772)	413
Liabilities						
Financing derivatives	(945)	–	(945)	523	326	(96)
Commodity contract derivatives	(116)	–	(116)	16	7	(93)
	(1,061)	–	(1,061)	539	333	(189)
	663	–	663	–	(439)	224

1. The Group held a put/call option as at 31 March 2017. The fair value was £nil.

				Related amounts available to be offset but not offset in statement of financial position		
	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
At 31 March 2017						
Assets						
Financing derivatives	1,707	–	1,707	(718)	(692)	297
Commodity contract derivatives	106	–	106	(25)	–	81
	1,813	–	1,813	(743)	(692)	378
Liabilities						
Financing derivatives	(2,223)	–	(2,223)	718	1,230	(275)
Commodity contract derivatives	(170)	–	(170)	25	18	(127)
	(2,393)	–	(2,393)	743	1,248	(402)
	(580)	–	(580)	–	556	(24)

30. Financial risk management continued

(b) Liquidity risk

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

We believe our contractual obligations, including those shown in commitments and contingencies in note 28 can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of subsidiary indebtedness. 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 or access the capital markets.

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

	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	More than 3 years £m	Total £m
At 31 March 2018					
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(4,099)	(1,642)	(2,325)	(18,023)	(26,089)
Interest payments on borrowings ¹	(730)	(692)	(629)	(12,897)	(14,948)
Finance lease liabilities	(60)	(60)	(45)	(148)	(313)
Other non interest-bearing liabilities	(2,840)	(359)	–	–	(3,199)
Derivative financial liabilities					
Derivative contracts – receipts	1,069	601	130	250	2,050
Derivative contracts – payments	(890)	(263)	(188)	(529)	(1,870)
Commodity contract derivatives	(80)	(33)	(26)	1	(138)
	(7,630)	(2,448)	(3,083)	(31,346)	(44,507)
At 31 March 2017					
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(5,142)	(1,864)	(1,750)	(19,245)	(28,001)
Interest payments on borrowings ¹	(767)	(707)	(670)	(12,975)	(15,119)
Finance lease liabilities	(66)	(58)	(61)	(183)	(368)
Other non interest-bearing liabilities	(2,989)	(260)	–	–	(3,249)
Derivative financial liabilities					
Derivative contracts – receipts	571	961	572	234	2,338
Derivative contracts – payments	(1,551)	(959)	(304)	(610)	(3,424)
Commodity contract derivatives	(15)	(18)	(8)	–	(41)
	(9,959)	(2,905)	(2,221)	(32,779)	(47,864)

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

National Grid's interest rate risk arises from our long-term borrowings. Borrowings issued at variable rates expose National Grid to cash flow interest rate risk, partially offset by cash held at variable rates. Borrowings issued at fixed rates expose National Grid 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 20 sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

Notes to the consolidated financial statements

– supplementary information continued

30. Financial risk management continued

(c) Interest rate risk continued

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

	2018					2017				
	Fixed rate £m	Floating rate £m	Inflation linked £m	Other ¹ £m	Total £m	Fixed rate £m	Floating rate £m	Inflation linked £m	Other ¹ £m	Total £m
Cash and cash equivalents	–	302	–	27	329	940	199	–	–	1,139
Financial investments	31	2,625	–	38	2,694	44	8,691	–	6	8,741
Borrowings	(16,144)	(3,191)	(7,290)	–	(26,625)	(17,681)	(3,917)	(7,040)	–	(28,638)
Pre-derivative position	(16,113)	(264)	(7,290)	65	(23,602)	(16,697)	4,973	(7,040)	6	(18,758)
Derivative effect	1,735	(1,237)	102	–	600	1,424	(1,785)	(155)	–	(516)
Net debt position	(14,378)	(1,501)	(7,188)	65	(23,002)	(15,273)	3,188	(7,195)	6	(19,274)

1. Represents financial instruments which are not directly affected by interest rate risk, such as investments in equity or other similar financial instruments.

(d) Currency risk

National Grid operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and investments in foreign operations.

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. Instruments used to manage foreign exchange transaction risk include foreign exchange forward contracts and foreign exchange swaps.

Our policy for managing foreign exchange translation risk relating to our net investment in foreign operations is to maintain cross-currency swaps and foreign exchange forwards so as to provide an economic offset. The primary managed foreign exchange exposure arises from the dollar denominated assets and liabilities held by our US operations, with a further small euro exposure in respect of joint venture investments.

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

	2018					2017				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Cash and cash equivalents	294	2	33	–	329	1,110	–	29	–	1,139
Financial investments	1,471	69	1,125	29	2,694	6,824	98	1,753	66	8,741
Borrowings	(10,912)	(3,794)	(11,068)	(851)	(26,625)	(11,099)	(5,373)	(10,729)	(1,437)	(28,638)
Pre-derivative position	(9,147)	(3,723)	(9,910)	(822)	(23,602)	(3,165)	(5,275)	(8,947)	(1,371)	(18,758)
Derivative effect	3,748	3,793	(7,992)	1,051	600	2,310	6,241	(10,708)	1,641	(516)
Net debt position	(5,399)	70	(17,902)	229	(23,002)	(855)	966	(19,655)	270	(19,274)

The exposure to dollars largely relates to our net investment hedge activities; exposure to euros largely relates to hedges for our future non-sterling capital expenditure as described in note 16.

The currency exposure on other financial instruments is as follows:

	2018					2017				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Trade and other receivables	253	–	1,528	–	1,781	83	–	1,660	–	1,743
Trade and other payables	(1,124)	–	(1,793)	–	(2,917)	(1,209)	–	(1,795)	–	(3,004)
Other non-current liabilities	(144)	–	(254)	–	(398)	(100)	–	(315)	–	(415)

The carrying amounts of other financial instruments are denominated in the above currencies, which in most instances are the functional currency of the respective subsidiaries. Our exposure to dollars is due to activities in our US subsidiaries. We do not have any other significant exposure to currency risk on these balances.

30. 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 27). National Grid's objectives when managing capital are: to safeguard our ability to continue as a going concern; to remain within regulatory constraints of our regulated operating companies; 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 operating and holding companies is an important aspect of our capital risk management strategy and balance sheet efficiency. As noted on page 24, we monitor our balance sheet efficiency using several metrics including retained cash flow/net debt (RCF), interest cover and gearing. Retained cash flow/net debt and interest cover for the Group for the year ended 31 March 2018 were 9.7% (2017: 14.9%) and 4.4 (2017: 5.0) respectively. We believe these are consistent with the current credit ratings for National Grid plc and the main operating companies within the Group, based on guidance from the rating agencies.

We monitor the RAV gearing within each of NGET and the regulated transmission businesses within NGG. This is calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our UK regulated businesses. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for these businesses, at around 60% to 62.5%. We also monitor net debt as a percentage of rate base for our US operating companies, comparing this with the allowed rate base gearing inherent within each of our agreed rate plans.

The majority of our regulated operating companies in the US and the UK are subject to certain restrictions on the payment of dividends by administrative order, contract and/or licence. The types of restrictions that a company may have that would prevent a dividend being declared or paid unless they are met include:

- dividends must be approved in advance by the relevant US state regulatory commission;
- the subsidiary must have at least two recognised rating agency credit ratings of at least investment grade;
- dividends must be limited to cumulative retained earnings, including pre-acquisition retained earnings;
- National Grid plc must maintain an investment grade credit rating and if that rating is the lowest investment grade bond rating it cannot have a negative watch/review for downgrade notice by a credit rating agency;
- the subsidiary must not carry on any activities other than those permitted by the licences;
- the subsidiary must not create any cross-default obligations or give or receive any intra-group cross-subsidies; and
- the percentage of equity compared with total capital of the subsidiary must remain above certain levels.

There is a further restriction relating only to the Narragansett Electric Company, which is required to maintain its consolidated net worth above certain levels.

These restrictions are subject to alteration in the US as and when a new rate case or rate plan is agreed with the relevant regulatory bodies for each operating company and in the UK through the normal licence review process.

As most of our business is regulated, at 31 March 2018 the majority of our net assets are subject to some of the restrictions noted above. These restrictions are not considered to be significantly onerous, nor do we currently expect they will prevent the planned payment of dividends in future in line with our dividend policy.

Some of our regulatory and bank loan agreements additionally impose lower limits for the long-term credit ratings that certain companies within the Group must hold. All the above requirements are monitored on a regular basis in order to ensure compliance. The Group has complied with all externally imposed capital requirements to which it is subject.

(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								
Investments – available-for-sale	2,406	310	5	2,721	7,717	315	5	8,037
Investments – joint ventures and associates	–	–	79	79	–	–	41	41
Financing derivatives	–	1,544	1	1,545	–	1,692	15	1,707
Commodity contract derivatives	–	8	61	69	–	22	84	106
Further Acquisition Agreement derivative	–	–	110	110	–	–	–	–
	2,406	1,862	256	4,524	7,717	2,029	145	9,891
Liabilities								
Financing derivatives	–	(725)	(220)	(945)	–	(1,743)	(480)	(2,223)
Commodity contract derivatives	–	(54)	(62)	(116)	–	(70)	(100)	(170)
	–	(779)	(282)	(1,061)	–	(1,813)	(580)	(2,393)
	2,406	1,083	(26)	3,463	7,717	216	(435)	7,498

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.

Notes to the consolidated financial statements

– supplementary information continued

30. Financial risk management continued

(f) Fair value analysis continued

Our level 3 derivative financial instruments include cross-currency swaps, inflation linked swaps and equity options, all of which are traded on illiquid markets. In valuing these instruments we use in-house valuation models and obtain external valuations to support each reported fair value.

Our level 3 commodity contract derivatives primarily consist of our forward purchases of electricity and gas where pricing inputs are unobservable, as well as other complex transactions. Complex transactions can introduce the need for internally developed models based on reasonable assumptions. Industry standard valuation techniques such as the Black-Scholes pricing model and Monte Carlo simulation are used for valuing such instruments. Level 3 is also applied in cases when optionality is present or where an extrapolated forward curve is considered unobservable. We consider forward curves to be unobservable if observed market transactions differ from the curve by more than 5%.

Our level 3 investments include investments in associates relating to Sunrun Neptune Investor 2016 LLC, accounted at fair value (see note 15), and £5 million Series B preferred stocks in Enbala Holdings, Inc., accounted for as an available-for-sale investment. The Group is also party to the Further Acquisition Agreement (FAA) which contains a put/call option over 14% of the loan and equity it holds in Cadent (through its investment in Quadgas HoldCo Limited). The FAA is a derivative, which is accounted for at fair value, and the assumptions which are used to determine fair value are specific to the contract and not readily observable in active markets. The fair value of the option is £110 million (2017: £nil).

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

	Financing derivatives/ Further Acquisition Agreement derivative		Commodity contract derivatives		Investments in associates and available-for-sale investments		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
At 1 April	(465)	(196)	(16)	(27)	46	–	(435)	(223)
Net gains/(losses) for the year ^{1,2}	125	(35)	8	(2)	–	–	133	(37)
Purchases	–	–	27	15	41	46	68	61
Settlements	231	–	(20)	(2)	(3)	–	208	(2)
Reclassification into level 3	–	(234)	–	–	–	–	–	(234)
At 31 March	(109)	(465)	(1)	(16)	84	46	(26)	(435)

1. Gain of £125 million (2017: £35 million loss) is attributable to derivative financial instruments held at the end of the reporting period and has been recognised in finance costs in the income statement.
2. Gain of £35 million (2017: £21 million loss) is attributable to commodity contract derivative financial instruments held at the end of the reporting period.

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

	Financing derivatives		Commodity contract derivatives	
	2018 £m	2017 £m	2018 £m	2017 £m
10% increase in commodity prices ¹	–	–	(1)	1
10% decrease in commodity prices ¹	–	–	3	–
Volume forecast uplift ²	–	–	–	(1)
Volume forecast reduction ²	–	–	–	1
+10% market area price change	–	–	(6)	(13)
-10% market area price change	–	–	5	9
+20 basis points change in Limited Price Inflation (LPI) market curve ³	(84)	(93)	–	–
-20 basis points change in LPI market curve ³	82	88	–	–

1. Level 3 commodity price sensitivity is included within the sensitivity analysis disclosed in note 33.
2. Volumes were flexed using maximum and minimum historical averages, or by >10% where historical averages were not available.
3. A reasonably possible change in assumption of other level 3 derivative financial instruments is unlikely to result in a material change in fair values.

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified. The level 3 investments were acquired in the period on market terms and sensitivity is considered insignificant at 31 March 2018. A 50 basis point change in the discount rate is used to determine the sensitivity of the fair value of our investment in Sunrun Neptune 2016 LLC. A 50 basis point increase/(decrease) would (decrease)/increase the fair value by £(5) million/£6 million (2017: £(8) million/£8 million) respectively.

A 5 percentage point decrease in the offer price received from Quadgas Investments BidCo Limited on 30 April 2018 applied in valuing the FAA would increase the fair value by approximately £39 million.

31. Borrowing facilities

To support our long-term liquidity requirements and provide backup to commercial paper and other borrowings, we agree loan facilities with financial institutions over and above the value of borrowings that may be required. These facilities have never been drawn, and our undrawn amounts are listed below.

At 31 March 2018, we had bilateral committed credit facilities of £5,438 million (2017: £4,938 million). In addition, we had committed credit facilities from syndicates of banks of £245 million at 31 March 2018 (2017: £338 million). All committed credit facilities were undrawn in 2018 and 2017. An analysis of the maturity of these undrawn committed facilities is shown below:

	2018 £m	2017 £m
Undrawn committed borrowing facilities expiring:		
Less than 1 year	–	–
In 1 to 2 years	3,910	1,115
In 2 to 3 years	–	2,388
In 3 to 4 years	–	–
In 4 to 5 years	1,773	1,773
More than 5 years	–	–
	5,683	5,276

Of the unused facilities at 31 March 2018, £5,438 million (2017: £4,938 million) is available for liquidity purposes, while £245 million (2017: £338 million) is available as backup to specific US borrowings.

In addition to the above, the Group has Export Credit Agreements (ECAs) totalling £797 million (2017: £600 million), of which £704 million (2017: £562 million) is undrawn. During the year, two new ECAs totalling £261 million were made available, of which £239 million is undrawn. Of the £3,910 million of undrawn committed borrowing facilities due to expire within 1 to 2 years, £1,255 million was renegotiated before 31 March 2018, with effect from 1 June 2018. This amount has increased to £1,380 million with the expiry extended to more than 5 years.

Further information on our bonds can be found on the debt investor section of our website. Unless included in these financial statements the information on our website is unaudited.

Notes to the consolidated financial statements

– supplementary information continued

32. Subsidiary undertakings, joint ventures and associates

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

Subsidiary undertakings

A list of the Group's subsidiaries as at 31 March 2018 is given below. The entire share capital of subsidiaries is held within the Group except where the Group's ownership percentages are shown. These percentages give the Group's ultimate interest and therefore allow for the situation where subsidiaries are owned by partly-owned intermediate subsidiaries. Where subsidiaries have different classes of shares, this is largely for historical reasons and the effective percentage holdings given represent both the Group's voting rights and equity holding. Shares in National Grid (US) Holdings Limited, National Grid Holdings One plc and NGG Finance plc are held directly by National Grid plc. All other holdings in subsidiaries are owned by other subsidiaries within the Group. All subsidiaries are consolidated in the Group's financial statements.

Principal Group companies are identified in **bold**. These companies are incorporated and principally operate in the countries under which they are shown.

Incorporated in England and Wales

Registered office: 1–3 Strand, London WC2N 5EH, UK (unless stated otherwise in footnotes).

Beegas Nominees Limited
Birch Sites Limited
Carbon Sentinel Limited
Droylsden Metering Services Limited
Gridcom Limited
Icelink Interconnector Limited
Landranch Limited
Lattice Group Employee Benefit Trust Limited
Lattice Group Limited
Lattice Group Trustees Limited
Natgrid Limited
NatGrid One Limited
NatgridTW1 Limited
National Grid Belgium Limited
National Grid Blue Power Limited
National Grid Carbon Limited
National Grid Commercial Holdings Limited
National Grid Distributed Energy Limited
National Grid Electricity Group Trustee Limited
National Grid Electricity System Operator Limited
National Grid Electricity Transmission plc
National Grid Energy Metering Limited
National Grid Four Limited
National Grid Fourteen Limited
National Grid Gas Holdings Limited
National Grid Gas plc
National Grid Grain LNG Limited
National Grid Holdings Limited
National Grid Holdings One plc
National Grid IFA 2 Limited
National Grid Interconnector Holdings Limited
National Grid Interconnectors Limited
National Grid International Limited
National Grid Metering Limited
National Grid North Sea Link Limited
National Grid Offshore Limited (previously Cadent Services Limited)*
National Grid Property Holdings Limited

National Grid Seventeen Limited
National Grid Smart Limited
National Grid Ten
National Grid Thirty Five Limited
National Grid Thirty Four Limited (previously Cadent Gas Limited)*
National Grid Thirty Six Limited (previously Cadent Finance Limited)*
National Grid Twelve Limited
National Grid Twenty Eight Limited
National Grid Twenty-Five Limited
National Grid Twenty Seven Limited
National Grid Twenty Three Limited
National Grid UK Limited
National Grid UK Pension Services Limited
National Grid (US) Holdings Limited
National Grid (US) Investments 2 Limited
National Grid (US) Investments 4 Limited
National Grid (US) Partner 1 Limited
National Grid Ventures Limited
National Grid Viking Link Limited
National Grid William Limited
NG Nominees Limited
NG Shetland Link Limited
NGC Employee Shares Trustee Limited
NGG Finance plc
Ngrid Intellectual Property Limited
NGT Telecom No. 1 Limited
NGT Two Limited
Port Greenwich Limited
Stargas Nominees Limited
Supergrid Electricity Limited
Supergrid Energy Transmission Limited
Supergrid Limited
Thamesport Interchange Limited
The National Grid Group Quest Trustee Company Limited
The National Grid YouPlan Trustee Limited
Transco Limited
Warwick Technology Park Management Company (No 2) Limited (60.56%)¹

1. Registered office: Shire Hall, PO Box 9, Warwick CV34 4RL, UK

* Change of name effective from 2 May 2017

32. Subsidiary undertakings, joint ventures and associates continued

Incorporated in the US

Registered office: Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA (unless stated otherwise in footnotes).

Boston Gas Company¹

British Transco Capital Inc.

British Transco Finance, Inc.

Broken Bridge Corp.²

Colonial Gas Company¹

EUA Energy Investment Corporation¹

GridAmerica Holdings Inc.

Grid NY LLC³

KeySpan CI Midstream Limited

KeySpan Corporation³

KeySpan Energy Corporation³

KeySpan Energy Services Inc.

KeySpan Gas East Corporation³

KeySpan International Corporation

KeySpan MHK, Inc.

KeySpan Midstream Inc.

KeySpan Plumbing Solutions, Inc.³

KSI Contracting, LLC

KSI Electrical, LLC

KSI Mechanical, LLC

Land Management & Development, Inc.³

Landwest, Inc.³

Massachusetts Electric Company¹

Metro Energy, LLC³

Metrowest Realty LLC

Mystic Steamship Corporation

Nantucket Electric Company¹

National Grid Algonquin LLC

National Grid Connect Inc.

National Grid Development Holdings Corp.

National Grid Electric Services, LLC³

National Grid Energy Management, LLC

National Grid Energy Services LLC

National Grid Energy Trading Services LLC³

National Grid Engineering & Survey Inc.³

National Grid Generation LLC³

National Grid Generation Ventures LLC³

National Grid Glenwood Energy Center, LLC

National Grid Green Homes Inc.

National Grid IGTS Corp.³

National Grid Insurance USA Ltd³

National Grid Islander East Pipeline LLC

National Grid LNG GP LLC

National Grid LNG LLC

National Grid LNG LP LLC

National Grid Millennium LLC

National Grid NE Holdings 2 LLC¹

National Grid North America Inc.

National Grid North East Ventures Inc.

National Grid Port Jefferson Energy Center LLC

National Grid Services Inc.

National Grid Technologies Inc.³

National Grid Transmission Services Corporation¹

National Grid US 6 LLC

National Grid US LLC

National Grid USA

National Grid USA Service Company, Inc.³

Nees Energy, Inc.¹

New England Electric Transmission Corporation²

New England Energy Incorporated¹

New England Hydro Finance Company, Inc. (53.704%)¹

New England Hydro-Transmission Corporation (53.704%)²

New England Hydro-Transmission Electric Company Inc. (53.704%)¹

New England Power Company¹

Newport America Corporation⁴

NGNE LLC

Niagara Mohawk Energy, Inc.

Niagara Mohawk Holdings, Inc.³

Niagara Mohawk Power Corporation³

NM Properties, Inc.³

North East Transmission Co., Inc.

Opinac North America, Inc.

Philadelphia Coke Co., Inc.

Port of the Islands North, LLC³

The Brooklyn Union Gas Company³

The Narragansett Electric Company⁴

Transgas, Inc.¹

Upper Hudson Development Inc.¹

Valley Appliance and Merchandising Company⁴

Vermont Green Line Devco, LLC (90%)

Wayfinder Group, Inc.¹

Incorporated in Australia

Registered office: Level 7, 330 Collins Street, Melbourne, VIC 3000, Australia

National Grid Australia Pty Limited

Incorporated in Canada

Registered office: 1959 Upper Water Street, Suite 800, Halifax NS, B3J 2X2, Canada

KeySpan Energy Development Co.

Incorporated in the Cayman Islands

Registered office: c/o KPMG, PO Box 493, 2nd Floor, Century Yard, Cricket Square, Grand Cayman KY1-1106, Cayman Islands

British Transco Finance (No 1) Limited*

British Transco Finance (No 2) Limited*

Incorporated in the Isle of Man

Registered office: Third Floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man, UK (unless stated otherwise in footnotes)

Lattice Telecom Finance (No 1) Limited^{5*}

National Grid Insurance Company (Isle of Man) Limited

NGT Holding Company (Isle of Man) Limited

Incorporated in Jersey

Registered office: 44 Esplanade, St Helier, Jersey JE4 9WG, UK

National Grid Jersey Investments Limited

NG Jersey Limited

Incorporated in the Netherlands

Registered office: Westblaak 89, 3012 KG Rotterdam, PO Box 21153, 3001 AD, Rotterdam, Netherlands

British Transco International Finance B.V.

Registered office: Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands

National Grid Holdings B.V.

Incorporated in the Republic of Ireland

Registered office: Third Floor, The Metropolitan Building, James Joyce Street, Dublin 1, Ireland

National Grid Insurance Company (Ireland) Designated Activity Company

1. Registered office: Corporation Service Company, 84 State Street, Boston MA 02109, Suffolk County, USA.

2. Registered office: Corporation Service Company, 10 Ferry Street, Suite 313, Concord NH 03301, Merrimack County, USA.

3. Registered office: Corporation Service Company, 80 State Street, Albany NY 12207-2543, Albany County, USA.

4. Registered office: Corporation Service Company, 222 Jefferson Boulevard, Suite 200, Warwick RI 02888, Kent County, USA.

5. Registered office: Heritage Court, 41 Athol Street, Douglas, IM99 1HN, Isle of Man, UK.

* In liquidation.

Notes to the consolidated financial statements

– supplementary information continued

32. Subsidiary undertakings, joint ventures and associates continued

Joint ventures

A list of the Group's joint ventures as at 31 March 2018 is given below. All joint ventures are included in the Group's financial statements using the equity method of accounting. Principal joint ventures are identified in **bold**.

Incorporated in England and Wales

Registered office: 1–3 Strand, London WC2N 5EH, UK (unless stated otherwise in footnotes).

BritNed Development Limited (50%)*

Joint Radio Company Limited (50%)***

Nemo Link Limited (50%)

NGET/SPT Upgrades Limited (50%)[†]

St William Homes LLP (50%)[‡]

Incorporated in the US

Registered office: Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA (unless stated otherwise in footnotes).

Clean Energy Generation, LLC (50%)

Island Park Energy Center, LLC (50%)

Islander East Pipeline Company, LLC (50%)³

LI Energy Storage System, LLC (50%)

LI Solar Generation, LLC (50%)

Swan Lake North Holdings LLC (50%)

Incorporated in France

Registered office: 1 Terrasse Bellini, Tour Initiale, TSA 41000 – 9291, Paris La Defense, CEDEX, France

IFA2 SAS (50%)

Associates

A list of the Group's associates as at 31 March 2018 is given below. All associates are included in the Group's financial statements using the equity method of accounting. Principal associates are identified in **bold**.

Incorporated in England and Wales

Registered office: Ashbrook Court, Prologis Park, Central Boulevard, Coventry CV7 8PE, UK

Quadgas HoldCo Limited (39%)

Incorporated in the US

Registered office: Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA (unless stated otherwise in footnotes).

Algonquin Gas Transmission, LLC (20%)³

Clean Line Energy Partners LLC (32%)

Connecticut Yankee Atomic Power Company (19.5%)⁴

Direct Global Power, Inc. (26%)⁵

Energy Impact Fund LP (9.7%)⁶

KHB Venture LLC (33%)⁷

Maine Yankee Atomic Power Company (24%)⁸

Millennium Pipeline Company, LLC (26.25%)³

New York Transco LLC (28.3%)⁹

Nysearch RMLD, LLC (22.63%)

Sunrun Neptune Investor 2016 LLC^{3***}

Yankee Atomic Electric Company (34.5%)¹⁰

Incorporated in Belgium

Registered office: Avenue de Cortenbergh 71, 1000 Brussels, Belgium

Coreso SA (15.84%)

Other investments

A list of the Group's other investments as at 31 March 2018 is given below.

Incorporated in England and Wales

Registered office: 1 More London Place, London SE1 2AF, UK

Energis plc (33.06%)[‡]

1. Registered office: Friars House, Manor House Drive, Coventry CV1 2TE, UK.
2. Registered office: Berkeley House, 19 Portsmouth Road, Cobham, Surrey KT11 1JG, UK.
3. Registered office: Corporation Trust Company, 1209 Orange, Wilmington DE 19808, New Castle County, USA.
4. Registered office: Carla Pizzella, 362 Injun Hollow Road, East Hampton CT 06424, USA.
5. Registered office: 507 Plum Street, PO Box 5001, Syracuse NY 13250, USA.
6. Registered office: Harvard Business Services, Inc., 16192 Coastal Highway, Lewes DE 19958, Sussex County, USA.
7. Registered office: De Maximus Inc., 135 Beaver Street, 4th Floor, Waltham MA 02452, USA.
8. Registered office: Joseph D Fay, 321 Old Ferry Road, Wiscasset ME 04578, USA.
9. Registered office: Corporation Service Company, 80 State Street, Albany NY 12207, USA.
10. Registered office: Brian Smith, 49 Yankee Road, Rowe MA 01367, USA.

* National Grid Interconnector Holdings Limited owns 284,500,000 €0.20 C Ordinary shares and one £1.00 Ordinary A share.

** National Grid Gas plc owns all £1.00 A Ordinary shares.

*** National Grid Green Homes Inc owns 1,000 Class A Membership Interests.

[†] National Grid Electricity Transmission plc owns 50 £1.00 A Ordinary shares.

[‡] In administration.

Our interests and activities are held or operated through the subsidiaries, joint arrangements or associates as disclosed above. These interests and activities (and their branches) are established in – and subject to the laws and regulations of – these jurisdictions.

33. 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 tables below show the potential impact in the income statement (and consequential impact on net assets) for a reasonably possible 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 tables below broadly have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated.

(a) Sensitivities on areas of estimation uncertainty

The table below sets out the sensitivity analysis for each of the areas of estimation uncertainty set out in note 1E. These estimates are those that have a significant risk of resulting in a material adjustment 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 and other post-retirement benefits ¹ (pre-tax):				
UK discount rate change of 0.5% ²	8	1,075	9	1,305
US discount rate change of 0.5% ²	15	623	17	669
UK RPI rate change of 0.5% ³	5	965	8	1,114
UK long-term rate of increase in salaries change of 0.5% ⁴	–	61	2	80
US long-term rate of increase in salaries change of 0.5%	3	44	3	51
UK change of one year to life expectancy at age 65	2	588	2	673
US change of one year to life expectancy at age 65	4	359	4	365
Assumed US healthcare cost trend rates change of 1%	31	448	37	510
Environmental provision:				
10% change in estimated future cash flows	154	154	175	175
0.5% change in discount rate	56	56	67	67

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 other post-retirement benefits assumptions

Sensitivities have been prepared to show how the defined benefit obligations and annual service costs could potentially be impacted by changes in the relevant actuarial 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.

Notes to the consolidated financial statements

– supplementary information continued

33. Sensitivities continued

(b) Sensitivities on financial instruments

We are further required to show additional sensitivity analysis under IFRS 7 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 and US interest rates, the UK RPI and the dollar to sterling exchange rate. The changes in market variables impact the valuation of our borrowings, deposits, derivative financial instruments and commodity contract derivatives. The analysis illustrates the sensitivity of our financial instruments to reasonably possible 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;
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity; and
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in interest rates are recorded in the income statement as they are designated using the spot rather than the forward translation method. The impact of movements in the dollar to sterling exchange rate are recorded directly in equity.

	2018		2017	
	Income statement £m	Other equity reserves £m	Income statement £m	Other equity reserves £m
Financial risk (post-tax) ¹ :				
UK RPI change of 0.5% ²	30	–	28	–
UK interest rates change of 0.5%	43	26	64	35
US interest rates change of 0.5%	39	17	61	22
US dollar exchange rate change of 10% ³	48	479	46	604

1. Excludes sensitivities to the Further Acquisition Agreement derivative. Further details on sensitivities are provided in note 30(f).

2. Excludes sensitivities to LPI curve. Further details on sensitivities are provided in note 30(f).

3. The other equity reserves impact does not reflect the exchange translation in our US subsidiaries' net assets. It is estimated this would change by £1,040 million (2017: £988 million) in the opposite direction if the dollar exchange rate changed by 10%.

Additional sensitivities in respect to commodity price risk and to our derivative fair values are as follows:

	2018		2017	
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
Commodity risk ¹ (post-tax):				
10% increase in commodity prices	23	23	28	28
10% decrease in commodity prices	(23)	(23)	(29)	(29)
Assets and liabilities carried at fair value (pre-tax) ² :				
10% fair value change in derivative financial instruments ³	60	60	(52)	(52)
10% fair value change in commodity contract derivative liabilities	(5)	(5)	(6)	(6)

1. Represents potential impact on fair values of commodity contract derivatives only.

2. Excludes sensitivities to the Further Acquisition Agreement derivative. Further details on sensitivities are provided in note 30(f).

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

34. Additional disclosures in respect of guaranteed securities

We have three debt issuances (including preferred shares) that are listed on a US national securities exchange and are guaranteed by other companies in the Group. These guarantors commit to honour any liabilities should the company issuing the debt have any financial difficulties. In order to provide debt holders with information on the financial stability of the companies providing the guarantees, we are required to disclose individual financial information for these companies. We have chosen to include this information in the Group financial statements rather than submitting separate stand-alone financial statements.

The following condensed consolidating financial information, comprising statements of comprehensive income, statements of financial position and cash flow statements, is given in respect of National Grid Gas plc (subsidiary guarantor), which became joint full and unconditional guarantor on 11 May 2004 with National Grid plc (parent guarantor) of the 6.625% Guaranteed Notes due 2018 issued in June 1998 by British Transco Finance Inc., then known as British Gas Finance Inc. (issuer of notes). These Guaranteed Notes will be repaid on 1 June 2018.

Condensed consolidating financial information is also provided in respect of Niagara Mohawk Power Corporation as a result of National Grid plc's guarantee, dated 29 October 2007, of Niagara Mohawk's 3.6% and 3.9% issued preferred shares. National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation are 100% owned and National Grid plc's guarantee of Niagara Mohawk Power Corporation's preferred shares is full and unconditional pursuant to Rule 3-10(i)(8) (i) and (ii) of Regulation S-X. The guarantees of National Grid Gas plc and National Grid plc are joint and several.

The following financial information for National Grid plc, National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation on a condensed consolidating basis is intended to provide investors with meaningful and comparable financial information, and is provided pursuant to various rules including Rule 3-10 of Regulation S-X in lieu of the separate financial statements of each subsidiary issuer of public debt securities.

This financial information should be read in conjunction with the other disclosures in these financial statements.

Summary statements of comprehensive income are presented, on a consolidated basis, for the three years ended 31 March 2018. Summary statements of comprehensive income of National Grid plc and National Grid Gas plc are presented under IFRS measurement principles, as modified by the inclusion of the results of subsidiary undertakings on the basis of equity accounting principles.

The summary statements of financial position of National Grid plc and National Grid Gas plc include the investments in subsidiaries recorded on the basis of equity accounting principles for the purposes of presenting condensed consolidating financial information under IFRS. The summary statements of financial position present these investments within non-current financial and other investments.

The consolidation adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between National Grid plc, National Grid Gas plc, British Transco Finance Inc., Niagara Mohawk Power Corporation and other subsidiaries.

Notes to the consolidated financial statements

– supplementary information continued

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income for the year ended 31 March 2018 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Continuing operations							
Revenue	–	2,416	–	1,430	11,495	(91)	15,250
Operating costs:							
Depreciation and amortisation	–	(190)	–	(245)	(1,095)	–	(1,530)
Payroll costs	–	(318)	–	(122)	(1,208)	–	(1,648)
Purchases of electricity	–	(537)	–	–	(748)	–	(1,285)
Purchases of gas	–	(166)	–	–	(1,377)	–	(1,543)
Rates and property tax	–	(183)	–	(94)	(780)	–	(1,057)
Balancing Service Incentive Scheme	–	–	–	–	(1,012)	–	(1,012)
Payments to other UK network owners	–	–	–	–	(1,043)	–	(1,043)
Other operating costs	–	(397)	–	(331)	(2,002)	91	(2,639)
	–	(1,791)	–	(792)	(9,265)	91	(11,757)
Total operating profit	–	625	–	638	2,230	–	3,493
Net finance income/(costs)	889	(100)	–	(174)	(1,360)	–	(745)
Dividends receivable	950	–	–	–	–	(950)	–
Interest in equity accounted affiliates	1,672	–	–	8	(40)	(1,680)	(40)
Profit before tax	3,511	525	–	472	830	(2,630)	2,708
Tax	40	321	–	(103)	626	–	884
Profit after tax from discontinued operations	–	–	–	17	(58)	–	(41)
Profit for the year	3,551	846	– ¹	386	1,398	(2,630)	3,551
Amounts recognised in other comprehensive income from continuing operations ²	371	1	–	272	604	(877)	371
Total comprehensive income for the year	3,922	847	–	658	2,002	(3,507)	3,922
Attributable to:							
Equity shareholders	3,922	847	–	658	2,002	(3,507)	3,922
Non-controlling interests	–	–	–	–	–	–	–
	3,922	847	–	658	2,002	(3,507)	3,922

1. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

2. Includes other comprehensive income relating to interest in equity accounted affiliates.

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income for the year ended 31 March 2017 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Continuing operations							
Revenue	–	2,388	–	1,376	11,435	(164)	15,035
Operating costs:							
Depreciation and amortisation	–	(193)	–	(256)	(1,032)	–	(1,481)
Payroll costs	–	(326)	–	(114)	(1,138)	–	(1,578)
Purchases of electricity	–	(511)	–	–	(586)	–	(1,097)
Purchases of gas	–	(140)	–	(67)	(1,012)	–	(1,219)
Rates and property tax	–	(188)	–	(101)	(753)	–	(1,042)
Balancing Service Incentive Scheme	–	–	–	–	(1,120)	–	(1,120)
Payments to other UK network owners	–	–	–	–	(1,008)	–	(1,008)
Other operating costs	–	(435)	–	(394)	(2,617)	164	(3,282)
	–	(1,793)	–	(932)	(9,266)	164	(11,827)
Total operating profit	–	595	–	444	2,169	–	3,208
Net finance income/(costs)	8,177	(101)	–	(253)	(8,910)	–	(1,087)
Dividends receivable	–	–	–	–	8,100	(8,100)	–
Interest in equity accounted affiliates	(401)	–	–	–	63	401	63
Profit before tax	7,776	494	–	191	1,422	(7,699)	2,184
Tax	19	(181)	–	16	(228)	–	(374)
Profit after tax from discontinued operations	–	–	–	4,633	1,351	–	5,984
Profit for the year	7,795	313	– ¹	4,840	2,545	(7,699)	7,794
Amounts recognised in other comprehensive income from continuing operations ²	578	–	–	114	177	(291)	578
Amounts recognised in other comprehensive income from discontinued operations ²	42	–	–	51	(62)	11	42
Total comprehensive income for the year	8,415	313	–	5,005	2,660	(7,979)	8,414
Attributable to:							
Equity shareholders	8,415	313	–	5,005	2,661	(7,979)	8,415
Non-controlling interests	–	–	–	–	(1)	–	(1)
	8,415	313	–	5,005	2,660	(7,979)	8,414

1. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

2. Includes other comprehensive income relating to interest in equity accounted affiliates.

Notes to the consolidated financial statements

– supplementary information continued

34. Additional disclosures in respect of guaranteed securities continued

Summary statements of comprehensive income for the year ended 31 March 2016 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc re-presented ¹ £m	Other subsidiaries re-presented ¹ £m	Consolidation adjustments ² £m	National Grid consolidated £m
Continuing operations							
Revenue	–	2,027	–	1,244	10,069	(128)	13,212
Operating costs:							
Depreciation and amortisation	–	(162)	–	(255)	(894)	–	(1,311)
Payroll costs	–	(260)	–	(115)	(962)	–	(1,337)
Purchases of electricity	–	(484)	–	–	(828)	–	(1,312)
Purchases of gas	–	(86)	–	(75)	(806)	–	(967)
Rates and property tax	–	(155)	–	(101)	(643)	–	(899)
Balancing Service Incentive Scheme	–	–	–	–	(907)	–	(907)
Payments to other UK network owners	–	–	–	–	(971)	–	(971)
Other operating costs	–	(433)	–	(173)	(1,805)	128	(2,283)
	–	(1,580)	–	(719)	(7,816)	128	(9,987)
Total operating profit	–	447	–	525	2,253	–	3,225
Net finance income/(costs)	701	(87)	–	(132)	(1,437)	–	(955)
Dividends receivable	–	–	–	–	620	(620)	–
Interest in equity accounted affiliates	1,843	–	–	33	59	(1,876)	59
Profit before tax	2,544	360	–	426	1,495	(2,496)	2,329
Tax	47	(141)	–	(56)	(277)	–	(427)
Profit after tax from discontinued operations	–	–	–	735	(43)	–	692
Profit for the year	2,591	219	– ²	1,105	1,175	(2,496)	2,594
Amounts recognised in other comprehensive income from continuing operations ³	502	(1)	–	8	426	(433)	502
Amounts recognised in other comprehensive income from discontinued operations ³	71	–	–	(13)	153	(140)	71
Total comprehensive income for the year	3,164	218	–	1,100	1,754	(3,069)	3,167
Attributable to:							
Equity shareholders	3,164	218	–	1,100	1,751	(3,069)	3,164
Non-controlling interests	–	–	–	–	3	–	3
	3,164	218	–	1,100	1,754	(3,069)	3,167

1. Amounts have been re-presented to reflect the classification of the UK Gas Distribution business as a discontinued operation.

2. Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

3. Includes other comprehensive income relating to interest in equity accounted affiliates.

34. Additional disclosures in respect of guaranteed securities continued

Statements of financial position as at 31 March 2018 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	691	–	–	4,753	–	5,444
Other intangible assets	–	3	–	107	789	–	899
Property, plant and equipment	–	6,148	–	4,433	29,272	–	39,853
Other non-current assets	–	3	–	94	18	–	115
Amounts owed by subsidiary undertakings	350	–	–	3,426	2,593	(6,369)	–
Pension assets	–	231	–	412	766	–	1,409
Financial and other investments	21,708	30	–	101	12,340	(31,112)	3,067
Derivative financial assets	18	2	–	591	708	–	1,319
Total non-current assets	22,076	7,108	–	9,164	51,239	(37,481)	52,106
Current assets							
Inventories and current intangible assets	–	36	–	22	283	–	341
Trade and other receivables	1	515	–	276	2,006	–	2,798
Current tax assets	–	–	–	–	307	(193)	114
Amounts owed by subsidiary undertakings	11,254	130	220	708	11,253	(23,565)	–
Financial and other investments	938	15	–	863	878	–	2,694
Derivative financial assets	308	7	–	46	–	44	405
Cash and cash equivalents	–	4	–	271	54	–	329
Total current assets	12,501	707	220	2,186	14,781	(23,714)	6,681
Total assets	34,577	7,815	220	11,350	66,020	(61,195)	58,787
Current liabilities							
Borrowings	(781)	(51)	(218)	(675)	(2,722)	–	(4,447)
Derivative financial liabilities	(187)	(36)	–	(68)	(66)	(44)	(401)
Trade and other payables	(62)	(318)	–	(347)	(2,726)	–	(3,453)
Amounts owed to subsidiary undertakings	(11,809)	–	–	(624)	(11,132)	23,565	–
Current tax liabilities	–	(202)	–	(26)	(88)	193	(123)
Provisions	–	(23)	–	(66)	(184)	–	(273)
Total current liabilities	(12,839)	(630)	(218)	(1,806)	(16,918)	23,714	(8,697)
Non-current liabilities							
Borrowings	(773)	(2,087)	–	(3,635)	(15,683)	–	(22,178)
Derivative financial liabilities	(41)	(18)	–	(157)	(444)	–	(660)
Other non-current liabilities	–	(281)	–	(181)	(855)	–	(1,317)
Amounts owed to subsidiary undertakings	(2,091)	–	–	(500)	(3,778)	6,369	–
Deferred tax liabilities	(1)	(626)	–	(441)	(2,568)	–	(3,636)
Pensions and other post-retirement benefit obligations	–	(765)	–	–	(907)	–	(1,672)
Provisions	–	(248)	–	(129)	(1,402)	–	(1,779)
Total non-current liabilities	(2,906)	(4,025)	–	(5,043)	(25,637)	6,369	(31,242)
Total liabilities	(15,745)	(4,655)	(218)	(6,849)	(42,555)	30,083	(39,939)
Net assets	18,832	3,160	2	4,501	23,465	(31,112)	18,848
Equity							
Share capital	452	133	–	45	182	(360)	452
Share premium account	1,321	2,194	–	204	9,032	(11,430)	1,321
Retained earnings	21,599	830	2	2,929	14,217	(17,978)	21,599
Other equity reserves	(4,540)	3	–	1,323	18	(1,344)	(4,540)
Shareholders' equity	18,832	3,160	2	4,501	23,449	(31,112)	18,832
Non-controlling interests	–	–	–	–	16	–	16
Total equity	18,832	3,160	2	4,501	23,465	(31,112)	18,848

Notes to the consolidated financial statements

– supplementary information continued

34. Additional disclosures in respect of guaranteed securities continued

Statements of financial position as at 31 March 2017 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation ¹ £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries ¹ £m	Consolidation adjustments £m	National Grid consolidated ¹ £m
Non-current assets							
Goodwill	–	763	–	–	5,333	–	6,096
Other intangible assets	–	–	–	125	798	–	923
Property, plant and equipment	–	6,553	–	4,358	28,914	–	39,825
Other non-current assets	–	5	–	9	55	–	69
Amounts owed by subsidiary undertakings	342	–	239	3,426	2,576	(6,583)	–
Pension assets	–	223	–	45	335	–	603
Financial and other investments	17,689	31	–	95	12,429	(27,061)	3,183
Derivative financial assets	149	2	–	813	603	–	1,567
Total non-current assets	18,180	7,577	239	8,871	51,043	(33,644)	52,266
Current assets							
Inventories and current intangible assets	–	38	–	20	345	–	403
Trade and other receivables	–	494	–	360	1,874	–	2,728
Current tax assets	–	–	–	–	317	–	317
Amounts owed by subsidiary undertakings	12,734	505	6	1,965	12,083	(27,293)	–
Financial and other investments	5,471	29	–	1,835	1,406	–	8,741
Derivative financial assets	202	13	–	51	174	(194)	246
Cash and cash equivalents	1,090	4	–	(9)	54	–	1,139
Total current assets	19,497	1,083	6	4,222	16,253	(27,487)	13,574
Total assets	37,677	8,660	245	13,093	67,296	(61,131)	65,840
Current liabilities							
Borrowings	(1,120)	(55)	(5)	(833)	(3,483)	–	(5,496)
Derivative financial liabilities	(533)	(42)	–	(185)	(581)	194	(1,147)
Trade and other payables	(46)	(311)	–	(342)	(2,646)	–	(3,345)
Amounts owed to subsidiary undertakings	(12,012)	–	–	(2,151)	(13,130)	27,293	–
Current tax liabilities	(3)	(156)	–	(9)	61	–	(107)
Provisions	–	–	–	(184)	(232)	–	(416)
Total current liabilities	(13,714)	(564)	(5)	(3,704)	(20,011)	27,487	(10,511)
Non-current liabilities							
Borrowings	(1,262)	(2,345)	(239)	(3,879)	(15,417)	–	(23,142)
Derivative financial liabilities	(272)	(26)	–	(234)	(714)	–	(1,246)
Other non-current liabilities	–	(324)	–	(204)	(842)	–	(1,370)
Amounts owed to subsidiary undertakings	(2,058)	–	–	(756)	(3,769)	6,583	–
Deferred tax liabilities	(3)	(1,178)	–	(369)	(2,929)	–	(4,479)
Pensions and other post-retirement benefit obligations	–	(889)	–	–	(1,647)	–	(2,536)
Provisions	–	(298)	–	(104)	(1,770)	–	(2,172)
Total non-current liabilities	(3,595)	(5,060)	(239)	(5,546)	(27,088)	6,583	(34,945)
Total liabilities	(17,309)	(5,624)	(244)	(9,250)	(47,099)	34,070	(45,456)
Net assets	20,368	3,036	1	3,843	20,197	(27,061)	20,384
Equity							
Share capital	449	149	–	45	182	(376)	449
Share premium account	1,324	2,431	–	204	8,033	(10,668)	1,324
Retained earnings	22,582	456	1	2,268	11,914	(14,639)	22,582
Other equity reserves	(3,987)	–	–	1,326	52	(1,378)	(3,987)
Shareholders' equity	20,368	3,036	1	3,843	20,181	(27,061)	20,368
Non-controlling interests	–	–	–	–	16	–	16
Total equity	20,368	3,036	1	3,843	20,197	(27,061)	20,384

1. Consistent with the presentation of the Group balance sheet we have re-presented commodity derivatives from current and non-current receivables and payables to derivative financial assets and liabilities.

34. Additional disclosures in respect of guaranteed securities continued

Cash flow statements

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Year ended 31 March 2018							
Net cash flow from operating activities – continuing operations	35	662	–	888	3,125	–	4,710
Net cash flow from operating activities – discontinued operations	–	–	–	(98)	(109)	–	(207)
Net cash flow from/(used in) investing activities – continuing operations	4,660	(473)	15	656	(1,759)	(862)	2,237
Net cash flow from/(used in) investing activities – discontinued operations	–	–	–	–	–	–	–
Net cash flow (used in)/from financing activities – continuing operations	(5,785)	(189)	(15)	(1,041)	(1,148)	862	(7,316)
Net cash flow (used in)/from financing activities – discontinued operations	–	–	–	(125)	(106)	–	(231)
Net increase/(decrease) in cash and cash equivalents in the year	(1,090)	–	–	280	3	–	(807)
Year ended 31 March 2017							
Net cash flow from operating activities – continuing operations	53	757	–	918	2,592	–	4,320
Net cash flow from operating activities – discontinued operations	–	–	–	450	459	–	909
Net cash flow from/(used in) investing activities – continuing operations	4,181	(469)	15	215	(1,118)	(6,458)	(3,634)
Net cash flow from/(used in) investing activities – discontinued operations	–	–	–	5,618	(6,298)	–	(680)
Net cash flow (used in)/from financing activities – continuing operations	(3,146)	(288)	(15)	(8,322)	3,771	6,458	(1,542)
Net cash flow (used in)/from financing activities – discontinued operations	–	–	–	1,120	491	–	1,611
Net increase/(decrease) in cash and cash equivalents in the year	1,088	–	–	(1)	(103)	–	984
Year ended 31 March 2016							
Net cash flow from operating activities – continuing operations	57	580	–	599	3,056	–	4,292
Net cash flow from operating activities – discontinued operations	–	–	–	1,144	(68)	–	1,076
Net cash flow from/(used in) investing activities – continuing operations	502	(440)	13	56	(1,721)	(1,869)	(3,459)
Net cash flow from/(used in) investing activities – discontinued operations	–	–	–	(562)	(15)	–	(577)
Net cash flow (used in)/from financing activities – continuing operations	(555)	(148)	(13)	(1,185)	(1,173)	1,869	(1,205)
Net cash flow (used in)/from financing activities – discontinued operations	–	–	–	(63)	(60)	–	(123)
Net (decrease)/increase in cash and cash equivalents in the year	4	(8)	–	(11)	19	–	4

Cash dividends were received by National Grid plc from subsidiary undertakings amounting to £950 million during the year ended 31 March 2018 (2017: £6,006 million; 2016: £930 million).

Maturity analysis of parent Company borrowings

	2018 £m	2017 £m
Total borrowings are repayable as follows:		
Less than 1 year	781	1,120
In 1 to 2 years	438	515
In 2 to 3 years	–	425
In 3 to 4 years	335	–
In 4 to 5 years	–	322
More than 5 years	–	–
	1,554	2,382

35. Post balance sheet events

As set out in note 15, on 1 May 2018, the Group announced that it had entered into an agreement with Quadgas Investments BidCo Limited regarding the potential sale of its remaining 25% equity interest in Quadgas HoldCo Limited, the holding company for Cadent Gas Limited. Refer to notes 4 and 15 for details on the accounting implications on the results for the year ended 31 March 2018 in relation to this agreement.

Company accounting policies

We are required to include the stand-alone balance sheet of our ultimate parent Company, National Grid plc, under the Companies Act 2006. This is because the publicly traded shares are actually those of National Grid plc (the Company) and the following disclosures provide additional information to shareholders.

A. Basis of preparation

National Grid plc is the Parent Company of the National Grid Group which is engaged in the transmission and distribution of electricity and gas in Great Britain and northeastern US. The Company is a public limited company, limited by shares. The Company is incorporated and domiciled in England, with its registered office at 1–3 Strand, London, WC2N 5EH.

The financial statements of National Grid plc for the year ended 31 March 2018 were approved by the Board of Directors on 16 May 2018. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly these individual financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the EU, but makes amendments where necessary in order to comply with the provisions of the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken.

These individual financial statements of the Company have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006. They have been prepared on an historical cost basis, except for the revaluation of financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The 2017 comparative financial information has also been prepared on this basis.

These individual financial statements have been prepared on a going concern basis, which 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. As the Company is part of a larger group it participates in the Group's centralised treasury arrangements and so shares banking arrangements with its subsidiaries. The Company is expected to continue to generate positive cash flows or be in a position to obtain finance via intercompany loans to continue to operate for the foreseeable future.

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

In accordance with the exemption permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account or statement of comprehensive income.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements of the Company in accordance with FRS 101:

- a cash flow statement and related notes;
- disclosures in respect of transactions with wholly-owned subsidiaries;
- disclosures in respect of capital management; and
- the effects of new but not yet effective IFRSs.

The exemption from disclosing key management personnel compensation has not been taken as there are no costs borne by the Company in respect of employees, and no related costs are recharged to the Company.

As the consolidated financial statements of National Grid plc, which are available from the registered office, include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 in respect of certain disclosures required by IFRS 13 'Fair value measurement' and the disclosures required by IFRS 7 'Financial instruments: Disclosures'. The Company intends to apply the above exemptions in the financial statements for the year ending 31 March 2018.

There are no critical areas of judgement that are considered to have a significant effect on the amounts recognised in the financial statements. 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 the valuation of financial instruments and derivatives.

The balance sheet has been prepared in accordance with the Company's accounting policies approved by the Board and described below:

B. Fixed asset investments

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

C. Tax

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

Deferred tax is provided in full on temporary differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the temporary differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. 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 assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

D. Foreign currencies

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

E. Financial instruments

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

The policies are set out in notes 14, 16, 18, 19, 20 and 21 to the consolidated financial statements. The Company is taking the exemption for financial instruments disclosures, because IFRS 7 disclosures are given in notes 30 and 33 to the consolidated financial statements.

F. Hedge accounting

The Company applies the same accounting policy as the Group in respect of fair value hedges and cash flow hedges. This policy is set out in note 16 to the consolidated financial statements.

G. Parent Company guarantees

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due by certain subsidiary undertakings primarily to third parties. Such guarantees are accounted for by the Company as insurance contracts. In the event of default or non performance by the subsidiary, a liability is recorded in accordance with IAS 37 with a corresponding increase in the carrying value of the investment.

H. Share awards to employees of subsidiary undertakings

The issuance by the Company to employees of its subsidiaries of a grant over the Company's options represents additional capital contributions by the Company to its subsidiaries. An additional investment in subsidiaries results in a corresponding increase in shareholders' equity. The additional capital contribution is based on the fair value of the option at the date of grant, allocated over the underlying grant's vesting period. Where payments are subsequently received from subsidiaries, these are accounted for as a return of a capital contribution and credited against the Company's investments in subsidiaries. The Company has no employees.

I. Dividends

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

J. Directors' remuneration

Full details of Directors' remuneration are disclosed on pages 63 to 79.

Company balance sheet

as at 31 March

	Notes	2018 £m	2017 £m
Fixed assets			
Investments	1	9,896	8,880
Current assets			
Debtors (amounts falling due within one year)	2	11,563	12,936
Debtors (amounts falling due after more than one year)	2	368	491
Investments	5	938	5,471
Cash at bank and in hand		–	1,090
Total current assets		12,869	19,988
Creditors (amounts falling due within one year)	3	(12,839)	(13,714)
Net current assets		30	6,274
Total assets less current liabilities		9,926	15,154
Creditors (amounts falling due after more than one year)	3	(2,906)	(3,595)
Net assets		7,020	11,559
Equity			
Share capital	7	452	449
Share premium account		1,321	1,324
Cash flow hedge reserve		2	11
Other equity reserves		353	337
Profit and loss account	8	4,892	9,438
Total shareholders' equity		7,020	11,559

The Company's profit after tax for the year was £930 million (2017: £8,197 million). The financial statements of the Company on pages 180 to 183 were approved by the Board of Directors on 16 May 2018 and were signed on its behalf by:

Sir Peter Gershon Chairman
Andrew Bonfield Finance Director

National Grid plc
Registered number: 4031152

Company statement of changes in equity

for the years ended 31 March

	Share capital £m	Share premium account £m	Cash flow hedge reserve £m	Other equity reserves £m	Profit and loss account £m	Total shareholders' equity £m
At 1 April 2016	447	1,326	17	302	2,880	4,972
Profit for the year	–	–	–	–	8,197	8,197
Other comprehensive loss for the year						
Transferred from equity in respect of cash flow hedges (net of tax)	–	–	(6)	–	–	(6)
Total comprehensive (loss)/income for the year	–	–	(6)	–	8,197	8,191
Other equity movements						
Scrip dividend-related share issue ¹	2	(2)	–	–	–	–
Purchase of treasury shares	–	–	–	–	(189)	(189)
Issue of treasury shares	–	–	–	–	18	18
Purchase of own shares	–	–	–	–	(5)	(5)
Share awards to employees of subsidiary undertakings	–	–	–	35	–	35
Equity dividends	–	–	–	–	(1,463)	(1,463)
At 31 March 2017	449	1,324	11	337	9,438	11,559
Profit for the year	–	–	–	–	930	930
Other comprehensive loss for the year						
Transferred from equity in respect of cash flow hedges (net of tax)	–	–	(9)	–	–	(9)
Total comprehensive (loss)/income for the year	–	–	(9)	–	930	921
Other equity movements						
Scrip dividend-related share issue ¹	3	(3)	–	–	–	–
Purchase of treasury shares	–	–	–	–	(1,017)	(1,017)
Issue of treasury shares	–	–	–	–	33	33
Purchase of own shares	–	–	–	–	(5)	(5)
Share awards to employees of subsidiary undertakings	–	–	–	16	–	16
Equity dividends	–	–	–	–	(4,487)	(4,487)
At 31 March 2018	452	1,321	2	353	4,892	7,020

1. Included within the share premium account are costs associated with scrip dividends.

Notes to the Company financial statements

1. Fixed asset investments

	Shares in subsidiary undertakings £m
At 1 April 2016	8,845
Additions	35
At 31 March 2017	8,880
Additions	1,016
At 31 March 2018	9,896

During the year there was a capital contribution of £16 million (2017: £35 million) which represents the fair value of equity instruments granted to subsidiaries' employees arising from equity-settled employee share schemes. In addition on 12 July 2017, the Company acquired a further 180,868 ordinary shares of £1 each in National Grid (US) Holdings Limited for a total consideration of £1,000 million.

The Company's direct subsidiary undertakings as at 31 March 2018 were as follows: National Grid Holdings One plc; National Grid (US) Holdings Limited; and NGG Finance plc.

The names of indirect subsidiary undertakings, joint ventures and associates are included in note 32 to the consolidated financial statements.

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

2. Debtors

	2018 £m	2017 £m
Amounts falling due within one year		
Derivative financial instruments (see note 4)	308	202
Amounts owed by subsidiary undertakings	11,254	12,734
Prepayments and accrued income	1	–
	11,563	12,936
Amounts falling due after more than one year		
Derivative financial instruments (see note 4)	18	149
Amounts owed by subsidiary undertakings	350	342
	368	491

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

3. Creditors

	2018 £m	2017 £m
Amounts falling due within one year		
Borrowings (see note 6)	781	1,120
Derivative financial instruments (see note 4)	187	533
Amounts owed to subsidiary undertakings	11,809	12,012
Corporation tax payable	–	3
Other creditors	62	46
	12,839	13,714
Amounts falling due after more than one year		
Borrowings (see note 6)	773	1,262
Derivative financial instruments (see note 4)	41	272
Amounts owed to subsidiary undertakings	2,091	2,058
Deferred tax	1	3
	2,906	3,595
Amounts owed to subsidiary undertakings falling due after more than one year are repayable as follows:		
In 2 to 3 years	1,095	–
In 3 to 4 years	–	1,062
More than 5 years	996	996
	2,091	2,058

The carrying values stated above are considered to represent the fair values of the liabilities. A reconciliation of the movement in deferred tax in the year is shown below:

	Deferred tax £m
At 1 April 2016	4
Credited to equity	(1)
At 31 March 2017	3
Credited to equity	(2)
At 31 March 2018	1

4. Derivative financial instruments

The fair values of derivative financial instruments are:

	2018			2017		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	308	(187)	121	202	(533)	(331)
Amounts falling due after more than one year	18	(41)	(23)	149	(272)	(123)
	326	(228)	98	351	(805)	(454)

For each class of derivative the notional contract¹ amounts are as follows:

	2018 £m	2017 £m
Interest rate swaps	(2,501)	(2,801)
Cross-currency interest rate swaps	(3,613)	(3,995)
Foreign exchange forward contracts	(13,929)	(17,134)
	(20,043)	(23,930)

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

5. Investments

	2018 £m	2017 £m
Investments in short-term money funds	919	4,981
Managed investments in bonds	10	100
Restricted balances – collateral	9	390
	938	5,471

6. Borrowings

The following table analyses the Company's total borrowings:

	2018 £m	2017 £m
Amounts falling due within one year		
Bank overdrafts	–	1
Bank loans	230	–
Bonds	551	22
Commercial paper	–	1,097
	781	1,120
Amounts falling due after more than one year		
Bonds	773	1,262
	1,554	2,382

The maturity of total borrowings is disclosed in note 34 to the consolidated financial statements. There are no differences in the maturities as calculated under IFRS or FRS 101 'Reduced Disclosure Framework'.

The notional amount of borrowings outstanding as at 31 March 2018 was £1,531 million (2017: £2,357 million). Further information on significant borrowings can be found on the debt investors section of our website.

7. Share capital

The called-up share capital amounting to £452 million (2017: £449 million) consists of 3,637,747,827 ordinary shares of 12²⁰⁴/₄₇₃ pence each (2017: 3,942,983,447 ordinary shares of 11¹⁷/₄₃ pence each). For further information on share capital, refer to note 25 to the consolidated financial statements.

8. Shareholders' equity and reserves

At 31 March 2018 the profit and loss account reserve stood at £4,892 million (2017: £9,438 million) of which £86 million (2017: £86 million) related to gains on intra-group transactions which was not distributable to shareholders. The Company bore no employee costs in either the current or prior year.

For further details of dividends paid and payable to shareholders, refer to note 8 to the consolidated financial statements.

9. Parent Company guarantees

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due by certain subsidiary undertakings primarily to third parties. At 31 March 2018, the sterling equivalent amounted to £2,398 million (2017: £2,404 million). The guarantees are for varying terms from less than one year to open-ended.

In addition, as part of the sectionalisation of the National Grid UK Pension Scheme on 1 January 2017, a guarantee of £1 billion has been provided to Section A. This payment is contingent on insolvency or on failure to pay pensions obligations to Section A and can be claimed against National Grid plc, National Grid Holdings One plc or Lattice Group Limited (up to £1 billion in total). Refer to note 23 of the consolidated financial statements.

10. Audit fees

The audit fee in respect of the parent Company was £25,000 (2017: £29,230). Fees payable to Deloitte for non-audit services to the Company are not required to be disclosed as they are included within note 3 to the consolidated financial statements.

Additional information

Contents

184 The business in detail

- 184 Key milestones
- 185 Where we operate
- 186 UK regulation
- 188 US regulation

192 Task force on Climate-related Financial Disclosures

193 Internal control and risk factors

- 193 Disclosure controls
- 193 Internal control over financial reporting
- 193 Risk factors

197 Shareholder information

- 197 Articles of Association
- 198 Depositary payments to the Company
- 198 Description of securities other than equity securities: depositary fees and charges
- 198 Documents on display
- 198 Events after the reporting period
- 198 Exchange controls
- 199 Exchange rates
- 199 Material interests in shares
- 199 Share capital
- 200 Share price
- 200 Shareholder analysis
- 200 Taxation

203 Other disclosures

- 203 All-employee share plans
- 203 Change of control provisions
- 203 Code of Ethics
- 203 Conflicts of interest
- 203 Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards
- 203 Directors' indemnity
- 203 Employees
- 204 Human Rights
- 204 Listing Rule 9.8.4 R cross reference table
- 204 Material contracts
- 204 Political donations and expenditure
- 204 Property, plant and equipment
- 204 Research and development and innovation activity
- 205 Unresolved SEC staff comments

206 Other unaudited financial information

215 Commentary on consolidated financial information

218 Definitions and glossary of terms

223 Want more information or help?

The business in detail

Key milestones

Some of the key dates and actions in the corporate history of National Grid are listed below. The full history goes back much further.

1986

British Gas (BG) privatisation

1990

Electricity transmission network in England and Wales transferred to National Grid on electricity privatisation

1995

National Grid listed on the London Stock Exchange

1997

Centrica demerged from BG

Energis demerged from National Grid

2000

Lattice Group demerged from BG and listed separately

New England Electric System and Eastern Utilities Associates acquired

2002

Niagara Mohawk Power Corporation merged with National Grid in US

National Grid and Lattice Group merged to form National Grid Transco

2004

UK wireless infrastructure network acquired from Crown Castle International Corp

2005

Four UK regional gas distribution networks sold and National Grid adopted as our name

2006

Rhode Island gas distribution network acquired

2007

UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia sold

KeySpan Corporation acquired

2008

Ravenswood generation station sold

2010

Rights issue raised £3.2 billion

2012

New Hampshire electricity and gas distribution businesses sold

2016

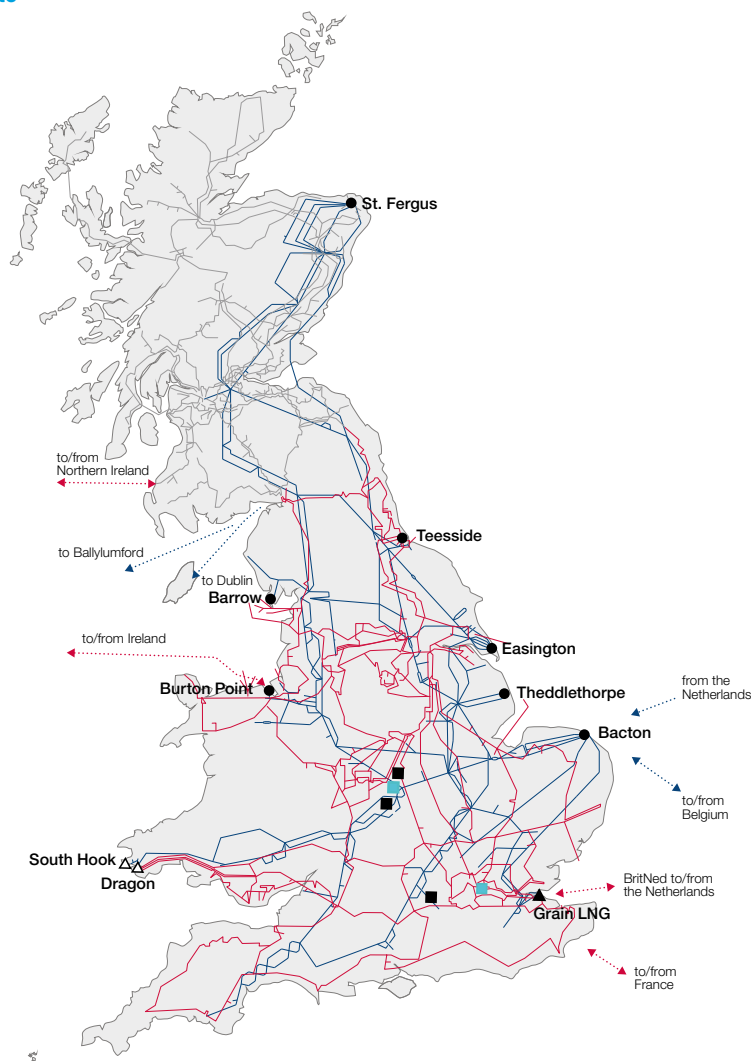
National Grid separated the UK Gas Distribution business

2017

National Grid sold a 61% equity interest in its UK Gas Distribution business

Where we operate

Our UK network



UK Transmission¹

- Scottish electricity transmission system
- English and Welsh electricity transmission system
- Gas transmission system

Approximately 7,200 kilometres (4,474 miles) of overhead line, 1,560 kilometres (969 miles) of underground cable and 346 substations.

- Gas transmission system

Approximately 7,660 kilometres (4,760 miles) of high-pressure pipe and 24 compressor stations connecting to 8 distribution networks and also other third-party independent systems.

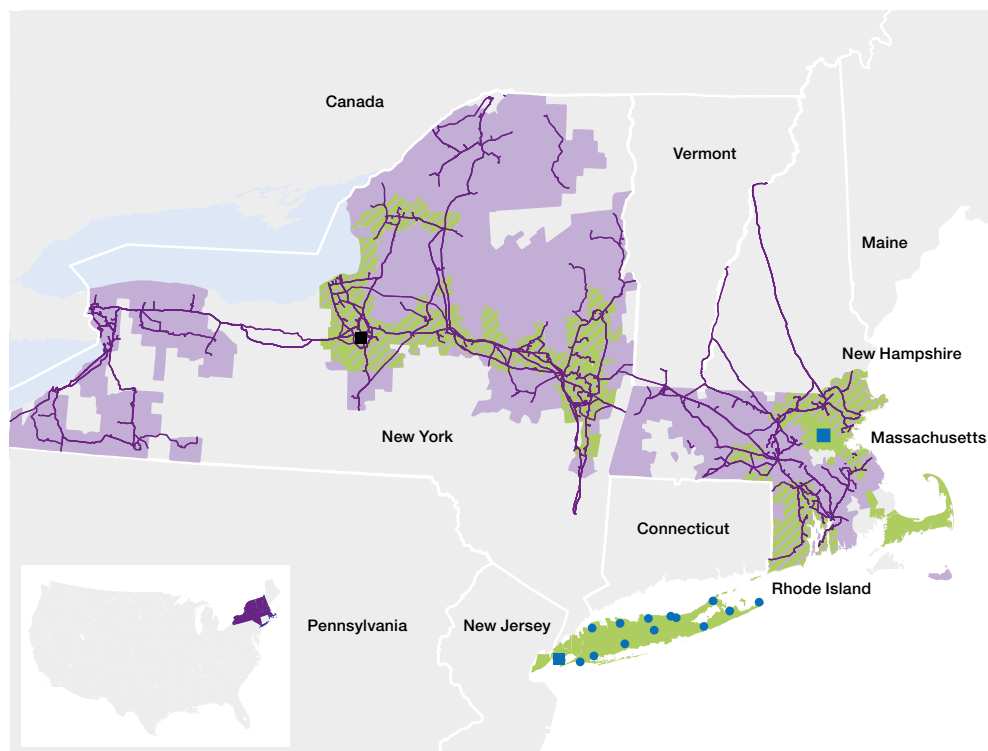
- Terminal
- ▲ LNG terminal owned by National Grid
- △ LNG terminal
- ↔ Electricity interconnector
- ↔ Gas interconnector

Principal offices

- Owned office space: Warwick and Wokingham
- Leased office space: Solihull and London

Leased office space totalling 9,022 square metres (97,114 square feet) with remaining terms of 5 to 8 years.

Our US network



US Regulated¹

- Electricity transmission network
- Gas distribution operating area
- Electricity distribution area
- Gas and electricity distribution area overlap

An electricity transmission network of approximately 14,293 kilometres (8,881 miles) of overhead line, 168 kilometres (104 miles) of underground cable and 387 transmission substations.

An electricity distribution network of approximately 117,082 circuit kilometres (72,751 miles) and 740 distribution substations in New England and upstate New York.

A network of approximately 57,001 kilometres (35,419 miles) of gas pipeline serving an area of approximately 25,659 square kilometres (9,907 square miles). Our network also consists of approximately 787 kilometres (489 miles) of gas transmission pipe, as defined by the US Department of Transportation.

- Generation

Principal offices

- Owned office space: Syracuse, New York
- Leased office space: Brooklyn, New York and Waltham, Massachusetts

Leased office space totalling approximately 58,993 square metres (635,000 square feet) with remaining terms of 7 to 11 years.

At present, environmental issues are not preventing our UK and US businesses from utilising any material operating assets in the course of their operations.

¹ Access to electricity and gas transmission assets on property owned by others is controlled through various agreements.

The business in detail continued

UK Regulation

Our licences to participate in transmission and interconnection activities are established under the Gas Act 1986 and Electricity Act 1989, as amended (the Acts). They require us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas and electricity in Great Britain (GB). They also give us statutory powers, including the right to bury our pipes or cables under public highways and the ability to use compulsory powers to purchase land so we can conduct our business.

Our networks are regulated by Ofgem, which has a statutory duty under the Acts to protect the interests of consumers. As part of our licences, Ofgem established price controls that limit the amount of revenue our regulated businesses 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 controls include 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 main price controls for electricity and gas transmission networks came into effect on 1 April 2013 for the eight-year period until 31 March 2021. They follow the RIIO (revenue = incentives + innovation + outputs) framework established by Ofgem.

Following the sale of a majority interest in the National Grid UK Gas Distribution business (now known as Cadent) on 31 March 2017, Cadent now has responsibility for operating within the price controls relating to its four gas distribution networks.

Our UK Electricity Transmission (UK ET) and UK Gas Transmission (UK GT) businesses operate under four separate price controls. These comprise two for our UK ET operations, one covering our role as transmission owner (TO) and the other for our role as System Operator (SO); and two for our UK GT operations, again one as TO and one as SO. In addition to the four regulated network price controls, there is also a tariff cap price control applied to certain elements of domestic sized metering activities carried out by National Grid Metering.

Interconnectors derive their revenues from sales of capacity to users who wish to move power between market areas with different prices. Under European legislation, these capacity sales are classified as congestion revenues because the market price differences result from congestion on the established interconnector capacity which limits full price convergence. European legislation governs how congestion revenues may be used and how interconnection capacity is allocated. It requires all interconnection capacity to be allocated to the market through auctions. Under UK legislation, interconnection businesses must be separate from transmission businesses.

There is a range of different regulatory models available for interconnector projects. These involve various levels of regulatory intervention, ranging from fully merchant (the project is fully reliant on sales of interconnector capacity) to cap and floor (where sales revenues above the cap are returned to transmission system users and revenues below the floor are topped up by transmission system users, thus reducing the overall project risk).

The cap and floor regime is now the regulated route for interconnector investment in GB and may be sought by project developers who do not qualify or do not wish to apply for exemptions from European legislation which would facilitate a merchant development.

RIIO price controls

The building blocks of the RIIO price control are broadly similar to the historical price controls used in the UK. However, there are some significant differences in the mechanics of the calculations.

How is revenue calculated?

Under RIIO, the outputs we deliver are explicitly articulated and our allowed revenues are linked to their delivery. These outputs have been determined through an extensive consultation process, which has given stakeholders a greater opportunity to influence the decisions.

There are five output categories for transmission:

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.

Ofgem, using information we have submitted, along with independent assessments, determines the efficient level of expected costs necessary to deliver them. Under RIIO this is known as totex, which is a component of total allowable expenditure, and is broadly 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 allowances for these outputs, including the volumes of work that will be needed and the price of the various external inputs to achieve them. Consequently, there are a number of uncertainty mechanisms within the RIIO framework that can result in adjustments to totex allowances if actual input prices or work 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 RAV – 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. Regulatory depreciation in electricity and gas transmission permits recovery of RAV consistent with each addition bringing equal real benefit to consumers for a period of up to 45 years. 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. Many 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 mid-period review of the electricity and gas transmission controls focused on three specific areas, as follows:

- 1) a revised need for certain electricity transmission asset renewal outputs with associated reduction of allowances of £38.1 million (in 2009/2010 prices);
- 2) a removal of the need for the Avonmouth pipeline and associated reduction in allowances of £168.8 million (in 2009/2010 prices); and
- 3) a need for extra Electricity System Operator activities to meet the demands of consumers and network users with an associated increase in allowances of £21.5 million (in 2009/2010 prices).

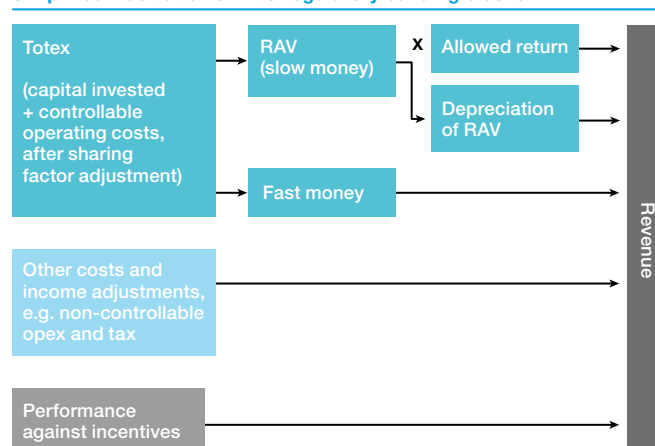
Ofgem also separately reviewed the obligation to provide additional gas entry capacity at Fleetwood. It concluded that this additional capacity was not required, so no incremental revenues would be payable. National Grid had incurred no incremental costs in anticipation of this obligation.

Further to the mid-period review, National Grid volunteered that £480 million (in 2009/2010 prices) of allowances for electricity transmission investments should be deferred and in August 2017 Ofgem determined how the RIIO allowances would be correspondingly adjusted.

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 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 said that Ofgem expected to make a decision on this treatment in the spring of 2018.

Simplified illustration of RIIO regulatory building blocks



Allowed returns

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

	Transmission	
	Gas	Electricity
Cost of equity (post-tax real)	6.8%	7.0%
Cost of debt (pre-tax real)	iBoxx 10-year simple trailing average index (2.22% for 2017/18)	
Notional gearing	62.5%	60.0%
Vanilla WACC ¹	3.94%	4.13%

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

The sharing factor means that any over- and under-spend is shared between the businesses and customers. The shared figures displayed in the table below are the sharing factors that apply to UK ET and UK GT.

Sharing factors under our current RIIO price controls are as follows:

	Gas Transmission		Electricity Transmission	
	Transmission Operator	System Operator	Transmission Operator	System Operator
Fast ¹	Baseline ³ 35.6%	62.60%	15.00%	72.10%
	Uncertainty 10%			
Slow ²	Baseline ³ 64.4%	37.40%	85.00%	27.90%
	Uncertainty 90%			
Sharing	44.36%		46.89%	

1. Fast money allows network companies to recover a percentage of totex within a one-year period.
2. Slow money is where costs are added to RAV and, therefore, revenues are recovered slowly (e.g. over 45 years) from both current and future consumers.
3. The baseline is the expenditure that is funded through ex-ante allowances, whereas the uncertainty adjusts the allowed expenditure where the level of outputs delivered differ from the baseline level, or if triggered by an event.

The business in detail continued

US Regulation

Regulators

In the US, public utilities' retail transactions are regulated by state utility commissions. The commissions serve as economic regulators, approving cost recovery and authorised rates of return. The state commissions establish the retail rates to recover the cost of transmission and distribution services, and focus on services and costs within their jurisdictions. They also serve the public interest by making sure utilities provide safe and reliable service at just and reasonable prices. The commissions establish service standards and approve public utility mergers and acquisitions.

Utilities are regulated at the federal level (FERC) for wholesale transactions, such as interstate transmission and wholesale electricity sales, including rates for these services. FERC also regulates public utility holding companies and centralised service companies, including those of our US businesses.

Regulatory process

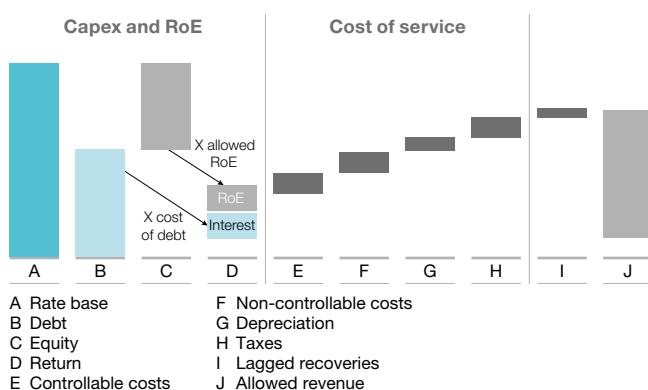
The US regulatory regime is premised on allowing the utility the opportunity to recover its cost of service and earn a reasonable return on its investments as determined by the commission. Utilities submit formal rate filings ('rate cases') to the relevant state regulator when additional revenues are necessary to provide safe, reliable service to customers. Utilities can be compelled to file a rate case due to complaints filed with the commission or at the commission's own discretion.

The rate case is typically litigated with parties representing customers and other interests. In the states in which we operate, it can take nine to thirteen months for the commission to render a final decision. The utility is required to prove that the requested rate change is prudent and reasonable, and the requested rate plan can span multiple years. Unlike the state processes, the federal regulator has no specified timeline for adjudicating a rate case, but typically makes a final decision retroactive when the case is completed.

Gas and electricity rates are established from a revenue requirement, or cost of service, equal to the utility's total cost of providing distribution or delivery service to its customers, as approved by the commission in the rate case. This revenue requirement includes operating expenses, depreciation, taxes and a fair and reasonable return on shareholder capital invested in certain components of the utility's regulated asset base, typically referred to as its rate base.

The final revenue requirement and rates for service are approved in the rate case decision. The revenue requirement is derived from a comprehensive study of the utility's total costs during a recent 12-month period of operations, referred to as a test year. Each commission has its own rules and standards for adjustments to the test year and may include forecast capital investments and operating costs.

US regulatory revenue requirement



Our rate plans

Each operating company has a set of rates for service. We have three electric distribution operations (upstate New York, Massachusetts and Rhode Island) and six gas distribution networks (upstate New York, New York City, Long Island, Massachusetts (two) and Rhode Island).

Our operating companies have revenue decoupling mechanisms that de-link the companies' revenues from the quantity of energy delivered and billed to customers. These mechanisms remove the natural disincentive utility companies have for promoting and encouraging

customer participation in energy efficiency programmes that lower energy end use and thus distribution volumes.

Our rate plans are designed to a specific allowed RoE, by reference to an allowed operating expense level and rate base. Some rate plans include earnings sharing mechanisms that allow us to retain a proportion of the earnings above our allowed RoE, achieved through improving efficiency, with the balance benefiting customers.

In addition, our performance under certain rate plans is subject to service performance targets. We may be subject to monetary penalties in cases where we do not meet those targets.

One measure used to monitor the performance of our regulated businesses is a comparison of achieved RoE to allowed RoE. However, this measure cannot be used in isolation, as there are a number of factors that may prevent us from achieving the allowed RoE. These factors include financial market conditions, regulatory lag, and decisions by the regulator preventing cost recovery in rates from customers.

We work to increase achieved RoE through: productivity improvements; positive performance against incentives or earned savings mechanisms such as energy efficiency programmes, where available; and filing a new rate case when achieved returns are lower than the Company could reasonably expect to attain through a new rate case.

Features of our rate plans

We bill our customers for their use of electricity and gas services. Customer bills typically comprise a commodity charge, covering the cost of the electricity or gas delivered, and charges covering our delivery service. With the exception of residential gas customers in Rhode Island, our customers are allowed to select an unregulated competitive supplier for the commodity component of electricity and gas utility services.

A substantial proportion of our costs, in particular electricity and gas commodity purchases, are pass-through costs, which means they are fully recoverable from our customers. These pass-through costs are recovered through separate charges to customers that are designed to recover those costs with no profit. Rates are adjusted from time to time to make sure that any over- or under-recovery of these costs is returned to, or recovered from, our customers.

Our FERC-regulated transmission companies use formula rates (instead of rate cases) to set rates annually to recover their cost of service. Through the use of annual true-ups, formula rates recover our actual costs incurred and the allowed RoE based on the actual transmission rate base each year. The Company must make annual formula rate filings documenting the revenue requirement, which customers can review and challenge.

Revenue for our wholesale transmission businesses in New England and New York is collected from wholesale transmission customers, who are typically other utilities and include our own New England electricity distribution businesses. With the exception of upstate New York, which continues to combine retail transmission and distribution rates to end-use customers, these wholesale transmission costs are incurred by distribution utilities on behalf of their customers and are fully recovered as a pass-through from end-use customers, as approved by each state commission.

Our Long Island generation plants sell capacity to LIPA under 15-year and 25-year power supply agreements, and within wholesale tariffs approved by FERC. Through the use of cost based formula rates, these long-term contracts provide a similar economic effect to cost of service rate regulation.

US regulatory filings

The objectives of our rate case filings are to make sure we have the right cost of service, with the ability to earn a fair and reasonable rate of return, while providing safe, reliable and economical service to our customers. In order to achieve these objectives and to reduce regulatory lag, we have been requesting structural changes, such as revenue decoupling mechanisms, capital trackers, commodity-related bad debt true-ups, and pension and other post-employment benefit true-ups, separately from base rates. These terms are explained below the table on page 191.

Below, we summarise significant developments in rate filings and the regulatory environment during the year. Following the final stabilisation upgrade to our new financial systems and the availability of 12 months of historical test year data from those financial systems, we concluded a

first round of full rate case filings in fiscal year 2017, with a final rate case decision for Massachusetts Electric in September 2016, and followed by approval of three-year rate plans for KEDNY and KEDLI in December 2016. In fiscal year 2017/18, we made a second round of full rate case filings with Niagara Mohawk (electric and gas) in April 2017, Boston Gas and Colonial Gas in November 2017, and Narragansett Electric also in November 2017. A Joint Proposal, setting forth a three-year rate plan for Niagara Mohawk was approved by the New York State Public Service Commission (NYPSC) in March 2018. These filings are expected to capture the benefit of recent increased investments in asset replacement and network reliability, and reflect long-term growth in costs, including property tax and healthcare costs. Along with a clear focus on productivity, the filings are key to improving achieved returns in the Company's US distribution activities.

Impact of US Tax Reform

Tax is a pass through for utilities in the US. The reduction in the corporation tax rate from 35% to 21% will therefore be significantly beneficial to customers as the lower tax rate will be reflected in collection of a lower tax allowance from customers.

Our upstate New York, Massachusetts Gas and Rhode Island utilities were all undergoing rate negotiations at the time the legislation was enacted. We have updated our revenue requests for the prospective portion of the tax collection in each of these businesses. These companies represent 48% of the rate base with a total revenue impact of approximately \$130 million. Our FERC businesses operate under formula rates, and we expect an approximately \$50 million reduction in the year related to these companies, with the full impact being felt in 2018/19.

There are open generic proceedings in New York and Massachusetts currently underway that will address the treatment of any tax savings for our Massachusetts Electric, KEDNY and KEDLI customers until base rates are reset through rate case filings. We are working with the regulators to develop case by case solutions for these Operating Companies. Solutions could include refunds in full prospectively of the tax savings starting as early as this fall, retention of all or a portion of the savings to address rate stability concerns, and use of funds to net against current regulatory assets. We expect the New York and Massachusetts Commission decisions by late summer or early fall this year. The lower collections in revenue offset the lower tax charge, so there is no material impact to earnings under IFRS or under US GAAP. Our cash flows will reduce as we are currently in a net operating loss position for the purposes of calculating taxable profits in our US Group. This means that there is no offsetting reduction in cash tax payments.

Massachusetts

Boston and Colonial rate cases

The Company filed a rate case for Boston Gas and Colonial Gas with MADPU on 15 November 2017 with new rates to be effective on 1 October 2018. The Massachusetts gas rate case, the first rate case for Boston Gas and Colonial Gas since 2010, updates the gas companies' rates to more closely align revenues with the cost of service and bring their earned RoEs closer to the allowed RoE. The Company's filing was made prior to the passage of the Tax Cuts and Jobs Act of 2017 (Tax Reform), which lowered the US corporate income tax rate from 35% to 21%. The Company's proposed revenue increase prior to the Tax Reform was \$178 million for Boston Gas and \$36 million for Colonial Gas. The change in the corporate income tax rate will reduce these amounts by approximately \$29 million and \$7 million for Boston Gas and Colonial Gas, respectively. In addition, significant tax liabilities to National Grid's US Treasury organisation that have been recorded at the 35% tax rate will now be paid at the lower 21% tax rate creating a significant benefit that will be returned to customers. The Company will be proposing to return this benefit to customers over a similar time period that the actual benefits are to be earned, however this time period and resulting additional rate reductions will not be determined until late spring or early summer 2018.

Gas system enhancement programmes (GSEP)

On the gas side, on 5 May 2017, MADPU approved our recovery of approximately \$50.6 million, related to \$241 million of anticipated investments in 2017 under an accelerated pipe replacement program, through rates effective from May 2016 to April 2018. However, due to the application of the GSEP revenue cap, we are required to defer recovery of an additional \$5.5 million of the 2017 revenue requirement, until we have room under the GSEP revenue cap to recover the deferred amount, or in the next rate case that covers the period of investment.

Grid modernisation and smart energy solutions

In response to a 2014 regulatory requirement, we filed a Massachusetts electricity grid modernisation plan on 19 August 2015 that proposed multiple investment options. These options would further MADPU's goals of reducing the effect of outages, optimising demand, integrating distributed resources, and improving workforce and asset management. We presented a range of investment options for MADPU to consider, with investment levels over five years ranging from \$238.6 million to \$792.9 million. MADPU established criteria that, if met, would allow the capital costs from the plan to be recovered through a separate capital recovery mechanism. MADPU initiated its review of our plan in April 2016 and hearings were held in May 2017. An order from MADPU approving some of the proposed investment was received on 10 May 2018. We have also been operating a Smart Energy Solutions pilot with approximately 15,000 customers in Worcester, Massachusetts, since 1 January 2015. The pilot has allowed the Company to deploy, test and learn from technologies similar to those proposed in the grid modernisation plan, including smart meters, demand response, an integrated communication system, and advanced distribution automation. The pilot was scheduled to end on 31 December 2016, but we have received approval to continue operating the pilot until 31 December 2018.

New York

Upstate New York 2017 rate cases

On 28 April 2017, the Company filed a one-year rate plan (but submitted two additional years of data to facilitate a multi-year settlement) for our upstate New York electricity and gas businesses.

On 19 January 2018, we filed a joint proposal setting out a comprehensive three-year rate plan (fiscal years 2019-2021) for our electric and gas businesses. The rate plan includes: a 9.0% RoE and 48% equity ratio; cumulative combined electric and gas revenue increases of \$206 million, \$242 million, and \$302 million in fiscal year 2019, 2020 and 2021 respectively; funding for a three-year capital plan of approximately \$2.4 billion; annual reconciliation mechanisms for certain non-controllable costs (e.g. property taxes, pension/OPEBs, and site investigation remediation costs); a gas safety and reliability surcharge to recover the costs of incremental leak-prone pipe replacement and leak repairs; and a number of incentive mechanisms, including earning adjustment mechanisms (EAMs), which provide a potential incentive of approximately \$20 million annually. The revenue increases reflect an estimate of the impact of changes to the federal corporate tax rate and bonus depreciation that is subject to true-up at the end of fiscal year 2019. The New York State Public Service Commission (NYPSC) approved the terms of the joint proposal in March 2018.

Reforming the Energy Vision (REV)

In April 2014, NYPSC instituted the REV proceeding, which envisions a new role for utilities as distributed system platform (DSP) providers who create markets for distributed energy resources (DER) and more fully integrate DER in distribution system operations and planning. The REV proceeding's objectives include: enhanced customer energy choices and control; improved electricity system efficiency, reliability and resiliency; and cleaner, more diverse electricity generation.

NYPSC issued an order on 19 May 2016 addressing rate-making and utility revenue model policy framework issues under REV, including: rate-making reform; earnings opportunities (platform service revenues and earning adjustment mechanisms or EAMs); competitive market-based earnings; customer data access; non-wires alternative solutions to displace traditional capital investment; standby service tariff enhancements; opt-in rate design (time-of-use rates, smart home rate pilots); enhancements to large customer demand charges; scorecard metrics; and mass market rate design. The Company's initial Distributed System Implementation Plan (DSIP) was filed with NYPSC on 30 June 2016 and identified incremental investments in utility infrastructure necessary for developing DSP capabilities, market enablement and operations, advanced metering functionality, grid modernisation, and cyber security and privacy measures within the first five years. The DSIP is required to be updated and filed with NYPSC every two years, with the next update to be filed by 30 June 2018. The joint proposal approved by the NYPSC in March 2018 includes investments related to grid modernisation, cyber security, and new electricity and gas products and services. It also sets out a process to progress advanced metering infrastructure (AMI) in Upstate New York. The joint proposal also includes outcome-based EAMs to target energy and system efficiency, carbon reductions, and customer engagement.

The business in detail continued

Clean Energy Standard (CES)

NYPSC issued an order on 1 August 2016 adopting a CES, consistent with the State Energy Plan, that 50% of New York's electricity is to be generated by renewable sources by 2030 as part of a strategy to reduce greenhouse gas emissions by 40% by 2030. In particular, the CES established: obligations on load serving entities (LSEs) to financially support new renewable generation resources that serve their retail customers through Renewable Energy Credits (RECs); and to financially support existing at-risk nuclear generators through the purchase of zero emissions credits (ZECs). The first REC and ZEC compliance years under the CES began 1 January 2017 and 1 April 2017, respectively. On 16 March 2018, the NYPSC approved the New York State Energy Research and Development Authority's (NYSERDA) 2018 compliance period programme budgets and authorised reallocation of previously approved, but unspent, funds from the 2017 compliance period and the further reallocation of funds from uncommitted System Benefits Charge, Energy Efficiency Portfolio Standard, and/or Renewable Portfolio Standard funds to pay for 2018 CES administrative costs with all unspent compliance funds to be reallocated rather than returned to LSEs during the annual reconciliation process as proposed by NYSERDA. As a result of this reallocation, there is no need to collect additional funds for the 2018 compliance period.

Rhode Island

Rhode Island electric and gas infrastructure, safety and reliability (ISR) plans

State law provides our Rhode Island electric and gas operating divisions with rate mechanisms that allow us to recover capital investment, including a return, and certain expenses outside base rate proceedings through the submission of annual electric and gas ISR plans.

RIPUC approved the fiscal year 2019 gas and electric ISR plans on 7 March 2018 and 20 March 2018, respectively. The electric ISR plan encompasses a \$106.86 million spending programme for capital investment and \$10.9 million for operating and maintenance expenses for vegetation management and inspection and maintenance. The gas ISR plan encompasses \$106.7 million for capital investment and incremental operation and maintenance expense.

Rhode Island combined gas and electric rate case

On 27 November 2017, we filed a rate plan for our Rhode Island electric distribution and gas businesses to take effect from 1 September 2018. The rate case provides an opportunity to recalibrate base rates to reflect changes in costs since the last rate case, which was effective in February 2013. Rhode Island regulation also allows for proforma and normalising adjustments to test year data that include forecasts for costs expected in a future rate year.

Our rate plan included forecast data for the two twelve-month periods ending 31 August 2020 and 2021 for informational purposes, providing the RIPUC with an option for a multi-year rate plan. The rate plan was filed prior to the passage of the Tax Cuts and Jobs Act of 2017 (Tax Act), which lowered the federal income tax rate from 35% to 21%. The revenue request prior to the Tax Act was increases of \$41.3 million for electric and \$30.3 million for gas. The change in the corporate income tax rate on revenues to be collected during the rate year will reduce these amounts by approximately \$9.7 million and \$9.6 million for electric and gas, respectively.

In addition, significant tax liabilities to the US Treasury that have been recorded at the 35% tax rate will now be paid at the lower 21% tax rate, creating a significant benefit that will be returned to customers. We will be proposing to return this benefit to customers over a similar period that the actual benefits are to be earned. However, this period and resulting additional rate reductions will not be determined until late spring or early summer. The filing includes increases for IT investment and other cost increases, as well as staffing level increases of 68 and 71 electric and gas employees to meet our work plans over the next three years. The electric request includes funding for projects and programmes to support the Rhode Island Power Sector Transformation Initiative, including investments in advanced metering, grid modernisation, electric vehicle infrastructure, and a solar and storage demonstration project. The gas request includes funding to modernise the IT infrastructure that supports our core gas distribution operating capabilities. The filing is based on an RoE of 10.1% and a capital structure of 51% equity and 49% debt.

Power Sector Transformation Initiative

In December 2016, the National Governors Association selected Rhode Island as one of four states to participate in a 16-month collaborative effort with state agencies and key stakeholders, including the Company, to develop a state action plan for modernising the electric power sector and integrating clean energy. This effort, referred to as the Power Sector Transformation Initiative, builds off of the SIRI collaborative effort that began in 2014 and resulted in a vision document released in January 2016. Following months of stakeholder meetings, the Phase One Report was delivered to Governor Raimondo in November 2017 with recommendations to modernise the utility business model, deploy advance meters to build a connected distribution grid, leverage distribution system information to increase system efficiency, and advance electrification beneficial to system efficiency and greenhouse gas emissions.

FERC

Complaints on New England transmission allowed RoE

In September 2011, December 2012, July 2014, and April 2016, a series of four complaints were filed with FERC against certain transmission owners, including our New England electricity transmission business, to lower the base RoE, which FERC had authorised at 11.14% prior to the first complaint. FERC issued orders resolving only the first complaint, with the last order in March 2015, lowering the base RoE to 10.57%. A number of parties, including the Company, appealed FERC's order on the first complaint to US federal court. On 14 April 2017, the court vacated FERC's order and remanded the first complaint back to FERC, requiring FERC to reconsider the methodology it adopted in its order. It is too early to determine when or how FERC will decide the four pending RoE complaints against the Company in light of the court's decision.

Formula Rate 206 Proceeding

On 28 December 2015, FERC initiated a proceeding under Section 206 of the Federal Power Act. The Commission found that ISO-New England Transmission, Markets, and Services Tariff is unjust, unreasonable, and unduly discriminatory or preferential. The Commission found that ISO-NE's Tariff lacks adequate transparency and challenge procedures with regard to the formula rates for ISO-NE Participating Transmission Owners ('NETOs'). In addition, the Commission found that the ISO-NE PTOs' current RNS ('Regional Network Service') and LNS ('Local Network Service') formula rates appear to be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. The Commission explained that the formula rates appear to lack sufficient detail in order to determine how certain costs are derived and recovered in the formula rates. Accordingly, the Commission established hearing and settlement judge procedures. Several parties are active in the proceeding including FERC staff, various consumer interested consumer parties, NESCOE ('New England States Committee on Electricity'), and several municipal light departments. The parties have negotiated a set of formula rate protocols and are currently engaged in settlement negotiations and have conducted several settlement conferences at FERC relative to RNS and LNS rates.

Summary of US price controls and rate plans

		2014	2015	2016	2017	2018	2019	2020	Rate base (31 Mar 2018)	Equity-to-debt ratio	Allowed return on equity	Achieved return on equity (31 Mar 2018)	Revenue decoupling [†]	Capital tracker [‡]	Commodity- related bad debt true-up [§]	Pension/OPEB true-up [¶]
New York Public Service Commission	Niagara Mohawk ¹ (upstate, electricity)			◆		●			\$4,980m	48:52	9.0%	8.8%	✓	P	P	✓
	Niagara Mohawk (upstate, gas)			◆		●			\$1,163m	48:52	9.0%	7.9%	✓	P	P	✓
	KEDNY (downstate) ²	◆		●		◆	●		\$3,004m	48:52	9.0%	9.0%	P	P	P	✓
	KEDLI (downstate) ³			●		◆	●		\$2,346m	48:52	9.0%	10.1%	P	P	P	✓
Massachusetts Department of Public Utilities	Massachusetts Electric/Nantucket Electric			●					\$2,448m	50:50	9.9%	9.0%	✓	P	✓	✓
	Boston Gas					●			\$2,024m	50:50	9.75%	7.1%	✓	P	✓	✓
	Colonial Gas					●			\$455m	50:50	9.75%	4.7%	✓	P	✓	✓
Rhode Island Public Utilities Commission	Narragansett Electric					●			\$737m	49:51	9.5%	5.6%	✓	✓	P	✓
	Narragansett Gas					●			\$742m	49:51	9.5%	8.4%	✓	✓	P	✓
Federal Energy Regulatory Commission	Narragansett								\$718m	50:50	10.57%	11.5%	n/a	✓	n/a	✓
	Canadian Interconnector								\$30m	100:0	13.0%	13.0%	n/a	✓	n/a	✓
	New England Power								\$1,661m	66:34	10.57%	11.0%	n/a	✓	n/a	✓
	Long Island Generation								\$408m	47:53	9.9%	13.5%	n/a	✓	n/a	✓

1. Both transmission and distribution, excluding stranded costs.

2. KeySpan Energy Delivery New York (The Brooklyn Union Gas Company).

3. KeySpan Energy Delivery Long Island (KeySpan Gas East Corporation).

—|— Rate filing made

● New rates effective

◆ Rate plan ends

--- Rates continue indefinitely

— Multi-year rate plan

✓ Feature in place

P Feature partially in place

[†]Revenue decoupling

A mechanism that removes the link between a utility's revenue and sales volume so that the utility is indifferent to changes in usage. Revenues are reconciled to a revenue target, with differences billed or credited to customers. Allows the utility to support energy efficiency.

[‡]Capital tracker

A mechanism that allows for the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.

[§]Commodity-related bad debt true-up

A mechanism that allows a utility to reconcile commodity-related bad debt to either actual commodity-related bad debt or to a specified commodity-related bad debt write-off percentage. For electricity utilities, this mechanism also includes working capital.

[¶]Pension/OPEB true-up

A mechanism that reconciles the actual non-capitalised costs of pension and OPEB and the actual amount recovered in base rates. The difference may be amortised and recovered over a period or deferred for a future rate case.

Task force on Climate-related Financial Disclosures

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. There are eleven specific recommended disclosures across these areas that are applicable to companies in all sectors, and further supplemental guidance for energy utilities in particular, relating to strategy, and metrics and targets.

TCFD Recommendations

1. Governance

Our stakeholders fully expect National Grid to operate sustainably. We are also committed to minimising our environmental impact, both now and in the longer term. We constantly balance this with the need to provide secure and affordable energy for our customers and consumers both, and to help society to decarbonise its energy requirements.

Our principal businesses build and invest for the long term. Ensuring that we develop networks that are robust to withstand extreme weather events is a critical part of our investment strategy. Our customers and our regulators expect this to be the case.

Responsibility for asset investment and maintenance planning is delegated under the Group's Delegation of Authority statement to the businesses.

For the Group as a whole, the Safety, Environmental and Health Committee (SEH Committee) operates as a sub-committee of the Board. Under its terms of reference, it is responsible for assessing how the Company adapts its business in light of climate change, which includes:

- i) At least twice a year, consideration of reports on the Company's environmental performance, including carbon emissions; and
- ii) At least once a year, a review of the Company's environmental strategy. The SEH Committee does not have a remit to consider the financial implications of climate change on the Company.

In terms of applying TCFD to the Company, in 2017/18, summary papers setting out the implications of the recommendations on the Company were presented to the Audit Committee in September 2017 and March 2018. Management is currently formally evaluating the governance processes and the role and responsibilities of the Audit and SEH Committees in this area.

2. Strategy

The sustainability and climate change landscape is fundamentally changing our industry and the way we operate. As part of our regular portfolio evaluation activity, we consider the attractiveness of each of our key businesses under a range of future environmental scenarios.

The Principal Operations section of the Annual Report on pages 28-33 include examples of opportunities and plans to respond to the risk of climate change, such as the move towards low carbon and the deployment of the charging infrastructure for electric vehicles.

Our updated global environmental sustainability strategy (Our Contribution) was launched in June 2017 and is available on our website. It sets out our ambition to transform the way we do business and provide a sustainable legacy from our operations.

The strategy sets out our targets to reduce greenhouse gas emissions by 45% by 2020, 70% by 2030 and 80% by 2050. We have been awarded a position on the Climate A List by CDP in recognition of our work to mitigate climate change, an accolade given to the top 5% of companies worldwide. Further details about Our Contribution are set out on page 35.

Transition risks and opportunities are similar for both the UK and the north-eastern United States as both regions have set targets to reduce greenhouse gas emissions economy-wide 80% by 2050. In the UK our regulated business has incentives related to carbon emission reductions. There are technical and commercial risks and opportunities arising from the increased connection of low carbon generation to our networks, and from the delivery of infrastructure to deliver low carbon energy.

Below we include our first disclosures in response, across the four themes. We have embarked on a longer term process to determine how we most clearly articulate our assessment of financial impacts of climate change and climate-related scenarios, including a 2°C scenario. This is a scenario that limits the global average temperature increase to 2°C above the pre-industrial average, against the specific recommendations.

Our long-term investment plans are determined with reference to forecasts consistent with the outputs from our Future Energy Scenarios publication (available on our website), which provide credible pathways for the future of energy supply in Great Britain out to 2050.

The scenarios are used as a basis for a range of further National Grid activities, and are the starting point for our regulated long-term investment. They are also a reference point for other National Grid reports, such as the Gas Ten Year Statement, the Electricity Ten Year Statement, and the System Operability Framework. Reports concerning our UK operations under the 2008 Climate Change Act were released in 2010 and updated in 2016.

In the US, our long-term investment decisions are informed by internal views on the impact of changing environmental conditions. In addition to our views on changing environmental conditions, we also consider the range of possible regulatory and policy responses. Our regulators in New York are encouraging new incentive opportunities as part of their Reforming the Energy Vision (REV) proceedings and prepared an Electric and Gas Grid Resiliency Plan in 2016.

The existence of significant transition opportunities is one of the primary reasons why we established National Grid Ventures. Our partnership with Sunrun in 2017 serves as an example of an opportunity of which we have taken advantage to respond to these opportunities.

3. Risk management

Our approach to identifying and managing the risks in our business is set out on page 18, with our principal risks set out on page 19.

The most significant climate-related exposure we face in the short term is in relation to winter storms in the US, see page 31 for more information on our storm response.

In the long term, the risk of flooding is of primary concern and we have learned a great deal over the last 10 years as flooding events have become more frequent and intense.

In addition, and as described further on pages 193-196 in our disclosures around risk factors, we are increasingly subject to regulation in relation to climate change and there are requirements for us to reduce our own carbon emissions, as well as enabling reduction in energy use by our customers.

4. Metrics and targets

We have included a number of relevant metrics from Our Contribution in the Responsible Business section (see page 35).

We include disclosure of our Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions on page 16.

The Company continues to evaluate the most appropriate metrics and targets to benchmark, measure and report, in order to facilitate compliance with the TCFD recommendations. We are speaking to our peers, investors, credit rating agencies and advisors in these areas and will take their feedback into consideration as we further develop our metrics as well as subsequent discussions.

Internal control and risk factors

Disclosure controls

Working with management, including the Chief Executive and Finance Director, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as at 31 March 2018. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. However, the effectiveness of any system of disclosure controls and procedures has limitations, including the possibility of human error and the circumvention or overriding of the controls and procedures.

Even effective disclosure controls and procedures provide only reasonable assurance of achieving their objectives. Based on the evaluation, the Chief Executive and Finance Director concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file and submit under the Exchange Act is recorded, processed, summarised and reported as and when required and that such information is accumulated and communicated to our management, including the Chief Executive and Finance Director, as appropriate, to allow timely decisions regarding disclosure.

Internal control over financial reporting

Our management, including the Chief Executive and Finance Director, has carried out an evaluation of our internal control over financial reporting pursuant to the Disclosure Guidance and Transparency Rules sourcebook and Section 404 of the Sarbanes-Oxley Act 2002. As required by Section 404, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's evaluation of the effectiveness of the Company's internal control over financial reporting was based on the revised Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as at 31 March 2018.

Deloitte LLP, which has audited our consolidated financial statements for the year ended 31 March 2018, has also audited the effectiveness of our internal control over financial reporting. Their attestation report can be found on page 92.

During the year, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect it.

Risk factors

Management of our risks is an important part of our internal control environment, as we describe on pages 18-21. In addition to the principal risks listed we face a number of inherent risks that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities.

Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on the inside back cover. An overview of the key inherent risks we face is provided below.

Risk factors

Potentially harmful activities

Aspects of the work we do could potentially harm employees, contractors, members of the public or the environment.

Potentially hazardous activities that arise in connection with our business include the generation, transmission and distribution of electricity and the storage, transmission and distribution of gas. Electricity and gas utilities also typically use and generate hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields.

A significant safety or environmental incident, or the failure of our safety processes or of our occupational health plans, as well as the breach of our regulatory or contractual obligations or our climate change targets, could materially adversely affect our results of operations and our reputation.

Safety is a fundamental priority for us and we commit significant resources and expenditure to process safety and to monitoring personal safety, occupational health and environmental performance, and to meeting our obligations under negotiated settlements.

We are subject to laws and regulations in the UK and US governing health and safety matters to protect the public and our employees and contractors, who could potentially be harmed by these activities as well as laws and regulations relating to pollution, the protection of the environment, and the use and disposal of hazardous substances and waste materials.

These expose us to costs and liabilities relating to our operations and properties, including those inherited from predecessor bodies, whether currently or formerly owned by us, and sites used for the disposal of our waste.

The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and our share of the liability. We are increasingly subject to regulation in relation to climate change and are affected by requirements to reduce our own carbon emissions as well as to enable reduction in energy use by our customers. If more onerous requirements are imposed or our ability to recover these costs under regulatory frameworks changes, this could have a material adverse impact on our business, reputation, results of operations and financial position.

Infrastructure and IT systems

We may suffer a major network failure or interruption, or may not be able to carry out critical operations due to the failure of infrastructure, data or technology or a lack of supply.

Operational performance could be materially adversely affected by a failure to maintain the health of our assets or networks, inadequate forecasting of demand, inadequate record keeping or control of data or failure of information systems and supporting technology. This in turn could cause us to fail to meet agreed standards of service, incentive and reliability targets, or be in breach of a licence, approval, regulatory requirement or contractual obligation. Even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation.

Where demand for electricity or gas exceeds supply, including where we do not adequately forecast and respond to disruptions in energy supplies, and our balancing mechanisms are not able to mitigate this fully, a lack of supply to consumers may damage our reputation.

In addition to these risks, we may be affected by other potential events that are largely outside our control, such as the impact of weather (including as a result of climate change and major storms), unlawful or unintentional acts of third parties, insufficient or unreliable supply or force majeure.

Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure together with our actual or perceived response could materially adversely affect operational and potentially business performance and our reputation.

Malicious attack, sabotage or other intentional acts, including breaches of our cyber security, may also damage our assets (which include critical national infrastructure) or otherwise significantly affect corporate activities and, as a consequence, have a material adverse impact on our reputation, business, results of operations and financial condition.

Unauthorised access to, or deliberate breaches of, our IT systems may also lead to manipulation of our proprietary business data or customer information.

Unauthorised access to private customer information may make us liable for a violation of data privacy regulations. Even where we establish business continuity controls and security against threats against our systems, these may not be sufficient.

Law, regulation and political and economic uncertainty

Changes in law or regulation or decisions by governmental bodies or regulators and increased political and economic uncertainty could materially adversely affect us.

Most of our businesses are utilities or networks subject to regulation by governments and other authorities. Changes in law or regulation or regulatory policy and precedent, (including any changes arising as a result of the UK's exit from the European Union), including decisions of governmental bodies or regulators, in the countries or states in which we operate could materially adversely affect us. We may fail to deliver any one of our customer, investor and wider stakeholder propositions due to increased political and economic uncertainty.

If we fail to engage in the energy policy debate, we may not be able to influence future energy policy and deliver our strategy.

Decisions or rulings concerning, for example:

- whether licences, approvals or agreements to operate or supply are granted, amended or renewed, whether consents for construction projects are granted in a timely manner or whether there has been any breach of the terms of a licence, approval or regulatory requirement; and
 - timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, a decoupling of energy usage and revenue, and other decisions relating to the impact of general economic conditions on us, our markets and customers, the impact of US tax reform, implications of climate change and of advancing energy technologies, whether aspects of our activities are contestable, the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities,
- could have a material adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future.

For further information see pages 186-191, which explain our regulatory environment in detail.

Business performance

Current and future business performance may not meet our expectations or those of our regulators and shareholders.

Earnings maintenance and growth from our regulated gas and electricity businesses will be affected by our ability to meet or exceed efficiency targets and service quality standards set by, or agreed with, our regulators.

If we do not meet these targets and standards, or if we are not able to deliver the US rate plans strategy successfully, we may not achieve the expected benefits, our business may be materially adversely affected and our performance, results of operations and reputation may be materially harmed and we may be in breach of regulatory or contractual obligations.

Growth and business development activity

Failure to respond to external market developments and execute our growth strategy may negatively affect our performance. Conversely, new businesses or activities that we undertake alone or with partners may not deliver target outcomes and may expose us to additional operational and financial risk.

Failure to grow our core business sufficiently and have viable options for new future business over the longer term or failure to respond to the threats and opportunities presented by emerging technology or innovation (including for the purposes of adapting our networks to meet the challenges of increasing distributed energy resources) could negatively affect the Group's credibility and reputation and jeopardise the achievement of intended financial returns.

Our business development activities and the delivery of our growth ambition, include acquisitions, disposals, joint ventures, partnering and organic investment opportunities such as development activities relating to changes to the energy mix and the integration of distributed energy resources and other advanced technologies. These are subject to a wide range of both external uncertainties (including the availability of potential

investment targets and attractive financing and the impact of competition for onshore transmission in both the UK and US) and internal uncertainties (including actual performance of our existing operating companies and our business planning model assumptions and ability to integrate acquired businesses effectively). As a result, we may suffer unanticipated costs and liabilities and other unanticipated effects.

We may also be liable for the past acts, omissions or liabilities of companies or businesses we have acquired, which may be unforeseen or greater than anticipated. In the case of joint ventures, we may have limited control over operations and our joint venture partners may have interests that diverge from our own.

The occurrence of any of these events could have a material adverse impact on our results of operations or financial condition, and could also impact our ability to enter into other transactions.

Exchange rates, interest rates and commodity price indices

Changes in foreign currency rates, interest rates or commodity prices could materially impact earnings or our financial condition.

We have significant operations in the US and so are subject to the exchange rate risks normally associated with non UK operations, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency.

In addition, our results of operations and net debt position may be affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are affected by changes in interest rates, commodity price indices and exchange rates, in particular the dollar to sterling exchange rate.

Furthermore, our cash flow may be materially affected as a result of settling hedging arrangements entered into to manage our exchange rate, interest rate and commodity price exposure, or by cash collateral movements relating to derivative market values, which also depend on the sterling exchange rate into euro and other currencies.

Post-retirement benefits

We may be required to make significant contributions to fund pension and other post-retirement benefits.

We participate in a number of pension schemes that together cover substantially all our employees. In both the UK and US, the principal schemes are DB schemes where the scheme assets are held independently of our own financial resources.

In the US, we also have other post-retirement benefit schemes. Estimates of the amount and timing of future funding for the UK and US schemes are based on actuarial assumptions and other factors, including: the actual and projected market performance of the scheme assets; future long-term bond yields; average life expectancies; and relevant legal requirements.

Actual performance of scheme assets may be affected by volatility in debt and equity markets.

Changes in these assumptions or other factors may require us to make additional contributions to these pension schemes which, to the extent they are not recoverable under our price controls or state rate plans, could materially adversely affect the results of our operations and financial condition.

Internal control and risk factors continued

Financing and liquidity

An inability to access capital markets at commercially acceptable interest rates could affect how we maintain and grow our businesses.

Our businesses are financed through cash generated from our ongoing operations, bank lending facilities and the capital markets, particularly the long-term debt capital markets.

Some of the debt we issue is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and borrowing costs. In addition, restrictions imposed by regulators may also limit how we service the financial requirements of our current businesses or the financing of newly acquired or developing businesses.

Financial markets can be subject to periods of volatility and shortages of liquidity, for example as a result of unexpected political or economic events. If we were unable to access the capital markets or other sources of finance at commercially acceptable rates for a prolonged period, our cost of financing may increase, the discretionary and uncommitted elements of our proposed capital investment programme may need to be reconsidered and the manner in which we implement our strategy may need to be reassessed.

Such events could have a material adverse impact on our business, results of operations and prospects.

Some of our regulatory agreements impose lower limits for the long-term senior unsecured debt credit ratings that certain companies within the Group must hold or the amount of equity within their capital structures,

including a limit requiring National Grid plc to hold an investment grade long-term senior unsecured debt credit rating.

In addition, some of our regulatory arrangements impose restrictions on the way we can operate. These include regulatory requirements for us to maintain adequate financial resources within certain parts of our operating businesses and may restrict the ability of National Grid plc and some of our subsidiaries to engage in certain transactions, including paying dividends, lending cash and levying charges.

The inability to meet such requirements or the occurrence of any such restrictions may have a material adverse impact on our business and financial condition.

The remediation plans in place or being implemented to address financial control weaknesses may not operate as expected, as a result of which we may be unable to provide accurate financial information to our debt investors in a timely manner.

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 restrictions on the level of subsidiary indebtedness.

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 or access the capital markets.

Customers and counterparties

Customers and counterparties may not perform their obligations.

Our operations are exposed to the risk that customers, suppliers, banks and other financial institutions and others with whom we do business will not satisfy their obligations, which could materially adversely affect our financial position.

This risk is significant where our subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates, as well as industrial customers and other purchasers, and may also arise where customers are unable to pay us as a result of increasing commodity prices or adverse economic conditions.

To the extent that counterparties are contracted with for physical commodities (gas and electricity) and they experience events that impact their own ability to deliver, we may suffer supply interruption as described in Infrastructure and IT systems on page 194.

There is also a risk to us where we invest excess cash or enter into derivatives and other financial contracts with banks or other financial institutions. Banks who provide us with credit facilities may also fail to perform under those contracts.

Employees and others

We may fail to attract, develop and retain employees with the competencies, including leadership and business capabilities, values and behaviours required to deliver our strategy and vision and ensure they are engaged to act in our best interests.

Our ability to implement our strategy depends on the capabilities and performance of our employees and leadership at all levels of the business. Our ability to implement our strategy and vision may be negatively affected by the loss of key personnel or an inability to attract, integrate, engage and retain appropriately qualified personnel, or if significant disputes arise with our employees.

As a result, there may be a material adverse effect on our business, financial condition, results of operations and prospects.

There is a risk that an employee or someone acting on our behalf may breach our internal controls or internal governance framework or may contravene applicable laws and regulations. This could have an impact on the results of our operations, our reputation and our relationship with our regulators and other stakeholders.

Shareholder information

Articles of Association

The following description is a summary of the material terms of our Articles and applicable English law. It is a summary only and is qualified in its entirety by reference to the Articles.

Summary

The Articles set out the Company's internal regulations. Copies are available on our website and upon request. Amendments to the Articles have to be approved by at least 75% of those voting at a general meeting of the Company. Subject to company law and the Articles, the Directors may exercise all the powers of the Company. They may delegate authorities to committees and day-to-day management and decision-making to individual Executive Directors. The committee structure is set out on page 44.

General

The Company is incorporated under the name National Grid plc and is registered in England and Wales with registered number 4031152. Under the Companies Act 2006, the Company's objects are unrestricted.

Directors

Under the Articles, a Director must disclose any personal interest in a matter and may not vote in respect of that matter, subject to certain limited exceptions. As permitted under the Companies Act 2006, the Articles allow non-conflicted Directors to authorise a conflict or potential conflict for a particular matter. In doing so, the non-conflicted Directors must act in a way they consider, in good faith, will be most likely to promote the success of the Company for the benefit of the shareholders as a whole.

The Directors (other than a Director acting in an executive capacity) are paid fees for their services. In total, these fees must not exceed £2,000,000 per year or any higher sum decided by an ordinary resolution at a general meeting of shareholders. In addition, special pay may be awarded to a Director who acts in an executive capacity, serves on a committee, performs services which the Directors consider to extend beyond the ordinary duties of a director, devotes special attention to the business of National Grid, or goes or lives abroad on the Company's behalf. Directors may also receive reimbursement for expenses properly incurred, and may be awarded pensions and other benefits. The compensation awarded to the Executive Directors is determined by the Remuneration Committee. Further details of Directors' remuneration are set out in the Directors' Remuneration Report (see pages 63-79).

The Directors may exercise all the powers of National Grid to borrow money. However, the aggregate principal amount of all the Group's borrowings outstanding at any time must not exceed £35 billion or any other amount approved by shareholders by an ordinary resolution at a general meeting.

Directors can be appointed or removed by the Board or shareholders at a general meeting. Directors must stand for election at the first AGM following their appointment to the Board. Each Director must retire at least every three years, although they will be eligible for re-election. In accordance with best practice introduced by the UK Corporate Governance Code, all Directors wishing to continue in office currently offer themselves for re-election annually. No person is disqualified from being a Director or is required to vacate that office by reason of attaining a maximum age.

A Director is not required to hold shares in National Grid in order to qualify as a Director.

Rights, preferences and restrictions

(i) Dividend rights

National Grid may not pay any dividend otherwise than out of profits available for distribution under the Companies Act 2006 and other applicable provisions of English law. In addition, as a public company, National Grid may only make a distribution if, at the time of the distribution, the amount of its net assets is not less than the aggregate of its called up share capital and undistributable reserves (as defined in the Companies Act 2006) and to the extent that the distribution does not reduce the amount of those assets to less than that aggregate. Ordinary shareholders and ADS holders receive dividends.

Subject to these points, shareholders may, by ordinary resolution, declare dividends in accordance with the respective rights of the shareholders, but not exceeding the amount recommended by the Board. The Board may pay interim dividends if it considers that National Grid's financial position justifies the payment. Any dividend or interest unclaimed for 12 years from the date when it was declared or became due for payment will be forfeited and revert to National Grid.

(ii) Voting rights

Subject to any rights or restrictions attached to any shares and to any other provisions of the Articles, at any general meeting on a show of hands, every shareholder who is present in person will have one vote and on a poll, every shareholder will have one vote for every share they hold. On a show of hands or poll, shareholders may cast votes either personally or by proxy. A proxy need not be a shareholder. Under the Articles, all substantive resolutions at a general meeting must be decided on a poll. Ordinary shareholders and ADS holders can vote at general meetings.

(iii) Liquidation rights

In a winding up, a liquidator may (in each case with the sanction of a special resolution passed by the shareholders and any other sanction required under English law): (a) divide among the shareholders the whole or any part of National Grid's assets (whether the assets are of the same kind or not); the liquidator may, for this purpose, value any assets and determine how the division should be carried out as between shareholders or different classes of shareholders, or (b) transfer any part of the assets to trustees on trust for the benefit of the shareholders as the liquidator determines. In neither case will a shareholder be compelled to accept assets upon which there is a liability.

(iv) Restrictions

There are no restrictions on the transfer or sale of ordinary shares. Some of the Company's employee share plans, details of which are contained in the Directors' Remuneration Report, include restrictions on the transfer of shares while the shares are subject to the plan. Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owner, the voting rights may be exercised by the registered owner at the direction of the participant. Treasury shares do not attract a vote or dividends.

Variation of rights

Subject to applicable provisions of English law, the rights attached to any class of shares of National Grid may be varied or cancelled. This must be with the written consent of the holders of three quarters in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

Shareholder information continued

General meetings

AGMs must be convened each year within six months of the Company's accounting reference date upon 21 clear days' advance written notice. Under the Articles, any other general meeting may be convened provided at least 14 clear days' written notice is given, subject to annual approval of shareholders. In certain limited circumstances, the Company can convene a general meeting by shorter notice. The notice must specify, among other things, the nature of the business to be transacted, the place, the date and the time of the meeting.

Rights of non-residents

There are no restrictions under the Articles that would limit the rights of persons not resident in the UK to vote in relation to ordinary shares.

Disclosure of interests

Under the Companies Act 2006, National Grid may, by written notice, require a person whom it has reasonable cause to believe to be or to have been, in the last three years, interested in its shares to provide additional information relating to that interest. Under the Articles, failure to provide such information may result in a shareholder losing their rights to attend, vote or exercise any other right in relation to shareholders' meetings.

Under the UK Disclosure Guidance and Transparency Rules sourcebook, there is also an obligation on a person who acquires or ceases to have a notifiable interest in shares in National Grid to notify the Company of that fact. The disclosure threshold is 3% and disclosure is required each time the person's direct and indirect holdings reach, exceed or fall below each 1% threshold thereafter.

The UK City Code on Takeovers and Mergers imposes strict disclosure requirements with regard to dealings in the securities of an offeror or offeree company, and also on their respective associates, during the course of an offer period. Other regulators in the UK, US and elsewhere may have, or assert, notification or approval rights over acquisitions or transfers of shares.

Depository payments to the Company

The Depository reimburses the Company for certain expenses it incurs in relation to the ADS programme. The Depository also pays the standard out-of-pocket maintenance costs for the ADSs, which consist of the expenses for the mailing of annual and interim financial reports, printing and distributing dividend cheques, electronic filing of US federal tax information, mailing required tax forms, stationery, postage, facsimile and telephone calls. It also reimburses the Company for certain investor relationship programmes or special investor relations promotional activities. There are limits on the amount of expenses for which the Depository will reimburse the Company, but the amount of reimbursement is not necessarily tied to the amount of fees the Depository collects from investors.

For the period 17 May 2017 to 16 May 2018, the Company received a total of \$3,193,221.42 in reimbursements from the Depository consisting of \$1,232,993.66, \$1,319,388.99 and \$640,838.77 received in September 2017, December 2017 and January 2018 respectively. Fees that are charged on cash dividends will be apportioned between the Depository and the Company.

Any questions from ADS holders should be directed to The Bank of New York Mellon at the contact details on page 223.

Description of securities other than equity securities: depository fees and charges

The Bank of New York Mellon, as the Depository, collects fees, by deducting those fees from the amounts distributed or by selling a portion of distributable property, for:

- delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them; and
- making distributions to investors (including, it is expected, cash dividends).

The Depository may generally refuse to provide fee attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:	For
\$5.00 per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property; cancellation of ADSs for the purpose of withdrawal, including if the Deposit Agreement terminates; and distribution of securities distributed to holders of deposited securities that are distributed by the Depository to ADS holders.
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the Depository or its agent when they deposit or withdraw shares.
Expenses of the Depository	Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement); and converting foreign currency to dollars.
Taxes and other governmental charges the Depository or the Custodian has to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary.

The Company's Deposit Agreement under which the ADSs are issued allows a fee of up to \$0.05 per ADS to be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2017/18 final dividend will be charged a fee of \$0.02 per ADS by the Depository prior to distribution of the cash dividend.

Documents on display

National Grid is subject to the filing requirements of the Exchange Act, as amended. In accordance with these requirements, we file reports and other information with the SEC. These materials, including this document, may be inspected during normal business hours at our registered office 1-3 Strand, London WC2N 5EH or at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. For further information about the Public Reference Room, please call the SEC at 1-800-SEC-0330. Some of our filings are also available on the SEC's website at www.sec.gov.

Events after the reporting period

As set out in note 15 and note 35 of the financial statements on page 132 and 177 respectively, on 1 May 2018, the Group announced that it had entered into an agreement with Quadgas Investments BidCo Limited regarding the potential sale of its remaining 25% equity interest in Quadgas HoldCo Limited, the holding company for Cadent Gas Limited. Refer to notes 4 and 15 for details on the accounting implications on the results for the year ended 31 March 2018 in relation to this agreement.

Exchange controls

There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange control restrictions, or that affect the remittance of dividends, interest or other payments to non-UK resident holders of ordinary shares except as otherwise set out in Taxation on pages 200-202 and except in respect of the governments of and/or certain citizens, residents or bodies of certain countries (described in applicable Bank of England Notices or European Union Council Regulations in force as at the date of this document).

Exchange rates

The following table shows the history of the exchange rates of one pound sterling to US dollars for the periods indicated.

	Dollar equivalent of £1 sterling	
	High	Low
April 2018	1.43	1.38
March 2018	1.42	1.37
February 2018	1.42	1.39
January 2018	1.42	1.35
December 2017	1.35	1.33
November 2017	1.35	1.31
	Average ¹	
2017/18	1.33	
2016/17	1.31	
2015/16	1.51	
2014/15	1.61	
2013/14	1.60	

1. The average for each period is calculated by using the average of the exchange rates on the last day of each month during the period. See weighted average exchange rate on page 96.

Material interests in shares

As at 31 March 2018, National Grid had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	Number of ordinary shares	% of voting rights ¹
BlackRock, Inc.	226,370,780	6.47
The Capital Group Companies, Inc.	145,094,617	3.88
Competrol International Investments Limited	125,733,926	3.72

1. This number is calculated in relation to the issued share capital at the time the holding was disclosed.

As at 16 May 2018, no further notifications have been received.

The rights attached to ordinary shares are detailed on page 197. All ordinary shares and all major shareholders have the same voting rights. The Company is not, to the best of its knowledge, directly or indirectly controlled.

Share capital

As at 16 May 2018, the share capital of the Company consists of ordinary shares of 12 204/473 pence nominal value each and ADSs, which represent five ordinary shares each.

Authority to purchase shares

Shareholder approval was given at the 2017 AGM to purchase up to 10% of the Company's share capital (being 344,116,240 ordinary shares). The Directors intend to seek shareholder approval to renew this authority at the 2018 AGM.

In some circumstances, the Company may find it advantageous to have the authority to purchase its own shares in the market, where the Directors believe this would be in the interests of shareholders generally. The Directors believe that it is an important part of the financial management of the Company to have the flexibility to repurchase issued shares in order to manage its capital base, including actively managing share issuances from the operation of the scrip dividend scheme. It is expected that repurchases to manage share issuances under the scrip dividend scheme will not exceed 2.5% of the issued share capital (excluding treasury shares) per annum.

When purchasing shares, the Company has, and will continue to, take into account market conditions prevailing at the time, other investment and financing opportunities and the overall financial position of the Company.

At the 2017 General Meeting and Annual General Meeting the Company sought authority to purchase shares to return part of the proceeds from the sale of a majority interest in the Company's UK Gas Distribution business, at approximately £835 million, to shareholders by way of on-market purchases of the Company's ordinary shares. This has now been completed. During the year the Company also purchased ordinary shares in the capital of the Company as part of the management of the dilutive effect of share issuances under the scrip dividend scheme.

	Number of shares	Total nominal value	Percentage of called up share capital
Shares held in Treasury purchased in prior years ¹	193,119,878	£22,006,683.75 ¹	4.90% ¹
Shares purchased and held in Treasury during the year ^{4,5}	113,871,660	£14,155,715.87 ²	3.13% ³
Shares transferred from Treasury during the year (to employees under employee share plans)	8,282,409	£1,029,610.25 ²	0.23% ³
Maximum number of shares held in Treasury during the year	282,960,111	£35,175,590.97 ²	7.78% ³

- As at 31 March 2017 (Nominal value: 11¹⁷/₄₃ p; Called up share capital: 3,942,983,447) prior to share consolidation effective on 22 May 2017.
- Nominal value: 12 204/473p.
- Called up share capital of 3,637,747,827 ordinary shares as at the date of this report.
- From 02 June 2017 to 26 March 2018.
- Shares purchased for a total cost of £1,016,862,703.

	Total number of shares purchased	Average price paid per share (£)	Of which, number of shares purchased as part of publicly announced plans	Maximum value that may yet be purchased as part of publicly announced plans (£m)
April	—	—	—	—
May	—	—	—	—
June ¹	7,793,766	10.054	7,793,766	—
July ¹	11,609,079	9.377	11,609,079	—
August ¹	9,331,917	9.558	9,331,917	—
September ¹	15,295,727	9.470	15,295,727	—
October ^{1,2}	7,858,778	9.228	7,858,778	—
November ^{1,2}	11,089,402	8.893	11,089,402	—
December ^{1,2}	9,605,998	8.721	9,605,998	—
January ²	17,940,649	8.519	17,940,649	—
February ^{2,3}	10,213,586	7.477	10,213,586	—
March ^{2,3}	13,132,758	7.622	13,132,758	—
Total	113,871,660	8.830	113,871,660	—

Shares were purchased as part of publicly announced plans, as detailed below, which have expired and under which the Company does not intend to make further purchases:

- Announced 2 June 2017 and Expired: 27 December 2017 (Authority for no. shares: 343,910,318 ordinary shares up to \$578 million).
- Announced: 9 October 2017 and Expired: 15 May 2018 (Authority for no. shares: 344,116,240 ordinary shares up to \$557.60 million).
- Announced: 14 February 2018 and Expired: 3 April 2018 (Authority for no. shares: 23,346,344 ordinary shares).

No purchases were made in the United States or in respect of the Company's ADSs.

As at the date of this report, the Company held 281,396,774 ordinary shares as treasury shares, representing 7.74% of the Company's called up share capital.

Shareholder information continued

Authority to allot shares

Shareholder approval was given at the 2017 AGM to allot shares of up to one third of the Company's share capital. The Directors are seeking this same level of authority this year. The Directors consider that the Company will have sufficient flexibility with this level of authority to respond to market developments and this authority is in line with investor guidelines.

The Directors currently have no intention of issuing new shares, or of granting rights to subscribe for or convert any security into shares, except in relation to, or in connection with, the operation and management of the Company's scrip dividend scheme and the exercise of options under the Company's share plans. No issue of shares will be made which would effectively alter control of the Company without the sanction of shareholders in general meeting.

The Company expects to actively manage the dilutive effect of share issuance arising from the operation of the scrip dividend scheme. In some circumstances, additional shares may be allotted to the market for this purpose under the authority provided by this resolution. Under these circumstances, it is expected that the associated allotment of new shares (or rights to subscribe for or convert any security into shares) will not exceed 1% of the issued share capital (excluding treasury shares) per year.

Dividend waivers

The trustees of the National Grid Employees Share Trust, which are independent of the Company, waived the right to dividends paid during the year, and have agreed to waive the right to future dividends, in relation to the ordinary shares and ADSs held by the trust.

Under the Company's ADS programme, the right to dividends in relation to the ordinary shares underlying the ADSs was waived during the year by the Depositary, under an arrangement whereby the Company pays the monies to satisfy any dividends separately to the Depositary for distribution to ADS holders entitled to the dividend. This arrangement is expected to continue for future dividends.

Share price

National Grid ordinary shares are listed on the London Stock Exchange under the symbol NG and the ADSs are listed on the New York Stock Exchange under the symbol NGG.



Source: Bloomberg

Price history

The following table shows the highest and lowest intraday market prices for our ordinary shares and ADSs for the periods indicated.

	Ordinary share (pence)		ADS (\$)	
	High	Low	High	Low
2017/18	1,174.36	733.00	75.29	51.44
2016/17	1,148.00	888.90	74.97	56.50
2015/16	998.20	806.40	72.53	63.75
2014/15	965.00	806.22	77.21	62.25
2013/14	849.50	711.00	70.07	55.16
2017/18 Q4	879.70	733.00	59.07	51.44
Q3	981.77	859.30	63.36	57.65
Q2	981.77	914.60	65.60	60.08
Q1	1,174.36	950.60	75.29	62.59
2016/17 Q4	1,022.50	906.80	64.22	56.54
Q3	1,114.50	888.90	71.43	56.50
Q2	1,148.00	1,035.50	74.97	69.05
Q1	1,096.00	945.00	74.67	66.52
April 2018	850.40	789.50	59.33	55.46
March 2018	810.30	735.50	56.99	51.44
February 2018	816.10	733.00	57.61	51.51
January 2018	879.70	793.70	59.07	56.63
December 2017	889.40	860.70	60.62	57.65

Shareholder analysis

The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2018.

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1-50	181,008	21.1411	5,548,121	0.1525
51-100	222,451	25.9815	15,693,078	0.4314
101-500	356,339	41.6191	74,091,129	2.0367
501-1,000	48,391	5.6519	33,694,975	0.9263
1,001-10,000	45,090	5.2663	110,446,732	3.0361
10,001-50,000	1,829	0.2136	33,248,050	0.9140
50,001-100,000	234	0.0273	16,832,870	0.4627
100,001-500,000	441	0.0515	104,097,557	2.8616
500,001-1,000,000	118	0.0138	83,235,041	2.2881
1,000,001+	290	0.0339	3,160,860,274	86.8906
Total	856,191	100	3,637,747,827	100

Taxation

The discussion in this section provides information about certain US federal income tax and UK tax consequences for US Holders (defined below) of owning ADSs and ordinary shares. A US Holder is the beneficial owner of ADSs or ordinary shares that:

- is for US federal income tax purposes (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate, the income of which is subject to US federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for US federal income tax purposes;
- is not resident or ordinarily resident in the UK for UK tax purposes; and
- does not hold ADSs or ordinary shares in connection with the conduct of a business or the performance of services in the UK or otherwise in connection with a branch, agency or permanent establishment in the UK.

This discussion is not a comprehensive description of all the US federal income tax and UK tax considerations that may be relevant to any particular investor (including consequences under the US alternative minimum tax or net investment income tax) and does not address state, local, or other tax laws. National Grid has assumed that shareholders, including US Holders, are familiar with the tax rules applicable to investments in securities generally and with any special rules to which they may be subject. This discussion deals only with US Holders who hold ADSs or ordinary shares as capital assets. It does not address the tax treatment of investors who are subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or currencies;
- investors who elect mark-to-market treatment;
- entities treated as partnerships or other pass-through entities and their partners;
- individual retirement accounts and other tax-deferred accounts;
- tax-exempt organisations;
- investors who own (directly or indirectly) 10% or more of our shares (by vote or value);
- investors who hold ADSs or ordinary shares as a position in a straddle, hedging transaction or conversion transaction;
- persons that have ceased to be US citizens or lawful permanent residents of the US; and
- US Holders whose functional currency is not the US dollar.

The statements regarding US and UK tax laws and administrative practices set forth below are based on laws, treaties, judicial decisions and regulatory interpretations in effect on the date of this document. These laws and practices are subject to change without notice, potentially with retroactive effect. In addition, the statements set forth below are based on the representations of the Depositary and assume that each party to the Deposit Agreement will perform its obligations thereunder in accordance with its terms.

US Holders of ADSs generally will be treated as the owners of the ordinary shares represented by those ADSs for US federal income tax purposes. For the purposes of the Tax Convention, the Estate Tax Convention and UK tax considerations, this discussion assumes that a US Holder of ADSs will be treated as the owner of the ordinary shares represented by those ADSs. HMRC has stated that it will continue to apply its long-standing practice of treating a holder of ADSs as holding the beneficial interest in the ordinary shares represented by the ADSs; however, we note that this is an area of some uncertainty and may be subject to change.

US Holders should consult their own advisors regarding the tax consequences of buying, owning and disposing of ADSs or ordinary shares in light of their particular circumstances, including the effect of any state, local, or other tax laws.

Taxation of dividends

The UK does not currently impose a withholding tax on dividends paid to US Holders.

US Holders should assume that any cash distribution paid by us with respect to ADSs or ordinary shares will be reported as dividend income for US federal income tax purposes. While dividend income received from non-US corporations is generally taxable to a non-corporate US Holder as ordinary income for US federal income tax purposes, dividend income received by a non-corporate US Holder from us generally will be taxable at the same favourable rates applicable to long-term capital gains provided (i) either (a) we are eligible for the benefits of the Tax Convention or (b) ADSs or ordinary shares are treated as 'readily tradable' on an established securities market in the United States and (ii) we are not, for our taxable year during which the dividend is paid or the prior year, a passive foreign investment company for US federal income tax purposes (a PFIC), and certain other requirements are met. We (1) expect that our shares will be treated as 'readily tradable' on an established securities market in the United States as a result of the trading of ADSs on the New York Stock Exchange and (2) believe we are eligible for the benefits of the Tax Convention.

Based on our audited financial statements and the nature of our business activities, we believe that we were not treated as a PFIC for US federal income tax purposes with respect to our taxable year ending 31 March 2018. In addition, based on our current expectations regarding the value and nature of our assets, the sources and nature of our income, and the nature of our business activities, we do not anticipate becoming a PFIC in the foreseeable future.

Dividends received by corporate US Holders with respect to ADSs or ordinary shares will not be eligible for the dividends received deduction generally allowed to corporations.

Taxation of capital gains

US Holders will not be subject to UK taxation on any capital gain realised on the sale or other disposition of ADSs or ordinary shares.

Provided that we are not a PFIC for any taxable year during which a US Holder holds their ADSs or ordinary shares, upon a sale or other disposition of ADSs or ordinary shares, a US Holder generally will recognise capital gain or loss for US federal income tax purposes equal to the difference between the US dollar value of the amount realised on the sale or other disposition and the US Holder's adjusted tax basis in the ADSs or ordinary shares. Such capital gain or loss generally will be long-term capital gain or loss if the ADSs or ordinary shares were held for more than one year. For non-corporate US Holders, long-term capital gain is generally taxed at a lower rate than ordinary income. A US Holder's ability to deduct capital losses is subject to significant limitations.

Shareholder information continued

UK stamp duty and stamp duty reserve tax (SDRT)

Transfers of ordinary shares – SDRT at the rate of 0.5% of the amount or value of the consideration will generally be payable on any agreement to transfer ordinary shares that is not completed using a duly stamped instrument of transfer (such as a stock transfer form).

Where an instrument of transfer is executed and duly stamped before the expiry of the six year period beginning with the date on which the agreement is made, the SDRT liability will be cancelled. If a claim is made within the specified period, any SDRT which has been paid will be refunded. SDRT is due whether or not the agreement or transfer is made or carried out in the UK and whether or not any party to that agreement or transfer is a UK resident.

Purchases of ordinary shares completed using a stock transfer form will generally result in a UK stamp duty liability at the rate of 0.5% (rounded up to the nearest £5) of the amount or value of the consideration. Paperless transfers under the CREST paperless settlement system will generally be liable to SDRT at the rate of 0.5%, and not stamp duty. SDRT is generally the liability of the purchaser and UK stamp duty is usually paid by the purchaser or transferee.

Transfers of ADSs – No UK stamp duty will be payable on the acquisition or transfer of existing ADSs or beneficial ownership of ADSs, provided that any instrument of transfer or written agreement to transfer is executed outside the UK and remains at all times outside the UK.

An agreement for the transfer of ADSs in the form of ADRs will not result in a SDRT liability. A charge to stamp duty or SDRT may arise on the transfer of ordinary shares to the Depositary or The Bank of New York Mellon as agent of the Depositary (the Custodian).

The rate of stamp duty or SDRT will generally be 1.5% of the value of the consideration or, in some circumstances, the value of the ordinary shares concerned. However, there is no 1.5% SDRT charge on the issue of ordinary shares (or, where it is integral to the raising of new capital, the transfer of ordinary shares) to the Depositary or the Custodian.

The Depositary will generally be liable for the stamp duty or SDRT. Under the terms of the Deposit Agreement, the Depositary will charge any tax payable by the Depositary or the Custodian (or their nominees) on the deposit of ordinary shares to the party to whom the ADSs are delivered against such deposits. If the stamp duty is not a multiple of £5, the duty will be rounded up to the nearest multiple of £5.

US information reporting and backup withholding tax

Dividend payments made to US Holders and proceeds paid from the sale, exchange, redemption or disposal of ADSs or ordinary shares to US Holders may be subject to information reporting to the US Internal Revenue Service (IRS). Such payments may be subject to backup withholding taxes if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements.

US Holders should consult their tax advisors about these rules and any other reporting obligations that may apply to the ownership or disposition of ADSs or ordinary shares, including reporting requirements related to the holding of certain foreign financial assets.

UK inheritance tax

An individual who is domiciled in the US for the purposes of the Estate Tax Convention and who is not a UK national for the purposes of the Estate Tax Convention will generally not be subject to UK inheritance tax in respect of (i) the ADSs or ordinary shares on the individual's death or (ii) a gift of the ADSs or ordinary shares during the individual's lifetime. This is not the case where the ADSs or ordinary shares are part of the business property of the individual's permanent establishment in the UK or relate to a fixed base in the UK of an individual who performs independent personal services.

Special rules apply to ADSs or ordinary shares held in trust. In the exceptional case where the ADSs or shares are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Convention generally provides for the tax paid in the UK to be credited against tax paid in the US.

Capital gains tax (CGT) for UK resident shareholders

You can find CGT information relating to National Grid shares for UK resident shareholders on the investor section of our website. Share prices on specific dates are also available on our website.

Other disclosures

All-employee share plans

The Company has a number of all-employee share plans as described below, which operated during the year. These allow UK- or US-based employees to participate in either HMRC (UK) or IRS (US) approved plans and to become shareholders in National Grid.

Sharesave

Employees resident in the UK are eligible to participate in the Sharesave plan. Under this plan, participants may contribute between £5 and £500 in total each month, for a fixed period of three years, five years or both. Contributions are taken from net salary.

SIP

Employees resident in the UK are eligible to participate in the SIP. Contributions up to £150 per month are deducted from participants' gross salary and used to purchase ordinary shares in National Grid each month. The shares are placed in trust.

US Incentive Thrift Plans

Employees of National Grid's US companies are eligible to participate in the Thrift Plans, which are tax-advantaged savings plans (commonly referred to as 401(k) plans). They are DC pension plans that give participants the opportunity to invest up to applicable federal salary limits. The federal limits for calendar year 2017 are: for pre-tax contributions, a maximum of 50% of salary limited to \$18,000 for those under the age of 50 and \$24,000 for those age 50 and above; for post-tax contributions, up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) may not exceed 50% of compensation, and are further subject to the combined federal annual contribution limit of \$54,000. For calendar year 2018, participants may invest up to the applicable federal salary limits: for pre-tax contributions, a maximum of 50% of salary limited to \$18,500 for those under the age of 50 and \$24,500 for those age 50 and above; for post-tax contributions, up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) may not exceed 50% of compensation, and are further subject to the combined federal annual contribution limit of \$55,000.

ESPP

Employees of National Grid's US companies are eligible to participate in the ESPP (commonly referred to as a 423(b) plan). Eligible employees have the opportunity to purchase ADSs on a monthly basis at a 15% discounted price. Under the plan, employees may contribute up to 20% of base pay each year, up to a maximum annual contribution of \$18,888 to purchase ADSs in National Grid.

Change of control provisions

No compensation would be paid for loss of office of Directors on a change of control of the Company. As at 31 March 2018, the Company had undrawn borrowing facilities of £4.3 billion available to it with a number of banks and a further £1.07 billion of drawn bank loans which, on a change of control of the Company following a takeover bid, may alter or terminate. All the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. In the event of a change of control of the Company, a number of governmental and regulatory consents or approvals are likely to be required, arising from laws or regulations of the UK, US or the EU. Such consents or approvals may also be required for acquisitions of equity securities that do not amount to a change of control.

No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

Code of Ethics

In accordance with US legal requirements, the Board has adopted a Code of Ethics for senior financial professionals. This code is available on our website: www.nationalgrid.com (where any amendments or waivers will also be posted). There were no amendments to, or waivers of, our Code of Ethics during the year.

Conflicts of interest

In accordance with the Companies Act 2006, the Board has a policy and procedure in place for the disclosure and authorisation (if appropriate) of actual and potential conflicts of interest. The Board continues to monitor and note possible conflicts of interest that each Director may have. The Directors are regularly reminded of their continuing obligations in relation to conflicts, and are required annually to review and confirm their external interests. During the year ended 31 March 2018, no actual or potential conflicts of interest were identified, which required approval by the Board. The Board has also considered and noted a number of situations in relation to which no actual conflict of interest was identified.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards

The Company is listed on the NYSE and is therefore required to disclose differences in its corporate governance practices adopted as a UK listed company, compared with those of a US company.

The corporate governance practices of the Company are primarily based on the requirements of the Code but substantially conform to those required of US companies listed on the NYSE. The following is a summary of the significant ways in which the Company's corporate governance practices differ from those followed by US companies under Section 303A Corporate Governance Standards of the NYSE.

The NYSE rules and the Code apply different tests for the independence of Board members.

The NYSE rules require a separate nominating/corporate governance committee composed entirely of independent Directors. There is no requirement for a separate corporate governance committee in the UK. Under the Company's corporate governance policies, all Directors on the Board discuss and decide upon governance issues, and the Nominations Committee makes recommendations to the Board with regard to certain of the responsibilities of a corporate governance committee.

The NYSE rules require listed companies to adopt and disclose corporate governance guidelines. While the Company reports compliance with the Code in each Annual Report and Accounts, the UK requirements do not require the Company to adopt and disclose separate corporate governance guidelines.

The NYSE rules require a separate audit committee composed of at least three independent members. While the Company's Audit Committee exceeds the NYSE's minimum independent Non-executive Director membership requirements, it should be noted that the quorum for a meeting of the Audit Committee, of two independent Non-executive Directors, is less than the minimum membership requirements under the NYSE rules.

The NYSE rules require a compensation committee composed entirely of independent Directors, and prescribe criteria to evaluate the independence of the committee's members and its ability to engage external compensation advisors. While the Code prescribes different independence criteria, the Non-executive Directors on the Remuneration Committee have each been deemed independent by the Board under the NYSE rules. Although the evaluation criteria for appointment of external advisors differ under the Code, the Remuneration Committee is solely responsible for appointment, retention and termination of such advisors.

Directors' indemnity

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 in prior financial years for matters arising when they were directors of the Company. Alongside these indemnities, the Company places Directors' and Officers' liability insurance cover for each director.

Employees

We negotiate with recognised unions. It is our policy to maintain well developed communications and consultation programmes and there have been no material disruptions to our operations from labour disputes during the past five years. National Grid believes that it can conduct its relationships with trade unions and employees in a satisfactory manner.

Other disclosures continued

Human rights

Respect for human rights is incorporated into our employment practices and our values, which are integral to our Code of ethical business conduct – the way in which we conduct ourselves allows us to build trust with the people we work with. We earn this trust by doing things in the right way, building our reputation as an ethical company that our stakeholders want to do business with, and that our employees want to work for. Although we do not have 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 Global Supplier Code of Conduct (GSCoC), 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 for our UK suppliers, the requirements of the Living Wage Foundation.

Listing Rule 9.8.4 R cross reference table

Information required to be disclosed by LR 9.8.4 R (starting on page indicated):

Interest capitalised	Page 116
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Not applicable
Waiver of emoluments by a director	Not applicable
Waiver of future emoluments by a director	Not applicable
Non-pre-emptive issues of equity for cash	Not applicable
Item (7) in relation to major subsidiary undertakings	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waivers of dividends	Page 200
Shareholder waivers of future dividends	Page 200
Agreements with controlling shareholders	Not applicable

Material contracts

On 31 March 2017 we sold a 61% interest in our UK Gas Distribution business (now known as Cadent) to the Consortium and at the same time entered into an agreement with the Consortium for the potential future sale and purchase of an additional 14% equity interest in Cadent. On 30 April 2018 we entered into a further agreement with the Consortium for the potential future sale and purchase of the remaining 25% equity interest in Cadent.

In addition, each of our Executive Directors has a Service Agreement and each Non-executive Director has a Letter of Appointment. Apart from these, no contract (other than contracts entered into in the ordinary course of business) has been entered into by the Group within the two years immediately preceding the date of this report which is, or may be material; or which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this report.

Political donations and expenditure

At this year's AGM the Directors will again seek authority from shareholders, on a precautionary basis, for the Company and its subsidiaries to make donations to registered political parties and other political organisations and/or incur political expenditure in the European Union (EU), in each case in amounts not exceeding £125,000 in aggregate. The definitions of these terms in the Companies Act 2006 are very wide and as a result this can cover bodies such as those concerned with policy review, law reform and the representation of the business community. It could include special interest groups, such as those involved with the environment, which the Company and its subsidiaries might wish to support, even though these activities are not designed to support or influence support for a particular party. The Companies Act 2006 states that all-party parliamentary groups are not political organisations for these purposes, meaning the authority to be sought from shareholders is not relevant to interactions with such groups. The Company has no intention of changing its current practice of not making political donations or incurring political expenditure within the ordinary meaning of those words. This authority is therefore being sought to ensure that none of the Company's activities inadvertently infringe these rules.

National Grid made no donations in the EU during the year, including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000. National Grid USA and its affiliated New York and federal political action committees (each, a PAC) made political donations in the US totalling \$62,100 (£44,321) during the year. National Grid USA's affiliated New York PAC was funded partly by contributions from National Grid USA and certain of its subsidiaries and partly by voluntary employee contributions. National Grid USA's affiliated federal PAC was funded wholly by voluntary employee contributions.

Property, plant and equipment

This information can be found under the heading note 12 Property, plant and equipment on pages 129-130, note 20 Borrowings on pages 140-141 and where we operate on page 185.

Research and development and innovation activity

Investment in research and development during the year for the Group was £13 million (2016/17: £14 million; 2015/16: £19 million). Delivering value to our stakeholders has continued to be a focus throughout 2017/18, with sustained innovation investment across our UK Regulated business areas: UK Electricity Transmission (ET) and UK Gas Transmission (GT). Collaboration remains crucial in search of new technologies and techniques to challenge the way we work. A focus has been on articulation of our innovation strategies through a joint Electricity and joint Gas Innovation strategy working alongside the Distribution Network Operators (DNOs) and the Gas Distribution Networks (GDNs) respectively. Due to the way in which we work with a large number of partners on new ideas, our disclosed research and development expenditure is lower than the overall contribution we make to the industry. We only disclose directly incurred expenditure, and not those amounts our partners contribute to joint or collaborative projects.

The UK ET innovation investment continues to advance our strategic ambitions to reduce the cost of delivering a secure, reliable and sustainable electricity transmission system. This year we have signed a £40 million Innovation Partnership with Siemens to research and develop the use of Gas Insulated Lines (GIL) on the electricity transmission network. Within this partnership we also plan to develop an alternative SF₆ free insulating gas mixture that has less than 0.05% of the global warming impact of SF₆. We have made progress on our portfolio of 50 innovation projects. At Deeside the overhead line test area is now in the construction phase and tender designs for the substation are under development. Design work for the refurbishment on converting the control room into the Innovation Centre has now commenced. This year we have completed a research programme to extend the life of our overhead line fittings. The research helped us to develop a greater understanding of how the environment affects our overhead line spans. This included an in-depth understanding of how the energy input from wind-induced motion and corrosive compounds increases the deterioration rate of conductors and fittings. The insight from these projects has enhanced our ability to target spending on those assets at highest risk of developing defects and failures, optimising our replacement plans. So far, we have analysed 265km of line, reducing our R10-T1 spending by £49 million from last year.

Scouting for the use of advanced materials has outlined 35 potential opportunities to apply improved materials on the electricity transmission network along with the benefits they will provide to the system.

The System Operator (SO) published its first ever Innovation Strategy in February 2018, sparking dialogue and collaboration across the industry and driving collaborative innovation across both gas and electricity transmission networks. The control room and forecasting teams have been able to use the initial outputs from our solar PV monitoring and forecasting projects, to help balance the system at times of high demand uncertainty. The SO Open Innovation Day brought in suppliers and potential innovation partners from around the industry to develop new proposals for solving SO challenges, the best ideas are now being developed into full Network Innovation Allowance projects. We are also a partner in two Vehicle to Grid (V2G) projects being funded through the £20 million BEIS competition announced last year, including a £9.8 million large-scale demonstrator project with Nissan.

Power Potential is a £9.5 million SO project in collaboration with UK Power Networks; £8 million of the project is funded through the 2016 Network Innovation Competition (NIC). The project aims to create a regional reactive power market for distributed energy resources and generate additional capacity on the network. This is a regional power market trial that will improve coordination between the SO, UK Power Networks (as a regional electricity distributor) and renewable energy generators connected to the distribution network in the South East of England. The market will help renewable energy generators offer their services to the SO, via a Distributed Energy Resource Management System located in UK Power Networks' distribution system. This will improve communication and coordination to maximise network capacity by better managing system constraints, giving the SO better access to previously unexploited power. New commercial frameworks will also create new revenue streams for renewable energy generators. If successful, the regional power market model could be introduced to 59 other sites and potentially save up to £412 million for UK consumers by 2050.

The SO has teamed up with industry and academics to find better ways of operating the electricity network with the £9.3 million Enhanced Frequency Control Capability (EFCC) project; £6.9 million of funding for this was awarded in the 2014 NIC. EFCC has developed a wide-area monitoring and control system to coordinate and maximise the contribution of rapid frequency response from a diverse range of providers. This will assist with frequency management in a future energy system, where increased volumes of renewable generation and interconnectors, coupled with a reduction of thermal generation have, and will continue to, reduce system inertia levels.

The SO is also working in partnership with Scottish Power Electricity Networks on their £19 million Phoenix project (£15.6 million awarded through 2016 NIC). In light of diminishing synchronous generation on the network, this project will design, deploy and operate a Hybrid-Synchronous compensator (H-SC), which will aim to maximise attributes of both a synchronous and static compensator. This project is another example of network operators exploring the use of innovative solutions to enhance the stability and security of our electricity system.

Throughout this past year, GT innovation has focused on the demonstration of value delivered by innovation to our customers, whilst seeking new opportunities to add further value. April 2017 saw the publication of the Innovation Value Mid-Term Report, which focused on 10 case study projects and demonstrated a 4:1 return on investment to date. Our portfolio has continued to grow with a core set of projects driven by safety, reliability, maintenance and asset health. Examples of projects on safety include the collaborative Gas Quality IGEM project, looking at the impact a change in gas quality specifications and the LiDAR project which uses light detection and ranging to carry out aerial inspections of our pipeline to highlight any potential safety issues. The Compressor Data Analytics project is an example of reliability focused projects, seeking to maximise the reliability of our compressors and allow for effective scheduling of maintenance. The advanced manufacturing (3D printing) project addresses a key maintenance issue of obsolete parts, using 3D printing to allow an asset to be repaired rather than replaced. An example of asset health management is the Artificial Intelligence (AI) for Pipeline Coating project, which uses AI to more efficiently identify and mitigate corrosion issues across the network.

Research & Development (R&D) work in the US has focused on the advancement of products, processes, systems and work methods that may be new to National Grid. This is accomplished by working with internal departments to identify where strategic R&D investment is needed and is likely to prove beneficial to National Grid. To achieve these goals, we work in collaboration with technical organisations, academia and vendors in the energy sector that align with our goals and objectives. This collaboration has also helped inform our strategic direction in response to jurisdictional requests for modernisation (Grid Modernisation in Massachusetts and 'Reforming the Energy Vision' in New York). We continue to focus our gas R&D on increasing public safety, protecting our workforce and reducing the cost of the work we perform.

In 2017/18, we continued to invest and participate in several significant pilot projects with the intent of obtaining operational knowledge and experience of technology-driven system impacts. Below are a few examples of our R&D projects:

- We are pre-approved to construct up to 20 MW of photovoltaic (PV) facilities in Massachusetts as part of our 'Solar Phase II' programme. These PV sites are designed with advanced grid interactive control features, beyond what typical PV facilities are required to provide. Operating and analysing the performance of these grid interactive controls will help prepare and futureproof our system to enable a high penetration of distributed energy resources on the distribution system. We are also pre-approved to construct up to 14 MW of PV facilities in conjunction with 7 MW of battery storage in Massachusetts as part of our 'Solar Phase III' programme. The intent of this project is to demonstrate the value of energy storage in the system peak load shaving, solar ramp rate control and mitigation of power quality issues.
- We are engaged with Electric Power Research Institute (EPRI) on a number of programmes such as distributed energy resources integration, energy storage, asset management, system operations, information and communication technology and system planning.
- We are progressing four New York Reforming the Energy Vision pilot projects, which are 1) Fruit Belt Neighbourhood Solar, 2) Community Resilience, 3) Demand Reduction, and 4) Distribution System Platform to test new technologies and business models in which distributed energy resources are integrated for grid operations.
- We support several US Department of Energy projects under the SunShot programme, aimed to further the integration and proliferation of solar PV.
- Lessons learned from the two-year Worcester Smart Energy Solutions pilot in Massachusetts, the Volt VAR Optimisation and Conservation Voltage Reduction pilot in Rhode Island have helped shape larger scale grid modernisation proposals in each of our jurisdictions.
- We are preparing to demonstrate online monitoring technology at transmission substations in our New England service area in order to move towards enhanced condition-based asset management.
- We are building equipment test and training labs in order to support our initial upgrades of transmission substations across our service area to the IEC 61850 communications standard.
- While partnering with industry organisations and other utilities, we have developed a robot that enters our large diameter gas system and renews the pipeline without interrupting service to our gas customers. We have brought the robot from an idea, to prototype, to commercial tool and have now included its use into the rate structure as a viable method of renewing and extending the life of our large diameter gas distribution infrastructure. This technology is now being deployed throughout the US and UK.
- We have developed and are deploying new equipment to stop the flow of gas in our distribution mains. This equipment is much smaller than previous equipment and operates at higher pressure allowing our work force to perform work quicker and more safely in smaller excavations with less customer impact.
- To reinforce our commitment to the global environment, we are evaluating best practices for reducing the release of methane during maintenance activities. Technologies include the use of draw down compressors to move and reinject the gas after the work has been completed.
- We are currently field testing the use of drones to perform required regulatory patrols on our gas infrastructure rather than mobilising employees. This would allow a drone to fly an autonomous, pre-programmed flight plan in our remote service territory, while transmitting video back for inspection.

Unresolved SEC staff comments

There are no unresolved SEC staff comments required to be reported.

Other unaudited financial information

Alternative performance measures/non-IFRS reconciliations

Within the Annual Report, a number of financial measures are presented. These measures have been categorised as alternative performance measures (APMs), as per the European Securities and Markets Authority (ESMA) guidelines and the Securities and Exchange Commission (SEC) conditions for use of non-GAAP Financial Measures.

An APM is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS. The Group uses a range of these measures to provide a better understanding of its underlying performance. APMs are reconciled to the most directly comparable IFRS financial measure where practicable.

The Group has defined the following financial measures as APMs derived from IFRS: net revenue, the various adjusted operating profit, earnings and earnings per share metrics detailed in the 'adjusted profit measures' section below, net debt, capital investment, funds from operations (FFO), FFO/interest cover and retained cash flow (RCF)/adjusted net debt. For each of these we present a reconciliation to the most directly comparable IFRS measure.

In addition to these APMs, we also have APMs derived from regulatory measures which have no basis under IFRS; we call these Regulatory Performance Measures. They comprise: Group return on equity (RoE), UK and US regulatory RoE, regulated asset base, regulated financial

performance, regulatory gearing, annual asset growth and Value Added including Value Added per share. These measures reflect the inputs used by utility regulators to set the allowed revenues for many of our businesses. As such, we believe that they provide close correlation to the economic value we generate for our shareholders and are therefore important supplemental measures for our shareholders to understand the performance of the business.

We use regulatory performance measures to monitor progress against our regulatory agreements and certain aspects of our strategic objectives. Further, targets for certain of these performance measures are included in the Company's Annual Performance Plan (APP) and Long Term Performance Plan (LTPP) and contribute to how we reward our employees. We consider that such regulatory measures are important supplemental measures to our IFRS reporting to ensure a complete understanding of Group performance.

As the starting point for our Regulatory Performance Measures is not IFRS, and these measures are not governed by IFRS, we are unable to provide meaningful reconciliations to any directly comparable IFRS measures, as differences between IFRS and the regulatory recognition rules applied have built up over many years. Instead, for each of these we present an explanation of how the measure has been determined and why it is important, and an overview as to why it would not be meaningful to provide a reconciliation to IFRS.

Alternative performance measures

Net revenue

'Net revenue' is revenue less pass-through costs, such as payments to other UK network owners, system balancing costs, and gas and electricity commodity costs in the US. Pass-through costs are fully recoverable from our customers and are recovered through separate charges that are designed to recover those costs with no profit. Any over- or under-recovery of these costs is returned to, or recovered from, our customers.

	2018			2017			2016		
	Gross revenue £m	Pass-through costs £m	Net revenue £m	Gross revenue £m	Pass-through costs £m	Net revenue £m	Gross revenue £m	Pass-through costs £m	Net revenue £m
Year ended 31 March									
UK Electricity Transmission	4,154	(2,243)	1,911	4,439	(2,293)	2,146	3,977	(2,030)	1,947
UK Gas Transmission	1,091	(257)	834	1,080	(223)	857	1,047	(221)	826
US Regulated	9,272	(3,804)	5,468	8,931	(3,411)	5,520	7,493	(3,154)	4,339
National Grid Ventures and Other	776	–	776	713	–	713	824	–	824
Sales between segments	(43)	–	(43)	(128)	–	(128)	(129)	–	(129)
Total	15,250	(6,304)	8,946	15,035	(5,927)	9,108	13,212	(5,405)	7,807

Adjusted profit measures:

In considering the financial performance of our business and segments, we use various adjusted profit measures in order to aid comparability of results year on year.

The various measures are presented on pages 23-25 and reconciled below.

Adjusted results, also referred to as Headline results – These exclude the impact of exceptional items and remeasurements that are treated as discrete transactions under IFRS and can accordingly be classified as such. This is a measure used by management that forms part of the incentive target set annually for remunerating certain Executive Directors and further details of these items are included in Note 4 to the financial statements.

Underlying results – Further adapts our adjusted results to take account of volumetric and other revenue timing differences arising due to the in-year difference between allowed and collected revenues, including revenue incentives, as governed by our rate plans in the US or regulatory price controls in the UK (but excluding totex-related allowances and adjustments). For 2017/18, as highlighted on page 209, our underlying results exclude £104 million of timing differences, as well as £142 million of storm costs (which are significant in aggregate this year) where we expect to recover the bulk of the costs incurred through regulatory mechanisms in the US.

Prior period pro forma including Cadent overlay – To aid comparability with prior years, we show an estimate of adjusted and underlying results and earnings for the continuing business in 2017 and 2016, including an estimated contribution from our 39% interest in UK Gas Distribution (now Cadent).

Constant currency – The adjusted profit measures are also shown on a constant currency basis to show the year on year comparisons excluding any impact of foreign currency movements.

Reconciliation of Statutory, Adjusted, Underlying and Underlying (pro forma) Profits and Earnings – At actual exchange rates – Continuing operations

Year ended 31 March 2018	Statutory £m	Exceptionals and remeasurements £m	Adjusted £m	Timing £m	Major Storms £m	Underlying £m	Cadent overlay ^{1,2} £m	Underlying (pro forma) £m
UK Electricity Transmission	1,041	–	1,041	14	–	1,055	–	1,055
UK Gas Transmission	487	–	487	18	–	505	–	505
US Regulated	1,734	(36)	1,698	(136)	142	1,704	–	1,704
NGV and Other	231	–	231	–	–	231	–	231
Total operating profit	3,493	(36)	3,457	(104)	142	3,495	–	3,495
Net finance costs	(745)	(229)	(974)	–	–	(974)	–	(974)
Share of post-tax results of JVs and associates	(40)	207	167	–	–	167	–	167
Profit before tax	2,708	(58)	2,650	(104)	142	2,688	–	2,688
Tax	884	(1,473)	(589)	42	(51)	(598)	–	(598)
Profit after tax	3,592	(1,531)	2,061	(62)	91	2,090	–	2,090

Year ended 31 March 2017	Statutory £m	Exceptionals and remeasurements £m	Adjusted £m	Timing £m	Major Storms £m	Underlying £m	Cadent overlay ^{1,2} £m	Underlying (pro forma) £m
UK Electricity Transmission	1,361	11	1,372	(137)	–	1,235	–	1,235
UK Gas Transmission	507	4	511	(62)	–	449	–	449
US Regulated	1,278	435	1,713	(199)	–	1,514	–	1,514
NGV and Other	62	115	177	–	–	177	–	177
Total operating profit	3,208	565	3,773	(398)	–	3,375	–	3,375
Net finance costs	(1,087)	58	(1,029)	–	–	(1,029)	29	(1,000)
Share of post-tax results of JVs and associates	63	–	63	–	–	63	144	207
Profit before tax	2,184	623	2,807	(398)	–	2,409	173	2,582
Tax	(374)	(292)	(666)	119	–	(547)	(6)	(553)
Profit after tax	1,810	331	2,141	(279)	–	1,862	167	2,029

Year ended 31 March 2016	Statutory £m	Exceptionals and remeasurements £m	Adjusted £m	Timing £m	Major Storms £m	Underlying £m	Cadent overlay ^{1,2} £m	Underlying (pro forma) £m
UK Electricity Transmission	1,173	–	1,173	(5)	–	1,168	–	1,168
UK Gas Transmission	486	–	486	(67)	–	419	–	419
US Regulated	1,196	(11)	1,185	73	–	1,258	–	1,258
NGV and Other	370	–	370	–	–	370	–	370
Total operating profit	3,225	(11)	3,214	1	–	3,215	–	3,215
Net finance costs	(955)	99	(856)	–	–	(856)	29	(827)
Share of post-tax results of JVs and associates	59	–	59	–	–	59	164	223
Profit before tax	2,329	88	2,417	1	–	2,418	193	2,611
Tax	(427)	(177)	(604)	(15)	–	(619)	(6)	(625)
Profit after tax	1,902	(89)	1,813	(14)	–	1,799	187	1,986

Other unaudited financial information continued

Reconciliation of Adjusted, Underlying and Underlying (pro forma) Profits – At constant currency

	Adjusted at actual exchange £m	Constant currency adjustment £m	At constant currency					
			Adjusted £m	Timing £m	Major Storms £m	Underlying £m	Cadent overlay ^{1,2} £m	Underlying (pro forma) £m
Year ended 31 March 2017								
UK Electricity Transmission	1,372	–	1,372	(137)	–	1,235	–	1,235
UK Gas Transmission	511	–	511	(62)	–	449	–	449
US Regulated	1,713	(102)	1,611	(187)	–	1,424	–	1,424
National Grid Ventures and Other	177	4	181	–	–	181	–	181
Total operating profit	3,773	(98)	3,675	(386)	–	3,289	–	3,289
Net finance costs	(1,029)	45	(984)	–	–	(984)	29	(955)
Share of post-tax results of JVs and associates	63	(1)	62	–	–	62	144	206
Profit before tax	2,807	(54)	2,753	(386)	–	2,367	173	2,540

	Adjusted at actual exchange £m	Constant currency adjustment £m	At constant currency					
			Adjusted £m	Timing £m	Major Storms £m	Underlying £m	Cadent overlay ^{1,2} £m	Underlying (pro forma) £m
Year ended 31 March 2016								
UK Electricity Transmission	1,173	–	1,173	(5)	–	1,168	–	1,168
UK Gas Transmission	486	–	486	(67)	–	419	–	419
US Regulated	1,185	102	1,287	79	–	1,366	–	1,366
National Grid Ventures and Other	370	2	372	–	–	372	–	372
Total operating profit	3,214	104	3,318	7	–	3,325	–	3,325
Net finance costs	(856)	(55)	(911)	–	–	(911)	29	(882)
Share of post-tax results of JVs and associates	59	1	60	–	–	60	164	224
Profit before tax	2,417	50	2,467	7	–	2,474	193	2,667

Note 1: 2017 and 2016 estimates including 39% interest in UK Gas Distribution for the years ended 31 March 2017 and 31 March 2016

The 2017 and 2016 estimates include a Cadent overlay approximating a 39% stake in UK Gas Distribution (see note 9 of the annual report and accounts for further detail), we have imputed additional net income as follows:

- Reduction to net finance cost of £29m in each year reflecting additional interest receivable on the shareholder loan;
- Increase in share of post-tax results of joint ventures and associates based on actual underlying operating profit excluding timing reported by UK Gas Distribution in 2017 and 2016, less the effect of provisional purchase price adjustments, finance costs reflecting the cost charged to discontinued operations in the comparative periods, estimated additional financing costs at holding company level and the tax effects thereon.

Note 2: Weighted average number of shares

	2018 Millions	2017 Millions	2016 Millions
Weighted average number of shares used for basic EPS	3,461	3,763	3,774
Reduction to reflect implied return of capital	–	(300)	(300)
Weighted average number of shares used for pro forma	3,461	3,463	3,474

The reduction in the weighted average number of shares is an approximation of the impact of the share consolidation and share buyback had these events taken place during the comparative periods.

Earnings per share calculations from continuing operations – at actual exchange rates

The table below reconciles the profit before tax from continuing operations per the previous tables back to the earnings per share from continuing operations for each of the adjusted profit measures. Earnings per share is only presented for those adjusted profit measures that are at actual exchange rates, and not for those at constant currency.

Year ended 31 March 2018	Profit after tax £m	Non-controlling interest £m	Profit after tax attributable to shareholders £m	Weighted average number of shares millions	Earnings per share pence
Statutory	3,592	(1)	3,591	3,461	103.8
Adjusted (also referred to as headline)	2,061	(1)	2,060	3,461	59.5
Underlying	2,090	(1)	2,089	3,461	60.4

Year ended 31 March 2017	Profit after tax £m	Non-controlling interest £m	Profit after tax attributable to shareholders £m	Weighted average number of shares millions	Earnings per share pence
Statutory	1,810	–	1,810	3,763	48.1
Adjusted (also referred to as headline)	2,141	–	2,141	3,763	56.9
Underlying	1,862	–	1,862	3,763	49.5
Underlying (pro forma)	2,029	–	2,029	3,463	58.6

Year ended 31 March 2016	Profit after tax £m	Non-controlling interest £m	Profit after tax attributable to shareholders £m	Weighted average number of shares millions	Earnings per share pence
Statutory	1,902	(1)	1,901	3,774	50.4
Adjusted (also referred to as headline)	1,813	(1)	1,812	3,774	48.0
Underlying	1,799	(1)	1,798	3,774	47.6
Underlying (pro forma)	1,986	(1)	1,985	3,474	57.1

Timing impacts

Under the Group's regulatory frameworks, the majority of the revenues that National Grid is allowed to collect each year are governed by a regulatory price control or rate plan. If a company collects more than this allowed level of revenue, the balance must be returned to customers in subsequent years, and if it collects less than this level of revenue it may recover the balance from customers in subsequent years. These variances between allowed and collected revenues give rise to 'over and under recoveries'. Opening balances of over and under recoveries have been restated where appropriate to correspond with regulatory filings and calculations.

	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	Total £m
31 March 2017 closing balance ¹	(30)	112	312	394
Opening balance adjustments	–	(1)	(218)	(219)
Restated 1 April 2017 opening balance	(30)	111	94	175
Over/(under) recovery	(14)	(18)	136	104
31 March 2018 closing balance to (recover)/return	(44)	93	230	279
Year on year timing variance	(151)	(80)	(51)	(282)

	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	Total £m
31 March 2016 closing balance ¹	(171)	38	147	14
Opening balance adjustments	4	12	(22)	(6)
Restated 1 April 2016 opening balance	(167)	50	125	8
Over/(under) recovery ²	137	62	187	386
31 March 2017 closing balance to (recover)/return	(30)	112	312	394
Year on year timing variance	132	(5)	283	410

1. Opening US Regulated balances restated using the average rate for the year to 31 March 2018.

2. Over/under recovery restated using the average rate for the year to 31 March 2018.

Other unaudited financial information continued

	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	Total £m
31 March 2015 closing balance	(164)	(29)	184	(9)
Opening balance adjustments	(12)	–	56	44
Restated 1 April 2015 opening balance	(176)	(29)	240	35
Over/(under) recovery ²	5	67	(84)	(12)
31 March 2016 closing balance to (recover)/return¹	(171)	38	156	23

1. Over/(under) recovery restated using the average rate for the year to 31 March 2017.

2. Closing US Regulated balances restated using the spot exchange rate as at 31 March 2017.

Capital investment

'Capital investment' or 'investment' refer to additions to plant, property and equipment and intangible assets, and contributions to joint ventures and associates, other than the St William Homes LLP joint venture during the period. St William Homes LLP is excluded based on the nature of this joint venture arrangement.

Year ended 31 March	At actual exchange rates			At constant currency		
	2018 £m	2017 £m	% change	2018 £m	2017 £m	% change
UK Electricity Transmission	999	1,027	(3)	999	1,027	(3)
UK Gas Transmission	310	214	45	310	214	45
US Regulated	2,424	2,247	8	2,424	2,113	15
NGV and Other	341	247	38	341	239	43
Group capex	4,074	3,735	9	4,074	3,593	13
Equity investment, funding contributions and loans to joint ventures and associates ¹	177	127	39	177	124	43
Group capital investment	4,251	3,862	10	4,251	3,717	14

1. Excludes £19m (2017: £10m) equity contribution to the St William Homes LLP joint venture.

Net debt

See note 27 on page 155 for reconciliation of net debt.

Funds from operations and interest cover

Funds from operations (FFO) is the cash flows generated by the operations of the Group. Credit rating metrics, including FFO, are used as indicators of balance sheet strength.

Year ended 31 March	2018 £m	2017 ¹ £m	2016 ¹ £m
Interest expense (P&L)	1,128	1,082	1,035
Hybrid interest reclassified as dividend	(51)	(51)	(49)
Capitalised interest	128	109	112
Pensions interest adjustment	(49)	(60)	(60)
Interest on lease rentals adjustment	16	18	17
Unwinding of discount on provisions	(75)	(73)	(73)
Other interest adjustments	12	1	1
Interest paid (discontinued operations)	–	146	–
Adjusted interest expense	1,109	1,172	983
Net cash inflow from operating activities	4,710	4,320	5,368
Interest received on financial instruments	57	51	23
Interest paid on financial instruments	(853)	(839)	(834)
Dividends received	213	99	72
Working capital adjustment	(118)	(151)	(456)
Excess employer pension contributions	211	606	301
Hybrid interest reclassified as dividend	51	51	49
Lease rentals	86	86	77
Difference in net interest expense in income statement to cash flow	(178)	(170)	(129)
Difference in current tax in income statement to cash flow	(206)	(47)	(42)
Current tax related to prior periods	(22)	(46)	(26)
Cash flow from discontinued operations	(207)	909	–
Interest paid (discontinued operations)	–	(146)	–
Funds from operations (FFO)	3,744	4,723	4,403
Interest cover ((FFO + adjusted interest expense)/adjusted interest expense)	4.4x	5.0x	5.5x

1. Numbers for 2017 and 2016 reflect the calculations for the total Group as based on the published accounts for the respective years and have not been restated.

Retained cash flow (RCF)/adjusted net debt

Year ended 31 March	2018 £m	2017 £m	2016 £m
Funds from operations (FFO)	3,744	4,723	4,403
Hybrid interest reclassified as dividend	(51)	(51)	(49)
Ordinary dividends paid to shareholders	(1,316)	(1,463)	(1,337)
RCF (excluding share buybacks)	2,377	3,209	3,017
Repurchase of scrip treasury shares	(178)	(189)	(267)
RCF (net of share buybacks)	2,199	3,020	2,750
Bank overdrafts	–	–	3
Borrowings	26,625	28,638	28,341
Less:			
50% hybrid debt	(1,050)	(1,033)	(995)
Cash and cash equivalents	(329)	(1,139)	(127)
Restricted cash	–	2	2
Available-for-sale investments	(2,304)	(7,432)	(1,951)
Underfunded pension obligations	857	1,487	1,434
Operating leases adjustment ¹	408	526	544
Derivative asset removed from debt	(479)	52	(183)
Currency swaps	117	72	55
Nuclear decommissioning liabilities reclassified as debt	5	36	38
Collateral – cash received under collateral agreements	(878)	(709)	(610)
Accrued interest removed from short term debt	(195)	(210)	(243)
Adjusted net debt (includes pension deficit)	22,777	20,290	26,308
FFO/adjusted net debt	16.4%	23.3%	16.7%
RCF (excluding share buybacks)/adjusted net debt	10.4%	15.8%	11.5%
RCF (net of share buybacks)/adjusted net debt	9.7%	14.9%	10.5%

1. Adjustment to reclassify operating lease commitments as debt. For March 2018 this was calculated as four times the 2017/18 operating lease rental charge.

Regulatory Performance Measures

Regulated financial performance

Regulatory financial performance is a pre interest and tax measure, starting at segmental operating profit and making adjustments (such as the elimination of all pass-through items included in revenue allowances and timing) to approximate regulatory profit for the UK regulated activities. This measure provides a bridge for investors between a well understood and comparable IFRS starting point through the key adjustments required to approximate regulatory profit. This measure also provides the foundation to calculate profit driven regulatory returns i.e. Return on Capital Employed (RoCE) and Group Return on Equity (RoE).

For the reasons noted above, the table below shows the principal differences between the IFRS operating profit and the regulated financial performance, but is not a formal reconciliation to an equivalent IFRS measure.

UK Electricity Transmission

Year ended 31 March	2018 £m	2017 £m	2016 £m
Reported operating profit	1,041	1,372	1,173
Movement in regulatory 'IOUs'	51	(288)	(147)
Deferred taxation adjustment	70	62	80
RAV indexation (average 3% long-run inflation)	374	356	339
Regulatory vs IFRS depreciation difference	(377)	(379)	(368)
Fast/slow money adjustment	69	34	92
Pensions	(49)	(47)	(54)
Performance RAV created	83	74	80
Regulated financial performance	1,262	1,184	1,195

UK Gas Transmission

Year ended 31 March	2018 £m	2017 £m	2016 £m
Reported operating profit	487	511	486
Movement in regulatory 'IOUs'	(91)	(120)	(80)
Deferred taxation adjustment	18	39	45
RAV indexation (average 3% long-run inflation)	173	168	166
Regulatory vs IFRS depreciation difference	(29)	(21)	(18)
Fast/slow money adjustment	(11)	(14)	18
Pensions	(32)	(53)	(77)
Performance RAV created	(16)	(11)	(5)
Regulated financial performance	499	499	535

Other unaudited financial information continued

Regulated asset base

The regulated asset base is a regulatory construct, based on pre-determined principles not based on IFRS. It effectively represents the invested capital on which we are authorised to earn a cash return. By investing efficiently in our networks, we add to our regulated asset base over the long-term and this in turn contributes to delivering shareholder value. Our regulated asset base is comprised of our regulatory asset value in the UK, plus our rate base in the US.

Maintaining efficient investment in our regulated asset base ensures we are well positioned to provide consistently high levels of service to our customers and increases our revenue allowances in future years. While we have no specific target, our overall aim is to achieve between 5% and 7% growth in regulated asset base each year through continued investment in our networks in both the UK and US.

In the UK, the way in which our transactions impact RAV is driven by principles set out by Ofgem. In a number of key areas these principles differ from the requirements of IFRS, including areas such as additions and the basis for depreciation. Further, our UK RAV is adjusted annually for inflation. RAV in each of our retained UK businesses has evolved over the period since privatisation in 1990 and as a result, historical differences between the initial determination of RAV and balances reported under UK GAAP at that time still persist. Due to the above, substantial differences exist in the measurement bases between RAV and an IFRS balance metric and, therefore, it is not possible to provide a meaningful reconciliation between the two.

In the US, rate base is a regulatory measure determined for each of our main US operating companies. It represents the value of property and other assets or liabilities on which we are permitted to earn a rate of return, as set out by the regulatory authorities for each jurisdiction. The calculations are based on the applicable regulatory agreements for each jurisdiction and include the allowable elements of assets and liabilities from our US companies. For this reason, it is not practical to provide a meaningful reconciliation from the US rate base to an equivalent IFRS measure. However, we include the calculation below.

Years ended 31 March (£m at constant currency)	RAV, rate base or other business assets		Total Regulated and other assets	
	2018	2017 ¹	2018	2017 ¹
UK Electricity Transmission	13,045	12,479	12,651	12,034
UK Gas Transmission	6,014	5,755	5,889	5,721
US Regulated	14,762	13,751	16,683	15,238
Total Regulated	33,821	31,985	35,223	32,993
Other assets/invested capital	2,167	1,984	1,824	1,724
Total Group Regulated and other assets	35,988	33,969	37,047	34,717

1. Represented to include opening balance adjustments following the completion of the regulatory reporting pack process in 2017.

US rate base and total regulated assets for 31 March 2017 have been restated in the table above at constant currency. At actual currency the values were £15,398 million and £17,063 million respectively.

Other business assets and other assets/invested capital for 31 March 2017 have been restated in the table above at constant currency. At actual currency the values were £2,055 million and £1,814 million respectively.

Group return on equity (RoE)

Group RoE provides investors with a view of the performance of the Group as a whole compared with the amounts invested by the Group in assets attributable to equity shareholders. It is the ratio of our regulatory financial performance to our measure of equity investment in assets. It therefore reflects the regulated activities as well as the contribution from our non-regulated businesses together with joint ventures and non-controlling interests.

We use Group RoE to measure our performance in generating value for our shareholders and a target for Group RoE is included in the incentive mechanisms for executive remuneration within both the APP and LTPP schemes.

Group RoE is underpinned by our regulated asset base. For the reasons noted above, no reconciliation to IFRS has been presented as we do not believe it would be practical. However, we do include the calculations below.

Calculation: Regulatory financial performance including a long-run assumption of 3.0% RPI inflation, less adjusted interest and adjusted taxation divided by equity investment in assets.

- Adjusted interest removes interest on pensions, capitalised interest and release of provisions.
- Adjusted taxation adjusts the Group taxation charge for differences between IFRS profit before tax and regulated financial performance less adjusted interest.
- Equity investment in assets is calculated as the total opening UK regulatory asset value, the total opening US rate base plus goodwill plus opening net book value of National Grid Ventures and Other activities and our share of joint ventures and associates, minus opening net debt as reported under IFRS restated to the weighted average £/\$ exchange rate for the year.

Year ended 31 March	2018 £m	2017 £m	2016 £m
Regulated financial performance	3,392	3,906	3,663
Operating profit of other activities	255	204	374
Group financial performance	3,647	4,110	4,037
Share of post-tax results of joint ventures and associates	238	63	59
Non-controlling interests	(1)	1	(3)
Adjusted Group interest charge	(980)	(1,075)	(922)
Group tax charge	(639)	(808)	(753)
Tax on adjustments	27	166	4
Group financial performance after interest and tax	2,292	2,457	2,422
Opening rate base/RAV	32,446	40,435	36,998
Share of Cadent RAV	512	–	–
Opening NBV of non-regulated businesses	1,328	1,579	1,213
Joint ventures and associates	459	408	319
Opening goodwill	5,626	5,984	5,182
Opening capital employed	40,371	48,406	43,712
Opening net debt	(21,770)	(27,346)	(24,024)
Opening equity	18,601	21,060	19,688
Return on Equity	12.3%	11.7%	12.3%

UK regulated Return on Equity (RoE)

UK regulated RoEs are a measure of how the businesses are performing against the assumptions used by our regulator. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the cost of debt assumed by the regulator and that RPI inflation is equal to a long-run assumption of 3.0%. They are calculated by dividing elements of out- or under-performance versus the regulatory contract by the average equity RAV in line with the regulatory assumed capital structure and adding to the base allowed RoE.

This is an important measure of UK regulated business performance and our operational strategy continues to focus on this metric. This measure can be used to determine how we are performing under the RIIO framework and also helps investors to compare our performance with similarly regulated UK entities. Reflecting the importance of this metric, it is also a key component of both the APP and LTPP schemes.

The UK RoE is underpinned by the UK RAV. For the reasons noted above, no reconciliation to IFRS has been presented as we do not believe it would be practical.

US regulated Return on Equity

US regulated RoE is a measure of how a business is performing against the assumptions used by the regulator. This US operational return measure is calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure. The returns are divided by the average rate base (or where a reported rate base is not available, an estimate based on rate base calculations used in previous rate filings) multiplied by the adjudicated equity portion in the regulatory adjudicated capital structure.

This is an important measure of our US regulated business performance and our operational strategy continues to focus on this metric. This measure can be used to determine how we are performing and also helps investors compare our performance with similarly regulated US entities. Reflecting the importance of this metric, it is also a key component of both the APP and LTPP schemes.

The US return is based on a calculation which gives proportionately more weighting to those jurisdictions which have a greater rate base. For the reasons noted above, no reconciliation to IFRS has been presented as we do not believe it would be practical. However we do include the calculations below.

Years ended 31 March %	Regulatory Debt: Equity assumption	Achieved Return on Equity		Base or Allowed Return on Equity	
		2018	2017	2018	2017
UK Electricity Transmission	60/40	13.1	13.6	10.2	10.2
UK Gas Transmission	62.5/37.5	10.0	10.8	10.0	10.0
US Regulated	Avg. 50/50	8.9	8.2	9.4	9.5

Other unaudited financial information continued

Value Added and Value Added per share

Value Added is a measure that reflects the value to shareholders of our dividend and the growth in National Grid's regulated and non-regulated assets (as measured in our rate base, for regulated entities), net of the growth in overall debt. It is a key metric used to measure our performance and underpins our approach to sustainable decision-making and long-term management incentive arrangements.

Value Added is derived using our regulated asset base and, as such, it is not practical to provide a meaningful reconciliation from this measure to an equivalent IFRS measure due to the reasons set out for our regulated asset base. However, the calculation is set out in the Financial Review on page 24.

Value Added per share is calculated by dividing Value Added by the weighted average number of shares set out in note 7 on page 123.

Regulatory gearing

Regulatory gearing is a measure of how much of our investment in RAV and rate base and other elements of our invested capital (including our investments in National Grid Ventures, UK property and other assets and US other assets) is funded through debt.

Year ended 31 March	2018 £m	2017 ¹ £m	% change
UK RAV	19,059	18,219	5
US rate base	14,762	15,398	(4)
Other invested capital included in gearing calculation	2,167	2,055	5
Total assets included in gearing calculation	35,988	35,672	1
Net debt (including 100% of hybrid debt)	23,002	23,284	(1)
Group gearing (based on 100% of net debt)	64%	65%	(2)
Group gearing (excluding 50% of hybrid debt from net debt)	61%	62%	(2)

1. Net debt for 2017 adjusted to include impact of future £4.01 billion return of capital relating to the sale of a stake in UK Gas Distribution.

Regulatory financial performance

Timing and regulated revenue adjustments

As described on pages 186-191, our allowed revenues are set in accordance with our regulatory price controls or rate plans. 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 the 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 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. In the US, a substantial portion of our costs are pass-through costs (including commodity and energy efficiency costs) and are fully recoverable from our customers. Timing differences between costs of this type being incurred and their recovery through revenue are also included in timing. The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are final.

Our continuing operating profit for the year includes a total estimated in-year over-collection of £104 million (2016/17: £398 million over-collection). Our closing balance at 31 March 2018 was £279 million over-recovered. In the UK, there was cumulative over-recovery of £49 million at 31 March 2018 (2017: over-recovery of £82 million for continuing operations). In the US, cumulative timing over-recoveries at 31 March 2018 were £230 million (2017: £332 million over-recovery). A sizeable part of that balance is expected to be returned to customers next year.

The total estimated in-year over-or under-collection excludes opening balance adjustments related to estimates or finalisation of balances as part of regulatory submissions.

In addition to the timing adjustments described above, as part of the RII price controls in the UK, out-performance 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.

As required under accounting standards, our current IFRS revenues and earnings include these amounts that relate to certain costs incurred in prior years or that will need to be repaid or recovered in future periods. Such adjustments will form an important part of the continuing difference between reported IFRS results and underlying economic performance based on our regulatory obligations.

For our UK Regulated businesses as a whole (excluding the UK Gas Distribution business), timing and regulated revenue adjustments totalled £40 million in the year (2016/17: £408 million). In the US, accumulated regulatory entitlements cover a range of different areas, with the most significant being environmental remediation and pension assets, as well as deferred storm costs.

All regulatory entitlements are recoverable (or repayable) over different periods, which are agreed with the regulators to match the expected payment profile for the liabilities. As at 31 March 2018, these extend until 2069.

Commentary on consolidated financial statements

for the year ended 31 March 2017

In compliance with SEC rules, we present a summarised analysis of movements in the income statement and an analysis of movements in adjusted operating profit (for the continuing group) by operating segment. This should be read in conjunction with the 31 March 2018 unaudited commentary included on pages 96 and 111.

Analysis of the income statement for the year ended 31 March 2017

Revenue

Revenue for the year ended 31 March 2017 increased by £1,823 million to £15,035 million. This increase was driven by higher revenues in both our UK and US Regulated businesses. US Regulated revenues were £1,438 million higher year-on-year including favourable impact from foreign exchange, increased regulatory revenue allowances and favourable timing of recoveries. UK regulated revenues increased by £495 million, including increased regulatory allowances, timing over-recoveries and increased system balancing revenues. Revenue from Other activities decreased, including lower interconnector and metering income.

Operating costs

Operating costs for the year ended 31 March 2017 of £11,827 million were £1,840 million higher than 2015/16. This increase in costs included a £576 million increase in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £1,264 million higher, principally due to the impact of foreign exchange rates alongside increased balancing services costs in the UK and higher depreciation as a result of newly commissioned assets.

Net finance costs

For the year ended 31 March 2017, net finance costs before exceptional items and remeasurements were £173 million higher than 2015/16 at £1,029 million, mainly as a result of the impact of the stronger US dollar, higher UK RPI inflation and increased levels of average net debt in continuing operations.

Tax

The tax charge on profits before exceptional items and remeasurements was £62 million higher than 2015/16. This was mainly a result of increased taxable profits in the year. The effective tax rate for the year decreased to 23.7% (2015/16: 25.0%) reflecting settlements relating to prior years partially offset by an increased proportion of profits before tax being generated in the US.

Exceptional items and remeasurements

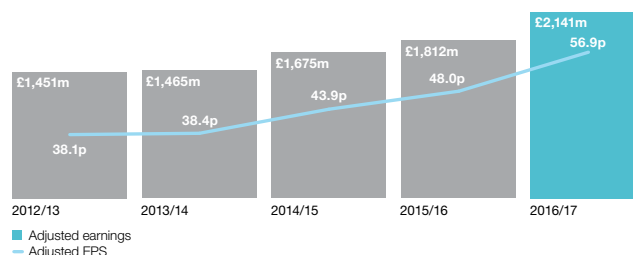
Operating costs for the year ended 31 March 2017 included a £68 million gain on remeasurements of commodity contracts, together with £633 million exceptional costs associated with environmental charges and gas holder decommissioning. In 2015/16, operating costs included a net £11 million gain on remeasurements of commodity contracts.

Finance costs for the year ended 31 March 2017 included a loss of £58 million on financial remeasurements, relating to net losses on derivative financial instruments. Exceptional tax for 2016/17 was a credit of £292 million which represents tax credits on the exceptional items and remeasurements above, together with a deferred tax credit on the recalculation of deferred tax liabilities as a result of the reduction in the UK tax rate applicable from April 2020 from 18% to 17%.

Adjusted earnings and EPS from continuing operations

Adjusted earnings and EPS, which exclude exceptional items and remeasurements, are provided to reflect results of the Group on a 'business performance' basis, described further in note 4. The following chart shows the five-year trend in adjusted profit attributable to equity shareholders of the parent (adjusted earnings) and adjusted earnings per share. See page 209 for a reconciliation of adjusted basic EPS to EPS.

Adjusted earnings and adjusted EPS from continuing operations¹



1. Adjusted earnings and adjusted EPS are attributable to equity shareholders of the parent.

The above earnings performance translated into adjusted EPS growth in 2016/17 of 8.9p (19%).

Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars, so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate. The table below shows the average and closing exchange rates of sterling to US dollars.

	2016/2017	2015/2016	% change
Weighted average (income statement)	1.28	1.47	(13)%
Year-end (statement of financial position)	1.25	1.44	(13)%

The movement in foreign exchange during 2016/17 has resulted in a £1,175 million increase in revenue, a £187 million increase in adjusted operating profit and a £189 million increase in operating profit.

Commentary on consolidated financial statements

for the year ended 31 March 2017 continued

Analysis of the adjusted operating profit by segment for the year ended 31 March 2017

UK Electricity Transmission

For the year ended 31 March 2017, revenue in the UK Electricity Transmission segment increased by £462 million to £4,439 million and adjusted operating profit increased by £199 million to £1,372 million.

The revenue growth of £462 million principally reflected the recovery of higher pass-through costs such as system balancing costs, increased regulated revenue allowances and the impact of higher volumes. Net revenue after deducting pass-through costs was £199 million higher. Regulated controllable costs were £25 million lower reflecting reduced environmental costs. Depreciation and amortisation was £31 million higher, reflecting the continued capital investment programme. Other costs were £6 million lower than 2015/16 including lower asset disposal costs. Capital expenditure decreased by £57 million compared with last year to £1,027 million.

UK Gas Transmission

Revenue in the UK Gas Transmission segment increased by £33 million to £1,080 million and adjusted operating profit increased by £25 million to £511 million.

After deducting pass-through costs, net revenue was £31 million higher than 2015/16, including increased regulated revenue allowances in the year and higher volumes than expected, partly offset by lower LNG storage revenues following a site closure. Regulated controllable costs were £2 million higher than 2015/16, with lower LNG storage costs offset by costs resulting from an increase in the number of employees to support higher levels of asset health investment. Depreciation and amortisation costs were £8 million higher, reflecting ongoing investment. Other operating costs were £4 million lower than 2015/16.

Capital expenditure increased to £214 million, £28 million higher than last year.

US Regulated

Revenue in our US Regulated business increased by £1,438 million to £8,931 million and adjusted operating profit increased by £528 million to £1,713 million.

The stronger US dollar increased revenue and operating profit in 2016/17 by £1,160 million and £184 million respectively. Excluding the impact of foreign exchange rate movements, revenue increased by £278 million. Increased revenue allowances under new rate cases, the benefit of capex trackers and over-recovery of allowed revenues due to cold weather were partly offset by lower commodity cost recoveries. Overall pass-through costs reduced by £231 million (excluding the impact of foreign exchange) resulting in an increase in net regulated revenue of £509 million at constant currency. Regulated controllable costs increased by £152 million at constant currency, partly as a result of increased information systems costs, write-offs of prior years' capital costs and higher costs of health care and other benefits. These were partly offset by a £32 million decrease in bad debt costs. Depreciation and amortisation was £24 million higher at constant currency as a result of ongoing investment in our networks. Other operating costs were £21 million higher at constant currency, reflecting increased operating taxes and cost of removal of existing assets.

Our capital expenditure in the US continued to increase with £2,247 million of expenditure in 2016/17, £391 million more than in 2015/16. At constant currency, this represented a £104 million increase in investment driven by higher investment in new and replacement gas mains.

Other activities

Revenue in Other activities decreased by £111 million to £713 million and adjusted operating profit decreased by £193 million to £177 million.

In the US, adjusted operating profit was £80 million lower (including £3 million of foreign exchange benefit) partly reflecting higher US project development costs. In addition, 2015/16 included a £49 million gain on disposal of the Iroquois pipeline. In the UK, adjusted operating profit was £113 million lower including lower auction revenues from the French Interconnector and increased business change costs. Capital expenditure in our Other activities was £46 million higher than 2015/16 at £247 million.

Summary consolidated financial information

Financial summary (unaudited)

The financial summary set out below has been derived from the audited consolidated financial statements of National Grid for the five financial years ended 31 March 2018. It should be read in conjunction with the consolidated financial statements and related notes, together with the Strategic Report. The information presented below for the years ended 31 March 2014, 2015, 2016, 2017 and 2018 has been prepared under IFRS as issued by the IASB and as adopted by the EU¹.

Summary income statement (£m)	2018	2017	2016 ¹	2015 ¹	2014 ^{1,2}
Continuing operations					
Revenue	15,250	15,035	13,212	13,357	12,941
Operating profit					
Before exceptional items, remeasurements	3,457	3,773	3,214	3,034	2,777
Exceptional items, remeasurements	36	(565)	11	(83)	116
Profit before tax					
Before exceptional items, remeasurements	2,650	2,807	2,417	2,208	1,867
Exceptional items, remeasurements	(589)	(623)	(88)	(248)	209
Profit after tax from continuing operations					
Before exceptional items, remeasurements	2,061	2,141	1,813	1,665	1,450
Exceptional items, remeasurements	1,531	(331)	89	(172)	324
Profit after tax from discontinued operations					
Before exceptional items, remeasurements	–	606	576	516	553
Exceptional items, remeasurements	(41)	57	116	2	137
Gain/(loss) on disposal of UK Gas Distribution after tax	–	5,321	–	–	–
Total profit for the year	3,551	7,794	2,594	2,011	2,464
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements	2,060	2,748	2,386	2,189	2,015
Exceptional items, remeasurements	1,490	(274)	205	(170)	461
Gain on disposal of UK Gas Distribution after tax	–	5,321	–	–	–
Total	3,550	7,795	2,591	2,019	2,476
Earnings per share					
Basic – continuing operations (pence)	103.8	48.1	50.4	39.4	46.9
Diluted – continuing operations (pence)	103.3	47.9	50.2	39.2	46.6
Basic – total (pence)	102.6	207.1	68.7	52.9	64.9
Diluted – total (pence)	102.1	206.2	68.4	52.7	64.5
Weighted average number of shares – basic (millions)	3,461	3,763	3,774	3,817	3,817
Weighted average number of shares – diluted (millions)	3,476	3,780	3,790	3,834	3,836
Dividends per ordinary share					
Paid during the year (pence)	128.965	43.51	43.16	42.25	40.85
Approved or proposed during the year (pence) ³	30.44	128.65	43.34	42.87	42.03
Paid during the year (\$)	1.751	0.555	0.664	0.697	0.636
Approved or proposed during the year (\$)	0.413	1.642	0.635	0.672	0.696

1. Items previously reported for 2014–2016 have been represented to reflect UK Gas Distribution being presented as a discontinued operation.

2. For the years ended 31 March 2018, 31 March 2017, 31 March 2016 and 31 March 2015, there have been no significant changes in accounting standards, interpretations or policies that have a material financial impact on the selected financial data. For the year ended 31 March 2014, the adoption of IAS 19 (revised) 'Employee benefits' resulted in a significant change in pensions and employee benefits accounting.

3. Following the disposal of UK Gas Distribution, 2017 includes a special interim dividend of 84.375 pence per share that was paid on 2 June 2017.

	2018	2017	2016	2015	2014 ¹
Summary statement of net assets (£m)					
Non-current assets	52,106	52,266	52,622	49,058	44,895
Current assets	6,681	13,574	6,312	6,031	7,489
Total assets	58,787	65,840	58,934	55,089	52,384
Current liabilities	(8,697)	(10,511)	(7,721)	(7,374)	(7,331)
Non-current liabilities	(31,242)	(34,945)	(37,648)	(35,741)	(33,134)
Total liabilities	(39,939)	(45,456)	(45,369)	(43,115)	(40,465)
Net assets	18,848	20,384	13,565	11,974	11,919
Total shareholders' equity	18,832	20,368	13,555	11,962	11,911

1. For the years ended 31 March 2018, 31 March 2017, 31 March 2016 and 31 March 2015, there have been no significant changes in accounting standards, interpretations or policies that have a material financial impact on the selected financial data. For the year ended 31 March 2014, the adoption of IAS 19 (revised) 'Employee benefits' resulted in a significant change in pensions and employee benefits accounting.

Definitions and glossary of terms

Our aim is to use plain English in this Annual Report and Accounts. However, where necessary, we do use a number of technical terms and/or abbreviations and we summarise the principal ones below, together with an explanation of their meanings. The descriptions below are not formal legal definitions.

A

Adjusted interest

A measure used by the credit rating agencies of the interest charge of the Group, calculated by making adjustments to the group reported interest charge

Adjusted net debt

A measure used by the credit rating agencies of the indebtedness of the Group calculated by making adjustments to the group reported borrowings including adjustments to include elements of pension deficits and exclude elements of hybrid debt financing.

American Depositary Shares (ADSs)

Securities of National Grid listed on the New York Stock Exchange, each of which represents five ordinary shares. They are evidenced by American Depositary Receipts or ADRs.

Annual asset growth

'Annual asset growth' measures the increase in 'total regulatory value and other investments' defined below.

Annual General Meeting (AGM)

Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.

B

BAME

Black, Asian, and minority ethnic (being the UK term used to refer to members of non-white communities).

BEIS

The Department for Business, Energy and Industrial Strategy, being the UK Government department responsible for business, industrial strategy, and science and innovation with energy and climate change policy, which was formed in July 2016 merging the functions of the former Department of Energy and Climate Change and Department for Business, Innovation and Skills (BIS).

Board

The Board of Directors of the Company (for more information see pages 42-43).

bps

Basis point (bps) is a unit that is equal to 1/100th of 1% and is typically used to denote the movement in a percentage-based metric such as interest rates or RoE. A 0.1% change in a percentage represents 10 basis points.

BritNed

BritNed Development Limited.

C

Cadent

Cadent Gas Limited (new name given to UK Gas Distribution business).

called up share capital

Shares (common stock) that have been issued and have been fully paid for.

Capital investment

'Capital investment' or 'investment' refer to additions to plant, property and equipment and intangible assets, and equity contributions to joint ventures, other than the St William joint venture during the period. St William is excluded based on the nature of this joint venture arrangement.

Capital tracker

In the context of our US rate plans, a mechanism that allows for the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.

carrying value

The amount at which an asset or a liability is recorded in the Group's statement of financial position and the Company's balance sheet.

the Company, the Group, National Grid, we, our or us

We use the terms 'the Company', 'the Group', 'National Grid', 'we', 'our' or 'us' to refer to either National Grid plc itself or to National Grid plc and/or all or certain of its subsidiaries, depending on context.

consolidated financial statements

Financial statements that include the results and financial position of the Company and its subsidiaries together as if they were a single entity.

Consortium

The consortium which purchased a 61% equity interest in the UK Gas Distribution business (now renamed as Cadent) on 31 March 2017, comprising Macquarie Infrastructure and Real Assets, Allianz Capital Partners, Hermes Investment Management, CIC Capital Corporation, Qatar Investment Authority, Dalmore Capital and Amber Infrastructure Limited/International Public Partnerships.

Constant currency

'Constant currency basis' refers to the reporting of the actual results against the results for the same period last year which, in respect of any US\$ currency denominated activity, have been translated using the average US\$ exchange rate for the year ended 31 March 2017, which was \$1.36 to £1.00. The average rate for the year ended 31 March 2016, was \$1.28 to £1.00. Assets and liabilities as at 31 March 2016 have been retranslated at the closing rate at 31 March 2017 of \$1.40 to £1.00. The closing rate for the balance sheet date 31 March 2016 was \$1.25 to £1.00.

contingent liabilities

Possible obligations or potential liabilities arising from past events for which no provision has been recorded, but for which disclosure in the financial statements is made.

D

Dth

Decatherm, being an amount of energy equal to 1 million British thermal units (BTUs), equivalent to approximately 293 kWh.

DB

Defined benefit, relating to our UK or US (as the context requires) final salary pension schemes.

DC

Defined contribution, relating to our UK or US (as the context requires) pension schemes to which National Grid, as an employer, pays contributions based on a percentage of employees' salaries.

deferred tax

For most assets and liabilities, deferred tax is the amount of tax that will be payable or receivable in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the statement of financial position or balance sheet and the value for tax purposes of the same asset or liability.

derivative

A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates or commodity prices. In most cases, contracts for the sale or purchase of commodities that are used to supply customers or for our own needs are excluded from this definition.

Deposit Agreement

Deposit Agreement means the amended and restated deposit agreement entered into between National Grid plc, the Depositary and all the registered holders from time to time of ADRs, pursuant to which ADSs have been issued, dated 23 May 2013, and any related agreement.

Depository

Depository means The Bank of New York Mellon acting as depository.

Directors/Executive Directors/Non-executive Directors

The Directors/Executive Directors and Non-executive Directors of the Company whose names are set out on pages 42-43 of this document.

dollars or \$

Except as otherwise noted all references to dollars or \$ in this Annual Report and Accounts relate to the US currency.

E**earnings per share (EPS)**

Profit for the year attributable to equity shareholders of the parent allocated to each ordinary share.

Electricity Market Reform (EMR)

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

Electricity System Operator (ESO)

The party responsible for the long-term strategy, planning and real time operation (balancing supply and demand) of the electricity system in Great Britain.

employee engagement

A key performance indicator, based on the percentage of favourable responses to certain indicator questions repeated in each employee survey, which provides a measure of how employees think, feel and act in relation to National Grid. Research shows that a highly engaged workforce leads to increased productivity and employee retention, therefore we use employee engagement as a measure of organisational health in relation to business performance.

Estate Tax Convention

The Estate Tax Convention is the convention between the US and the UK for the avoidance of double taxation with respect to estate and gift taxes.

EU

The European Union is the economic and political union of 28 member states located in Europe.

Exchange Act

The US Securities Exchange Act 1934, as amended.

F**FERC**

The US Federal Energy Regulatory Commission.

finance lease

A lease where the asset is treated as if it was owned for the period of the lease and the obligation to pay future rentals is treated as if they were borrowings. Also known as a capital lease.

financial year

For National Grid this is an accounting year ending on 31 March. Also known as a fiscal year.

FRS

A UK Financial Reporting Standard as issued by the UK Financial Reporting Council (FRC). These apply to the Company's individual financial statements on pages 178-183, which are prepared in accordance with FRS 101.

Funds from Operations (FFO)

A measure used by the credit rating agencies of the operating cash flows of the Group after interest and tax but before capital investment.

G**Grain LNG**

National Grid Grain LNG Limited.

Great Britain

England, Wales and Scotland.

Group return on equity (Group RoE)

The Group return on equity calculation provides a measure of the performance of the whole Group compared with the amounts invested by the Group in assets attributable to equity shareholders. The Group return on equity measure is calculated using the Group capital employed in accordance with the definition used in the RoCE measures, adjusted for Group net debt and goodwill.

GW

Gigawatt, being an amount of power equal to 1 billion watts (10⁹ watts).

GWh

Gigawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of one hour.

GWm

Gigawatt month, being an amount of energy equivalent to delivering 1 billion watts (10⁹ watts) of power for a period of one month.

H**Hinkley-Seabank (HSB)**

A project to connect the new Hinkley Point C nuclear power station to the electricity transmission network.

HMRC

HM Revenue & Customs. The UK tax authority.

HVDC

High voltage, direct current electric power transmission which uses direct current for the bulk transmission of electrical power, in contrast with the more common alternating current systems.

I**IAS or IFRS**

An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe international generally accepted accounting principles as a whole.

individual financial statements

Financial statements of a company on its own, not including its subsidiaries or joint ventures and associates.

interest cover

A measure used by the credit rating agencies, calculated as FFO plus adjusted interest divided by adjusted interest.

J**joint venture**

A company or other entity which is controlled jointly with other parties.

K**KEDLI**

KeySpan Gas East Corporation.

KEDNY

The Brooklyn Union Gas Company.

KPI

Key performance indicator

kV

Kilovolt, being an amount of electric force equal to 1,000 volts.

kW

Kilowatt, being an amount of power equal to 1,000 watts.

kWm

Kilowatt month, being an amount of energy equivalent to delivering 1kW of power for a period of one month.

Definitions and glossary of terms continued

L

LIPA

The Long Island Power Authority.

LNG

Liquefied natural gas, being natural gas that has been condensed into a liquid form, typically at temperatures at or below -161°C (-258°F).

lost time injury (LTI)

An incident arising out of National Grid's operations which leads to an injury where the employee or contractor normally has time off the following day or shift following the incident. It relates to one specific (acute) identifiable incident which arises as a result of National Grid's premises, plant or activities, which was reported to the supervisor at the time and was subject to appropriate investigation.

lost time injury frequency rate (IFR)

The number of lost time injuries per 100,000 hours worked in a 12-month period.

M

MADPU

The Massachusetts Department of Public Utilities.

MSA

The managed services agreement, under which the Company maintained and operated the electricity transmission and distribution system on Long Island owned by LIPA, which was transitioned to a third party with effect from 31 December 2013.

MW

Megawatt, being an amount of power equal to 1 million watts.

N

National Grid Metering (NGM)

National Grid Metering Limited, National Grid's UK regulated metering business.

National Grid Ventures or NGV

The Company's new unit, operating outside its core UK and US regulated businesses comprising a broad range of activities in the UK and US including electricity interconnectors, the Grain LNG terminal and energy metering as well as being tasked with investment in adjacent businesses, distributed energy opportunities and the development of new and evolving technologies.

Net Promoter Score (NPS)

A commonly used tool to measure customer experience to gauge the loyalty of a company's customer relationships. It is an index ranging from -100 to +100.

Net revenue

Revenue less pass-through costs, such as payments to other UK network owners, system balancing costs, and gas and electricity commodity costs in the US. Pass-through costs are fully recoverable from our customers and are recovered through separate charges that are designed to recover those costs with no profit. Any over- or under-recovery of these costs is returned to, or recovered from, our customers.

New England

The term refers to a region within northeastern US that includes the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. National Grid's New England operations are primarily in the states of Massachusetts and Rhode Island.

northeastern US

The northeastern region of the US, comprising the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

NTS

The gas National Transmission System in Great Britain.

NYPSC

The New York Public Service Commission.

O

Ofgem

The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

OPEB

Other post-employment benefits.

ordinary shares

Voting shares entitling the holder to part ownership of a company. Also known as common stock. National Grid's ordinary shares have a nominal value of 12²⁰⁴/₄₇₃ pence following the share consolidation approved at the General Meeting of the Company held on 19 May 2017.

P

Paris Agreement

Means the agreement, also known as the Paris climate accord, within the United Nations Framework Convention on Climate Change dealing with greenhouse gas emissions mitigation, adaptation and finance starting in the year 2020, and adopted by consensus on 12 December 2015.

price control

The mechanism by which Ofgem sets restrictions on the amounts of revenue we are allowed to collect from customers in our UK businesses. The allowed revenues are intended to cover efficiently incurred operational expenditure, capital expenditure and financing costs, including a return on equity invested.

R

rate base

The base investment on which the utility is authorised to earn a cash return. It includes the original cost of facilities, minus depreciation, an allowance for working capital and other accounts.

rate plan

The term given to the mechanism by which a US utility regulator sets terms and conditions for utility service including, in particular, tariffs and rate schedules. The term can mean a multi-year plan that is approved for a specified period, or an order approving tariffs and rate schedules that remain in effect until changed as a result of future regulatory proceedings. Such proceedings can be commenced through a filing by the utility or on the regulator's own initiative.

regulated controllable costs

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

regulatory asset value (RAV)

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

retained cash flow (RCF)

A measure used by the credit rating agencies of the cash flows of the Group, calculated as funds from operations less dividends paid and costs of repurchasing scrip shares.

return on capital employed (RoCE)

The return on capital employed metric is designed to give an alternative comparison between the UK and US businesses showing the overall return on capital provided by both debt and equity. The calculation reflects regulatory treatments of costs.

return on equity (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.

revenue decoupling

Revenue decoupling is the term given to the elimination of the dependency of a utility's revenue on the volume of gas or electricity transported. The purpose of decoupling is to eliminate the disincentive a utility otherwise has, to encourage energy efficiency programmes.

RIIO

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

RIIO-T2

The regulatory framework expected to be issued by Ofgem to start on 1 April 2021.

RIPUC

The Rhode Island Public Utilities Commission.

RPI

The UK retail price index as published by the Office for National Statistics.

S**Scope 1 greenhouse gas emissions**

Scope 1 emissions are direct greenhouse gas emissions that occur from sources that are owned or controlled by the Company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.

Scope 2 greenhouse gas emissions

Scope 2 emissions are greenhouse gas emissions from the generation of purchased electricity consumed by the Company. Purchased electricity is defined as electricity, heat, steam or cooling that is purchased or otherwise brought into the organisational boundary of the Company. Scope 2 emissions physically occur at the facility where electricity is generated.

Scope 3 greenhouse gas emissions

Scope 3 emissions are indirect greenhouse gas emissions as a consequence of the operations of the Company, but are not owned or controlled by the Company, such as emissions from third-party logistics providers, waste management suppliers, travel suppliers, employee commuting, and combustion of sold gas by customers.

SEC

The US Securities and Exchange Commission, the financial regulator for companies with registered securities in the US, including National Grid and certain of its subsidiaries.

SF₆

Sulphur hexafluoride, an inorganic, colourless, odourless and non-flammable greenhouse gas. SF₆ is used in the electricity industry as a gaseous dielectric medium for high voltage circuit breakers, switchgear and other electrical equipment. The Kyoto protocol estimated that the global warming potential over 100 years of SF₆ is 23,900 times more potent than that of CO₂.

share premium

The difference between the amount shares are issued for and the nominal value of those shares.

stranded cost recoveries

The recovery of historical generation-related costs in the US, related to generation assets that are no longer owned by us.

STEM

Science, technology, engineering and mathematics; the Company is currently looking to recruit people with skills in these subjects.

subsidiary

A company or other entity that is controlled by National Grid.

swaption

A swaption gives the buyer, in exchange for an option premium, the right, but not the obligation, to enter into an interest rate swap at some specified date in the future. The terms of the swap are specified on the trade date of the swaption.

T**taxes borne**

Those taxes that represent a cost to the Company and which are reflected in our results.

taxes collected

Those taxes that are generated by our operations but which do not affect our results; we generate the commercial activity giving rise to these taxes and then collect and administer them on behalf of HMRC.

Tax Convention

Tax Convention means the income tax convention between the US and the UK.

tonne

A unit of mass equal to 1,000 kilogrammes, equivalent to approximately 2,205 pounds.

tonnes carbon dioxide equivalent (CO₂e)

A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

Total regulatory value and other investments

The sum of: the regulatory asset value of the UK regulated businesses determined under the methodology set out in Ofgem's Price Control Financial Model; the rate bases applicable to each US regulated entity calculated according to the methodology used by each respective utility regulator; the value of assets held by the Group's other activities; together with investments in joint ventures and associates. Other activities primarily relate to non-network businesses and other commercial operations including: UK gas metering activities; the Great Britain-France Interconnector; UK property management; and a UK LNG import terminal.

totex

Total expenditure, comprising capital and operating expenditure.

treasury shares

Shares that have been repurchased but not cancelled. These shares can then be allotted to meet obligations under the Company's employee share schemes.

TWh

Terawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of 1,000 hours.

U**UK**

The United Kingdom, comprising England, Wales, Scotland and Northern Ireland.

UK Corporate Governance Code (the Code)

Guidance, issued by the Financial Reporting Council in 2016, on how companies should be governed, applicable to UK listed companies, including National Grid.

UK GAAP

Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.

UK regulated return on equity (UK RoE)

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.

US

The United States of America, its territories and possessions, any state of the United States and the District of Columbia.

US GAAP

Generally accepted accounting principles in the US. These differ from IFRS and from UK GAAP.

Definitions and glossary of terms continued

US regulated return on equity (US RoE)

US regulated return on equity is a measure of how a business is performing operationally against the assumptions used by the relevant regulator. This US operational return measure is calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure. This is a post-tax US GAAP metric and is calculated annually. For 2016/17 and 2017/18, it is calculated on a fiscal year basis. For 2015/16 and prior years, it is calculated on a calendar year basis.

US state regulators (state utility commissions)

In the US, public utilities' retail transactions are regulated by state utility commissions, including the New York Public Service Commission (NYPS), the Massachusetts Department of Public Utilities (MADPU) and the Rhode Island Public Utilities Commission (RIPUC).

V

Value Added

Value Added is a measure to capture the value created through investment attributable to equity holders, being the change in total regulated and non-regulated assets including goodwill (both at constant currency) plus the cash dividend paid in the year plus share repurchase costs less the growth in net debt (at constant currency). This is then presented on an absolute and a per share basis.

Value Growth

Value Growth is the growth in the value of our regulated and non-regulated assets including goodwill plus dividend plus share repurchase costs less growth in net debt, as a percentage.

Want more information or help?

Link Asset Services

For queries about [ordinary shares](#):



0371 402 3344

Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Lines are open 8.30am to 5.30pm, Monday to Friday excluding public holidays. If calling from outside the UK: +44 (0)371 402 3344



Visit the National Grid share portal www.nationalgridshareholders.com
Email: nationalgrid@linkgroup.co.uk



National Grid Share Register
Link Asset Services
The Registry
34 Beckenham Road
Beckenham, Kent BR3 4TU

The Bank of New York Mellon

For queries about
[American Depositary Shares](#):



1-800-466-7215

If calling from outside the US:
+1-201-680-6825



www.mybnymdr.com

Email: shrrelations@cpushareownerservices.com



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Further information about National Grid including share price and interactive tools can be found on our website: www.nationalgrid.com

Beware of share fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. Shareholders are advised to be wary of any unsolicited advice or offers, whether over the telephone, through the post or by email. If you receive any such unsolicited communication please check the company or person contacting you is properly authorised by the Financial Conduct Authority (FCA) before getting involved. You can check at www.fca.org.uk/consumers/protect-yourself and can report calls from unauthorised firms to the FCA by calling 0800 111 6768.

Financial calendar

The following dates have been announced or are indicative:

31 May 2018	Ordinary shares and ADRs go ex-dividend for 2017/18 final dividend
1 June 2018	Record date for 2017/18 final dividend
7 June 2018	Scrip reference price announced
28 June 2018 (5pm London time)	Scrip election date
30 July 2018	2018 AGM
15 August 2018	2017/18 final dividend paid to qualifying shareholders
8 November 2018	2018/19 half-year results
21 November 2018	ADRs go ex-dividend for 2018/19 interim dividend
22 November 2018	Ordinary shares go ex-dividend for 2017/18 interim dividend
23 November 2018	Record date for 2018/19 interim dividend
29 November 2018	Scrip reference price announced
7 December 2018 (5pm London time)	Scrip election date for 2018/19 interim dividend
9 January 2019	2018/19 interim dividend paid to qualifying shareholders

Dividends

The Directors are recommending a final dividend of 30.44 pence per ordinary share (\$2.0606 per ADS) to be paid on 15 August 2018 to shareholders on the register as at 1 June 2018. Further details in respect of dividend payments can be found on page 25. If you live outside the UK, you may be able to request that your dividend payments be converted into your local currency.

Under the Deposit Agreement, a fee of up to \$0.05 per ADS can be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2017/18 final dividend will be charged a fee of \$0.02 per ADS by the Depositary prior to the distribution of the cash dividend.

Have your dividends paid directly into your bank or building society account:

- Your dividend reaches your account on the payment day
- It is more secure – cheques do sometimes get lost in the post
- No more trips to the bank

Elect to receive your dividends as additional shares:

- Join our scrip dividend scheme; no stamp duty or commission to pay

Electronic communications

To receive an email notifying you as soon as new shareholder information is available to view online, including your electronic tax voucher, sign up for electronic communications. Simply go to the National Grid share portal www.nationalgridshareholders.com and once you have registered, click on the 'manage your account' link and follow the on screen instructions to change your communication preference.

Registered office

National Grid plc was incorporated on 11 July 2000. The Company is registered in England and Wales No. 4031152, with its registered office at 1-3 Strand, London WC2N 5EH.

Share dealing

Link Share Dealing Services offer our European Economic Area resident shareholders a range of quick and easy share dealing services by post, online or by telephone.

Internet Dealing Commission – 0.43% of the trade value (minimum £21.90, maximum £70.78) until 28 September 2018. 0.50% of the trade (minimum £19.00, maximum £76.50) after 28 September 2018.

Postal Dealing Commission – 12 pence per share (maximum £12.00) when selling 101–150 shares, flat fee of £18.00 when selling 151 shares or more. No commission will be chargeable for shareholders holding up to 100 shares until 28 September 2018.

Telephone Dealing Commission – 0.75% of the trade (minimum £29.50, maximum £119.50).

Visit www.linksharedeal.com/nationalgrid or call Link Share Dealing free on 0800 022 3374 for details and terms and conditions. This is not a recommendation to take any action. If you have any doubt as to what action you should take, please contact an authorised financial advisor.

ShareGift: If you only have a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to ShareGift. ShareGift is a registered charity (No. 1052686) which specialises in accepting such shares as donations. For more information visit www.sharegift.org.uk or contact Link Asset Services.

Individual Savings Accounts (ISAs): Corporate ISAs for National Grid shares are available from Stocktrade. For more information, call Stocktrade on 0131 240 0180, email fit@stocktrade.co.uk or write to Alliance Trust Savings, PO Box 164, 8 West Marketgait, Dundee DD1 9YP.

Cautionary statement

This document comprises the Annual Report and Accounts for the year ended 31 March 2018 for National Grid and its subsidiaries.

It contains the Directors' Report and Financial Statements, together with the independent auditor's report thereon, as required by the Companies Act 2006. The Directors' Report, comprising pages 2-79 and 184-217 has been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to National Grid.

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as 'aims', 'anticipates', 'expects', 'should', 'intends', 'plans', 'believes', 'outlook', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as changes in laws or regulations, including any arising as a result of the United Kingdom's exit from the European Union; announcements from and decisions by governmental bodies or regulators, including proposals relating to the role of the UK electricity system operator as well as increased political and economic uncertainty; the timing of construction and delivery by third parties of new generation projects requiring connection; breaches of, or changes in, environmental, climate change and health and safety laws or regulations, including breaches or other incidents arising from the potentially harmful nature of our activities; network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure, due to adverse weather conditions including the impact of major storms as well as the results of climate change, due to counterparties being unable to deliver physical commodities, or due to the failure of or unauthorised access to or deliberate breaches of our IT systems and supporting technology; failure to adequately forecast and respond to disruptions in energy

supply; performance against regulatory targets and standards and against our peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, including those related to investment programmes and remediation plans; and customers and counterparties (including financial institutions) failing to perform their obligations to the Company. Other factors that could cause actual results to differ materially from those described in this document include fluctuations in exchange rates, interest rates and commodity price indices; restrictions and conditions (including filing requirements) in our borrowing and debt arrangements, funding costs and access to financing; regulatory requirements for us to maintain financial resources in certain parts of our business and restrictions on some subsidiaries' transactions such as paying dividends, lending or levying charges; the delayed timing of recoveries and payments in our regulated businesses and whether aspects of our activities are contestable; the funding requirements and performance of our pension schemes and other post-retirement benefit schemes; the failure to attract, develop and retain employees with the necessary competencies, including leadership and business capabilities, and any significant disputes arising with our employees or the breach of laws or regulations by our employees; the failure to respond to market developments, including competition for onshore transmission, the threats and opportunities presented by emerging technology, development activities relating to changes to the energy mix and the integration of distributed energy resources and the need to grow our business to deliver our strategy, as well as incorrect or unforeseen assumptions or conclusions (including unanticipated costs and liabilities) relating to business development activity (including acquisitions and disposals) and joint ventures.

For further details regarding these and other assumptions, risks and uncertainties that may affect National Grid, please read the Strategic Report and the Risk factors on pages 193-196 of this document. In addition, new factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause actual future results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document.

The contents of any website references in this document do not form part of this document.



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