National Grid Gas plc

Annual Report and Accounts 2018/19

Company number 2006000

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Overview

About National Grid Gas plc

National Grid Gas plc (National Grid Gas) is a subsidiary of National Grid plc (National Grid), based in the UK. We own and operate the regulated gas National Transmission System (NTS) in Great Britain, with day-to-day responsibility for balancing supply and demand in real time, and provide gas metering services. Our transmission network comprises approximately 7,660 kilometres of high pressure pipe and 24 compressor station connecting to 8 distribution networks and other third-party independent systems. We play a vital role in connecting millions of people safely, reliably and efficiently to the energy they use.

The overall management and governance of National Grid Gas is the responsibility of its Board of Directors. Strategic direction is determined by our ultimate parent company, National Grid plc. Our Directors are listed on page 34.

More information on the management structure of National Grid can be found in the National Grid plc Annual Report and Accounts 2018/19 and on National Grid's website at www.nationalgrid.com.

The International Financial Reporting Standard (IFRS) technical requirements make reporting some of the performance measures that we use as a regulated business more complex due to differences in standards used in their generation. We provide additional information, about both our significant assets and liabilities that do not form part of our audited accounts, to help our investors gain a fair, balanced and understandable view of our business.

Financial highlights

	2018/19+ £m	2017/18+ £m	Percentage change
Operating profit before exceptional items	**471**	647	(27%)
Exceptional items	**(36)**	-	-
Total operating profit[1]	**435**	647	(33%)
Cash generated from operations	**401**	956	(58%)
Regulated assets[2]	**6,155**	6,014	2%

1. See page 24 for further details
2. See page 28 for further details.

	2018/19+ £m	2017/18+ £m
Return on equity: Gas Transmission	**9.5%**	10.0%

Non-financial highlights

	2018/19	2017/18+
Number of employees	**1,945**	2,134
Network reliability: Gas Transmission	**99.9896317%**	99.996151%

+ Represents continuing operations only.

What we do - Gas

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

The UK gas industry has four main sectors.

1. Production and importation

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

We do not produce gas. Gas used is mainly sourced from gas fields in the North and Irish seas, piped from Europe and imported as LNG.

2. Transmission

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

Gas enters the transmission system through importation and reception terminals and interconnectors and may include gas previously held in storage. Compressor stations located along the network play a vital role in keeping large quantities of gas flowing through the system, particularly at times of high demand.

The gas transmission system must be kept constantly in balance, which is achieved by buying, selling and using stored gas. This means that, under normal circumstances, demand can be met. We are the sole owner and operator of high pressure gas transmission infrastructure in Great Britain.

3. Distribution

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

There are eight regional gas distribution networks in the UK, none of which we own.

4. Supply

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

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

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

What we do – Regulation

Gas Transmission

Our business operates as a regulated monopoly. We have one economic regulator for our business, Office of Gas and Electricity Markets (Ofgem). The regulator safeguards customers' interests by setting the level of revenues we are allowed to recover, ensuring we provide value for money while maintaining safe and reliable networks, and deliver good customer service.

The purpose of the regulatory regime
Ofgem's regulatory regime for the energy industry is titled RIIO, which stands for Revenue = Incentives + Innovation + Outputs. This title reflects the policy purpose of the regime, which is to allow both customers and the company to benefit from the gains which accrue when a company invests in innovation, delivers better efficiency and improves outputs. It periodically sets allowances for the prices companies can charge customers, and it allows for companies which perform well to make additional profit, while penalising those who do not deliver for customers.

How we manage our regulated assets
Our licence, established under the Gas Act 1986, as amended (the Act) requires us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas in Great Britain. It also gives us statutory powers. These include the right to bury our pipes under public highways and the ability to use compulsory powers to purchase land so we can conduct our business.

Our licenced activities are regulated by Ofgem, which has a statutory duty under the Acts to protect the interests of consumers. To protect consumers from the ability of companies to set unduly high prices, Ofgem has established price controls that limit the amount of revenue such regulated businesses can earn. In setting price controls, Ofgem must have regard to the need to secure that licence holders are able to finance their obligations under the Acts. Licensees and other affected parties can appeal licence modifications which have errors, including in respect of financeability. This should give us a level of revenue for the duration of the price control that is sufficient to meet our statutory duties and licence obligations with a reasonable return on our investments.

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

- efficiently deliver by investing and maintaining 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 our 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. In November 2018, National Grid announced its decision to exercise its options for the sale of our remaining 39% share in the Cadent Gas distribution business that completed in June 2019.

The Gas Transmission (GT) business operates under two separate price controls; one as transmission owner (TO) and one as system operator (SO).

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

There are five output categories for transmission under the current RIIO price controls:

Safety - ensuring the provision of a safe energy network.

Reliability (and availability) - promoting networks capable of delivering long-term reliability, as well as minimising the number and duration of interruptions experienced over the price control period, and ensuring adaptation to climate change.

Environmental impact - encouraging companies to play their role in achieving broader environmental objectives, specifically, facilitating the reduction of carbon emissions, as well as minimising their own carbon footprint.

Customer and stakeholder satisfaction - maintaining high levels of customer satisfaction and stakeholder engagement, and improving service levels.

Customer connections - encouraging networks to connect customers quickly and efficiently.

Within each of these output categories are a number of primary and secondary deliverables, reflecting what our stakeholders want us to deliver over the remaining price control period. The nature and number of these deliverables varies according to the output category, with some being linked directly to our allowed revenue, some linked to legislation, and others having only a reputational impact.

Totex

Ofgem, using information we have submitted, along with independent assessments, determines the efficient level of expected costs necessary to deliver our outputs. 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 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 'fast' and 'slow' money categories using specified ratios that are fixed for the duration of the price control. Fast money represents the amount of totex we are able to recover in the next available year. Slow money is added to our Regulated Asset Value (RAV) – effectively the regulatory IOU. For more details on the sharing factors under RIIO, please see the sharing factors and fast money section.

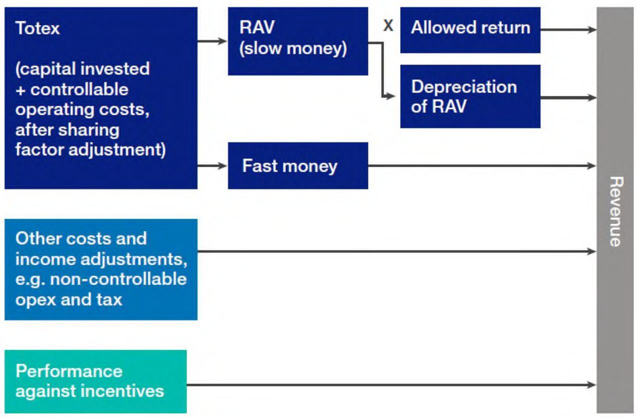
In addition to fast money, we are allowed to recover a portion of the RAV (regulatory depreciation) and a return on the outstanding RAV balance each year. Regulatory depreciation permits recovery of RAV consistent with each addition bringing equal real benefit to consumers for a period of up to 45 years. 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. Most of our incentives affect our revenues two years after the year of performance.

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

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

The RIIO-T1 price controls for transmission also included a 're-opener mechanism'. This covered specific cost categories where there was uncertainty about expenditure requirements at the time of setting allowances. The mechanism specifies two windows during which networks could propose adjustments to allowances, May 2015 and May 2018. NGG requested additional funding under this mechanism in May 2018, leading to some changes to the allowed revenues.

Simplified illustration of RIIO regulatory building blocks:



Allowed returns

The cost of capital allowed under RIIO is as follows:

	Gas Transmission
Cost of equity (post-tax real)	6.8%
Cost of debt (pre-tax real)	iBoxx 10-year simple trailing average index (1.91% for 2018/19)
Notional gearing	62.5%
Vanilla WACC *	3.74%

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

Sharing factors and fast money

The sharing factor means that any over- and under-spend is shared between the businesses and consumers.

Sharing factors applicable to GT under RIIO are as follows:

Gas Transmission	Transmission Operator	System Operator
Fast[1]	Baseline[3] 35.6%, Uncertainty 10%	62.60%
Slow[2]	Baseline[3] 64.4%, Uncertainty 90%	37.40%
Sharing[4]	44.36%	44.36%

[1] Fast money allows network companies to recover a percentage of total expenditure within a one-year period.
[2] Slow money is where costs are added to RAV and, therefore, revenues are recovered slowly (e.g. over 45 years) from both current and future consumers.
[3] The Baseline is the expenditure funded through ex ante allowances, whereas the uncertainty adjusts the allowed expenditure where the level outputs delivered differ from the baseline level, or if triggered by an event.
[4] The sharing factor is the proportion of over and under spend retained by National Grid Gas.

RIIO-T2

Ofgem has started work on the next round of RIIO price controls, (RIIO-T2) for the energy network sectors it regulates, including both gas and electricity transmission. It has consulted on a wide range of topics, including incentives, outputs, the cost of capital and other financial parameters. Decisions that have already been taken include reducing the price control duration back to five years from eight years; extending the role of competition where appropriate; and moving away from RPI to CPIH for inflation measurement when calculating RAV and allowed returns. In addition, Ofgem has proposed a methodology to baseline allowed cost of equity which it said, based on evidence available in December 2018, points to a value that is lower than under the current RIIO price controls.

We and other stakeholders will continue to work with Ofgem to develop the framework and parameters for RIIO-T2. Following extensive consultation with our customers and stakeholders, we will submit business plans in December 2019 and Ofgem is expected to publish a final view on the price control allowances for transmission companies by the end of 2020.

Metering

Regulation and Contracts

Metering has an obligation licence (part of the Licence of National Grid Gas) to offer certain metering services to all gas suppliers. The primary contracts Metering currently offer are:

- New and replacement metering service agreement (N&R MSA) contracts covering meters that have been installed since 2004 in properties provided by a supplier who is party to a New & Replacement metering contract;
- Legacy MSA contracts covering meters that were installed prior to 2004 in properties provided by a supplier who is party to the legacy MSA contract and;
- Regulated contracts covering meters in properties provided by suppliers who are not signatories to either of the MSA contracts.

As at March 2019, Metering's 9.4m domestic meters were aligned to the contracts as follows (note: Metering also had 0.5m commercial meters at March 2019).

Contract	N&R MSA	Legacy MSA	Regulated
Number of domestic meters (in millions)	1.7	4.2	3.5
Early termination charge on removal	Yes	Yes	No

The prices for some of these services, including domestic meter rentals, are capped by Ofgem. Ofgem's Review of Metering Arrangements applied new domestic tariff caps, effective from April 2014 to December 2020, which:

- included a modest reduction to domestic rental tariff caps coupled with new obligations for National Grid to facilitate an effective rundown of traditional metering;
- considered the anticipated early replacement of domestic meters and recognises the accelerated depreciation; and,
- provided domestic rental tariff caps, £16.53 and £41.35 for the provision, installation and maintenance of domestic sized credit and prepayment meters respectively in 2018/19. These prices increase each year with RPI inflation.

Charges for other services including commercial meter rental are uncapped but regulated through a non-discrimination clause.

Principal Operations - Gas Transmission

What we do
We own, build and operate the high-pressure gas national transmission system, with day-to-day responsibility for balancing supply and demand in real time. We have also developed a well-respected and trusted reputation for engineering excellence. We couple our extensive skills, knowledge and capabilities with innovation to ensure our core competencies create value for shareholders and wider stakeholders alike.

We play a pivotal role in connecting millions of people safely, reliably and efficiently to the energy they use. Our network comprises approximately 7,660 kilometres of high-pressure pipe, 24 compressor stations connecting to 8 distribution networks and also other third-party independent systems.

Market Context
The UK's gas market and sources of gas are changing. The UK now obtains less than half of its gas from the North Sea (or UK Continental Shelf - UKCS). The UK receives gas from Norway, continental Europe and further afield via LNG shipments into three import terminals around the country.

Flexible sources of supply, such as LNG importation terminals, interconnectors and storage sites, can respond to demand more quickly than traditional UKCS supplies. Therefore, our network needs to be able to respond in real time to changing day-to-day and within-day supply and demand patterns.

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

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

Operational Performance
Our underlying operating profit was lower in 2018/19 reflecting reduced revenues, driven by allowance adjustments associated with the Avonmouth project.

For the full year 2018/19 our employee lost time injury frequency rate was 0.07 which achieves our target of <0.10 and is consistent with world-class safety performance. Over the year, we performed significantly better than our high potential incidents target, which tracks the events with the potential to cause more serious harm. We have also worked hard on risk assessments both ahead of work and at the point of work across our business.

As well as continued focus on safety, we are constantly looking for other ways to optimise our operational performance. We continued to meet our customer satisfaction target for 2018/19. The score for Gas Transmission was 7.8. This exceeds our agreed target of 6.9.

We work with our customers to meet their needs and deliver successful outcomes for all parties. This customer-first approach was exemplified with HS2 project following the successful diversion delivery. The project came in under budget with an excellent safety record and no LTIs. We have also successfully delivered gas off-takes for Centrica as part of its construction of new fast-response generating facilities at Peterborough and Brigg. The existing single gas supplies were converted into a dual supplies and were completed ahead of schedule through collaborative effort. Efficient delivery of projects such as these is key to maintaining our strong financial performance.

We have continued to provide reliable services. This year our network reliability score for Gas Transmission was 99.9896317%.

We invest in and maintain our assets across their life as cost effectively as possible. Our focus ensures efficient management of our assets across their lifetime. We continue to progress our asset health data collection efforts and we will prioritise spend over the remainder of this regulatory control period.

We add value to our stakeholders by ensuring safe and effective delivery of large and complex infrastructure projects, ranging from large portfolios of smaller works to stand-alone mega projects.

The skills of our engineers are vital to the delivery of safe, efficient, reliable and sustainable performance for our business.

There is an increasing need to invest in our gas compressors to support the changing face of gas supply in the UK and ensure environmental sustainability. The evolution of the network has resulted in changes to compressor utilisation. Furthermore, we are committed to meeting the emission standards all European countries must comply by 2023 under the Industrial Emissions Directive, which is the biggest adjustment to environmental change in over a decade. We were disappointed not to receive funding for the compressor works as part of the RIIO-T1 reopeners. Having reviewed our approach to meeting the required environmental obligations, we have developed an integrated plan to invest in our compression fleet to deliver the most cost-effective network solution. This solution is designed to meet the current and future needs of our customers and support environmental sustainability.

The Humber Pipeline Replacement project is part of our programme of work to care for our National Transmission System and keep gas flowing for our customers, now and in the future. Our aim is to ensure gas runs safely, efficiently and reliably. The Feeder 9 pipeline typically carries around 20% of the country's gas supplies. In April 2018, a 160-metre-long, 510-tonne tunnel-boring machine started to excavate a 5.4 kilometre (3.3 miles) tunnel under the River Humber to house the Feeder 9 replacement pipeline; a project which will help to make us fit for the future.

The Feeder 9 reopener was published in September 2018, in response to our request for funding. We issued this request after gaining planning consent for the project and Ofgem awarded us £111 million to continue this project.

During the year, we commenced a multi-year programme covering a range of initiatives to drive further efficiency and lower costs for customers. These initiatives will continue our aim of becoming a more agile organisation that is positioned to be more responsive to customers. The range of initiatives includes a flatter, leaner organisation; further economies of scale; simplifying our processes and ways of workings; and making more efficient use of IT and back-office activities. To achieve the long-term benefits of these initiatives, we have provided for costs of £36 million for 2018/19. We expect these costs to help us generate future opex savings.

Looking ahead

The UK political environment continues to present a number of challenges. Our dialogue around RIIO-T2 will be a priority leading up to the new price control commencing in April 2021. We remain committed to the importance of a regulatory framework that fairly reflects the risk return balance for both consumers and shareholders. We submitted our response to Ofgem on the sector specific methodology consultation for RIIO-T2 in March 2019. The overall framework proposals set out by Ofgem are a step in the right direction but we are concerned that as currently set out, the proposals will not bring about the change consumers need.

Our vision is of an energy future where bills are kept low for consumers, energy is decarbonised, innovation is encouraged and which together support the growth and prosperity of the UK economy. Our stakeholders' opinions are important to us and it is important that they are able to shape our future plans. We have created RIIO-T2 stakeholder groups to support the formulation of our business plans for the next price control period within Gas Transmission and the System Operator.

Next year, achieving greater, customer-led efficiency in our business will continue to be a key priority.

Principal Operations - System Operator

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

Market context
Sources of energy are changing. The changing location of gas being input into the transmission system will drive greater need for flexibility as the traditional north-south flow diminishes and as new forms of low carbon gases are considered to support the transition to a low carbon future.

This makes our role in matching supply and demand more challenging, so we work with the market to make sure we have appropriate tools in place to balance the transmission system. We work with our customers and stakeholders to shape the future of the energy market, providing analysis and insight into the changing nature of energy and the role that gas and decarbonising gas can play to support national climate ambitions. We also facilitate changes to the market frameworks to accommodate new technologies and ways of working, while considering how the role of the SO should evolve over time, in a future that could see different forms of low carbon gas, such as hydrogen, biogas and bioSNG, alongside natural gas.

The SO is at the forefront of this debate helping to find solutions with industry and decision makers.

Operational Performance
We continue to play a leading role in helping develop the UK's future energy strategy, and that of Europe. Our approach includes working with customers and stakeholders on initiatives such as the translation of new EU code requirements for gas, the development of new demand side services supporting the harmonisation of gas trading arrangements across Europe, our Future Energy Scenarios reports, our Future of Gas programme and System Operability Framework workshops and webinars.

We continue to review the implication of Brexit in relation to our access to energy markets.

We are working hard across our business to place customers at the heart of our operations. We're holding workshops for customers so we can gain a more in-depth understanding of their requirements, not just today, but potential needs in the coming decades as a result of the low carbon transition, which could see hydrogen and biofuels used alongside natural gas. We have also started to examine each point of contact they have with our Company, so we can identify where we can improve our processes and our customers' experience with us.

We will be testing proposed improvements with customers before we implement them.

In September, as part of its decision on reopener fillings, Ofgem approved additional allowances of £48 million for enhanced cyber security costs.

Priorities for the year ahead
We will continue to find better ways to provide timely, cost effective and innovative solutions to balance supply and demand for gas.

We continue to work with the Government, regulators and others to ensure that the efficient flow of gas can continue whatever the outcome of Brexit, with minimal impact to consumers

Market developments
We will continue to work with Ofgem and The Department for Business Energy and Industrial Strategy (BEIS) as they develop proposals to help meet the energy and decarbonisation challenges of the future, so gas and decarbonised gas can support clean growth in the UK.

Customers and stakeholders
We will continue to develop our longer-term strategy to understand the issues that will affect our customers and stakeholders in the future, and plan how we will best support them building on work from our Future of Gas programme.

Delivering energy
We will continue to support the evolution of market frameworks in the UK and Europe to enable new types of production and importation, also for demand to come forward in response as the energy landscape evolves.

Principal Operations - Metering

What we do
National Grid Gas Metering (GTM) is the largest owner of traditional domestic gas meters in the UK providing installation and maintenance services to energy suppliers within the regulated market. National Grid Metering (NGM) is the asset manager assigned to manage the meters on behalf of NGG and the two entities together are referred to here as Metering.

The asset base that Metering manages is 9.9 million domestic and commercial meters at March 2019, down from 11.1 million in March 2018.

Metering's activities broadly cover: asset procurement and logistics management; meter installation, maintenance, exchange and removal; and, customer service provision.

Market Context
The traditional metering business is changing as the Department for Business, Energy and Industrial Strategy (BEIS) has mandated that suppliers should provide smart meters to all domestic gas and electricity customers by the end of 2020.

While the Department for Business, Energy and Industrial Strategy has not officially moved away from the 2020 deadline, they have updated their wording to '...energy suppliers must have taken all reasonable steps to install smart meters...'.

The National Audit Office review of smart meters was published in November 2018 stating, 'In the most recent set of plans accepted by Ofgem, energy suppliers have said they will only be able to install smart meters in around 70% to 75% of homes and small businesses by 2020'. Suppliers attribute this to limited consumer interest and delays in the development and roll out of smart meters to the required Smart Metering Equipment Technical Specifications (SMETS2).

Actual rollout by 2020 may fall short even of these estimates if the Data and Communications Company (DCC) infrastructure encounters further problems or if suppliers encounter further difficulty persuading consumers to accept installations.

National Grid's domestic gas meters are not suitable for conversion to the proposed smart functionality and as a result Metering's domestic meter population will continue to reduce as traditional meters are replaced with smart meters.

Operational and Financial Performance
Whilst integrated into the key performance indicators of National Grid, management also specifically use the following key performance indicators in measuring the development and performance of the Company:

- Standards of Service - In the year to 31 March 2019, 19 out of 20 standards of service targets were achieved (2018: 20 out of 23). The target measure varied from 90 to 98%. These covered complaints, domestic meter work and industrial and commercial meter works.
- Efficiency - Efficiency is monitored via achieving lowest cost per job in the following areas: installation, running and overheads, whilst maintaining the required level of operational and safety performance. Cost efficiency is ensured through robust tendering of meter work services and products in line with National Grid Procurement's Category Management process. Operational efficiency is monitored and driven through proactive contract management, whereby key performance indicators are tracked and supported by both incentive and liability payments.

Safety, Health and Environment - The Company continues to measure its safety performance in line with National Grid leading and lagging measures. The safety performance measures include leadership visits, incidents, near misses, hazards, process safety and environmental sustainability impacts. The Company continues to focus on behavioural, safety and human factors, encouraging staff and contractors to report and share lessons learned. Wellbeing continues to be driven, with focus on key areas such as mental health. In 2019/20 the Company will continue to drive its safety performance to achieve a generative safety culture.

Looking ahead
Customer satisfaction scores for Metering remain positive for domestic and commercial businesses. Metering continues to work with its customers on areas for improvement by exploring additional products and services so Metering can respond to the rapidly changing non-domestic sector.

Metering shares National Grid's vision and has its own company specific version being: Working together in a climate of trust, mutual respect, honesty and integrity; where everyone is important.

Our purpose, vision, strategy and values

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

Our purpose

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

Our purpose is to bring energy to life

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

Our vision

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

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

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

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

Our strategy

Our strategy places the customers at the heart of our decision making and consists of three long-term priorities:

1) Optimising our operational performance

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

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

2) Growing our core business

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

3) Evolving for the future

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

Our values

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

Our values define the mindset and behaviours important for our business. They also guide us to achieve the right outcomes and our desired culture.

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

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

Our strategic objectives

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

<table>
<tr><th></th><th>Find new ways of optimising our operational performance</th><th>Look for opportunities to grow our core business</th><th>Make sure National Grid is better equipped for the future</th></tr>
<tr><td>Why it's important</td><td>Our customers want and need us to be more efficient, so we must find ways to improve how we run our business.</td><td>To make possible the energy systems of tomorrow requires investment in our core and many areas close to our core.</td><td>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, while the needs and expectations of our customers are evolving.</td></tr>
<tr><td>What this means</td><td>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.</td><td>We continue to pursue business development opportunities that are close to our core business.</td><td>We are looking to develop new capabilities that are essential for long-term success.</td></tr>
<tr><td rowspan="2">How we measure ourselves</td><td>• Safety performance
• Customer satisfaction scores
• Network reliability
• Greenhouse gas emissions reduction</td><td>• Regulated asset base growth
• Capital investment</td><td>• Innovation investment
• Skills and capabilities</td></tr>
<tr><td colspan="3">The metrics below underpin all our strategic priorities:

Employee engagement; Workforce diversity</td></tr>
</table>

Progress against objectives - key performance indicators (KPIs)

Strategic objective	KPI and definition	Performance
Find new ways of optimising our operational performance	**Safety – Employee lost time frequency rate (IFR)** Injuries resulting in employees taking time off work per 100,000 hours worked on a 12-month basis.	**2018/19: 0.07 (UK Group target 0.1)** 2017/18: 0.05 (UK Group target 0.1)
	Network reliability Reliability of gas network as a percentage against the target set by Ofgem.	**2018/19: 99.9896317% (Target 100%)** 2017/18: 99.996151% (Target 100%)
	Customer satisfaction scores Our score in customer satisfaction surveys. Ofgem set a baseline.	**2018/19: 8.0 out of 10 (Target 6.9)** 2017/18: 7.6 out of 10 (Target 6.9) Figures represent our baseline targets set by Ofgem for reward or penalty under RIIO.
	Greenhouse gas emissions Percentage reduction in greenhouse gas emissions. National Grid target: 45% reduction by 2020, 70% by 2030 and 80% reduction by 2050, compared to 1990 emissions of 21.6 million tonnes.	**Tonnes carbon dioxide** **2018/19: 341 KTCO2e** 2017/18: 672 KTCO2e National Grid plc has achieved a 68% reduction against the 1990 baseline to date.
Look for opportunities to grow our core business	**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 future revenue allowances.	**2018/19: 3.3% (UK Group target 3-5%)** 2017/18: 4.5% **(UK Group target 3-5%)**
	Capital investment Our aim is to maintain a high level of investment within Property, Plant and Equipment and Intangible Assets in support of our regulated asset growth targets.	**2018/19: £340 million** 2017/18: £340 million
Underpin all three strategic priorities	**Employee engagement index** Employee engagement index calculated using responses to National Grid's annual employee survey. Target is to increase the level of engagement compared with previous year.	**2018/19: 66%** 2017/18: 72% Index represents performance for National Grid UK entities
	Workforce diversity We measure the percentage of women and ethnic minorities in our workforce. We aim to develop and operate a business that has an inclusive and diverse culture. See pages 16 and 17 for the actions we are taking.	**Workforce diversity %** **2018/19: Women: 33.9%** **Ethnic minority: 12.3%** 2017/18: Women: 34.3% Ethnic minority: 12.0%

Greenhouse gas emissions

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

Make sure National Grid is better equipped for the future

We are in the midst of an energy revolution with the economic landscape, developments in technology, evolving business models and consumer behaviour all changing at an unprecedented rate. We are focussing our innovation on four value themes;

Managing assets – looking for innovative ways to manage asset life
Efficient build – finding ways to reduce the cost of building infrastructure
Service delivery – we're exploring ways to provide value to our customers and consumers
Corporate responsibility – we're constantly researching and developing safer working practices

Strategic Report

Operating environment

Our environment is shaped by six themes. The first four are distinct objectives that need to be met in providing energy to customers, but which are often in tension. Choices that governments make in seeking to appropriately balance these objectives can result in regulatory changes.

Affordability – Impact on consumer bills

Commentary

As the energy industry transitions to a decarbonised, decentralised, and digital future, new investment will be required to maintain the reliability customers expect. National Grid has a role to play in helping customers reduce their carbon footprint and total energy costs.

2018/19 developments

In the UK, affordability of energy continues to be a critical topic, as highlighted in the Government's response to the 'Cost of Energy' review.

Our response

- We are focused on managing our networks over the long term, maintaining highly reliable systems at greater cost efficiency.
- Our regulated business is pushing for greater affordability and innovative ways to minimise the total cost of energy to consumers.

Decentralisation – Energy Security

Commentary

The energy system is in transition from high to low carbon. This change coincides with a shift to a more decentralised generation, from renewables to emerging battery storage. As the volume of this intermittent and distributed generation increases, a more resilient and flexible system will be required. One that makes best use of available energy resources to meet consumers' needs in a balanced, efficient and economical way. However, the pace of this transition is unclear.

Decentralised gas-fired generation represents the level of power generation that is connected to the electricity network, but not the gas transmission system. Depending on the energy pathway taken, we could see a significant increase in this form of gas-fired generation, which could lead to a significant change in our demand environment.

2018/19 developments

The future level and behaviour of gas-fired generation is not certain. This is visible in the Future Energy Scenarios (FES) document, which forecasts a wide range for annual gas-fired generation demand out to 2035.

Our response

As electricity generation becomes more weather dependent, we anticipate that gas-fired generation demand will become more variable both day to day and within a given day.

To understand what impacts this could have on our gas network, we are forecasting how individual gas-fired power station behaviour could change out to 2027, for each Future Energy Scenario.

Using our network analysis software (SIMONE), we can use these forecasts to assess the capability of our system to operate safely, and provide gas-fired power stations with the optionality they need to run effectively for the whole energy system.

Decarbonisation – Environmental sustainability

Commentary

Climate events during 2018 were widespread and some, such as the wildfires in California, impacted energy networks significantly. Understanding the social, environmental and economic impact to business, and measuring its value is likely to become more important as a result of these events.

Currently, four out of five of the UK's 26 million homes use gas for heat, and this creates more than a quarter of UK carbon emissions. For the decarbonisation of heat to be successful, around 20,000 homes will need to switch to a low carbon heat source every week between 2025 and 2050. Thus, as Ofgem has said, "decarbonisation of heat is arguably the biggest challenge facing UK energy policy over the next few decades".

HyNTS encompasses all of our work relating to hydrogen across our business and wider industry. Through strategic reviews of future energy scenarios over a 50-year span, transportation of hydrogen combined with Carbon Capture and Storage is the most likely scenario for future decarbonisation of our systems.

2018/19 developments

During 2018, European carbon prices rose above €20/tonne; three times the level seen in 2017. This increase was likely due to fossil fuels burnt during abnormal weather conditions, as well as the reduction in carbon permits from 2019. However, gas remains the primary fuel source for generation (source: UK Gov).

Our response

- Reducing greenhouse gas emissions forms part of the Company's KPIs – see page 12. We have also committed to meeting TCFD recommendations in full (These are provided in detail within the 18/19 National Grid Group accounts).
- 'Our Contribution' environmental strategy, focuses on the areas where we can make a difference. You can read more about our approach and work on page 15.
- We will continue to support the Paris Agreement and align ourselves with state and local leaders who share our own climate and environmental goals.
- We plan to play an active role in building a gas system capable of decarbonising homes and businesses. We will work hard to come up with new ways to get the best from gas and we'll support other innovations in our industry.

Digitisation

Commentary

Businesses and lives are being transformed by innovations such as artificial intelligence and virtual reality. The energy landscape has seen several changes as companies look to create new business models and reduce energy prices through digital technologies. Technology commercialisation, consumer demand and regulatory stimulus will continue to drive these trends.

2018/19 developments

In 2018, the application of digital technologies to drive sustained profitable growth by optimising the way we work was a key global trend. It is expected to continue exponentially in the coming years.

The energy landscape is already being transformed by technologies such as smart meters and demand aggregators. These devices employ the latest advances in artificial intelligence to create new business models and reduce energy prices.

Our response

We are taking advantage of innovations in digital technology and innovation to improve our business performance. For example, we are using the latest advances in artificial intelligence in our UK energy forecasting to lower balancing costs and improve energy security.

Using our network analysis software (SIMONE), we can use these forecasts to assess the capability of our system to operate safely, and provide gas-fired power stations with the optionality they need to run effectively for the whole energy systems.

The Impact of Brexit

Brexit in the UK continued to bring uncertainty within the market. During the year, we worked to manage the risk this situation brings, through strong engagement with government and regulators. We have conducted a number of Brexit scenario planning exercises and worked to maintain access for customers to European energy markets.

National Grid is supportive of the EU and UK agreeing on a deal and a transition period to minimise any disruption and keep costs down for consumers. We are working with the Government, regulators and others to ensure that the efficient transmission of electricity can continue whatever the outcome of Brexit, with minimal impact to our stakeholders.

It is essential that energy is prioritised in the upcoming discussions on the EU-UK future relationship to the mutual benefit of both the EU and the UK. We also support the UK's continued participation in the EU's Internal Energy Market as the most effective way to preserve the consumer benefits and maintain certainty for investors.

Our commitment to being a responsible business

In today's world, business needs to be a positive force for good. This belief is critical to the way we work and why we do what we do.

Our purpose-led 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 Gas Transmission, we work hard to bring energy to life and exceed the expectations of our customers, shareholders and communities.

Environmental: We are passionate about operating our business in an environmentally responsible way. It is the right thing to do – for society, the environment and our business.

We make sure sustainability shapes our thinking and decision making. This focus helps us to optimise our operational performance, provide value for our customers, and benefit the environment.

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 shifts to electrification.

We need to ensure we have a culture that enables and supports a highly motivated, diverse and multi-generational workforce, with the right skills to deliver the future needs of our customers.

Communities: For us, being a responsible business means being a good citizen and being involved in social progress, which covers every aspect of our work. What we do helps to underpin the prosperity and wellbeing of communities. For example, our work to develop interconnectors is making energy more secure, affordable and sustainable for consumers across the UK.

Our priorities

In July 2018, we reconfirmed our support of the 10 principles of the United Nations Global Compact on human rights, labour, environment and anti-corruption.

We also continue to build on our support for the United Nations General Assembly 2030 agenda and its Sustainable Development Goals (SDGs). These 17 global goals are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity

Environmental sustainability

The biggest impact we can have on the environment is in our role of enabling the transition to a low-carbon future. We also know we have the potential to affect the environment directly, both positively and negatively, through our operations.

Our approach to environmental sustainability is to manage our risks, whether short-term through our physical operations, such as air quality and pollution, or long-term through our greenhouse gas emissions and resource use. At the same time, we look for opportunities to have a positive impact. For example, we have committed to achieve a net gain in environmental value for all our major construction projects by 2020. We measure this with an evaluation approach based on a methodology set out by the UK Government.

As well as managing normal operating risk, we manage the risk of an environmental event arising from a catastrophic asset failure. You can find out more about this on page 19.

Our priorities

Our environmental strategy, Our Contribution, was originally developed in 2012 with a wide range of internal and external stakeholders. Over the years, we have refined our strategy to reflect changing priorities. It focuses on three main 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 through re-use and recycling, so we can reduce our impact on the environment; and
- using our land holdings in ways that benefit our business, the environment and the communities in which we live and work.

These efforts are underpinned by maintaining high environmental management standards. In 2018 we have developed an internal Environmental Sustainability Business Management Standard (BMS) that brings together the commitments from Our Contribution and our Environmental Policy, providing clarity to all our employees on the standards we expect. It also brings sustainability fully into our environmental management systems.

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 on page 12.

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 pledge aligns with the trajectory required to limit global warming to a 2°C temperature rise. We are reviewing our targets against limiting this rise to 1.5°C.

The Task Force on Climate-related Task Force (TCFD)'s 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 have committed to implementing the TCFD's recommendations, demonstrating how climate change risk and opportunities form part of our business, with clear targets to measure progress.

People

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

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

The culture we strive for stems from embracing our values of *Doing the right thing and Finding a better way*. You can read more about our values on page 10.

We also know that building sufficient capability and leadership capacity (including effective succession planning) is an important factor in delivering our vision and strategy. You can read more about how we are mitigating the risks of not achieving this on pages 19 to 22.

Engaging our people
By developing our people and providing a wider programme of benefits, 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 12.

Developing employees
Through the hard work of our employees that we will achieve our vision, live our values, respond to the needs of our stakeholders and create a competitive advantage. Encouraging engaged and talented teams that are in step with our strategic objectives is vital to our success.

Safeguarding the future
We work to raise awareness of the career opportunities in the energy utility industry. There's a growing need for a skilled workforce to develop, deliver and use new technologies within the energy sector, according to the EU Skills Workforce Strategy. STEM (science, technology, engineering, and mathematics) skills are crucial within our business, so we promote STEM as an exciting career path for young people through education outreach such as the Big Bang Fair, work experience and hosting school visits to our sites.

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

Promoting an inclusive and diverse workforce

National Grid's inclusion and diversity policies demonstrate our commitment to providing an inclusive, equal and fair working environment by:

- 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 that selection for employment, promotion, training, development, benefit and reward, is based on merit and in line with relevant legislation.

18.1% of our total workforce (National Grid group) have declared themselves to be of 'minority' racial or ethnic heritage. We recognise the value a diverse workforce and inclusive culture bring to our business. We have many initiatives to encourage and promote diversity and inclusion.

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.

We actively support Black, Asian, and minority ethnic (BAME) initiatives, and Nicola Shaw is actively involved in the BAME/Diverse Leaders Programme. We are also part of the 6th cohort of Business in the Community's BAME Cross Organisational Mentoring Circles Programme. Gurvinder Badesha, our Head of Assurance, is one of the lead mentors on the programme, and our UK HR Director, Sarah Stanton, is the UK Executive Sponsor of the Accessibility Group that helps disabled people overcome barriers and improve their lives.

The gender and ethnicity demographic tables that follow show the breakdown in numbers of employees at different levels of the organisation within National Grid Gas.

We have included information relating to subsidiary directors, as this is required by the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Those who have not disclosed their gender are excluded from the baseline.

Gender demographic as at 31 March 2019 - NGG

	Male	Female	Total	% Male	% Female
Our Board	5	3	8	63	37
Senior Management	28	16	44	64	36
Whole Company	1,254	643	1897	66	34

Ethnicity demographic as at 31 March 2019 - NGG

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

White	1,498
Minority	211
Total	**1,709**
White (%)	87.7%
Minority (%)	12.3%

Our role in communities

An important part of what we do at National Grid is to exceed the expectations of our communities as we bring energy to life. We do this by providing a safe and reliable service, and by helping our communities to thrive through our responsible business activities. We realise that, from time-to-time, our work can have a negative impact on communities, so we work closely with them to reduce this impact and to help support their social or economic needs.

Safe reliable energy

We pride ourselves on providing a safe, reliable energy service at an affordable price to our customers, and to work hard in exceeding their expectations.

The safety of all our employees, contractors and the general public is of prime importance to us. We measure the safety of our employees and this is reflected in our KPIs, shown on page 12. To ensure we maintain our high standards of safety performance, we have effective policies, procedures and training in place so we can continue to perform at the level we and our stakeholders expect.

The reliability of our networks is world class, running at more than 99.9% availability. You can read more about this on pages 11 and 12, as well as how we manage our operational risks on page 20.

Supporting communities to thrive

We believe all companies should act responsibly by playing an active role in the communities where they operate and where employees live. We work hard to help communities by supporting initiatives that are important to them and that will help deliver long-term benefits to society.

Improving social mobility is a challenge. We have talent spread evenly across the country, yet opportunities are still not readily available to everyone regardless of their background. As a business, we are keen to help improve social mobility so opportunities are available to all.

We continue to focus on addressing fuel poverty through our £150 million voluntary investment with Affordable Warmth Solutions CIC. For example, since 2017 the Warm Homes Fund has allocated over £103 million for 32,000 first-time central heating systems to many vulnerable households across England, Scotland and Wales.

We continue to play a part in the Government's Inclusive Economy Partnership, whose membership is drawn from the business sector, Government and civil society. We are supporting two of the Partnership's flagship challenges: mental health and equipping people to transition successfully 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 expect all our suppliers to be compliant with the Modern Slavery Act and to publish a Modern Slavery Statement if required. Each year, we update our own Modern Slavery statement and publish this on our company website in line with the Act's requirements. Our Statement is independently reviewed by the Business & Human Rights Resource Centre alongside other FTSE 100 companies. In 2019, we were positioned 12th and recognised as one of a 'small cluster of leaders standing out' in this space.

We work closely with our suppliers and peers to build on our knowledge and promote best practice in the industry to combat modern slavery. During 2018, this included engaging with suppliers we had identified as being within potentially high-risk categories. Through this engagement, which included a workshop facilitated by the Supply Chain Sustainability School, we have encouraged our suppliers to conduct similar risk assessments with their own supply chain. We have also joined the Construction Protocol to better understand the approach to mitigating and resolving issues.

National Grid plc are an active member of the United Nations Global Compact Working Group, focusing on Modern Slavery, and are working with Achilles to develop a community approach to address the issue. We are also revising our procurement process, so that modern slavery criteria and identifying risks forms part of our sourcing process.

Good business conduct

To provide an understanding of the Company's development, performance and position, we describe our approach to 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 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 Global Supplier Code of Conduct (GSCoC) integrates human rights into the way we do business throughout our supply chain alongside other areas of sustainability 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 GSCoC, we expect our suppliers to comply with all legislation relating to their business, as well as adhering to the principles of the United Nations Global Compact, the ILO (International Labour Organisation) minimum standards, the ETI (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 preventing bribery and corruption, 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 and share learnings. 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.

Governance and oversight

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

The National Grid plc Ethics and Compliance Committee (ECC) oversees the Code of Ethical Business Conduct and associated awareness programmes. Any cases alleging bribery are required to be referred immediately to the ECC so the members can satisfy themselves that cases are investigated promptly and where appropriate, acted upon, including ensuring any lessons learnt are communicated across the business.

Anti-bribery policy

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

To ensure compliance with the UK Bribery Act 2010, we carried out a risk assessment across the Company so we could highlight higher risk areas and make sure adequate procedures were in place to address them. In addition, a global methodology was established for conducting fraud and bribery risk assessments annually across the business. As part of our global training strategy, 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

National Grid's 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 global communication and training programme to promote a strong ethical culture. Additionally, we provide briefings for high risk areas of the business, such as Procurement.

Suppliers

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

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

Compliance framework

Each of our business areas is required to consider its specific risks and maintain a compliance framework, setting out the controls it has in place to detect and prevent bribery. As part of our 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 National Grid plc CEO to the National Grid Board (following consideration by the National Grid Audit Committee).

Internal control and risk management

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

Managing our risks

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

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

Risk management process

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

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

A broad range of factors are considered when determining our most important risks. The Board considered the potential for state ownership of energy supply networks by the UK Labour Party. Should the UK Labour Party come to power, the timing and routes for energy supply network to move to state ownership are currently uncertain. The impact upon National Grid remains unclear. The Government would have to pay fair compensation for the Company's property which would be determined at the time, and could be calculated in a number of ways. We have canvassed a wide range of stakeholders including government officials, consumers and members of the public to understand the impact of state ownership on certain stakeholder groups.

In addition to the issues above, senior leaders and the Board have also considered certain aspects of the risks in more detail, including cyber security, climate change and Brexit.

The UK Regional risk profile informs our Group Principal Risk profile which is tested annually to establish the impact on the company's ability to continue operating and to meet its liabilities over a specified assessment period. We test the impact of these risks on a worst-case basis, alone and in clusters, the result of which is utilised to develop our viability statement. The Group Board, Group 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

Changes continue to be made to the UK Regional risk profile, building upon the profile's significant revision in 2017. We have incorporated the Company's risk appetite position into our risk reporting template to provide a reference for assessing the adequacy of the risk's management. Additionally, Key Risk Indicators, or KRI's, have been identified for significant risks to provide an additional source of management information to assess the risk's trending.

The UK Regional risk profile as it relates to gas operations is presented in table below:

Our principal risks and uncertainties

Accepting that it is not possible to identify, anticipate or eliminate every risk that may arise and that risk is an inherent part of doing business, our risk management process aims to provide reasonable assurance that we understand, monitor and manage the main uncertainties that we face in delivering our objectives. This includes consideration of inherent risks, which exist because of the nature of day-to-day operations in our industry, and financial risks, which exist because of our financing activities. Our principal risks and a summary of management and mitigation actions are provided in the table below.

<table>
<tr>
<td rowspan="2">Operational risks</td>
<td colspan="2">Operational risks relate to the risk of losses resulting from inadequate or failed internal processes, people and systems or due to external events. We normally have low appetite for such risks, as there is no strategic benefit from accepting risks which are not in line with our vision and values.

Our operational risks have a low likelihood of occurring but have a high level of impact should the event occur without effective prevention and mitigation controls. The risk owners, executive leaders, and their teams develop and monitor actions to control the risks. Operational risks are managed through policy, standards, and procedure based controls, active prevention and monitoring. The operational risks link to our strategic priority of, ‘Find new ways of optimising our operational performance’.</td>
</tr>
<tr>
<td>Risks

Catastrophic major hazard asset failure results in a significant safety event.

Risk trend: Decreasing

Failure of critical national infrastructure (CNI) IS Systems.

Risk trend: Neutral

Major cyber security breach of business and CNI systems/data.

Risk trend: Increasing

Failure of a Business Critical Enterprise (non-CNI) IS System or Systems.

Risk trend: Neutral

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

Risk trend: Neutral

Our workers, contractors or members of the public experience an occupational safety incident that results in a fatal or life-changing injury.

Risk trend: Neutral

Failure to anticipate, respond or take advantage of disruptive forces such as technology & innovation of our business.

Risk trend: Neutral

Failure to identify, collect, utilize and keep private the physical and IT data.

Risk trend: Neutral

Failure to successfully deliver significant infrastructure projects.

Risk trend: Neutral

Business damaging error due to preoccupation with the transformation programme.

Risk trend: Neutral</td>
<td>Actions taken by management
We continue to commit significant resources and financial investment to maintaining the integrity and security of our assets and data. This year, we have continued to focus on risk mitigation actions designed to reduce risk and help meet our business objectives. Monitoring action statuses has been incorporated into various business processes and senior leadership meetings. Examples of actions include:

• 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 continually invest in strategies that are commensurate with the changing nature of the security landscape. This includes collaborative working with the Centre for Protection of National Infrastructure (CPNI) on key cyber risks, as well as development of an enhanced CNI security strategy.
• Business continuity and emergency plans are in place and practised to ensure we quickly and effectively respond to a variety of incidents – storms, physical and cyber-related attacks, environmental incidents and asset failures.
• Safety plans have been developed to identify key risks and mitigation actions implemented as appropriate.
• We have a mature insurance strategy that uses a mix of self-insurance, captives and direct (re)insurance placements. This provides some financial protection in respect of property damage, business interruption and liability risks.
• We have an ongoing risk based asset health and asset steward programmes in place to ensure our asset’s health is managed in line with their impact and criticality. This is supported by ongoing monitoring of our network availability and reliability.
• Our systems are continually monitored and future proofed through on-going system upgrade and system replacement strategy to ensure their availability.
• Energy forecasting and related system planning are in place both within day and longer term to enable us to predict and respond to any significant disruption of energy
• We actively monitor technology trends as well as new inventions and prototypes to enable us to anticipate, respond and take advantage of new technologies and innovation.
• We have recently implemented new Business Management Standards covering key areas such as Data management and Health & safety to ensure consistent best practise over these areas across the organisation.
• Our transformation programme action plan actively manages potential negative risks of change through wellbeing programmes, comprehensive communications across the business and knowledge transfer plans.</td>
</tr>
</table>

<table>
<tr><td rowspan="2">Strategic and regulatory risks</td><td colspan="2">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.</td></tr>
<tr><td>Risks

By the end of RIIO T1 we have failed to defend existing allowances or failed to secure adequate new revenues.

Risk trend: Neutral

We are unable to secure an acceptable RIIO – T2 outcome for the UK Regulated Businesses.

Risk trend: Increasing

We fail to manage the business according to the terms of the licenses and laws we operate under.

Risk trend: Neutral

External & Political pressures adversely impact achievement of Business objectives

Risk trend: Increasing

Our business operating model is preventing effective and efficient decision-making.

Risk trend: Neutral</td><td>Actions taken by management

• We strive to maintain a good understanding of the regulatory agenda and emerging issues, so that robust, public interest aligned responses can be selected and developed in good time. Our reputation as a competent operator of important national infrastructure is critical to our ability to do this. We have plans and governance structures in place to address specific issues such as RIIO-T2 and continuously work to foster open and effective relationships with our regulators and other stakeholders.

• Our understanding of regulatory obligations and accountabilities is enhanced through the conduct of mapping exercises, updated roles and responsibilities, community of practise, monthly and quarterly compliance reporting. Action plans have been effectively implemented to mitigate non-compliances and control weaknesses.

• Threats and opportunities related to external and political pressure are regularly discussed with both internal and external stakeholders thereby ensuring our knowledge and communication channels remain current and any related actions arising are promptly completed</td></tr>
<tr><td rowspan="2">People</td><td colspan="2">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.</td></tr>
<tr><td>Risks

We cannot attract, recruit, develop or retain people with the right skills and capabilities to deliver our strategy and UK priorities.

Risk trend: Neutral</td><td>Actions taken by management

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

Our entry level talent development schemes (e.g. apprenticeships) are a potential source of competitive advantage in the market place. We are involved in a number of initiatives to help secure the future engineering talent required including the UK annual residential work experience.

We maintain a clear strategic focus on talent through the creation of aligned talent plans with agreed metrics.

Our award-winning careers site further supports attraction of people with strong brand recognition to our candidates and regular benchmarking of our reward packages.

We maintain strong focus on our purpose, vision and values to help drive the right behaviours and performance.

We provide strategic talent focus through our quarterly talent reviews, accelerated development plans with ongoing business learning plans across the entities.</td></tr>
</table>

Our internal control process

We have a number of processes to support our internal control environment. These processes are managed by dedicated specialist teams, including risk management, ethics and compliance management, corporate audit and internal controls, and safety, environment and health. Oversight of these activities is provided through regular review and reporting to the Board and appropriate Board committees as outlined in the Corporate Governance section on pages 29 to 33.

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

Reviewing the effectiveness of our internal control and risk management

The Audit Committee 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 2019 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.

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 National Grid plc Group-level with implementation owned by National Grid Gas. 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 leadership meetings and bi-annual reviews 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. The 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 of National Grid to the National Grid Group Board provides overall assurance around the effectiveness of our risk management and internal controls systems. The CoA process operates via a cascade system and takes place annually in support of the Company's full year results. The Audit Committee considers the CoA and provides a recommendation to the National Grid plc Board in support of its review.

Internal control over financial reporting

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 UK CEO and UK CFO. The reviews consider historical results and expected future performance and involve senior management from both operational and financial areas of the business. Each month, the UK CFO presents consolidated financial report to the Board.

Viability statement

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

National Grid Gas plc (NGG) is a wholly owned subsidiary of National Grid plc which performed a group wide business plan that was reviewed and approved by the National Grid plc Board and which included detail of the NGG operating segment. Details of the National Grid viability statements can be found in the National Grid plc Annual Report and Accounts 2018/19 on pages 23-24, which details the worst case scenarios considered.

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

The business plan considers the significant solvency and liquidity risks involved in delivering our business model in light of our strategic priorities. We have set out the details of the principal risks facing our Company on pages 20 and 21, described in relation to our ability to deliver our strategic objectives. We identify our principal risks through a robust assessment that includes a continuous cycle of bottom up reporting and review, and top down feedback.

The business model calls for significant capital investment to maintain and expand our network infrastructure. To deliver this, our business plan highlights that we will need to access capital markets to raise additional funds from time to time. We have a long and successful history in this regard. Although financeability is formally assessed at a group level, the board considers key funding from operations / net debt metrics used by lenders in assessing a company's credit worthiness.

The NGG plc Board review and approve the annual certificates in respect of compliance with certain licence conditions (including Financial Ring-fencing, and Availability of Resources). The Gas Transmission Financial Ring-fencing certificate was approved by the Board in July 2019, and the Availability of Resources certificate was issued in July 2019.

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

Based on the assessment described above and on page 23, the Directors have a reasonable expectation that the Company will be able to continue operating and meet its liabilities over the period to July 2024.

The Strategic Report was approved by the Board of Directors on **24 July 2019** and signed on its behalf by:

Alan Foster
UK CFO

Financial review

Revenue from continuing operations decreased by £215 million to £1,209 million, and operating profit decreased by £212 million to £435 million. Adjusted Profit was lower in 2018/19 reflecting reduced revenues, driven by the expected refund of revenues previously received in respect of the proposed Avonmouth pipeline project, costs related to Guaranteed Minimum Pension (GMP) equalisation ruling in October 2018 and, exceptional restructuring costs. This was partially offset by a reduction in deprecation following a detailed review of asset lives.

New accounting standards

As of 1 April 2018, we adopted two new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', further details are provided within Note 33 of the financial statements.

As of 1 April 2019, we will adopt IFRS 16 'Leases' introducing the 'right of use asset' category for the 2019/20 accounts going forward, this has no impact on the 2018/19 results.

Brexit

As described elsewhere in the Strategic report, our Brexit working group considered the issues and consequences of the UK's decision to leave the EU. In the last month of the year, and in anticipation of the original 29 March 2019 deadline for the UK to exit the EU, we executed our plan to bring forward the procurement of key items for capital delivery and operations in case of delays at ports. These actions did not have a material effect on the financial results for the year.

Use of adjusted profit measures

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

The first of these components is referred to as an adjusted profit measure, also known as 'Headline' or a' business performance' measure. This is the measure used by management that forms part of the incentive target set annually for remunerating certain Executive Directors. Adjusted results exclude exceptional items and remeasurements. These items are reported collectively as the second component of the financial measures. Note 5 explains in detail the items which are excluded from our adjusted profit measures.

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

The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented.
Management uses adjusted profit measures as the basis for monitoring financial performance. These measures are also used in communicating financial performance to its investors in external presentations and announcements of financial results.

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

Reconciliations of adjusted profit measures

Reconciliation of adjusted operating profit to total operating profit

There were exceptional items included within operating profit for the year ended 31 March 2019 relating to a major restructuring programme of the Gas Transmission business. Unadjusted and adjusted profit figures are provided below.

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

	Years ended 31 March	
Continuing	**2019**	2018
	£m	£m
Adjusted operating profit	**471**	647
Exceptional items[1]	**(36)**	-
Total operating profit	**435**	647

[1] Additional detail is provided in Note 5 of the financial statements.

NGG implemented a major restructuring programme in order to drive more efficient operation and performance, a charge of £36 million in severance and associated planning and support was incurred. Within this cost there is a net charge of £19 million relating to pension costs. The total cash outflow for the year was £17 million.

Reconciliation of adjusted operating profit to adjusted earnings and earnings

	Years ended 31 March	
Continuing	**2019**	2018
	£m	£m
Adjusted operating profit	**471**	647
Adjusted net finance costs	**(131)**	(196)
Adjusted profit before tax	**340**	451
Adjusted taxation	**(79)**	(98)
Adjusted profit after tax	**261**	353
Adjusted earnings	**261**	353
Exceptional items after tax	**(29)**	-
Remeasurements after tax	**(14)**	17
Earnings from continuing operations	**218**	370

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

Adjusted profit excluding timing differences is presented below. Timing differences relate to the over or under collection of revenue in year, this is explained in detail on page 28.

	Years ended 31 March	
Continuing	**2019**	2018
	£m	£m
Adjusted operating profit excluding timing differences	**509**	665
Timing differences[1]	**(38)**	(18)
Adjusted operating profit	**471**	647
Exceptional items[2]	**(36)**	-
Total operating profit	**435**	647

[1] Our operating profit for the year includes a total estimated in-year under-collection of £38 million (2017/18: £18 million under-collection).

[2] Detail of exceptional items can be found in Note 5 of the financial statements.

Consolidated income statement commentary

The commentary below describes the continuing business results for the year ending 31 March 2019.

	Years ended 31 March	
	2018	2018
	£m	£m
Revenue	**1,209**	1,424
Operating costs	**(738)**	(777)
Adjusted operating profit	**471**	647
Exceptional items	**(36)**	-
Finance income	**24**	8
Finance costs:		
Before exceptional items and remeasurements	**(155)**	(204)
Exceptional items and remeasurements	**(17)**	21
Profit before tax	**287**	472
Taxation:		
Before exceptional items and remeasurements	**(79)**	(98)
Exceptional items and remeasurements	**10**	(4)
Profit after tax from continuing operations	**218**	370

Revenue

Revenue for the year ended 31 March 2019 decreased by £215 million to £1,209 million. The reduction in revenue is reflective of the expected refund of revenues previously received in respect of the proposed Avonmouth pipeline project that is no longer required and declining meter income.

Operating profit

Adjusted operating profit for continuing operations for the year ended 31 March 2019 of £471 million represents a reduction against last year of £176 million. This is driven by lower revenues and costs associated with Guaranteed Minimum Pensions (GMP) equalisation charged in year, partially offset by lower depreciation following a detailed review of asset lives.

Net finance costs

For the year ended 31 March 2019, net finance costs before exceptions items and remeasurements decreased by £65 million to £131 million. This reflects high pension interest income, an increase in interest capitalised and lower interest on borrowings due to lower inflation element on RPI linked debt.

Exceptional finance costs increased by £38 million to £17 million loss for the year ended 31 March 2019. This increase was driven by losses on financial liabilities held at fair value.

Taxation

The tax charge on profits before exceptional items and remeasurements, £79 million, was £19 million lower than 2017/18. This is driven by a reduction in overall taxable profits and before exceptional items.

Taxation on exceptional items was £14 million lower than the prior year with a £10 million credit in the year ended 30 March 2019. This change was driven by the restructuring programme processed in the year and the movement in remeasurements.

Consolidated statement of financial position commentary

The consolidated statement of financial position sets out all the Group's assets and liabilities at the year end. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

	Years ended 31 March	
	2019	2018
	£m	£m
Non-current assets	**9,222**	9,046
Current assets	**1,676**	2,184
Total assets	**10,898**	11,230
Current liabilities	**(1,213)**	(1,690)
Non-current liabilities	**(4,912)**	(5,039)
Total liabilities	**(6,125)**	(6,729)
Net assets	**4,773**	4,501

Property, plant and equipment

Property, plant and equipment increased by £103 million to £4,519 million as at 31 March 2019. This was due to capital expenditure of £313 million, offset by £179 million of depreciation and impairments in the year and disposals of £23 million.

During the year, a detailed review of asset lives was undertaken. Although the lives of a number of asset classes was reduced the lives of pipeline assets was extended to 2070 from 2055. This resulted in a reduction in the level of depreciation compared to 2017/18 of £46 million to £139 million for the year ended 31 March 2019.

Other non-current assets

Other non-current assets comprise an interest-free loan to our immediate parent company National Grid Gas Holdings Limited of £3,432 million, and non-current prepayments which reduced by £16 million to £71 million reflecting gas holder demolition.

Trade and other receivables

Trade and other receivables have decreased by £63 million to £251 million at 31 March 2019. This decrease is principally due to a decrease in amounts owed by fellow subsidiaries of £34 million and a decrease in accrued income of £30 million. Reduced accrued income is driven largely by volumes with lower demand in March 2019 and unusually high demand in March 2018 by comparison.

Trade and other payables

Trade and other payables have decreased significantly by £307 million to £325 million. The main driver for the reduction is a substantial reduction of £195 million in amounts owed to fellow subsidiaries of National Grid plc. Due to the adoption of IFRS 15, additional balances have been reallocated to Contract Liabilities, this can be seen in Note 20 of the financial statements.

Current and deferred tax liabilities

Current and deferred tax liabilities have increased by £29 million to £493 million. The adoption of IFRS 15 and IFRS 9 resulted in a net increase of £8 million in deferred tax liabilities. The remaining differences related to increases in the pension assets and accelerated tax depreciation increases.

Net debt

Net debt has increased by £191 million reflecting the lower revenues. For detailed measurement see cashflow statement commentary.

Provisions

Total provisions reduced by £42 million reflecting utilisation of the provision recognised following the sale of the Gas Distribution business releasing £20 million, and £13 million in relation to gas holder demolition. Release of unused provisions associated with crop and quarry claims, £9 million, was largely offset by the net increase in restructuring provisions of £7 million.

Other non-current liabilities

Other non-current liabilities decreased by £160 million to £17 million. This reduction was caused by the adoption of IFRS 15 and reallocation to Contract Liabilities.

Contract Liabilities

New for 31 March 2019, contract liabilities used to be included within trade and other payables and, other non-current liabilities. This resulted in a reclassification and balance of £132 million at the year end. Comparatives have not been restated due to the use of modified retrospective approach, see Note 20 of the financial statements for further detail.

Net pensions obligations

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

Net scheme (liability)/asset	**£m**
As at 1 April 2018	412
Current service cost	(14)
Past service costs:	
Augmentations	(1)
Redundancies	(2)
Plan amendments	(12)
Special termination benefit cost - redundancies	(18)
Net interest cost	11
Administration and other	(4)
Actuarial gains	
on plan assets	9
on plan liabilities	-
Employer contributions	61
As at 31 March 2019	442

The principal movements in the pension asset during the year include net actuarial gains of £9 million and employer contributions of £61 million. The overall obligation moved by £30 million to a closing asset of £442 million.

Special termination benefit costs increased by £7 million to £18 million, this was driven by the completion of a major restructuring within National Grid Gas in year.

Further information on our pensions benefit obligations can be found in note 22 to the consolidated financial statements.

Off balance sheet items

There were no significant off balance sheet items other than the contractual obligations shown in note 29 (b) to the consolidated financial statements, and the commitments and contingencies discussed in note 27.

Cash flow statement commentary

The commentary below describes the continuing business results for the year ending 31 March 2019.

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

Reconciliation of cash flow to net debt	**2019 £m**	2018 £m
Cash generated from operations	**401**	956
Net capital expenditure	**(333)**	(324)
Business net cash flow	**68**	632
Net interest paid	**(80)**	(92)
Tax (paid) / received	**(67)**	16
Movement in short-term financial investments	**210**	327
Repayments of loans and short term borrowings	**(403)**	(274)
Net cash from discontinued operations	**-**	(329)
(Decrease)/Increase in cash and cash equivalents	**(272)**	280
(Decrease)/increase in financial investments	**(219)**	(327)
Decrease in borrowings and related derivatives	**403**	505
Net interest paid on the components of net debt	**91**	89
Changes in fair value of financial assets and liabilities and exchange movements	**(5)**	19
Net interest charge on the components of net debt	**(157)**	(200)
Impact of transition to IFRS 9	**(32)**	-
Net debt (increase) / decrease	**(191)**	366
Opening net debt	(2,819)	(3,185)
Closing net debt	**(3,010)**	(2,819)

Cash generated from operations

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

For the year ended 31 March 2019, cash flow from operations decreased by £345 million to £611 million. This reduction was driven by the overall fall in operating profit for the year of £212 million. In 2017/18, an additional £100 million of cash inflow arose as a one-off change in the working capital cycle.

Net capital cash expenditure

Net capital expenditure in the year was maintained at £333 million, £9 million higher than the prior year.

Dividends paid

No dividend was declared by the year end 31 March 2019, as a result, no dividend amount has been included within the financial statements. It was agreed subsequently at the 24 July 2019 board meeting that £1,047 million will be allocated for the 2018/19 dividend (2018: NIL).

Regulated financial performance

Timing and Regulated Revenue Adjustments

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

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

The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenues are finalised. Our operating profit for the year includes a total estimated in year under recovery of £38 million (2017/18: £18 million under-recovery). Our closing balance at 31 March 2019 was £59 million over-recovery (2017/18: over-recovery of £93 million).

In addition to the timing adjustments described above, following the start of the RIIO price controls outperformance against allowances as a result of the totex mechanism, together with changes in output-related allowances included in the original price control, will almost always be adjusted in future revenue recoveries, typically starting in two years' time. We are also recovering revenues in relation to certain costs incurred (for example pension contributions) made in prior years.

Our current IFRS revenues and earnings will therefore include these amounts that will need to be repaid or recovered in future periods. Such adjustments will form an important part of the continuing difference between reported IFRS results and underlying economic performance based on our regulatory obligations.

Return on Equity

Return on Equity for the year, using a long-run inflation rate of 3%, was 9.5% compared with a regulatory assumption, used in calculating the original revenue allowance, of 10.0%. The principal components are shown in the table below.

Year ended 31 March	**2019 %**	2018 %
Base return (including avg. 3% long-run inflation)	**10.0%**	10.0
Totex incentive mechanism	**(1.1)**	(0.8)
Other revenue incentives	**1.2**	1.2
Return including in year incentive performance	**10.1**	10.4
Pre-determined additional allowances	**(0.6)**	(0.4)
Return on Equity	**9.5**	10.0

RoE decreased 50 bps year on year, mainly reflecting the lower compressor allowances awarded in the RIIO-T1 re-opener decisions, which reduced totex performance. Other revenue incentives were comparable to prior year at 120 bps. We met our customer satisfaction targets, where we achieved a score of 7.8 against a baseline target of 6.9 which is set by Ofgem for reward or penalty under RIIO. We continue to work to identify opportunities for future out-performance across these incentives.

Regulated Financial Position

RAV increased by 3.3% in the year, the reduction in growth, from prior year's 4.5%, reflects the lower RPI and the lower totex incentive performance.

£m	**2019**	2018
Opening Regulated Asset Value (RAV)[1]	**5,960**	**5,755**
Asset additions (aka slow money) (actual)	**302**	**304**
Performance RAV or assets created	**(30)**	**(16)**
Inflation adjustment (actual RPI)	**146**	**194**
Depreciation and amortisation	**(223)**	**(223)**
Closing RAV	**6,155**	**6,014**
Opening balance of other regulated assets and (liabilities)[1]	**(111)**	**(34)**
Movement	**68**	**(91)**
Closing balance	**(43)**	**(125)**
Closing Regulated Financial Position	**6,112**	**5,889**

[1] 2018/19 opening balances adjusted to correspond with 2017/18 regulatory filings and calculations

Corporate Governance

Corporate Governance Statement

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

Governance framework

The Board of the Company is collectively responsible for its governance, and oversees its effective oversight of the Company and its businesses, and compliance with all relevant laws and regulations, including compliance with its obligations under its Gas Transporter Licences. To facilitate this, a comprehensive governance framework has been established. This governance framework forms part of the wider National Grid plc governance framework and is aligned, as required and is applicable, to the Company. Risk management is fundamental to delivering the long-term success of the Company and for that reason a separate section of this Annual Report and Accounts has been dedicated to describing our internal controls and risk management, see page 19. The day-to-day operational and financial management of the Company's businesses is undertaken by committees. The committees are operated in compliance with business separation obligations set out in its licenses.

Reinforcing its commitment to sound corporate governance the Board has continued to strengthen and develop both its composition and governance framework, implementing, as applicable, many of the best practice governance principles in operation at the National Grid plc level. The Board is mindful of the updated UK Corporate Governance Code 2018 and will continue to review its approach to corporate governance during the financial year 2019/20.

Board composition

The Board consists of six executive directors and two Sufficiently Independent Directors ("SIDs") who between them provide a broad and diverse range of experience and technical skills from both within and external to the organisation, from the energy sector, other regulated industries and external bodies. This depth and breadth of experience, and the independence brought by the SIDs, enables the Board to engage in constructive and challenging discussions, considering the perspectives and interests not only of the Company's shareholder but the wider range of stakeholders in the business. Details of the director positions, demonstrating their area of responsibility within the business, can be found under the section "How our Board operates".

The Board's Chair, Nicola Shaw CBE, continues to sit as an Executive Director on the National Grid plc Board. Through her participation at the Boards of both companies, the Board of National Grid Gas is well placed to identify and facilitate understanding of the views of its ultimate shareholder.

Sufficiently Independent Directors

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

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

Following the year end, Dr Catherine Bell stepped down from the Board on 21 June 2019. We welcomed Cathryn Ross as a new SID with effect from the same date.

Executive Directors

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

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

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

Director induction and development

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

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

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

Cathryn Ross will undergo a detailed director induction programme following her appointment to the Board.

How our Board operates

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

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

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

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

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

Stakeholder Engagement

Following the introduction of the new UK Corporate Governance Code 2018, the Board took the opportunity to review stakeholder engagement (especially workforce engagement). The role and effectiveness of the Board are essential in a successfully run company. During the year, the Board discussed its duty under section 172 of the Companies Act 2006, with a significant focus on reviewing and mapping out key stakeholder groups and discussing the Board's current level of engagement and incorporation of its views into decision-making. The Board believes it is important that the Company builds on the extensive existing range of engagement activities that are already in place and continues to consider workforce views in relevant decision-making processes. The Board will continue to review and adapt its approach during the 2019/20 financial year.

Board performance evaluation

The Board conducted an internally facilitated board evaluation process at the end of the previous financial year, led by Nicola Shaw in her role as Chair of the Board and has continued to focus on the outcomes of that process for the year ended 31 March 2019. The process focused on three key topics: the Board's effectiveness; the coverage of the Board at its meetings; and change management in key strategic areas over the next three to five years.

Board membership and attendance

Six Board meetings were scheduled and held during the last financial year. Board membership and attendance at the meetings is set out below. Attendance is expressed as the number of meetings attended out of the number possible or applicable for the individual Director during the year to 31 March 2019.

		Attendance
Catherine Bell	Sufficiently Independent Director	6 of 6
Chris Bennett	Director UK Regulation	6 of 6
Clive Elphick	Sufficiently Independent Director	6 of 6
Alan Foster	UK CFO	5 of 6
Alexandra Lewis	Group Treasurer	4 of 6
Nicola Shaw CBE (Chair)	Executive Director UK	6 of 6
Phil Sheppard	Director Gas Transmission	6 of 6
Fintan Slye	Director of UK System Operator	6 of 6

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

Board remuneration

The Directors of the Company are not separately remunerated in that capacity with the exception of the SIDs. The remuneration of any Director who is also a member of the Board of National Grid, is determined by the Remuneration Committee of the Board of National Grid, as set out in its annual report and accounts. The remuneration of other Directors is determined in accordance with National Grid's remuneration policies for employees. As required by Section 33F of the Gas Act 1986, the Company has provided to Ofgem details of the linkages between Directors' remuneration and service standards.

Committees

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

- Gas Transmission Executive Committee
- System Operator Executive Committee
- Business Separation Compliance Committee
- Finance Committee
- Audit Committee

The Company does not have a Nominations or Remuneration Committee as these functions are provided by National Grid plc. See the Annual Report and Accounts of National Grid plc for further information about these committees.

Gas Transmission Executive Committee

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

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

GTEC acts within National Grid's overall corporate governance framework and delegated authorities and is responsible for the operational and financial management of the Gas Transmission Owner business. Membership of this Committee comprises at least two Directors of the Company, senior managers of the Gas Transmission Owner business and certain other senior managers.

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

System Operator Executive Committee

The System Operator Executive Committee (SOEC) acts within National Grid's overall corporate governance framework and delegated authorities and is responsible for the strategic direction of Great Britain SO activities (Gas and Electricity combined) and RIIO incentive and output performance measures. The SOEC was set up following the implementation of the new UK Operating Model in 2013. Membership of this Committee comprises Directors of the Company, senior managers of the Transmission business and certain other senior managers.

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

Business Separation Compliance Committees

The Business Separation Compliance Committee of the Board is responsible for overseeing the duties and tasks of the Business Separation Compliance Officer and for overseeing compliance with the business separation licence conditions.

Membership of the Committee is by appointment of the Board and comprises all directors of the licensee. The Committee is chaired by Dr Catherine Bell, SID, providing independent leadership of the Committee. Following the year end, Cathryn Ross has been appointed as the Chair of the Committee with effect from her appointment as a Director. The Business Separation Compliance Officer/Compliance Officer are in attendance and present reports on their duties, activities and compliance with the licence obligations.

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

Finance Committee

The Finance Committee of the Board is responsible for setting policy and grants authority for financing decisions, credit exposure, hedging and foreign exchange transactions, guarantees and indemnities subject to the risk appetite of the Board. It also approves, other treasury, tax, pension funding and insurance strategies, and if appropriate, recommends them to the Board. During the year, the Company's Pensions Committee was disbanded and the Finance Committee's remit was extended to also provide governance of the Company's pension schemes.

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

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

Audit Committee

The Audit Committee's role is to keep the Company's financial reporting and the effectiveness of its internal controls under review, together with its risk management processes. It also reviews the external audit plan and the external auditors' findings.

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

The Audit Committee provides the assurance required by the Board on matters within its authority. The Chairman provides a report on the meeting to the following Board meeting, and where applicable makes recommendations to the Board. The Board considers these recommendations and, where required, seeks further assurance and details to be brought to the Board.

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

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

Areas of focus

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

- Statutory and regulatory accounting statements;
- Going concern statements;
- Fair, balanced and understandable statements;
- Financial reporting;
- Internal controls and processes;
- Regulatory accounting[1];
- Risk management processes;
- Compliance matters, including compliance with licence obligations;

- Internal (corporate) audit plan; and
- Business conduct, including whistleblowing.

[1] No regulatory accounts have been produced for 2018/19 under consent from Ofgem effective from 26 February 2019, NGG are however still required to report regulatory results to Ofgem.

Significant issues

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

External audit

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

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

Internal (corporate) audit

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

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

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

Auditors' independence and objectivity

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

As highlighted in National Grid's Annual Report and Accounts for 2018/19 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. We remain satisfied that Deloitte remain sufficiently independent of National Grid Gas, the audit report presents the results of Deloitte's own independence assessment on page 37.

Following consideration of the auditors' independence from NGG, their 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 2020. A resolution to re-appoint Deloitte and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2019 AGM.

Directors' Report

The Directors present their report and the audited consolidated financial statements of the Group for the year ended 31 March 2019. In accordance with the requirements of the Companies Act 2006, the following sections describe the matters that are required for inclusion in the Directors' Report and were approved by the Board. Further details of matters required to be included in the Directors' Report are incorporated by reference into this report, as detailed below.

Directors

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

Andy Agg	Resigned 13 April 2018
Catherine Bell CB (SID*)	Resigned 21 June 2019
Chris Bennett	
Clive Elphick (SID*)	
Alan Foster	
Alexandra Lewis	Appointed 13 April 2018
Cathryn Ross (SID*)	Appointed 21 June 2019
Nicola Shaw CBE	
Phil Sheppard	
Fintan Slye	

*Sufficiently Independent Director

The Company has arranged, in accordance with the Companies Act 2006 and the Articles, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties. Equivalent qualifying third party indemnities were, and remain, in force for the benefit of those Directors who stood down from the Board during the year ended 31 March 2019. Alongside these indemnities, the Company places Directors' and Officers' liability insurance cover for each Director.

Principal activities and business review
A full description of the Company's principal activities, businesses, key performance indicators and principal risks and uncertainties is contained in the Strategic Report on pages 13 to 34, which are incorporated by reference into this report.

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

Dividends
A final dividend of £1,047 million was declared after the year end on 24 July 2019 (2017/18: NIL).

Share capital
Share capital remains unchanged. See note 24 to the consolidated financial statements for further details.

Research and development
Expenditure on research and development was £5 million during the year (2017/18: £4 million).

Financial instruments
Details on the use of financial instruments and financial risk management are included in note 13 to the consolidated financial statements.

Future developments
Details of future developments are contained in the Strategic Report.

Employee involvement
Details of how the Company involves its employees are contained in the Strategic Report on pages 16 and 17, which are incorporated by reference into this report.

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

Annual General Meeting
Notice of Company's Annual General Meeting for 2019 will be issued separately to the shareholder.

Going concern
Having made enquiries and reviewed management's assessment of the going concern assumption, the Directors consider it appropriate to prepare the financial statements on a going concern basis. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. More detail on our financial risks, including liquidity and solvency, is provided in note 29 to the consolidated financial statements. There have been no major changes to the liquidity and solvency risks in the year. Although not assessed over the same period, the viability has been assessed on page 23.

On behalf of the Board

Alan Foster
UK CFO
24 July 2019
National Grid Gas plc
1-3 Strand, London WC2N 5EH
Registered in England and Wales Number 2006000

Introduction to the financial statements

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

Notes

Notes to the financial statements provide additional information required by statute, accounting standards or other regulations to assist in a more detailed understanding of the primary financial statements. In many notes we have included an accounting policy that describes how the transactions or balance in that note have been measured, recognised and disclosed. The basis of preparation section provides details of accounting policies that apply to transactions and balances in general.

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the 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 have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply the consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the 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.

In preparing the 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 IFRS 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 company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Alan Foster
UK CFO
24 July 2019

Independent Auditor's Report to the Members of National Grid Gas plc

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements of National Grid Gas plc the Parent Company) and its subsidiaries (the Group) give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2019 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 (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);**
- **the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; 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 which comprise:

Group:

- 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; and
- the related notes 1 to 33 of the consolidated financial statements;

Parent Company:

- the Company accounting policies;
- the Company balance sheet;
- the Company statement of changes in equity; and
- the related notes 1 to 20 of the Parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (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 parent 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 (the FRC's) 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 parent 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 were: • *classification of exceptional items;* • *IT user access controls;* • *net pension obligations; and* • *treasury derivative transactions* Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with . Key audit matters with increased or lower levels of risk compared to the prior year are identified with and .
Materiality	The materiality that we used for the Group financial statements was £16.3 million which was determined based on the adjusted profit before tax metric (profit before tax excluding the impact of reported exceptional items and remeasurements) and considered in the context of statutory profit before tax.
Scoping	We focused our group audit scope on the parent company and this accounts for 96% of the group's revenue, 98% of profit before tax and 99% of net assets.
Significant changes in our approach	Three key audit matters identified in the previous year and described in our report for the year ended 31 March 2018 are not included in our report for the year ended 31 March 2019. These are: • the internal control refresh programme – the refresh programme was completed in the prior year and so has not been identified as a key audit matter in the current year; • classification of capital costs – our prior year audit procedures identified no issues with the classification of costs between capital and operating and confirmed that there is little judgement required. Accordingly, we have not identified it as a key audit matter in the current year; and • revenue recognition – as the prior year was the first year of our audit tenure we invested significant resource in understanding the regulatory environment and methodologies used. Our prior year audit confirmed that there is no significant judgement in revenue recognition and accordingly, we have not identified it as a key audit matter in the current year This year we have identified *the classification of exceptional items* as a new key audit matter, due to the significant judgement exercised in determining whether an item is exceptional or not.

Conclusions relating to going concern

Going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

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.

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 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.

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.

Classification of exceptional items

Key audit matter description

The consolidated income statement identifies separately exceptional items and certain remeasurements. This results in focus being placed on what management refer to as "business performance" or "adjusted profit".

Adjusted profit is a critical measure for stakeholders and underpins the Group's description of business results and therefore the correct classification of items is important for users of the financial statements.

We have identified a key audit matter with regards to the classification and accuracy of the amounts referred to as exceptional due to the judgemental nature of the classification and the fact that it affects the adjusted profit of the Group.

In the current year management classified the following item as an exceptional charge:

- costs of implementing the UK cost efficiency and restructuring programme (£36 million)

	Additional information is included in note 5 and in the accounting policy, which also sets out the exceptional items framework that management utilise to identify and classify relevant one off items.
How the scope of our audit responded to the key audit matter	We have evaluated the design and tested the implementation and operating effectiveness of controls over the classification and accuracy of amounts presented as exceptional items. We have obtained management's exceptional items framework and assessed the reasonableness of the framework for identifying items as being exceptional, and have assessed whether the classification of these items complies with the approved framework. We have also tested the accuracy of the underlying calculations, confirmed that the costs are incremental and directly attributable and assessed whether there are other items which should also have been recorded as exceptional items.
Key observations	We consider that the nature of items disclosed as exceptional comply with the Audit Committee approved exceptional items framework, and that the amounts identified as being exceptional have been correctly determined.
IT user access controls	
Key audit matter description	In the year to 31 March 2018 ('prior year'), 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 deficiencies identified increased the risk that individuals within the Group and at service organisations had inappropriate access during the period. Management initiated a programme in the prior year to remediate the identified deficiencies and this continued throughout the year to 31 March 2019 ("current year"). This involved a project to manage the risks where conflicting access rights may not be segregated, the implementation of appropriate privileged access processes and controls across the Group and Group IT service providers, and strengthening controls over user access management. The Group has made significant progress in implementing and improving controls over the access deficiencies, particularly within the IT systems used within the UK operations, resulting in the deficiencies identified in the prior year bring remediated at year-end. However, the existence of deficiencies during the year results in an increased risk that data and reports from the affected systems are not reliable. The level of risk ascribed to our work in this area is dependent on the nature and complexity of the controls themselves and the balances within the financial statements the controls address.

How the scope of our audit responded to the key audit matter

In responding to the access deficiencies for in scope IT systems and the associated IT infrastructure, we have:

- determined the impact that inappropriate levels of access could feasibly have had on the affected systems and account balances 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 are satisfied that the mitigating business controls address the risk of a material misstatement to the financial statements. Due to the fact that the newly remediated controls did not operate for the entire year, we conducted a largely substantive audit. We have, however, continued to rely on controls in certain areas where the IT systems were not impacted by the access deficiencies.

Net pension obligations

Key audit matter description

Substantially all of the Group's employees are members of one of a number of pension schemes. These pension schemes include both defined benefit and defined contribution schemes.

We have identified a key audit matter specifically in relation to the assumptions used in the valuations of the defined benefit obligations, which as at 31 March 2019 represent an obligation of £5.3 billion (31 March 2018: £5.3 billion), and scheme assets of £5.8 billion (31 March 2018: £5.7 billion).

The key judgements relating to the pension obligations include inflation assumptions, discount rate, mortality assumptions and future salary changes applied to active members. The setting of these assumptions is complex and changes to them can have a material impact on the value of pension liabilities.

The pension schemes include a number of unquoted 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 assessed the risk associated with the discount rates applied to net pension obligations to be "higher" in the current year, compared with "significant" in the prior year. This is informed by the results of our prior year audit which confirmed that although there is a significant level of estimation uncertainty and judgement involved, the assumptions and methodology used by management are based on the advice of qualified actuaries and can be benchmarked to market data and comparable plans. Furthermore there has been no change during the year in actuarial advisor or the methodology used to develop key assumptions.

Additional information is included in note 22 and in the accounting policy.

How the scope of our audit responded to the key audit matter	We have evaluated the design and tested the implementation and operating effectiveness of controls over the valuation of 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. 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, GMP equalisation, 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/or our internal benchmarks. Additionally, we have considered the independence, objectivity and competence of the independent actuaries engaged to perform valuations of the relevant schemes. We have engaged internal specialists to challenge the valuation of scheme assets, in particular the unquoted assets. Our work has included assessing the reasonableness of the valuation methodologies applied, reviewing publicly available information on these assets, comparing to internal benchmarks and confirmation of inputs used by management to determine the asset values.
Key observations	We judge the discount rates and other key pension assumptions used by management to be in the middle of our internally developed reasonable range or consistent with our internally developed assumptions. The results of our procedures performed over the valuation of unquoted assets were satisfactory.

Treasury derivative transactions	
Key audit matter description	At 31 March 2019 the Group had total borrowings of £4.8 billion (31 March 2018: £5.0 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 'level 3' treasury derivatives as an increased risk within our audit plan due to the level of judgement and the technical nature of determining derivative values. We have also identified the net investment hedge accounting requirements as an increased risk. In the current year IFRS 9 'Financial Instruments' was implemented for the first time. As

	the Group elected to employ the modified retrospective method of transitioning, this resulted in transition adjustments being recorded to shareholders' equity at the beginning of the current year.
How the scope of our audit responded to the key audit matter	We have evaluated the design and tested the 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 valuation 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 assessed the appropriateness of the hedge documentation, eligibility of designations and hedge effectiveness testing performed by management and tested the disclosure within the financial statements. We have assessed the accuracy and completeness of the IFRS 9 transition adjustments and the accounting for the classification and measurement of financial assets and liabilities within the scope of the standard in the current year to determine whether the appropriate accounting treatment has been adopted by the Group.
Key observations	We conclude that the valuation of derivatives and 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	Parent company financial statements
Materiality	Materiality has been set at £16.3 million for the current year. In 2018 the materiality was set at £24.2 million.	Materiality has been set at £15.9 million for the current year. In 2018 the materiality was set at £24.1 million.
Basis for determining materiality	We considered a number of metrics to determine Group materiality, most notably adjusted profit before tax (profit before tax, exceptional items and remeasurements) for the year as disclosed in the consolidated income statement. Our materiality equates to 5% of adjusted profit before tax and 5.7% of statutory profit before tax. In the prior year materiality was also determined based on profit before tax, exceptional items and remeasurements.	We have set materiality based on 5% of adjusted profit before tax.

Rationale for the benchmark applied	We consider adjusted profit before tax to be an important benchmark of the performance of the Group. We consider it appropriate to adjust for exceptional items and remeasurements as these items are volatile and not reflective of the underlying performance of the Group. We conducted an assessment of which line items we understand to be the most important to investors and analysts by reviewing analyst reports and National Grid's communications to shareholders and lenders, as well as the communications of peer companies. Profit before tax is the benchmark ordinarily considered by us where the focus of the users is earnings. It provides comparability against other companies across all sectors, but has limitations when auditing companies whose earnings are impacted by items which can be volatile from one period to the next, and therefore may not be representative of the volume of transactions and the overall size of the business in a given year. Whilst not an FRS measure, adjusted profit is one of the key metrics communicated by management in the Annual Report and Accounts. It excludes some of the volatility arising from changes in fair values of financial assets and liabilities as well as "exceptional items" and this was also the key measure applied in the prior year.	We consider adjusted profit before tax to be an important benchmark of the performance of the Group. We consider it appropriate to adjust for exceptional items and remeasurements as these items are volatile and not reflective of the underlying performance of the Group. We conducted an assessment of which line items we understand to be the most important to investors and analysts by reviewing analyst reports and National Grid's communications to shareholders and lenders, as well as the communications of peer companies. Profit before tax is the benchmark ordinarily considered by us where the focus of the users is earnings. It provides comparability against other companies across all sectors, but has limitations when auditing companies whose earnings are impacted by items which can be volatile from one period to the next, and therefore may not be representative of the volume of transactions and the overall size of the business in a given year. Whilst not an FRS measure, adjusted profit is one of the key metrics communicated by management in the Annual Report and Accounts. It excludes some of the volatility arising from changes in fair values of financial assets and liabilities as well as "exceptional items" and this was also the key measure applied in the prior year.

Performance materiality for the current year has been set at £11.4 million (2018: £17.0 million), or 70% of materiality (2018: 70%).

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. In determining performance materiality, we considered factors including:

- our risk assessment, including our assessment of the Group's overall control environment;
- the high audit coverage obtained from auditing a low number of components; and
- our prior year experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.8 million (2018: £1.2 million), as well as differences below that threshold that, in our view, warranted 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.

An overview of the scope of our audit

The group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. We focused our group audit scope on the parent company which was subject to a full scope audit and was executed at a component materiality of £15.9 million. This accounts for 99% of the group's revenue, profit before tax and net assets.

Audit work to address the identified risks of material misstatement was performed directly by the audit engagement team and no component auditors were engaged.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

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.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 parent 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 parent 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team and involving relevant internal specialists, including tax, pensions, treasury and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act 2006, pensions and tax legislation, as well

as laws and regulations prevailing in the UK. In addition, compliance with terms of the Group's operating licence and environmental regulations were fundamental to the Group's operations.

Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by 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 parent 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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent 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.

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 Company at its Annual General Meeting on 31 July 2017 to audit the financial statements of the Company for the year ending 31 March 2018 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years, covering the years ended 31 March 2018 and 31 March 2019.

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).

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.

Jane Whitlock ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, UK
24 July 2019

Consolidated income statement

for the years ended 31 March

	Notes	**2019 £m**	**2019 £m**	2018 £m	2018 £m
Continuing operations					
Revenue	2 (a)		**1,209**		1,424
Operating costs	4		**(738)**		(777)
Operating profit					
Before exceptional items	2 (b)	**471**		647	
Exceptional items	5	**(36)**		-	
Total operating profit	2 (b)		**435**		647
Finance income	6		**24**		8
Finance costs					
Before exceptional items and remeasurements	6	**(155)**		(204)	
Exceptional items and remeasurements	5, 6	**(17)**		21	
Total finance costs	6		**(172)**		(183)
Profit before tax					
Before exceptional items and remeasurements		**340**		451	
Exceptional items and remeasurements	5	**(53)**		21	
Total profit before tax			**287**		472
Tax					
Before exceptional items and remeasurements	7	**(79)**		(98)	
Exceptional items and remeasurements	5, 7	**10**		(4)	
Total tax	7		**(69)**		(102)
Profit after tax					
Before exceptional items and remeasurements		**261**		353	
Exceptional items and remeasurements	5	**(43)**		17	
Profit after tax from continuing operations			**218**		370
Profit after tax from discontinued operations	9		**-**		17
Total profit for the year (continuing and discontinued) attributable to owners of the parent			**218**		387

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2019 £m	2018 £m
Profit for the year		**218**	387
Other comprehensive income from continuing operations:			
Items from continuing operations that will never be reclassified to profit or loss			
Remeasurement gains on pension assets and post-retirement benefit obligations	22	**9**	330
Net gains on financial liability designated at fair value through profit and loss attributable to changes in own credit risk		**7**	-
Tax on items that will never be reclassified to profit or loss	7	**(1)**	(55)
Total items from continuing operations that will never be reclassified to profit or loss		**15**	275
Other comprehensive income from continuing operations:			
Items from continuing operations that may be reclassified subsequently to profit or loss			
Net losses in respect of cash flow hedges and cost of hedging		**(2)**	(8)
Transferred to profit or loss on cash flow hedges and cost of hedging		**4**	5
Total items from continuing operations that may be reclassified subsequently to profit or loss		**2**	(3)
Other comprehensive income for the year, net of tax from continuing operations		**17**	272
Other comprehensive income for the year, net of tax from discontinued operations		**-**	-
Other comprehensive income for the year, net of tax		**17**	272
Total comprehensive income for the year from continuing operations		**235**	642
Total comprehensive income for the year from discontinued operations		**-**	17
Total comprehensive income for the year attributable to owners of the parent		**235**	659

Consolidated statement of changes in equity

	Share capital £m	Share premium account £m	Retained earnings £m	Other reserves[1] £m	Shareholders' equity £m
At 1 April 2017	45	204	2,265	1,325	3,839
Profit for the year	-	-	387	-	387
Total other comprehensive income for the year	-	-	275	(3)	272
Total comprehensive income for the year	-	-	662	(3)	659
Share-based payments	-	-	3	-	3
At 31 March 2018 (as previously reported)	**45**	**204**	**2,930**	**1,322**	**4,501**
Impact of transition to IFRS9 and IFRS15[2]	**-**	**-**	**20**	**14**	**34**
At 31 March 2018 (as restated)	**45**	**204**	**2,950**	**1,336**	**4,535**
Profit for the year	**-**	**-**	**218**	**-**	**218**
Total other comprehensive income for the year	**-**	**-**	**9**	**8**	**17**
Total comprehensive income for the year	**-**	**-**	**227**	**8**	**235**
Share-based payments	**-**	**-**	**3**	**-**	**3**
At 31 March 2019	**45**	**204**	**3,180**	**1,344**	**4,773**

1. For further details of other equity reserves, see note 25.
2. For further details of the impact of transition of IFRS 9 and IFRS 15, see note 33.

Consolidated statement of financial position

as at 31 March

	Notes	2019 £m	2018 £m
Non-current assets			
Intangible assets	10	**119**	113
Property, plant and equipment	11	**4,519**	4,416
Other non-current assets	12	**3,503**	3,514
Derivative financial assets	13	**639**	591
Pensions asset	22	**442**	412
Total non-current assets		**9,222**	9,046
Current assets			
Inventories and current intangible assets	14	**14**	23
Trade and other receivables	15	**310**	314
Financial and other investments	16	**1,319**	1,529
Derivative financial assets	13	**33**	43
Cash and cash equivalents	17	**-**	275
Total current assets		**1,676**	2,184
Total assets		**10,898**	11,230
Current liabilities			
Borrowings	18	**(716)**	(896)
Derivative financial liabilities	13	**(48)**	(65)
Trade and other payables	19	**(325)**	(632)
Contract liabilities	20	**(33)**	-
Current tax liabilities		**(34)**	(27)
Provisions	23	**(57)**	(70)
Total current liabilities		**(1,213)**	(1,690)
Non-current liabilities			
Borrowings	18	**(4,121)**	(4,139)
Derivative financial liabilities	13	**(116)**	(157)
Other non-current liabilities	21	**(17)**	(177)
Contract liabilities	20	**(99)**	-
Deferred tax liabilities	7	**(459)**	(437)
Provisions	23	**(100)**	(129)
Total non-current liabilities		**(4,912)**	(5,039)
Total liabilities		**(6,125)**	(6,729)
Net assets		**4,773**	4,501
Equity			
Share capital	24	**45**	45
Share premium account		**204**	204
Retained earnings		**3,180**	2,930
Other reserves	25	**1,344**	1,322
Shareholders' equity		**4,773**	4,501

These consolidated financial statements set out on pages 50 to 104 were approved by the Board of Directors and authorised for issue on 24 July 2019. They were signed on its behalf by:

Nicola Shaw Chair

Alan Foster Director

National Grid Gas plc
Registered number: 2006000

Consolidated cash flow statement

for the years ended 31 March

	Notes	2019 £m	2018 £m
Cash flows from operating activities			
Total operating profit	2(b)	**435**	647
Adjustments for:			
Exceptional items	5	**36**	-
Depreciation, amortisation and impairment		**208**	246
Share-based payment charge		**3**	3
Changes in working capital		**(212)**	103
Changes in provisions		**(30)**	(29)
Loss on disposal of property, plant and equipment and intangible assets		**17**	25
Changes in pensions and other post-retirement benefit obligations		**(22)**	(36)
Cash flows relating to exceptional items		**(37)**	-
Cash generated from operations		**398**	959
Tax (paid)/recovered		**(67)**	16
Net cash inflow from operating activities - continuing operations		**331**	975
Net cash inflow from operating activities - discontinued operations		**-**	(98)
Cash flows from investing activities			
Purchases of intangible assets		**(27)**	(16)
Purchases of property, plant and equipment		**(310)**	(308)
Disposals of property, plant and equipment		**4**	-
Interest received		**11**	8
Movement in short-term financial investments		**210**	327
Net cash flow used in investing activities - continuing operations		**(112)**	11
Cash flows from financing activities			
Repayment of loans		**(456)**	(264)
Net settlement in short-term borrowings and derivatives		**53**	(10)
Interest paid		**(91)**	(100)
Net cash flow used in financing activities - continuing operations		**(494)**	(374)
Net cash flow from financing activities - discontinued operations		**-**	(231)
Net (decrease)/increase in cash and cash equivalents		**(275)**	283
Net cash and cash equivalents at the start of the year		**275**	(8)
Net cash and cash equivalents at the end of the year	17	**-**	275

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 2018 or later years, explaining how significant changes are expected to affect our reported results.

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

These consolidated financial statements were approved for issue by the Board of Directors on 24 July 2019.

These consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations as issued by the International Accounting Standards Board (IASB) and IFRS as adopted by the EU. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ending 31 March 2019 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 and the revaluation of derivative financial instruments.

These consolidated financial statements are presented in pounds sterling, which is also the functional currency of the Company.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period (see accounting policy E).

A. Going Concern

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

B. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to affect the returns of an entity to which it is exposed or to which it has rights.

Where necessary, adjustments are made to bring the accounting policies used in the individual financial statements of the Company and its subsidiaries into line with those used by the Company in its consolidated financial statements under IFRS. Inter-company transactions are eliminated.

C. Foreign currencies

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

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the adoption of hedge accounting requires inclusion in other comprehensive income (see note 29).

D. 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.

1. Basis of preparation and recent accounting developments (continued)

D. Areas of judgement and key sources of estimation uncertainty (continued)

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

- review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – notes 10 and 11.
- estimation of liabilities for pensions and other post-retirement benefits – note 22.
- revenue recognition and assessment of unbilled revenue – note 3.
- environmental and other provisions – note 23.
- the categorisation of certain items as exceptional items - note 5;

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

E. 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. Exceptional items and remeasurements are presented in a separate lines on the face of the income statement.
- Financial instruments: we normally opt to apply hedge accounting in most circumstances where this is permitted (see note 29(e)).

F. New IFRS accounting standards effective for the year ended 31 March 2019

The Group adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' with effect from 1 April 2018. We have applied the modified retrospective approach permitted in the Standards whereby prior year comparatives have not been restated on adoption. Instead, the cumulative transition adjustments are reflected through reserves. Refer to note 33 for full details of the impact and transition adjustments arising on adoption.

The Group has also adopted the following amendments to standards, which have had no material impact on the Group's results or financial statement disclosure:

- Annual improvements to IFRSs 2014-2016 Cycle;
- Amendments to IFRS 2 'Share-based payment'; and
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'.

1. Basis of preparation and recent accounting developments (continued)

G. New IFRS accounting standards and interpretations not yet adopted

The Group has considered the impact of the following new IFRS standards or interpretations that have not yet been adopted:

(i) IFRS 16 "Leases"

IFRS 16 'Leases' is effective for the Group for the year ending 31 March 2020. IFRS 16 introduces a single lease accounting model for lessees (rather than the current distinction between operating and finance leases). A contract is, or contains a lease, if it provides the right to control the use of an identified asset for a specific period of time in exchange for consideration. The new standard will result in our operating leases being accounted for on the consolidated statement of financial position as 'right-of-use' assets with corresponding lease liabilities also recognised. It will therefore increase both our assets and liabilities (including net debt). In future periods, this will change the timing and presentation in the income statement as it will result in an increase in finance costs and depreciation largely offset by a reduction in the previously straight-line operating costs.

Transition options

We will apply IFRS 16 with effect from 1 April 2019 using the modified retrospective approach. Comparatives will not be restated on adoption. Instead, a cumulative adjustment to our opening statement of financial position will be reflected in retained earnings as well as recognition of the opening right-of-use assets and additional lease liabilities and associated deferred tax. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), the Group will continue to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

In preparing for the transition, we have elected to apply the practical expedient to grandfather our previous assessments of whether contracts were previously accounted for as a lease, as permitted by the standard, instead of reassessing all significant contracts as at the date of initial application to determine whether they met the IFRS 16 definition of a lease.

We have elected to apply the practical expedient on transition, which permits right-of-use assets to be measured at an amount equal to the lease liability on adoption of the standard (adjusted for any prepaid or accrued lease expenses).

Impact of transition

As at the reporting date, the Group has non-cancellable operating lease commitments of £19 million (see note 27), which represents the period of the minimum contractual term that is used in determining our lease liability commitments. There are some immaterial short term and low value leases, which will be recognised on a straight-line basis as an expense in profit and loss over the remaining lease term.

As a result, the Group expects to recognise additional right-of-use assets of £17 million and lease liabilities (which are included within net debt) of approximately £18 million at 1 April 2019 with no material additional net deferred tax.

Accordingly, the Group does not expect the impact of IFRS 16 on profit after tax as a result of adopting the new standard to be material. However, it will result in an increase in operating profit due to the operating costs now being replaced with depreciation and interest charges.

We expect operating cash flows to increase and financing cash flows to decrease by £5 million, because repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities rather than operating cash flows.

(ii) 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:

- IFRIC 23 'Uncertainty over Income Tax Treatments';
- 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';
- Amendments to IAS 19 'Employee Benefits';
- Amendments to IFRS 3 'Business Combinations';
- Amendments to the References to the Conceptual Framework; and
- Amendments to IAS 1 and IAS 8: Definition of material.

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 adopted any other standard, amendment or interpretation that has been issued but is not yet effective.

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 also includes income arising from the provision of transitional services to Cadent Gas Limited as part of the separation process of the businesses.

We present revenue and the results of the business analysed by operating segment, based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between operating segments. The Board is National Grid Gas plc's chief operating decision-making body (as defined by IFRS 8 'Operating Segments') and assesses the performance of operations principally on the basis of operating profit before exceptional items and remeasurements (see note 5).

There has been no change to the way in which our businesses have reported internally during the year. The following are the main activities for each operating segment:

1. **Gas Transmission** - The gas transmission network in Great Britain and liquefied natural gas (LNG) storage activities.
2. **Other activities** - Relate to the gas metering business, which provides regulated gas metering activities in the UK, together with corporate activities.

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

(a) Revenue

	2019			2018		
	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 segment						
Gas Transmission	**896**	**(7)**	**889**	1,091	(4)	1,087
Other activities	**324**	**(4)**	**320**	342	(5)	337
Continuing operations	**1,220**	**(11)**	**1,209**	1,433	(9)	1,424

Analysis of revenue by major customer, greater than 10% revenue contribution:

	2019 £m	2018 £m
Customer A	**190**	142
Customer B	**129**	-

No other single customer contributed 10% or more to the Group's revenue in either 2018 or 2019.

2. Segmental analysis (continued)

(b) Operating profit

A reconciliation of the operating segments' measure of profit to total profit before tax is provided below. Further details of the exceptional items and remeasurements are provided in note 5.

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Operating segment				
Gas Transmission	**303**	493	**267**	493
Other activities	**168**	154	**168**	154
Continuing operations	**471**	647	**435**	647
Discontinued operations	**-**	-	**-**	17
Reconciliation to profit before tax from continuing operations:				
Operating profit	**471**	647	**435**	647
Finance income	**24**	8	**24**	8
Finance costs	**(155)**	(204)	**(172)**	(183)
Profit before tax from continuing operations	**340**	451	**287**	472
Profit before tax from discontinued operations	**-**	-	**-**	17

(c) Property, plant and equipment and intangible assets

	Net book value of property, plant and equipment and intangible assets		Capital expenditure		Depreciation, impairment and amortisation	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Operating segments						
Gas Transmission	**4,417**	4,286	**308**	310	**181**	188
Other activities	**221**	243	**32**	30	**27**	58
Continuing operations	**4,638**	4,529	**340**	340	**208**	246
Continuing operations by asset type						
Property, plant and equipment	**4,519**	4,416	**313**	324	**179**	216
Intangible assets	**119**	113	**27**	16	**29**	30
	4,638	4,529	**340**	340	**208**	246

3. Revenue

Revenue arises in the course of the ordinary activities and principally comprises of transmission services. Transmission services and certain other services (excluding rental income but including metering) fall within the scope of IFRS 15 'Revenue from Contracts with Customers'. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties and value added tax. The Group recognises revenue when it transfers control over a product or service to a customer. It excludes value added tax and intra-group sales.

IFRS 15 was effective from 1 April 2018. As explained in note 33, the standard has been applied prospectively and therefore the analysis below is only provided for the current period. The impact of adoption on the opening balance sheet and reserve is disclosed in note 33. Note 33 also includes the quantification of the impact for the year if revenue were still to have been accounted for under IAS 18, which arises from a change in the recognition of receipts from other UK network owners (having no impact on operating profit), for a full list of changes IFRS15 changes, please refer to note 33.

3. Revenue (continued)

The following is a description of principal activities from which the Group generates its revenue. For more detailed information about our segments, see note 2.

UK Gas Transmission

The UK Gas Transmission segment principally generates revenue by providing gas transmission services to our customers (both as transmission owner and system operator) in Great Britain. The business operates as a monopoly regulated by Ofgem which has established price control mechanisms that determines our annual allowed returns our business can earn. We work with our regulators to obtain robust regulatory agreements that balance the risks we face with the opportunity to deliver reasonable returns for our investors. Our regulated businesses earn revenue for the transmission services they have provided during the year. In any one year, the revenue recognised may differ from the revenue allowed under our regulatory agreements and any such timing differences are adjusted against future prices.

The IFRS revenues we report are principally a function of volumes and price. Price is determined prior to our financial year end with reference to the regulated allowed returns and estimated annual volumes. The sales value for the transmission of gas is largely determined from the amount of system capacity sold for the year, and the amount of gas transported for the year, evaluated at contractual prices on a monthly basis. Where revenue received or receivable exceeds the maximum amount permitted by the regulatory agreement, adjustments will be made to the future prices to reflect this over-recovery. No liability is recognised as such an adjustment to future prices 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.

The transmission of gas encompasses the following principally activities:

- the supply of high-pressure gas (including both transmission and system operator charge); and
- construction work (principally for connections).

For the supply of high-pressure gas, revenue is recognised based on capacity and volumes. Our performance obligation is satisfied over time as our customers make use of our network, and we bill monthly in arrears with payment terms up to 45 days.

For construction work relating to connections, customers pay for the connection. Revenue is recognised over time, as we provide access to our network, and revenues are deferred and released over the life of the connection.

For other construction where there is no consideration for any future services (such as diversions), revenues are recognised when the construction work is completed.

Other activities

This segment has two principal sources of revenues:

1. Revenues for our Metering business The sales value for the provision of gas metering services is largely derived from monthly charges for the provision of individual meters under contractual arrangements; and
2. Provision of services to Cadent under a transitional services agreements (TSA) as part of the separation of the GD business. This largely relates to IT and property services.

The following table reconciles disaggregated revenue with the Group's reportable segments (see note 2).

Revenue for the year ended 31 March 2019	UK Gas Transmission £m	Other £m	Total £m
Revenue under IFRS 15:			
Gas Transmission	**838**	**258**	**1,096**
Other revenue:			
Other	**51**	**62**	**113**
Total revenue from continuing operations	**889**	**320**	**1,209**

Revenue to be recognised in future periods, presented as contract liabilities of £132 million (see note 20), relates to contributions in aid of construction. Revenue is recognised over the life of the asset, which for Gas Transmission is 51 years (to 2070)

Total revenue from continuing operations are generated from operations based in the UK.

The business also receives recovery of pension deficit from other gas transporters under regulatory arrangement.

4. 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.

	Before exceptional items and remeasurements		Exceptional items and remeasurements		Total	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Depreciation, impairment and amortisation	**208**	246	**-**	-	**208**	246
Payroll costs	**139**	141	**32**	-	**171**	141
Purchases of gas	**75**	75	**-**	-	**75**	75
Rates	**93**	94	**-**	-	**93**	94
Inventory consumed	**10**	9	**-**	-	**10**	9
Operating leases	**6**	6	**-**	-	**6**	6
Research and development expenditure	**5**	4	**-**	-	**5**	4
Other	**202**	202	**4**	-	**206**	202
Continuing operations	**738**	777	**36**	-	**774**	777

(a) Payroll costs

	2019 £m	2018 £m
Wages and salaries	**109**	108
Social security costs	**16**	16
Defined contribution scheme costs	**12**	10
Defined benefit pension costs	**41**	23
Charges to other group defined benefit schemes	**2**	-
Share-based payments	**3**	4
Severance costs (excluding pension costs)	**12**	2
	195	163
Less: payroll costs capitalised	**(24)**	(22)
Continuing operations	**171**	141

(b) Number of employees, including Directors

	31 March 2019 Number	31 March 2018 Number	**Monthly average 2019 Number**	Monthly average 2018 Number
Gas Transmission and Other[1]	**1,945**	2,134	**2,084**	1,992

[1] Other comprises National Grid Metering and employees working in shared services supporting the Gas Transmission businesses.

(c) Key management compensation

	2019 £m	2018 £m
Salary and short-term employee benefits	**1**	2
Share-based payment	**1**	1
	2	3

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

4. Operating cost (continued)

(d) Directors' emoluments

The aggregate amount of emoluments (excluding social security, pensions and share-based payment) paid to the Directors of the company in respect of qualifying services for 2019 was £1,356,031 (2018: £1,448,775)

During 2019 five Directors excluding the highest paid Director exercised share options (2018: No Directors).

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

As at 31 March 2019, retirement benefits were accruing to three (2018: seven) Directors under a defined benefit scheme.

The aggregate emoluments for the highest paid Director were £479,326 for 2019 (2018: £512,696) and total accrued annual pension at 31 March 2019 for the highest paid Director was £nil (2018: £nil).

The aggregate amount of loss of office payments to Directors for 2019 was £nil (2018: £nil).

(e) Auditors' remuneration

	2019 £m	2018 £m
Audit services		
Audit of parent company and consolidated financial statements	**0.4**	0.4
Other services		
Fees payable to the company's auditors for audit-related assurance services	**0.4**	0.5

Fees payable to the Company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are required to be carried out by the auditors. These fees have been subject to approval by the Audit Committee of National Grid plc.

5. 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 we believe these items are individually important to understanding our financial performance. If included, these items could distort understanding of our performance for the year and the comparability between periods. This note analyses these items, which are included in our results for the year but are excluded from business performance.

Exceptional items and remeasurements from continuing operations

	2019 £m	2018 £m
Included within operating profit:		
Exceptional items:		
Cost efficiency and restructuring programmes	**(36)**	-
	(36)	-
Included within finance costs:		
Remeasurements:		
Net gains on derivative financial instruments	**34**	21
Net loss on financial liabilities held at fair value through profit and loss	**(51)**	-
	(17)	21
Total included within profit before tax	**(53)**	21
Included within taxation:		
Exceptional credit arising on items not included in profit before tax:		
Tax on exceptional items	**7**	-
Tax on remeasurements	**3**	(4)
	10	(4)
Total exceptional items and remeasurements after tax	**(43)**	17
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	**(29)**	-
Total remeasurements after tax	**(14)**	17
Total exceptional items and remeasurements from continuing operations	**(43)**	17

Exceptional items

Management uses an exceptional items framework that has been discussed and approved by the National Grid Gas plc 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.

5. Exceptional items and remeasurements (continued)

Further detail of exceptional items specific to 2019:

In assessing certain items of income and expenditure against our exceptional items framework, we have concluded that the costs associated with our cost efficiency and restructuring programme (£36 million) should be treated as exceptional (as described further below).

Cost efficiency and restructuring programmes: Our UK Gas Transmission business incurred restructuring charges as we reviewed organisational structures, operational activities and relevant roles and responsibilities to ensure we are able operate more efficiently and to continue to drive outperformance for customers and shareholders. This resulted in a charge of £36 million in severance and associated planning and support costs. A net charge of £19m relating to pensions is included in this amount.

Remeasurements

Remeasurements comprise unrealised gains or losses recorded in the income statement arising from changes in the fair value of certain of our financial assets and liabilities accounted for at fair value through profit and loss (FVTPL). Consistent with prior periods, in the current period these assets and liabilities include financial derivative instruments to the extent that hedge accounting is not achieved or is not effective.

Following the adoption of IFRS 9 in the current period, this year we have also classified the unrealised gains or losses reported in profit and loss on certain additional assets and liabilities now treated at FVTPL within remeasurements. These relate to certain financial liabilities which we elected to designate at FVTPL on transition. In all cases, these fair values increase or decrease because of changes in foreign exchange or other financial indices over which we have no control.

Remeasurements excluded from business performance are made up of the following categories:

i. Net gains/(losses) on derivative financial instruments comprise gains/(losses) arising on derivative financial instruments reported in the consolidated income statement in relation to our debt financing. These exclude gains and losses for which hedge accounting has been effective, and have been recognised directly in other comprehensive income or are offset by adjustments to the carrying value of debt (see notes 13 and 29).

ii. Net gains/(losses) on financial liabilities measured at FVTPL comprises the change in the fair value (excluding changes due to own credit risk) of a financial liability that has been designated at FVTPL on transition to IFRS 9 to reduce a measurement mismatch (see note 18).

Items included within tax

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 2019 and 31 March 2018.

6. Finance income and costs

This note details the interest income generated by our financial assets and interest expense incurred on our financial liabilities, primarily our financing portfolio (including our financing derivatives). 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 financial instruments included in remeasurements (see note 5).

The Group adopted IFRS 9 with effect from 1 April 2018. The comparatives are not required to be restated and are accounted for in accordance with IAS 39. Following the adoption of IFRS 9, finance income and costs remeasurements include unrealised gains and losses on certain assets and liabilities now treated at FVTPL. The interest income, dividends and interest expense on these items are included in finance income and finance costs before remeasurements, respectively.

	2019	2018
	£m	£m
Finance income		
Interest income on financial instruments:		
Bank deposits and other financial assets	**13**	7
Net interest on pension asset	**11**	1
	24	8
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**(30)**	(30)
Other borrowings	**(171)**	(235)
Interest expense on financial liabilities held at fair value through profit and loss	**(20)**	-
Derivatives	**51**	53
Unwinding of discount on provisions	**(2)**	(1)
Less: interest capitalised [1]	**17**	9
	(155)	(204)
Remeasurements - Finance costs		
Net loss on financial liabilities held at fair value through profit and loss	**(51)**	-
Net gains/(losses) on derivative financial instruments [2]:		
Derivatives designated as hedges for hedge accounting	**-**	24
Derivatives not designated as hedges or ineligible for hedge accounting	**34**	(3)
	(17)	21
Total remeasurements - Finance income and costs	**(148)**	(175)
Finance income	**24**	8
Finance costs	**(172)**	(183)
Net finance costs from continuing operations	**(148)**	(175)

1 Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 4.2% (2018: 4.8%). Capitalised interest qualifies for a current year tax deduction with tax relief claimed of £3 million (2018: £1 million).

2 Includes a net foreign exchange loss on financing activities of £73 million (2018: £99 million gain) offset by foreign exchange losses and gains on derivative financial instruments measured at fair value.

7. Taxation

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

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

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

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

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

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

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

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

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

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

Tax charged/(credited) to the income statement	**2019**	2018
	£m	£m
Tax before exceptional items and remeasurements	**79**	98
Tax on total exceptional items and remeasurements (note 5)	**(10)**	4
Total tax charge from continuing operations	**69**	102

Taxation as a percentage of profit before tax		
	%	%
Before exceptional items and remeasurements	**23.2**	21.7
After exceptional items and remeasurements	**24.0**	21.6

The tax charge for the year can be analysed as follows:	**2019**	2018
	£m	£m
Current tax		
UK corporation tax at 19% (2018: 19%)	**62**	88
UK corporation tax adjustment in respect of prior years	**1**	-
Total current tax	**63**	88
Deferred tax		
UK deferred tax	**6**	13
UK deferred tax adjustment in respect of prior years	**-**	1
Total deferred tax	**6**	14
Total tax charge	**69**	102

7. Taxation (continued)

Tax (credited)/charged to other comprehensive income and equity	**2019 £m**	2018 £m
Current tax		
Share-based payments	**-**	(2)
Deferred tax		
Share-based payments	**-**	2
Remeasurements of net retirement benefit obligations	**1**	55
Total tax recognised in the statement of comprehensive income	**1**	55

The tax charge for the year after exceptional items and remeasurements is higher (2018: higher) than the standard rate of corporation tax in the UK of 19% (2018:19%):

	Before exceptional items and remeasure-ments 2019 £m	**After exceptional items and remeasure-ments 2019 £m**	Before exceptional items and remeasure-ments 2018 £m	After exceptional items and remeasure-ments 2018 £m
Profit before tax				
Before exceptional items and remeasurements	**340**	**340**	451	451
Exceptional items and remeasurements	**-**	**(53)**	-	21
Profit before tax from continuing operations	**340**	**287**	451	472
Profit before tax from continuing operations multiplied by UK corporation tax rate of 19% (2018: 19%)	**65**	**55**	86	90
Effects of:				
Adjustments in respect of prior years	**1**	**1**	1	1
Expenses not deductible for tax purposes	**15**	**15**	14	14
Non-taxable income	**(1)**	**(1)**	(1)	(1)
Deferred tax impact of change in UK tax rate	**(1)**	**(1)**	(2)	(2)
Total tax from continuing operations	**79**	**69**	98	102
	%	**%**	%	%
Effective tax rate - continuing operations	**23.2%**	**24.0%**	21.7	21.6

Factors that may affect future tax charges

The main rate of UK corporation tax is reduced 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 aid investigations. At this time we do not expect this to cause any material impact on our future tax charge.

7. Taxation (continued)

Deferred tax (assets)/liabilities

Taxation included within the statement of financial position

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

	Pensions £m	Accelerated tax depreciation £m	Share-based payment £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2017	-	-	(4)	-	(10)	(14)
Deferred tax liabilities at 31 March 2017	8	368	-	1	3	380
At 1 April 2017	8	368	(4)	1	(7)	366
Charged/(credited) to income statement	6	3	1	(1)	5	14
Charged to other comprehensive income and equity	55	-	2	-	-	57
At 31 March 2018	69	371	(1)	-	(2)	437
Deferred tax assets at 31 March 2018	-	-	(1)	-	(6)	(7)
Deferred tax liabilities at 31 March 2018	69	371	-	-	4	444
At 31 March 2018 (as previously reported)	69	371	(1)	-	(2)	437
Impact of transition to IFRS 15 and IFRS 9 (see note 33)	-	13	-	(5)	-	8
At 1 April 2018 (as restated)	69	384	(1)	(5)	(2)	445
Charged/(credited) to income statement	4	9	-	-	(7)	6
Charged to other comprehensive income and equity	1	-	-	7	-	8
At 31 March 2019	**74**	**393**	**(1)**	**2**	**(9)**	**459**
Deferred tax assets at 31 March 2019	-	-	(1)	-	(13)	(14)
Deferred tax liabilities at 31 March 2019	74	393	-	2	4	473
At 31 March 2019	**74**	**393**	**(1)**	**2**	**(9)**	**459**

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 £459 million (2018: £445 million (restated)). At the balance sheet date there were no material current deferred tax assets or liabilities (2018: £nil).

8. Dividends

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

No dividends were paid by National Grid Gas plc during the year (2018: £nil).

The Directors are proposing a final dividend for the year ended 31 March 2019 of 26.55p per share that will absorb approximately £1,047 million of shareholders’ equity (assuming all amounts are settled in cash). This was declared after the year end during the 24 July 2019 board meeting, as a result this was not included within the financial statements.

9. Discontinued Operations

On 1 October 2016, National Grid Gas plc completed the sale of the trade and assets of the Gas Distribution business to a separate statutory entity, National Grid Gas Distribution Limited. Further details are included in the Annual Report and Accounts 2016/17.

In 2017/18, a profit of £17 million was reported in discontinued operations, which relates to the reversal of provisions in respect of business restructuring costs following the sale of the Gas Distribution business.

There was no profit or loss associated with discontinued operations in 2018/19.

10. Intangible assets

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

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Intangible assets are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

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

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

	Software £m
Cost at 1 April 2017	349
Additions	16
Reclassifications[1]	2
Disposals	(21)
Transfers[2]	(10)
Cost at 31 March 2018	336
Additions	27
Reclassifications[1]	8
Cost at 31 March 2019	371
Accumulated amortisation at 1 April 2017	(213)
Amortisation charge for the year	(30)
Disposals	20
Accumulated amortisation at 31 March 2018	(223)
Amortisation charge for the year	(29)
Accumulated amortisation at 31 March 2019	(252)
Net book value at 31 March 2019	**119**
Net book value at 31 March 2018	113

1 Reclassifications represents amounts transferred from property, plant and equipment, see note 11.

2 Transfers represents assets transferred to a fellow group undertaking in the year.

11. Property, plant and equipment

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

We operate a gas transmission business and therefore have a significant physical asset base. We continue to invest in our network 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 from customers towards the cost of tangible fixed assets for connections to the gas transmission network are initially recognised as a contract liability, and subsequently credited to revenue over the estimated useful economic lives of the assets to which they relate. Contributions towards the alteration, diversion or relocation of tangible fixed assets are initially included as a contract liability and subsequently credited to revenue over the course of the alteration, diversion, or relocation.

No depreciation is provided on freehold land or assets in the course of construction.

Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets.

The assessment of estimated useful economic lives and residual values of assets are performed annually. The current year review has led to the lives of the gas transmission pipelines being extended out to 2070 (2018: 2055). This review considered both technical lives as well as the future economic use of the assets considering various future energy scenarios. This resulted in a reduction in the level of depreciation compared to 2017/18 of £46 million to £139 million for the year ended 31 March 2019. The assets have been extended in light of the UKs continuing need for gas over a longer time period than originally predicted.

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	5 to 50
Plant and Machinery	
- mains, services and regulating equipment	5 to 60
- other	5 to 60
Motor vehicles and office equipment	3 to 10

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 if there is some indication that the carrying value of the assets may have been impaired.

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

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

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

11. 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 2017	363	8,021	269	227	8,880
Additions	6	124	188	6	324
Disposals	(4)	(47)	(8)	(11)	(70)
Reclassifications[1]	(68)	109	(47)	4	(2)
Transfers[3]	(4)	-	-	(1)	(5)
Cost at 31 March 2018	293	8,207	402	225	9,127
Additions	2	86	207	18	313
Disposals[2]	-	(102)	-	-	(102)
Reclassifications[1]	38	67	(105)	(8)	(8)
Cost at 31 March 2019	333	8,258	504	235	9,330
Accumulated depreciation at 1 April 2017	(214)	(4,130)	-	(197)	(4,541)
Depreciation charge for the year	(20)	(185)	-	(8)	(213)
Disposals[2]	3	32	-	11	46
Reclassifications[1]	48	(48)	-	-	-
Impairment	-	(3)	-	-	(3)
Accumulated depreciation at 31 March 2018	(183)	(4,334)	-	(194)	(4,711)
Depreciation charge for the year	(20)	(139)	-	(11)	(170)
Disposals[2]	-	79	-	-	79
Reclassifications[1]	(11)	11	-	-	-
Impairment	-	(9)	-	-	(9)
Accumulated depreciation at 31 March 2019	(214)	(4,392)	-	(205)	(4,811)
Net book value at 31 March 2019	**119**	**3,866**	**504**	**30**	**4,519**
Net book value at 31 March 2018	110	3,873	402	31	4,416

1 Represents amounts transferred between categories and also to intangible assets (see note 10). 2019 includes £41 million of cost and £11 million accumulated depreciation from Plant and Machinery to Land & Buildings relating to easements.

2 Disposals includes £10 million (2018: £20 million) of nil net book value assets written off.

3 Transfers represents assets transferred to a fellow group undertaking in the year.

	2019 £m	2018 £m
Information in relation to property, plant and equipment		
Capitalised interest included within cost	**256**	239
Contributions to cost of property, plant and equipment included within:		
Contract liabilities - current (2018: Trade and other payables)	**2**	3
Contract liabilities - non-current (2018: Non-current liabilities)	**69**	138

12. Other non-current assets

Other non-current assets includes assets that do not fall into any other non-current asset category (such as property, plant and equipment) and the benefit to be received from the asset is not due to be received until after 31 March 2020.

	2019 £m	2018 £m
Loans and receivables - amounts owed by parent undertaking[1]	**3,427**	3,427
Prepayments[2]	**76**	87
	3,503	3,514

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

2 Represents amounts paid in advance to a number of National Grid Group undertakings for the demolition of gas-holders (see note 23).

13. Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange rates, credit spreads, equity or other indices. In accordance with the National Grid plc Board approved policies, these policies have been deemed applicable at NGG by their respective board of directors, derivatives are transacted by NGG generally to manage our exposure to fluctuations in interest rate, foreign exchange rate on borrowings and other contractual cash flows. Specifically we use these derivatives to manage our financing portfolio, holdings in foreign operations, and contractual operational cash flows.

The Group adopted IFRS 9 with effect from 1 April 2018. The comparatives are not required to be restated and are accounted for in accordance with IAS 39. There is no impact on derivatives balances as a result of the transition to IFRS 9.

Derivatives are initially recognised at fair value and subsequently remeasured at fair value at each reporting date. Changes in fair values are recorded in the period they arise, in either the income statement or other comprehensive income as required by IFRS 9. Where the gains or losses recorded in the income statement arise from changes in the fair value of derivatives to the extent that hedge accounting is not applied or is not fully effective, these are recorded as remeasurements, detailed in notes 5. Where the fair value of a derivative is positive it is carried as a derivative asset, and where negative as a derivative liability.

We calculate the fair value of derivative financial instruments by taking the present value of future cash flows, primarily incorporating market observable inputs. The various inputs include foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate and inflation curves and for those positions that are not fully cash collateralised the credit quality of the counterparties.

Certain clauses embedded in non-derivative financial instruments or other contracts are presented as derivatives because they impact the risk profile of their host contracts and they are deemed to have risks or rewards not closely related to those host contracts.

Further information on how derivatives are valued and used for risk management purposes is presented in note 29.

The fair values of financing derivatives by type are as follows:

	2019			2018		
	Asset £m	**Liabilities £m**	**Total £m**	Asset £m	Liabilities £m	Total £m
Interest rate swaps	**278**	**(79)**	**199**	291	(94)	197
Cross-currency interest rate swaps	**394**	**(8)**	**386**	338	(7)	331
Inflation linked swaps	**-**	**(77)**	**(77)**	5	(121)	(116)
	672	**(164)**	**508**	634	(222)	412

The maturity profile of financing derivatives is as follows:

	2019			2018		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Current						
Less than 1 year	**33**	**(48)**	**(15)**	43	(65)	(22)
	33	**(48)**	**(15)**	43	(65)	(22)
Non-current						
In 1 - 2 years	**-**	**(1)**	**(1)**	42	(15)	27
In 2 - 3 years	**408**	**-**	**408**	-	-	-
In 3 - 4 years	**9**	**-**	**9**	337	(5)	332
In 4 - 5 years	**-**	**-**	**-**	9	-	9
More than 5 years	**222**	**(115)**	**107**	203	(137)	66
	639	**(116)**	**523**	591	(157)	434
	672	**(164)**	**508**	634	(222)	412

The notional contract[1] amounts of financing derivatives by type are as follows:

	2019 £m	2018 £m
Interest rate swaps	**(2,186)**	(2,473)
Cross-currency interest rate swaps	**(575)**	(751)
Foreign exchange forward contracts	**(1)**	(3)
Inflation linked swaps	**(200)**	(696)
	(2,962)	(3,923)

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

14. Inventories and current intangible assets

Inventories represent assets that we intend to use in order to generate revenue in the short-term by using it to fulfil a service to a customer or to maintain our network (consumables).

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

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

Emission allowances, principally relating to the emissions of carbon dioxide in the UK, are recorded as intangible assets within current assets and are initially recorded at cost and subsequently at the lower of cost and net realisable value. 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.

	2019	2018
	£m	£m
Raw materials and consumables	**14**	18
Current intangible assets - emission allowances	**-**	5
	14	23

This includes £4 million (2018: £7 million) of gas stocks to support network flows and shrinkage losses on the network.

There is a provision for obsolescence of £3m against inventories as at 31 March 2019 (2018: £3m).

15. Trade and other receivables

Trade and other receivables are amounts which are due from our customers for services we have provided.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts.

	2019 £m	2018 £m
Trade receivables	**77**	95
Amounts owed by fellow subsidiaries of National Grid plc	**59**	34
Accrued income	**114**	144
Prepayments	**32**	27
Other receivables	**28**	14
	310	314

Trade receivables are non-interest bearing and generally have a 30 to 90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their book value. The maximum exposure of trade receivables to credit risk is the gross carrying amount of £77 million (2018: £95 million).

Provision for impairment of receivables

IFRS 9, effective from 1 April 2018, has changed the basis upon which the impairment provision is calculated. Under IFRS 9, a provision is recognised for credit losses at an amount equal to the expected credit losses that will arise over the lifetime of the trade receivables. Under IAS 39, a provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected. Comparative amounts have not been restated, with the 2018 impairment provision being calculated under IAS 39 and the 2019 impairment provision being calculated on the basis of expected losses under IFRS 9.

A provision matrix is not used to assess expected loss rates as an assessment is performed on individual debtors.

	2019 £m	2018 £m
At 1 April	**-**	-
Charge for the year	**1**	-
Amounts recovered in the year	**-**	-
At 31 March	**1**	-

Trade receivables past due but not impaired

	2019 £m	2018 £m
Up to 3 months past due	**8**	1
3 to 6 months past due	**(17)**	-
Over 6 months past due	**14**	-
	5	1

For further information about wholesale credit risk refer to note 29(a).

16. Financial and other investments

The financial and other Investments balance of £1,378 million primarily comprises collateral receivable, representing cash pledged against derivative holdings and other borrowings; it also includes current loans to fellow group undertakings.

The Group adopted IFRS 9 with effect from 1 April 2018. The comparatives are not required to be restated and are accounted for in accordance with IAS 39. Under IFRS 9 debt instruments that have contractual cash flows that are solely payments of principal and interest, and which are held within a business model whose objective is to collect contractual cash flows, are held at amortised cost. This category includes our long-term loans to joint ventures and associates as well as collateral pledged balances.

Financial and other investments are initially recognised on trade date at fair value less transaction costs and expected losses. In the current year, the transaction value equals fair value.

2018

For 2018, financial and other investments were £1,529 million reported across three 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 and the third category is other loans and receivables which includes bank deposits, collateral pledged against derivative holdings or other restricted deposit balances.

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 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, is recognised in the income statement.

	2019	2018
	£m	£m
Current		
Available-for-sale investments	**-**	769
Loans and receivables	**1,319**	760
	1,319	1,529
Financial and other investments including the following:		
Investment in short-term money funds	-	769
Loans and receivables - amounts due from fellow subsidiaries [1]	**1,234**	667
Restricted balances:		
Collateral [2]	**85**	93
	1,319	1,529

1 Includes an overnight facility between the Company and National Grid plc for £1,213 million (2018: £645 million).

2 Includes collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £85 million (2018: £87 million).

16. Financial and other investments (continued)

The carrying value of current loans and receivables is approximate to their fair values, due to short-dated maturities. 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 29(a).

No balances are more than 30 days past due. All financial assets held at fair value through other comprehensive income or amortised cost are therefore considered to have low credit risk and have a loss allowance equal to 12-month expected credit losses.

In determining the expected credit losses for these assets some or all of the following information has been considered: credit ratings, the financial position of counterparties, the future prospects of the relevant industries and general economic forecasts.

No amortised cost financial assets have had modified cash flows during the period. There has been no change in the estimation techniques or significant assumptions made during the year in assessing the loss allowance for these financial assets. There were no significant movements in the gross carrying value of financial assets during the year that contribute to changes in the loss allowance. No collateral is held in respect of any of the financial investments in the above table. No balances were written off during the year.

17. 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 29(c).

	2019	2018
	£m	£m
Cash at bank and short-term deposits [1]	**-**	275
Cash and cash equivalents excluding bank overdrafts	**-**	275
Bank overdrafts	**-**	(3)
Net cash and cash equivalents	**-**	272

1 Represents term deposits with a one week maturity date.

18. Borrowings

We borrow money primarily in the form of bonds and bank loans. These are for a fixed term and may have fixed or floating interest rates or are linked to the retail price index (RPI). We use derivatives to manage risks associated with interest rates and foreign exchange.

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

National Grid Gas adopted IFRS 9 with effect from 1 April 2018. The comparatives are not required to be restated and are accounted for in accordance with IAS 39. On adoption of IFRS 9, the Group elected to change the measurement basis of one liability from amortised cost to fair value through profit and loss, in order to eliminate a measurement mismatch. All other borrowings are accounted for at amortised cost.

Borrowings, which include interest-bearing and inflation-linked debt and overdrafts, are initially recorded at fair value which normally reflect the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated either (i) at amortised cost; or (ii) at fair value though profit and loss. Where a borrowing is held at amortised cost 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. For the liability held at fair value through profit and loss, the difference between the fair value at the date of reclassification and the redemption value is recognised over the term of the borrowing using the effective interest method.

Where a borrowing or liability is held at fair value, changes in the fair value of the borrowing due to changes in the issuer's credit risk are recorded in the own credit reserve (see note 25). All other changes in the fair value of the liability are recognised in the income statement within remeasurements (see notes 5).

Further information on how we manage the rates and currency risk of our borrowings portfolio is presented in note 29. Information on our net debt is presented in note 26.

2018

Under IAS 39, borrowings were all accounted for at amortised cost, using the effective interest method, as described above

	2019	2018
	£m	£m
Current		
Bank loans	**474**	414
Bonds	**241**	478
Other loans	**1**	4
	716	896
Non-current		
Bank loans	**524**	508
Bonds [1]	**3,421**	3,462
Other loans	**176**	169
	4,121	4,139
Total borrowings	**4,837**	5,035

1 In 2019 this includes a liability held at fair value through profit and loss of £667 million

Total borrowings are repayable as follows:	**2019**	**2018**
	£m	£m
Less than 1 year	**716**	896
In 1 - 2 years	**7**	212
In 2 - 3 years	**922**	8
In 3 - 4 years	**760**	818
In 4 - 5 years	**-**	740
More than 5 years:		
by instalments	**52**	51
other than by instalments	**2,380**	2,310
	4,837	5,035

The fair value of borrowings at 31 March 2019 was £6,123 million (2018: £6,374 million). Where market values were available, fair value of borrowings (Level 1) was £1,497 million (2018: £1,512 million). Where market values were not available, the fair value of borrowings (Level 2) was £4,626 million (2018: £4,862 million), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2019 was £4,812 million (2018: £5,048 million).

18. Borrowings (continued)

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 £472 million (2018: £412 million) in respect of cash received under collateral agreements.

At 31 March 2019, we had committed credit facilities of £350 million (2018: £350 million) of which £350 million was undrawn (2018: £350 million undrawn). All of the unused facilities at 31 March 2019 and at 31 March 2018 are available for liquidity purposes.

Of the £350 million of undrawn committed borrowings facilities £25 million was renegotiated before 31 March 2019, with the expiry extended by a further year, with effect from 1 June 2019.

Financial liability at fair value through profit and loss

The financial liability designated at fair value through profit and loss is analysed as follows:

i. the fair value of the liability was £667 million which includes cumulative change in fair value attributable to changes in credit risk recognised in other comprehensive income, post tax of £13 million;

ii. the amount repayable at maturity in November 2021 is £943 million; and

iii. the difference between carrying amount and contractual amount at maturity is £276 million.

This liability has been reclassified in order to eliminate a measurement mismatch with derivatives which provide an economic hedge. The associated derivatives are collateralised and do not contain significant exposure to our own credit risk. The presentation of credit risk in other comprehensive income does not, therefore, create or enlarge an accounting mismatch in profit or loss.

The change in the fair value attributable to a change in credit risk is calculated as the difference between the total change in the fair value of the liability and the change in the value of the liability due to changes in market risk factors alone. The change in the fair value due to market risk factors was calculated using benchmark yield curves as at the end of the reporting period holding the credit risk margin constant. The fair value of the liability was calculated using observable market prices.

19. Trade and other payables

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

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

	2019	2018
	£m	£m
Trade payables	**151**	228
Amounts owed to fellow subsidiaries of National Grid plc	**69**	265
Deferred income	**1**	30
Social security and other taxes	**44**	55
Other payables	**60**	54
	325	632

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

20. Contract liabilities

Contract liabilities primarily relate to the advance consideration received from customers for construction contracts, mainly in relation to connections, for which revenue is recognised over the life of the asset.

The balances have arisen on transition to IFRS 15, which has been applied using the modified retrospective approach and therefore comparatives have not been restated.

	2019	2018
	£m	£m
Current	**33**	-
Non-current	**99**	-
	132	-

20. Contract liabilities (continued)

Significant changes in the contract liabilities balances during the year are as follows:

	2019 £m
As at 1 April 2018 (see note 33)	**134**
Revenue recognised that was included in the contract liability balance at the beginning of the period	**(23)**
Increase due to cash received, excluding amounts recognised as revenue during the period	**26**
Changes due to amounts recognised as revenue	**(5)**
At 31 March 2019	**132**

21. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2020. It also includes payables that are not due until after that date.

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

	2019 £m	2018 £m
Trade payables	**-**	6
Deferred income	**16**	33
Other payables	**1**	138
	17	177

22. Pensions and other post-employment benefit obligations

The majority of employees are either members of a DB (defined benefit) or a DC (defined contribution) pension scheme. The fair value of associated scheme assets and present value of DB obligations are updated annually in accordance with IAS 19 (revised). Below we provide a more detailed analysis of the amounts recorded in the primary financial statements and the actuarial assumptions used to value the DB obligations.

Defined contribution plans

Most new hires are able to join DC plans. 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 Gas 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

On retirement, members of DB schemes receive benefits whose value is dependent on factors such as salary and length of pensionable service. The Company's obligation in respect of DB pension schemes is calculated 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 Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income and the net liability recognised in the Consolidated 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 Consolidated Statement of Other Comprehensive Income.

22. Pensions and other post-employment benefit obligations (continued)

UK defined benefit plans and Guaranteed Minimum Pension (GMP) equalisation

GMPs were intended to broadly replace State Earnings Related Pension Scheme (SERPS) benefits for members of contracted-out occupational pension schemes from April 1978 to April 1997. Inequalities in GMP stemmed from the statutory definition of GMP, resulting in benefits accruing at different rates between male and female members.

A High Court judgement in October 2018 confirmed that GMP benefits need to be equalised between men and women, and importantly also provided alternative prescribed methods of equalisation. This provides much needed clarity, as there has been uncertainty in pensions law for decades, as it pertains to GMP equalisation.

However, schemes cannot directly equalise the GMPs, but need to adjust other benefits in order to achieve this, through correcting the ongoing position and making back-payments to affected members. This is a highly complex issue that will have a significant effect on the eventual cost of providing benefits, as well as significant cost implications in the calculation and implementation of the equalisation method. Under IAS 19 we have estimated the cost of equalising for the impact of GMP under the most cost-effective permissible method to be £12 million.

These amounts have been recognised in the Consolidated Income Statement as past service costs.

The key drivers of these costs are the scheme's benefit structures, the membership profile and retirement choices made by members. National Grid Gas will continue to work closely with the Trustees of NGUKPS, the actuaries and legal advisers to implement and administer GMP equalisation, which is expected to take some years. Administration costs related to this process have not been provided for as at 31 March 2019 as we are unable to estimate these costs reliably at this stage.

Pension plans:

Defined contribution

The National Grid YouPlan

National Grid Gas pays contributions into YouPlan to provide DC benefits on behalf of employees. The Company 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 that is typically used for automatic enrolment of new hires. Previous DC benefits were transferred to YouPlan in 2013.

Defined benefit

The Company's DB pension arrangements are held in a separate trustee administered fund. The arrangements are managed by a trustee company with board 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 plan assets, are expected to be sufficient to fund the benefits payable.

The results of the most recent actuarial valuations are shown below. See page 80 for the assumptions used for IAS 19 (revised) purposes. An actuarial valuation of the scheme is currently being performed as at 31 March 2019.

	Section B of NGUKPS
Latest full actuarial valuation	31 March 2017
Actuary	Willis Towers Watson
Market value of scheme assets at latest valuation	£5,849 million
Actuarial value of benefits due to members	£6,057 million
Market value as percentage of benefits	97%
Funding deficit	£208 million
Funding deficit net of tax	£173 million

The last actuarial valuation determined that Section B was in deficit. The Company and the Trustees agreed on a schedule of contributions, whereby deficit funding of approximately £32 million is payable by 30 September each year from 2017 until 2022, with an additional £8 million payable by 30 September 2023. All deficit funding amounts due will be adjusted for changes in the Retail Price Index (RPI). The funding shortfall is expected to be eliminated by September 2023. The employer also contributes 51.4% of pensionable salary, less member contributions, in respect of the ongoing service cost.

National Grid Gas is also responsible for the costs of administration and the Pension Protection Fund (PPF) levies for Section B of NGUKPS.

22. Pensions and other post-employment benefit obligations (continued)

Security arrangements

The Company has also established security arrangements with charges in favour of the Trustees:

Value of security arrangements at 31 March 2019	£176 million
Principal supporting employer	National Grid Gas plc (NGG)
Additional amounts payable [1]	A maximum of £215 million

1 These amounts are payable if certain trigger events occur which have been individually agreed between the scheme and the supporting employer.

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 scheme in the event that the principal supporting employer is subject to an insolvency event or fails to make the required contributions. The assets will also be paid to the relevant scheme where the Company loses its licence to operate under relevant legislation. Counter indemnities have also been taken out to ensure the obligations will be fulfilled.

Actuarial assumptions

The following financial assumptions have been applied in assessing defined benefit liabilities.

	2019 %	2018 %
Discount rate – past service	**2.40**	2.60
Discount rate – future service	**2.45**	2.65
Rate of increase in salaries	**3.50**	3.40
Rate of increase in RPI – past service	**3.25**	3.15
Rate of increase in RPI – future service	**3.20**	3.10

The discount rates for UK 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. Since 2018, we have adopted different discount rates for future and past service based on the duration of future and past service plan liabilities. The rate of increase in salaries has been set using a promotional scale where appropriate. The rates of increases stated are not indicative of historical increases awarded or a guarantee of future increase, but merely an appropriate assumption used in assessing DB liabilities. Retail Price Index (RPI) 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.

Assumed life expectations for a retiree age 65.	**2019 years**	2018 years
Today:		
Males	**22.0**	22.3
Females	**23.6**	23.9
In 20 years:		
Males	**23.3**	23.7
Females	**25.2**	25.5

The weighted average duration of the DB obligation for each category of the scheme is 15 years

As at the reporting date, the present value of the funded obligations split according to member status, was approximately 9% active members (2018: 9%); 17% deferred members (2018: 16%) and 74% pensioner members (2018: 75%).

For sensitivity analysis see note 30.

Amounts recognised in the statement of financial position

	2019 £m	2,018 £m
Present value of funded obligations	**(5,324)**	(5,321)
Fair value of scheme assets	**5,766**	5,733
	442	412
Present value of unfunded obligations	**-**	-
Net defined benefit asset	**442**	412
Represented by:		
Assets	**442**	412
	442	412

The recognition of the pension assets reflect legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14. National Grid Gas has an unconditional right to a refund from the plan in the event of a winding up. The NGUKPS Trustees must seek the agreement of the Company to any benefit augmentation beyond the provisions set out in the Scheme Rules.

22. Pensions and other post-employment benefit obligations (continued)

Amounts recognised in the income statement and the statement of other comprehensive income

	2019 £m	2018 £m
Included within operating costs		
Administration costs	**3**	3
Included within payroll costs		
Defined benefit scheme costs:		
Current service cost	**14**	18
Past service cost - augmentations	**1**	-
Past service loss - redundancies	**2**	-
Past service cost - plan amendments	**12**	-
Special termination benefit cost - redundancies	**18**	5
	47	**23**
Amounts paid by other fellow group undertakings	**(6)**	-
Total amount included within payroll costs	**41**	**23**
Total of operating costs	**44**	26
Included within finance income and costs		
Interest credit	**(11)**	(1)
Total included in the income statement	**33**	25
Actuarial (loss)/gain on defined benefit obligation in the period	**(153)**	336
Return on assets greater/(less) than discount rate	**162**	(6)
Total included in the statement of other comprehensive income	**9**	330

Reconciliation of the net defined benefit asset	2019 £m	2018 £m
Opening defined benefit asset at 1 April	**412**	45
Net cost recognised in the income statement	**(33)**	(25)
Amounts paid by other fellow group undertakings	**(6)**	-
Remeasurement effects recognised in the statement of other comprehensive income	**9**	330
Employer contributions	**61**	62
Other movements	**(1)**	-
Closing net defined benefit asset at 31 March	**442**	412

Changes in the present value of defined benefit obligations (including unfunded obligations)	2019 £m	2018 £m
Opening defined benefit obligations at 1 April	**(5,321)**	(5,806)
Defined benefit operating costs	**(51)**	(26)
Interest on defined benefit obligation	**(134)**	(136)
Actuarial losses - experience	**(16)**	-
Actuarial gains - demographic assumptions	**84**	-
Actuarial losses - financial assumptions	**(221)**	-
Remeasurement of the defined benefit obligations	**-**	336
Administration costs	**3**	3
Benefits paid	**226**	218
Net transfers	**106**	90
Closing defined benefit obligations at 31 March	**(5,324)**	**(5,321)**

Changes in the fair value of scheme assets	2019 £m	2018 £m
Opening fair value of scheme assets at 1 April	**5,733**	5,851
Interest on assets	**145**	137
Return on assets (less)/greater than assumed	**162**	(6)
Administration costs	**(3)**	(3)
Employer contributions	**61**	62
Benefits paid	**(226)**	(218)
Net transfers	**(106)**	(90)
Closing fair value of scheme assets at 31 March	**5,766**	**5,733**
Actual return on scheme assets	**307**	**131**
Expected contributions to defined benefit scheme in the following year	**56**	**56**

22. Pensions and other post-employment benefit obligations (continued)

Asset allocation strategy

The 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 2019 is as follows:

	Section B NGUKPS %
Equities	**14.1**
Corporate bonds	**27.1**
Government securities	**45.2**
Property	**5.3**
Diversified alternatives	**5.9**
Cash and cash equivalent	**2.3**
Other	**0.1**
	100.0

Defined benefit investment strategies and risks

DB pension schemes can pose a significant risk to future cash flows, as the Company underwrites the financial and demographic risks associated with the plan. Although the governing bodies have sole responsibility for setting investment strategies and managing risks, The Company closely works with and supports the governing bodies of each scheme, to assist them in mitigating the risks associated with their schemes and to ensure that the schemes are funded to meet their obligations.

The Trustees are the governing body of the scheme and their responsibilities are set out in the Trust Deed and Rules.

The Trustees after taking advice from professional investment advisers and in consultation with National Grid Gas, set the key principles, including expected returns, risk and liquidity requirements. In setting these they take into account expected contributions, maturity of the pension liabilities, and the strength of the covenant. The Trustees formulate an investment strategy to manage risk through diversification, including the use of liability matching assets; which move in line with the long-term liabilities of the scheme; return seeking assets; some of which are designed to mitigate downside risk. Where appropriate, the strategies may include interest rate and inflation hedging instruments, and currency hedging to hedge overseas holdings.

Investments are usually grouped into:

- Return-seeking assets: equities, property and diversified funds where the objective is to achieve growth within the constraints of the schemes' risk profiles. These assets should produce returns greater than the liability increase, so improving the funding position and are assessed by reference to benchmarks and performance targets agreed with the investment managers.
- Liability matching assets: liability driven investments (LDI) funds and swaps, where the objective is to secure fixed or inflation adjusted cash flows in future. These investments are generally expected to match the change in liability valuation, so protecting the funding position. Bonds and securities are also measured against certain market benchmarks.

Investments are predominantly made in assets considered to be of investment grade. Where investments are made in non-investment grade assets, the higher volatility involved is carefully judged and balanced against the expected higher returns. Similarly, investments are made predominantly in regulated markets. Where investments are made either in non-investment grade assets or outside of regulated markets, investment levels are kept to prudent levels and subject to agreed control ranges, to control the risk. Should these investments fall outside the pre-agreed ranges, corrective actions and timescales are agreed with the investment manager to remedy the position.

The governing bodies ensure that the performance of investment managers are regularly reviewed against measurable objectives, consistent with each scheme's long-term objectives and accepted risk levels. Where required, the portfolios are amended, or investment managers changed.

The Trustees can generally delegate responsibility for the selection of specific bonds, securities and other investments to appointed investment managers. Investment managers are selected based on the required skills, expertise of those markets, process and financial security to manage the investments. The investment managers use their skill and expertise to manage the investments competently. In some cases they may further delegate this responsibility, through appointing sub-managers.

The schemes hold sufficient cash to meet benefit outgo requirements, with other investments being held in liquid or realisable assets to meet unexpected cash flow requirements. The schemes do not borrow money, or act as guarantor, to provide liquidity (unless it is temporary).

The NGUKPS Trustee believes that long-term shareholder value and financial success, can be protected and enhanced by a responsible environmental, social and corporate governance (ESG) policy. As such, the NGUKPS' appointed investment managers are expected to be mindful of ESG issues when managing the scheme's assets. Day-to-day stewardship (voting and engagement) is delegated to the investment managers and they are encouraged to adhere to the UK Stewardship Code.

22. Pensions and other post-employment benefit obligations (continued)

The most significant risks associated with the DB plans are:

- Asset volatility – the schemes invest in a variety of asset classes, but principally in equities, government securities, corporate bonds and property. Consequently actual returns will differ from the underlying discount rate adopted, impacting on the funding position of the scheme through the net balance sheet asset or liability. Each scheme seeks to balance the level of investment return required with the risk that it can afford to take, to design the most appropriate investment portfolio. Volatility will be controlled through using liability matching asset strategies, interest rate hedging and management of foreign exchange exposure, as well as diversification of the return seeking assets.
- Changes in bond yields – liabilities are calculated using discount rates set with reference to the yields in high quality corporate bonds prevailing in the UK and US debt markets and will fluctuate as yields change.
- Member longevity – longevity is a key driver of liabilities and changes in expected mortality has a direct impact on liabilities. In aggregate, the liabilities are relatively mature which mitigates the risk to a certain extent.
- Deficit risk – the risk that the increase in the liability will outpace the growth in assets, is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy and adjusting the policy as required.
- Manager risk – expected deviation of the return, relative to the benchmark, is carefully monitored, as is the process, team and expertise of the manager. Where appropriate, the Trustee or RPC, will move assets under management to a more robust manager, whom they consider will have a better expectation of performing well in the future.
- Currency risk – fluctuations in the value of foreign denominated assets due to exposure to currency exchange rates, is managed through a combination of segregated currency hedging overlay and currency hedging carried out by some of the investment managers.
- Interest rate and inflation risk – changes in inflation will affect the current and future pensions, but are partially mitigated through investing in inflation matching assets and hedging instruments.
- Investment funds – the credit risk arising from investing in investment funds, is mitigated by the underlying assets of the investment funds being ring-fenced from the fund managers, the regulatory environments in which the fund managers operate and diversification of investments amongst investment fund arrangements.
- Political risk – an adverse influence on asset values arising from political intervention in a specific country or region is managed through regular review of the asset distribution and through ensuring geographical diversification of investments within the managers.
- Counterparty risk – is managed by having a diverse range of counterparties and through having a strong collateralisation process. Measurement and management of counterparty risk is delegated to the relevant investment managers.
- Custodian risk – the creditworthiness and ability of the custodians to settle trades on time and provide secure safekeeping of the assets under custody is managed by ongoing monitoring of the custodial arrangements against pre-agreed service levels and credit ratings.

Asset allocations:

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

	2019	**2019**	**2019**	2,018	2,018	2,018
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equities	**604**	**210**	**814**	602	228	830
Corporate bonds	**1,560**	**-**	**1,560**	1,709	-	1,709
Government securities	**2,608**	**-**	**2,608**	2,418	-	2,418
Property	**-**	**306**	**306**	-	339	339
Diversified alternatives [1]	**-**	**342**	**342**	-	329	329
Cash and cash equivalent	**-**	**133**	**133**			
Other	**-**	**3**	**3**	-	108	108
	4,772	**994**	**5,766**	4,729	1,004	5,733

1 Includes return seeking non-conventional asset classes.

23. Provisions

We make provisions when an obligation exists, resulting from a past event and it is probable that cash will be paid to settle it, but the amount of cash required can only be estimated.

The main estimates relate to environmental remediation and decommissioning costs for various sites we own or have owned and other provisions, including restructuring plans. 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.

In the current year we recognised a charge to restructuring provisions, reflecting the review and reorganisation of our gas transmission business.

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

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

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

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

	Decommissioning £m	Environmental £m	Restructuring	Other £m	Total provisions £m
At 1 April 2017	118	22	3	144	287
Additions	-	-	5	6	11
Reclassifications [1]	-	-	-	34	34
Unused amounts reversed	(11)	-	(3)	(33)	(47)
Unwinding of discount	1	1	-	-	2
Utilised	(4)	-	-	(84)	(88)
At 31 March 2018	104	23	5	67	199
Additions	-	-	17	10	27
Unused amounts reversed	(2)	(2)	-	(15)	(19)
Unwinding of discount	1	1	-	-	2
Utilised	(13)	(1)	(10)	(28)	(52)
At 31 March 2019	**90**	**21**	**12**	**34**	**157**

1 Reclassification of £34m in FY18 relates to an in year reclassification of the prior year Crop and Quarry accrual to provision.

	2019 £m	2018 £m
Current	**57**	70
Non-current	**100**	129
	157	199

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas-holders expected to be incurred until 2026. Unused amounts reversed in 2018 of £11 million represents the release of the remaining provision for the demolition of LNG storage facilities, such that no further obligation existed at March 2018. Unused amounts reversed in 2019 of £2 million represent the impact of a change in the spend profile.

Following the sale of the Gas Distribution business in 2016, the company sold 78 surplus land sites to a number of fellow National Grid Group undertakings and a legal agreement was entered into with these National Grid Gas Group companies to demolish the non-operational gas holders on these sites, creating a constructive obligation for the Company.

The undiscounted provision based on 1% real discount rate was £93 million (2018: £110 million based on 1% real discount rate).

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to operational sites owned by the Company. Cash flows are expected to be incurred between 2019 and 2075, with £8 million expected to be incurred in the next 10 years.

A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, the accuracy of 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 undiscounted provision based on 1% real discount rate was £26 million (2018: £28 million based on 1% real discount rate).

23. Provisions (continued)

Restructuring provision

During the year, a cost efficiency and restructuring programme was undertaken in the gas transmission business, as detailed in note 5. This resulted in the recognition of a £17 million charge in the year and a closing provision of £12 million. We expect the majority of the provision to be utilised within one year.

Other provisions

Other provisions at 31 March 2019 include £20 million (2018: £40 million) in respect of provision recognised following the sale of the Gas Distribution (GD) business. We expect the majority of this provision to be utilised within one year. Unused amounts reversed of £19 million principally represents amounts released from the crop and quarry provision (£9 million) and amounts released in respect of emission allowances (£6 million). Amounts utilised of £28 million principally relates to the utilisation of provisions recognised following the sale of GD business (£20 million).

24. Share capital

Ordinary share capital represents the total number of shares issued.

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

	Number of shares 2019 millions	Number of shares 2018 millions	**2019 £m**	2018 £m
At 31 March - ordinary shares of $1^{2}/_{15}$p each at Allotted, called-up and fully paid	**3,944**	3,944	**45**	45

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

25. Other equity reserve

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 cost of hedging reserve (see note 29), the capital redemption reserve, cash flow hedge reserve and own credit reserve. The capital redemption reserve arose from the refinancing and restructuring of the Lattice Group in 1999. It represents the amount of the reduction in share capital of the Company as a consequence of that restructuring. Cost of hedging equity reserve arose as a result of the adoption of IFRS 9 on 1 April 2018. Cash flow hedge represents the Group's cash flow hedging activities (see note 29).

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.

	Cash flow hedge £m	Cost of hedging £m	Own credit £m	Capital redemption £m	Other equity £m
At 31 March 2017 & 31 March 2018 (as previously reported)	(10)	-	-	1,332	1,322
Transfer on transition to IFRS 9	5	2	7	-	14
At 1 April 2018 (as restated)	(5)	2	7	1,332	1,336
Net gains taken to equity	2	-	7	-	9
Tax	-	-	(1)	-	(1)
At 31 March 2019	**(3)**	**2**	**13**	**1,332**	**1,344**

26. Net Debt

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

Funding and liquidity risk management is carried out by the central National Grid plc treasury function under policies and guidelines approved by Finance Committee of the National Grid plc Board, these policies have been deemed applicable at NGG by their respective board of directors. 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 further important 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 activities can be found in note 29 to the consolidated financial statements.

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

	2019 £m	2018 £m
(Decrease)/Increase in cash and cash equivalents	**(272)**	280
(Decrease)/increase in financial investments	**(219)**	(327)
(Increase)/decrease in borrowings and related derivatives	**403**	505
Net interest paid on the components of net debt	**91**	89
Change in net debt resulting from cash flows	**3**	547
Changes in fair value of financial assets and liabilities and exchange movements	**(5)**	19
Net interest charge on the components of net debt	**(157)**	(200)
Movement in net debt (net of related derivative financial instruments) in the year	**(159)**	366
Net debt (net of related derivative financial instruments) at the start of the year	**(2,819)**	(3,185)
Impact of transition to IFRS 9	**(32)**	-
Net debt (net of related derivative financial instruments) at the end of the year	**(3,010)**	(2,819)

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

	2019 £m	2018 £m
Cash, cash equivalents and financial investments	**1,319**	1,804
Borrowings and bank overdrafts	**(4,837)**	(5,035)
Derivatives	**508**	412
	(3,010)	(2,819)

(b) Analysis of changes in net debt

	Cash and cash equivalents *£m*	Financial investments £m	Borrowings £m	Financing derivatives £m	Total debt £m
At 1 April 2017	(8)	1,856	(5,478)	445	(3,185)
Cash flow	280	(335)	512	90	547
Fair value gains and losses and exchange movements	-	-	196	(180)	16
Interest income/(charges)	-	8	(265)	57	(200)
Other non-cash movements	-	-	3	-	3
At 31 March 2018 (as previously reported)	272	1,529	(5,032)	412	(2,819)
Impact of transition to IFRS 9	-	-	(32)	-	(32)
At 31 March 2018 (as restated)	272	1,529	*(5,064)*	*412*	(2,851)
Cash flow	(272)	(220)	505	(10)	3
Fair value gains and losses and exchange movements	-	-	(62)	57	(5)
Interest income/(charges)	-	10	(216)	49	(157)
At 31 March 2019	**-**	**1,319**	**(4,837)**	**508**	**(3,010)**
Balances at 31 March 2019 comprise:					
Non-current assets	-	-	-	639	639
Current assets	-	1,319	-	33	1,352
Current liabilities	-	-	(716)	(48)	(764)
Non-current liabilities	-	-	(4,121)	(116)	(4,237)
	-	**1,319**	**(4,837)**	**508**	**(3,010)**

27. Commitments and contingencies

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

Future capital expenditure

	2019 £m	2018 £m
Contracted for but not provided	**196**	299

Operating lease commitments

	2019 £m	2018 £m
Amounts due:		
Less than 1 year	**5**	6
In 1 - 2 years	**4**	5
In 2 - 3 years	**3**	3
In 3 - 4 years	**3**	3
In 4 - 5 years	**1**	3
More than 5 years	**3**	5
	19	25

Other commitments, contingencies and guarantees

The value of other commitments and guarantees at 31 March 2019 amounted to £122 million (2018: £89 million), including energy purchase commitments amounting to £22 million (2018: £8 million). 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.

Security arrangements in favour of NGUKPS Trustees are disclosed separately in note 22.

Parent Company loan guarantees on behalf of subsidiaries

The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its subsidiaries to third parties. At 31 March 2019, the sterling equivalent amounted to £724 million (2018: £1,084 million).

Litigation and claims

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

28. Related party transactions

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

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

	2019 £m	2018 £m
Income:		
Goods and services supplied	**192**	224
Expenditure:		
Services received	**49**	28
Corporate services received	**8**	8
Charges in respect of pensions costs	**26**	13
	83	49
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:		
Amounts receivable	**74**	51
Amounts payable	**173**	370
Advances to parent (due within one year)	**21**	21
Advances to ultimate parent (due within one year)	**1,213**	645
At 31 March	**1,234**	666
Advances to parent company (due after more than one year):		
At 31 March	**3,426**	3,426

There were no advances to other related parties at 31 March 2019 (2018: £nil).

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

No amounts have been provided at 31 March 2019 (2018: £nil) and no expense has been recognised during the year (2018: £nil) in respect of bad or doubtful debts for related party transactions.

Details of guarantees provided in respect of related parties are provided in note 27.

Details of key management compensation are provided in note 4(c).

29. Financial risk management

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

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

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

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

Where appropriate, derivatives and other financial instruments used for hedging currency and interest rate risk exposures are formally designated as fair value, cash flow or net investment hedges as defined in IFRS 9. Hedge accounting allows the timing of the profit or loss impact of qualifying hedging instruments to be recognised in the same reporting period as the corresponding impact of hedged exposures. To qualify for hedge accounting, documentation is prepared specifying the risk management objective and strategy, the component transactions and methodology used for effectiveness measurement.

Hedge accounting relationships are designated in line with risk management activities further described below. Categories designated at National Grid are:

- currency risk arising from our forecasted foreign currency transactions (capital expenditure) is designated in cash flow hedges;
- currency and interest rate risk arising from borrowings are designated in cash flow or fair value hedges.

Critical terms of hedging instruments and hedged items are transacted to match on a 1:1 ratio by notional values. Hedge ineffectiveness can nonetheless arise from inherent differences between derivatives and non-derivative instruments and other market factors including credit, correlations, supply and demand, and market volatilities. Ineffectiveness is recognised in the remeasurements component of profit or loss. Hedge accounting is discontinued when a hedging relationship no longer qualifies for hedge accounting.

The Group adopted IFRS 9 with effect from 1 April 2018. The comparatives are not required to be restated and are accounted for in accordance with IAS 39. As a result of adoption, certain hedging instrument components are now treated separately as costs of hedging. Cost of hedging gains and losses are deferred in a newly-established component of other equity reserves, and released systematically into profit or loss to correspond with the timing of hedged exposures. The impact of adopting IFRS 9 is described in note 33.

2018

Under IAS 39, hedging instruments were designated for hedge accounting in their entirety or, where qualifying forward points were excluded from hedging relationships, unrealised gains and losses on excluded components were recognised in the income statement.

Refer to sections (c) currency risk and (d) interest rate risk below for further details about hedge accounting.

(a) Credit risk

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

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 2018 and 2019, 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.

29. Financial risk management (continued)

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. 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 15.

Offsetting financial assets and liabilities

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

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

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

For bank account balances and bank overdrafts, the ‘Gross amounts offset’ under cash pooling arrangements is £2 million as at March 2019 (£7 million as at March 2018). Our UK bank accounts for National Grid Gas subsidiaries participate in GBP, EUR and USD Composite Accounting System overdraft facilities subject to offsetting gross and net overdraft limits.

The gross amounts offset for trade payables and receivables, which are subject to general terms and conditions, are insignificant.

				Related amounts available to be offset but not offset in statement of financial position		
	Gross carrying amounts	***Gross amounts offset***	**Net amount presented in statement of financial position**	**Financial instruments**	**Cash collateral received/ pledged**	**Net amount**
As at 31 March 2019	***£m***	***£m***	**£m**	**£m**	**£m**	**£m**
Assets						
Financing derivatives	***672***	**-**	**672**	**(79)**	**(470)**	**123**
	672	**-**	**672**	**(79)**	**(470)**	**123**
Liabilities						
Financing derivatives	***(164)***	**-**	**(164)**	**79**	**83**	**(2)**
	(164)	**-**	**(164)**	**79**	**83**	**(2)**
Total	***508***	**-**	**508**	**-**	**(387)**	**121**

				Related amounts available to be offset but not offset in statement of financial position		
	Gross carrying amounts	*Gross amounts offset*	Net amount presented in statement of financial position	Financial instruments	Cash collateral received/ pledged	Net amount
As at 31 March 2018	*£m*	*£m*	£m	£m	£m	£m
Assets						
Derivative financial instruments	*634*	-	634	(95)	(407)	132
	634	-	634	(95)	(407)	132
Liabilities						
Derivative financial instruments	*(222)*	-	(222)	95	87	(40)
	(222)	-	(222)	95	87	(40)
Total	*412*	-	412	-	(320)	92

29. 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 27 can be met from existing cash and investments, operating cash flows and internal or external financing that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

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

The following is a maturity profile of our financial liabilities and derivatives as at the reporting date:

At 31 March 2019	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	**(685)**	**(7)**	**(980)**	**(3,140)**	**(4,812)**
Interest payments on borrowings [1]	**(99)**	**(90)**	**(92)**	**(1,057)**	**(1,338)**
Other non-interest bearing liabilities	**(221)**	**(1)**	**-**	**-**	**(222)**
Derivative financial liabilities					
Derivative contracts - receipts	**46**	**11**	**51**	**3**	**111**
Derivative contract - payments	**(100)**	**(39)**	**(53)**	**(120)**	**(312)**
Derivative financial assets					
Derivative contracts - receipts [2]	**1,184**	**234**	**79**	**137**	**1,634**
Derivative contract - payments [2]	**(727)**	**(162)**	**(3)**	**(65)**	**(957)**
Total at 31 March 2019	**(602)**	**(54)**	**(998)**	**(4,242)**	**(5,896)**

At 31 March 2018 [3]	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(857)	(208)	(8)	(3,972)	(5,045)
Interest payments on borrowings [1]	(104)	(98)	(89)	(1,138)	(1,429)
Other non-interest bearing liabilities	(548)	(144)	-	-	(692)
Derivative financial liabilities					
Derivative contract - receipts [2]	(135)	(76)	(24)	(129)	(364)
Derivative contract - payments [2]	73	37	-	1	111
Derivative financial assets					
Derivative contracts - receipts [2]	(220)	(717)	(162)	(93)	(1,192)
Derivative contract - payments [2]	397	1,076	220	122	1,815
Total at 31 March 2018	(1,394)	(130)	(63)	(5,209)	(6,796)

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.

2 The financial derivative payments and receipts include the gross undiscounted cash flows for interest rate and cross currency derivatives. The cash flows for these derivatives are presented as gross payments and receipts where the cash flows are not net settled either due to timing or currency.

3 The comparatives have been refined to provide consistency with the current period.

29. Financial risk management (continued)

(c) Currency risk

We are exposed to foreign exchange risk arising from non-sterling future commercial transactions and non-sterling recognised assets and liabilities. Currency risk arises from funding activities and capital investment. This risk is managed using financial instruments including derivatives as approved by policy, typically cross currency interest rate swaps, foreign exchange swaps and forwards.

Funding activities – Our policy is to borrow in the most advantageous market available. Foreign currency funding gives rise to risk of volatility in the amount of functional currency cash to be repaid. This risk is reduced by swapping principal and interest back into the functional currency of the issuer. All foreign currency debt and transactions are hedged except where they provide a natural offset to assets elsewhere in the Group.

Capital investment – Capital projects often incur costs in a foreign currency, most often Euro transactions done by the UK business. Our policy for managing foreign exchange transaction risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size, typically by buying Euro forwards to hedge future expenditure. For hedges of forecast cash flows our policy is to hedge a proportion of highly probable cash flows.

As at 31 March 2019 and 2018, derivative financial instruments were used to manage foreign currency risk as follows:

	2019				
	Sterling £m	**Euro £m**	**Dollar £m**	**Other £m**	**Total £m**
Cash and cash equivalents	**-**	**-**	**-**	**-**	**-**
Financial investments	**1,319**	**-**	**-**	**-**	**1,319**
Borrowings	**(3,856)**	**-**	**(667)**	**(314)**	**(4,837)**
Pre-derivative position	**(2,537)**	**-**	**(667)**	**(314)**	**(3,518)**
Derivative effect	**(466)**	**1**	**660**	**313**	**508**
Net debt position	**(3,003)**	**1**	**(7)**	**(1)**	**(3,010)**

	2018				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Cash and cash equivalents	275	-	-	-	275
Financial investments	1,529	-	-	-	1,529
Borrowings	(3,714)	(232)	(790)	(299)	(5,035)
Pre-derivative position	(1,910)	(232)	(790)	(299)	(3,231)
Derivative effect	(874)	199	788	299	412
Net debt position	(2,784)	(33)	(2)	-	(2,819)

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

Hedge accounting for currency risk

Where available, derivatives transacted for hedging are designated for hedge accounting. Economic offset is qualitatively determined because the critical terms (currency and volume) of the hedging instrument match the hedged exposure. If a forecast transaction was no longer expected to occur, the cumulative gain or loss previously reported in equity would be transferred to the income statement. This has not occurred in the current or comparative years.

Cash flow hedging of currency risk of capital expenditure is designated as hedging the exposure to movements in the spot translation rates only; the timing of forecasted transactions is not designated as a hedged risk. Gains and losses on hedging instruments arising from forward points and foreign currency basis spreads are excluded from designation and are recognised immediately in profit or loss, along with any hedge ineffectiveness. Where a non-financial asset or a non-financial liability results from a forecast transaction or firm commitment being hedged, the amounts deferred in reserves are included directly in the initial measurement of that asset or liability.

Hedges of foreign currency funding are designated as cash flow hedges or fair value hedges of forward exchange risk (hedging both currency and interest rate risk together, where applicable). Hedge accounting for funding is described further in the interest rate risk section below.

29. Financial risk management (continued)

(d) Interest rate risk

National Grid Gas' interest rate risk arises from our long-term borrowings. 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). Hedging instruments principally consist of interest rate and cross-currency swaps that are used to translate foreign currency debt into functional currency and to adjust the proportion of fixed-rate and floating-rate in the borrowings portfolio to within a range set by the Finance Committee of the National Grid plc Board. The benchmark interest rates hedged are currently based on LIBOR.

We also consider inflation risk and hold some inflation-linked borrowings. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

The table in note 18 (Borrowings) sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

As at 31 March 2019 and 2018, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2019				
	Fixed rate £m	**Floating rate £m**	**RPI £m**	**Other [1] £m**	**Total £m**
Financial investments		**1,298**		**21**	**1,319**
Borrowings	**(1,343)**	**(472)**	**(3,022)**	**-**	**(4,837)**
Pre-derivative position	**(1,343)**	**826**	**(3,022)**	**21**	**(3,518)**
Derivative effect	**992**	**(407)**	**(77)**	**-**	**508**
Net debt position	**(351)**	**419**	**(3,099)**	**21**	**(3,010)**

	2018				
	Fixed rate £m	Floating rate £m	RPI £m	Other [1] £m	Total £m
Cash and cash equivalents	-	275	-	-	275
Financial investments	-	1,508	-	21	1,529
Borrowings	(1,453)	(415)	(3,167)	-	(5,035)
Pre-derivative position	(1,453)	1,368	(3,167)	21	(3,231)
Derivative effect	982	(721)	151	-	412
Net debt	(471)	647	(3,016)	21	(2,819)

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

29. Financial risk management (continued)

(d) Interest rate risk (continued)

Hedge accounting for interest rate risk

Borrowings paying variable or floating rates expose National Grid Gas to cash flow interest rate risk, partially offset by cash held at variable rates. Where a hedging instrument results in paying a fixed rate, it is designated as a cash flow hedge because it has reduced the cash flow volatility of the hedged borrowing. Changes in the fair value of the derivative are initially recognised in other comprehensive income as gains or losses in the cash flow hedge reserve, with any ineffective portion recognised immediately in the income statement.

Borrowings paying fixed rates expose National Grid Gas to fair value interest rate risk. Where the hedging instrument pays a floating rate, it is designated as a fair value hedge because it has reduced the fair value volatility of the borrowing. Changes in the fair value of the derivative and changes in the fair value of the hedged item in relation to the risk being hedged are both adjusted on the balance sheet and offset in the income statement to the extent the fair value hedge is effective, with the residual difference remaining as ineffectiveness.

Both types of hedges are designated as hedging the currency and interest rate risk arising from changes in forward points. Amounts accumulated in the cash flow hedge reserve (cash flow hedges only) and the deferred cost of hedging reserve (both cash flow and fair value hedges) are reclassified from reserves to the income statement on a systematic basis as hedged interest expense is recognised. Adjustments made to the carrying value of hedged items in fair value hedges are similarly released to the income statement to match the timing of the hedged interest expense.

When hedge accounting is discontinued, any remaining cumulative hedge accounting balances continue to be released to the income statement to match the impact of outstanding hedged items. Any remaining amounts deferred in the cost of hedging reserve are released immediately to the income statement.

(e) Hedge accounting

In accordance with the requirements of IFRS 9, certain additional information about hedge accounting is disaggregated by risk type and hedge designation type in the tables below:

	Fair value hedges of foreign currency and interest rate risk £m	Cash flow hedges of foreign currency and interest rate risk £m	Cash flow hedges of foreign currency risk £m
Consolidated statement of comprehensive income			
Net gains/(losses) in respect of:			
Cash flow hedges	-	(2)	-
Cost of hedging	-	-	-
Transferred to profit or loss in respect of:			
Cash flow hedges	-	3	-
Cost of hedging	1	1	-
Consolidated statement of changes in equity			
Other equity reserves - cost of hedging balances	1	3	-
Consolidated statement of financial position			
Derivatives - carrying value of hedging instruments [1]			
Assets - current	16	-	-
Assets - non-current	98	27	-
Liabilities - current	-	-	-
Liabilities - non-current	(1)	(15)	-
Profiles of the significant timing, price and rate information of hedging instruments			
Maturity range	Nov 2019 - May 2038	Mar 2029 - Nov 2029	June 2019
Spot FX range			
GBP USD	1.64 - 1.65	1.66	n/a
GBP EUR	n/a	n/a	1.10
Interest rate range			
GBP	Libor +30bps/+424bps	1.795% - 5.850%	n/a

1 The use of derivatives may entail a derivative transaction qualifying for more than one hedge type designation under IFRS 9. Therefore, the derivative amounts in the table above are grossed up by hedge type, whereas they are presented net at an instrument level in the statement of financial position.

29. Financial risk management (continued)

(e) Hedge accounting (continued)

The following tables show the effects of hedge accounting on financial position and year-to-date performance for each type of hedge:

(i) Fair value hedges of foreign currency and interest rate risk on recognised borrowings at 31 March 2019:

		Balance of fair value hedge adjustments in borrowings		Change in value used for calculating ineffectiveness		
Hedge type	Hedging instrument nominal £m	Continuing hedges £m	Discontinued hedges £m	Hedged item £m	Hedging instrument £m	Hedge ineffectiveness £m
Foreign currency and interest rate risk on borrowings [1]	(271)	(12)	(64)	(12)	13	1

1 The hedged value of the merged borrowings is £305 million, of which £112 million is current and £193 million is non-current.

(ii) Cash flow hedges of foreign currency and interest rate risk as at 31 March 2019:

		Balance in cash flow hedge reserve		Change in value used for calculating ineffectiveness		
Hedge type	Hedging instrument nominal £m	Continuing hedges £m	Discontinued hedges £m	Hedged item £m	Hedging instrument £m	Hedge ineffective-ness £m
Foreign currency and interest rate risk on borrowings	(137)	1	(5)	2	(2)	-
Foreign currency risk on forecasted cash flows	(1)	-	-	-	-	-

29. Financial risk management (continued)

(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.

	2019				2018			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Available-for-sale investments	**-**	**-**	**-**	**-**	769	-	-	769
Financing derivatives	**-**	**672**	**-**	**672**	-	634	-	634
	-	**672**	**-**	**672**	769	634	-	1,403
Liabilities								
Financing derivatives	**-**	**(87)**	**(77)**	**(164)**	-	(141)	(81)	(222)
Liabilities held at fair value [1]	**(667)**	**-**	**-**	**(667)**	-	-	-	-
	-	**(87)**	**(77)**	**(831)**	-	(141)	(81)	(222)
	(667)	**585**	**(77)**	**(159)**	769	493	(81)	1,181

1 On adoption of IFRS 9 the Group elected to change the measurement basis to fair value through profit and loss (see notes 18 and 33).

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

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

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

Our Level 1 financial investments and liabilities held at fair value are valued using quoted prices from liquid markets.

Our Level 2 financial investments held at fair value are valued using quoted prices for similar instruments in active markets, or quoted prices for identical or similar instruments in inactive markets. Alternatively, they are valued using models where all significant inputs are based directly or indirectly on observable market data.

Our Level 2 derivative financial instruments include cross-currency, interest rate and foreign exchange derivatives. We value these derivatives by discounting all future cash flows by externally sourced market yield curves at the reporting date, taking into account the credit quality of both parties. These derivatives can be priced using liquidly traded interest rate curves and foreign exchange rates, therefore we classify our vanilla trades as Level 2 under the IFRS 13 framework.

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

29. Financial risk management (continued)

(g) Fair value analysis (continued)

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

	Financing derivatives	
	2019	2018
	£m	£m
At 1 April	**(81)**	(213)
Net gains for the year [1]	**3**	6
Settlements	**1**	126
At 31 March	**(77)**	(81)

1 Gain of £3 million (2018: £6 million gain) 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.

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

	Financing derivatives	
	2019	2018
	£m	£m
+20 basis points change in LPI (Limited Price Inflation) market curve [1]	**(33)**	(32)
-20 basis points change in LPI market curve 1	**32**	31

1 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.

29. Financial risk management (continued)

(h) 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 26). Our objectives when managing capital are: to safeguard our ability to continue as a going concern, to remain within regulatory constraints of our regulated operating company and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by regulatory asset value (RAV) gearing calculated as net debt expressed as a percentage of RAV, which indicates the level of debt employed to fund our regulated business. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for our business, at around 62.5% - 65%. The RAV gearing ratio at 31 March 2019 was 49% (2018: 47%).

The Company is 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:

- liquidity risk;
- 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;
- the securities of National Grid Gas 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.

These restrictions are subject to alteration in the normal licence review process.

As most of our business is regulated, at 31 March 2019 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.

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.

30. Sensitivities

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

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

The sensitivities included in the table below all have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated.

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

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

	2019		2018	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
Pensions obligations benefit (pre-tax) [1]				
Discount rate increase of 0.5% [2]	**2**	**376**	2	381
RPI rate increase of 0.5% [3]	**2**	**359**	2	363
Long-term rate of increase in salaries change of 0.5% [4]	**-**	**20**	-	23
Increase of one year to life expectancy at age 65	**1**	**228**	1	219
Environmental provision:				
10% increase in estimated future cash flows	**2**	**2**	2	2

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

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

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

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

Pensions and post retirement benefits assumptions

Sensitivities have been prepared to show how the DB obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 2019. 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.

(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.

The Group adopted IFRS 9 with effect from 1 April 2018. The comparatives are not required to be restated and are accounted for in accordance with IAS 39. For further information on the impact of adopting IFRS 9 in respect to financial instruments, please see note 33.

Our net debt as presented in note 26 financial instruments are sensitive to changes in market variables, being UK interest rates and the UK RPI. The changes in market variables affect the valuation of our borrowings, deposits and derivative financial instruments. The analysis illustrates the sensitivity of our financial instruments to the changes in market variables.

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

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2019 and 2018 respectively;
- the statement of financial position sensitivity to interest rates relates to items presented at their fair values namely, derivative financial instruments. Further debt and other 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.

30. Sensitivities (continued)

(b) Sensitivities on financial instruments (continued)

	2019		2018	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
Financial risk (post-tax)				
UK RPI rate change of 0.5% [1]	**12**	**-**	13	-
UK Interest rate changes of 0.50%	**-**	**5**	1	2

1 Excludes sensitivities to LPI curve. Further details on sensitivities are provided in note 29.

Additional sensitivities in respect to our derivative fair values are as follows:

	2019		2018	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
Assets and liabilities carried at fair value (pre-tax):				
10% fair value change in derivative financial instruments [1]	**51**	**51**	41	41

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

31. Ultimate parent company

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

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

32. Subsidiary undertakings, and joint ventures

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

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

	Principal activity		Holding
British Transco Capital Inc. (incorporated in the US) Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808	Financing	Direct	100%
British Transco Finance Inc. (incorporated in the US) Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808	Financing	Direct	100%
British Transco Finance (No. 1) Limited (incorporated in the Cayman Islands) South George Street, George Town, 309 GT, Cayman Islands	Financing	Direct	100%
British Transco Finance (No. 2) Limited (incorporated in the Cayman Islands) South George Street, George Town, 309 GT, Cayman Islands	Financing	Direct	100%
British Transco International Finance BV (incorporated in the Netherlands) Westblaak 89, 3012 KG Rotterdam, P.O. Box 21153, 3001 AD, Rotterdam, Netherlands	Financing	Direct	100%
National Grid Metering Limited (incorporated in England and Wales) 1 - 3 Strand, London, WC2N 5EH	Gas metering services	Direct	100%

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

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

Joint Radio Company Limited is based at 52 Dean Bradley House, Horseferry Road, London, SW1P 2AF.

33. Transition to IFRS9 and IFRS15

The Group has adopted IFRS 9 and IFRS 15 prospectively, with effect from 1 April 2018. The impact of the transition on the opening consolidated statement of financial position are set out in the following table:

	31 March 2018 as previously reported	Transition adjustments IFRS9	Transition adjustments IFRS15 [7,8]	1 April 2018 As restated
	£m	£m	£m	£m
Non-current assets				
Intangible assets	113	-	-	113
Property, plant and equipment	4,416	-	-	4,416
Other non-current assets	3,514	-	**2**	3,516
Derivative financial assets	591	-	-	591
Pension Asset	412	-	-	412
Total non-current assets	9,046	-	**2**	9,048
Current assets				
Inventories	23	-	-	23
Trade and other receivables	314	- [2]	**(4)**	310
Financial and other investments	1,529	- [1]	-	1,529
Derivative financial assets	43	-	-	43
Cash and cash equivalents	275	-	-	275
Total current assets	2,184	-	**(4)**	2,180
Total assets	11,230	-	**(2)**	11,228
Current liabilities				
Borrowings	(896)	-	-	(896)
Derivative financial liabilities	(65)	-	-	(65)
Trade and other payables	(632)	-	**35**	(597)
Contract liabilities	-	-	**(32)**	(32)
Current tax liabilities	(27)	-	-	(27)
Provisions	(70)	-	-	(70)
Total current liabilities	(1,690)	-	**3**	(1,687)
Non-current liabilities				
Borrowings	(4,139)	(32)[3]	-	(4,171)
Derivative financial liabilities	(157)		-	(157)
Other non-current liabilities	(177)		**175**	(2)
Contract liabilities	-		**(102)**	(102)
Deferred tax liabilities	(437)	5 [4]	**(13)**	(445)
Provisions	(129)		-	(129)
Total non-current liabilities	(5,039)	(27)	**60**	(5,006)
Total liabilities	(6,729)	(27)	**63**	(6,693)
Net assets	4,501	(27)	**61**	4,535
Equity				
Share capital	45	-	-	45
Share premium account	204	-	-	204
Retained earnings	2,930	(41)[5]	**61**	2,950
Cash flow hedge reserve	(10)	5 [6]	-	(5)
Other equity reserve	1,332	9 [6]	-	1,341
Shareholders' equity	4,501	(27)	**61**	4,535

33. Transition to IFRS9 and IFRS15 (continued)

Both standards were applied using the modified retrospective approach whereby comparative amounts have not been restated on transition but a cumulative adjustment has been made to retained earnings in the opening consolidated statement of financial position as at 1 April 2018.

IFRS 9: Financial instruments

IFRS 9 has changed the accounting for the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. Details of the impact of applying IFRS 9 for the year ended 31 March 2019 are set out below.

Adjustments arising as a result of the transition to IFRS 9:

1. The available-for-sale category for financial assets has been replaced with investments held at fair value through profit and loss (FVTPL). Changes to the classification and measurement of financial assets have not altered the carrying value of any financial assets held by the Group. There is no net impact to Group retained earnings from the reclassification on transition.

   As described in note 16, all recognised financial assets that are within the scope of IFRS 9 are initially recorded at fair value and subsequently measured at amortised cost or fair value based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Therefore on 1 April 2018, the Group reclassified its investments in money market funds from available-for-sale to FVTPL because their contractual cash flows are not solely payments of principal and interest.

   Aside from derivative financial instruments, which remain classified as FVTPL, the Company did not previously have any financial assets or liabilities classified at FVTPL.

   The table below illustrates those financial assets and liabilities that have been reclassified at 1 April 2018:

Financial assets/liabilities	Note	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39 £m	Change to measurement basis under IFRS 9 £m	New carrying amount under IFRS 9 £m
Money market funds	16	Available-for-sale investments	Financial assets FVTPL	769	-	769
Borrowings	18	Financial liabilities at amortised costs	Financial liabilities at FVTPL	(570)	(32)	(602)

   Note that the table above does not include derivative assets, derivative liabilities, trade receivables, cash at bank and short-term deposits, borrowings measured at amortised cost or trade payables. This is because neither the classification nor the measurement of these items has changed on transition to IFRS 9.

2. The change from the incurred loss impairment model of IAS 39 to the expected loss model in IFRS 9 has not had a material impact on the Company's credit loss provision.
3. The Group elected to reclassify an existing liability with a carrying value of £570 million from amortised cost to fair value through profit and loss to reduce a measurement mismatch. At transition, the resultant impacts include an increase in the carrying value of the liability of £32 million, a reduction in retained earnings of £41 million and the establishment of an own credit reserve (within other equity reserves) of £7 million.
4. Deferred tax is recognised on the adjustments recorded on the transition to IFRS 9. Reserve impacts are stated net of related deferred tax.
5. The Group has adopted the hedge accounting requirements of IFRS 9 which more closely align with the National Grid plc's risk management policies. On transition, it was concluded that all IAS 39 hedge relationships are qualifying IFRS 9 relationships with the treatment of the cost of hedging being the main change. The effect was a reclassification in reserves of a £2 million gain from the cash flow hedge reserve, into a new cost of hedging reserve (within Other equity reserves). In this reserve, qualifying unrealised gains and losses excluded from hedging relationships are deferred and released systematically into profit or loss to match the timing of hedged items.
6. Retained earnings includes the impact from the changes to adjustments 1, 3 and 4.

33. Transition to IFRS9 and IFRS15 (continued)

IFRS 15: Revenue from Contracts with Customers

IFRS 15 has primarily changed the accounting for our connection and diversion revenues in our regulated businesses. No practical expedients on transition were applied.

The accounting for revenue under IFRS 15 does not represent a substantive change from the Group's previous practice under IAS 18 for recognising revenue from sales to customers with the exception of the following items:

- Certain pass-through revenues (principally innovation awards collected on behalf of other network licensees and payments collected on behalf of statutory independent undertakings) will be recorded net of operating costs, whereas previously they were recognised gross of operating costs. Had we not adopted IFRS 15, our revenues and operating costs for the year ended 31 March 2019 would have been £32 million higher, with no impact to operating profits.

- Contributions for capital works relating to connections for our customers are now deferred as contract liabilities on our consolidated statement of financial position and released over the life of the connection asset. This is a change for Gas Transmission business, where previously revenues were recorded once the work was completed. Had we not adopted IFRS 15, our revenues and operating profit for the year ended 31 March 2019 would have been £1 million higher.

- In the UK, contributions for capital works relating to diversions are now recognised as the works are completed. This is a change for the UK regulated businesses where revenues were previously deferred over the life of the asset. Had we not adopted IFRS 15, our revenues and operating profit for the year ended 31 March 2019 would have been £12 million and £9 million lower, respectively.

Adjustments arising as a result of the transition to IFRS 15:

7. Deferred income from contributions for capital works have now been reclassified to contract liabilities. In addition, these liabilities for capital works relating to connections have increased as these capital contributions for connections are cumulatively adjusted for on 1 April 2018 and are now deferred and released over the life of the connection assets. This is a change for our UK Gas Transmission business where previously revenues were recorded once the work was completed.

   Partially offsetting the increase in contract liabilities for connections is the change in accounting treatment for contributions relating to diversions in our UK businesses. These contributions are recognised as revenue as the works are completed where previously revenue was recognised over the life of the asset.

8. Deferred tax is recorded on the incremental amounts recorded against capital contributions and contract liabilities on the transition to IFRS 15. Deferred tax balances have been calculated at the rate substantially enacted at the balance sheet date.

Company balance sheet

as at 31 March

	Notes	2019 £m	2018 £m
Fixed assets			
Intangible assets	5	**117**	107
Tangible assets	6	**4,538**	4,433
Investments	7	**17**	17
		4,672	4,557
Current assets			
Cash and cash equivalents		**-**	274
Stocks and other current assets	8	**14**	21
Debtors (amounts falling due within one year)	9	**1,539**	956
Debtors (amounts falling due after more than one year)	9	**3,503**	3,521
Derivative financial instruments (amounts falling due within one year)	10	**33**	43
Derivative financial instruments (amounts falling due after more than one year)	10	**639**	591
Investments		**85**	884
Post employment benefits pension asset	14	**442**	412
		6,255	6,702
Creditors (amounts falling due within one year)	11	**(1,246)**	(1,725)
Net current assets		**5,009**	4,977
Total assets less current liabilities		**9,681**	9,534
Creditors (amounts falling due after more than one year)	12	**(4,351)**	(4,363)
Provisions for liabilities	15	**(613)**	(652)
Net assets		**4,717**	4,519
Capital and reserves			
Share capital	16	**45**	45
Share premium account		**204**	204
Other equity reserve	17	**1,344**	1,322
Profit and loss account		**3,124**	2,948
Total shareholders' equity		**4,717**	4,519

The Company financial statements set out on pages 105 to 120 were approved by the Board of Directors and authorised for issue on 24 July 2019. They were signed on its behalf by:

Nicola Shaw Chair

Alan Foster Director

National Grid Gas plc
Registered number: 2006000

Company statement of changes in equity

for the years ended 31 March

	Share capital £m	Share premium account £m	Profit and loss account £m	Other reserves £m	Total shareholders' equity £m
As at 1 April 2017	45	204	2,296	1,325	3,870
Profit for the year	-	-	374	-	374
Total other comprehensive loss for the year	-	-	274	(3)	271
Total comprehensive income/(loss) for the year	-	-	648	(3)	645
Share-based payments	-	-	4	-	4
As at 31 March 2018 (as previously reported)	45	204	2,948	1,322	4,519
Impact of transition to IFRS9	-	-	(41)	14	(27)
At 31 March 2018 (as restated)	45	204	2,907	1,336	4,492
Profit for the year	-	-	206	-	206
Total other comprehensive income for the year	-	-	8	8	16
Total comprehensive income for the year	-	-	214	8	222
Share-based payments	-	-	3	-	3
At 31 March 2019	**45**	**204**	**3,124**	**1,344**	**4,717**

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

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

The Company has not presented its own profit and loss account and related notes as permitted by section 408 of the Companies Act 2006. The Company's profit after taxation was £206 million (2018: £374 million).

For further details of dividends paid and payable to shareholders, refer to note 8 in the consolidated financial statements.

Notes to the Company financial statements

1. Company Accounting policies

We are required to include the stand-alone balance sheet of our parent Company, National Grid Gas plc, under the Companies Act 2006, and the statement of changes of equity under Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"). The following disclosures provide additional information to stakeholders.

A. Basis of preparation of individual financial statements under FRS 102

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

These individual financial statements of the Company have been prepared in accordance with UK Accounting Standards, including FRS 102 and the Companies Act 2006.

The individual financial statements of the Company have been prepared on a historical cost basis, except for the revaluation of financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The comparative financial information has also been prepared on this basis.

The individual financial statements have been prepared on a going concern basis following the assessment made by the Directors as set on page 34.

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a cash flow statement.

The Company has also taken advantage of the exemption, under FRS 102 paragraph 1.12 (d), from making disclosures relating to share based payments as the equivalent disclosures are included in the consolidated financial statements of the Group, and also under paragraph 1.12(e), from disclosing transactions with other members of the National Grid group of companies.

In accordance with exemptions under FRS 102 paragraph 1.12(c), the Company has not presented the financial instruments disclosures required by the standard, as disclosures which comply with the standard are included in the consolidated financial statements.

The Company has taken the option to adopt IFRS 9 'Financial Instruments' with effect from 1 April 2018, in order to maintain consistency with the Group's accounting policies. The impact of the adoption of IFRS 9 is set out in note 20 to the Company's financial statements.

B. 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.

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

- review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – notes 5 and 6;
- estimation of asset/liabilities for pensions and other post-retirement benefits – note 14;
- valuation of financial instruments and derivatives – note 10;
- revenue recognition and assessment of unbilled revenue;
- environmental and decommissioning provisions – note 15.

C. 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.

D. Intangible assets

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over the length of period we expect to receive benefit from the asset. The principal amortisation period for software is up to eight years.

Intangible assets are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired. Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

1. Company Accounting policies (continued)

E. Tangible fixed assets

Tangible fixed assets are included in the balance sheet at their cost less accumulated depreciation. Costs include payroll costs and finance costs incurred which are directly attributable to the construction of tangible fixed assets, as well as the cost of any asset retirement obligations.

Tangible fixed assets include assets in which the Company's interest comprises legally protected statutory or contractual rights of use.

Contributions received towards the cost of tangible fixed assets from customers for connections to the gas transmission networks are initially recognised as deferred income and credited to revenue once the connection has been completed. Contributions received towards the provision of ongoing access to a supply of services are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided. Contributions received towards the altering, diverting or relocating a tangible fixed asset are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the estimated useful economic lives of the assets to which they relate.

Depreciation is not provided on freehold land or assets in the course of construction. Other tangible fixed assets are depreciated on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives.

The assets' residual values are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of tangible fixed assets are, in general, as shown in the following table:

	Years
Freehold and leasehold buildings	5 to 50
Plant and Machinery	
- mains, services and regulating equipment	5 to 60
- other	5 to 60
Motor vehicles and office equipment	3 to 10

F. 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, where value in use is the present value of future cash flows expected to be derived from an asset.

G. Impairment of fixed assets

Impairments of fixed assets are calculated as the difference between the carrying values of the net assets of income generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit.

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that fixed assets are not carried above their estimated recoverable amounts. Impairments are recognised in the profit and loss account, and, where material, are disclosed as exceptional. Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

H. Taxation

Current tax for the current and prior periods is provided at the amount expected to be paid or recovered using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reverse, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

1. Company Accounting policies (continued)

H. Taxation (continued)

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.

I. Stocks

Stocks are stated at cost less provision for deterioration and obsolescence. Cost is calculated on a weighted average basis. Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the stocks to their present location and condition.

J. Environmental costs

Environmental costs, based on discounted future estimated expenditures expected to be incurred, are provided for in full. The unwinding of the discount is included within the profit and loss account as a financing charge.

K. Revenue

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

Where revenue for the year exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery, a liability for the over- recovery is not recognised as such an adjustment to future prices relates to the provision of future services. Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under- recovery.

L. Pensions

The Company's employees are members of either the defined benefit National Grid UK Pension Scheme or the National Grid YouPlan defined contribution trust.

For defined benefit pension schemes, the regular service cost of providing retirement benefits to employees during the period, together with the cost of any benefits relating to past service, are recognised within operating costs.

The interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss account within net interest.

The present value of the defined benefit obligation, less the fair value of the assets of the scheme at the reporting date, is recognised on the balance sheet.

The difference between the actual and expected returns on scheme assets and the experience gains or losses arising on scheme liabilities, together with gains or losses arising from changes in actuarial assumptions, are charged or credited to other comprehensive income.

M Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Operating lease payments are charged to the profit and loss account on a straight-line basis over the term of the lease.

N. Financial instruments

The Company's accounting policies under FRS 102 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 Company has taken the option to adopt IFRS 9 'Financial Instruments' with effect from 1 April 2018, in order to maintain consistency with the Group's accounting policies.

The policies are set out in notes 13, 16 and 20 to the consolidated financial statements. The Company is taking the exemption for financial instruments disclosures, because IFRS 7 disclosures are given in the notes to the consolidated financial statements.

O. 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 13 to the consolidated financial statements.

1. Company Accounting policies (continued)

P. Share-based payments

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

Q. Parent Company guarantees

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

R. Environmental provision

The environmental provision is calculated on a discounted basis and represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Company.

S. Emission allowances

Emission allowances, which relate to the emissions of carbon dioxide, are recorded as an intangible asset within current assets and are initially recorded at cost, and subsequently at the lower of cost and fair value less costs to sell. For allocations of emission allowances granted by the UK Government, cost is deemed to be equal to fair value at the date of allocation.

Receipts of such grants are treated as deferred income and are recognised in the income statement in the period in which carbon dioxide emissions are made. A provision is recorded in respect of the obligation to deliver emission allowances and charges are recognised in the income statement in the period in which carbon dioxide emissions are made.

T. Dividends

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

2. Auditors' remuneration

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

	2019 £m	2018 £m
Audit services		
Audit fee of Company	**0.4**	0.4
Other services		
Fees payable to the company's auditors for audit-related assurance services	**0.4**	0.5

Fees payable to the Company's auditors for audit-related assurance services represent fees payable for services in relation to engagements which are required to be carried out by the auditors. These fees have been subject to approval by the Audit Committee of National Grid plc.

3. Number of employees, including Directors

	2019 Monthly Average number	2018 Monthly Average number
Gas Transmission	**1,853**	1,738

4. Key management compensation

Key management comprises the Board of Directors of the Company together with those Executive Directors of National Grid plc who have managerial responsibility for National Grid Gas plc. Details of key management personnel compensation are provided in note 4(d) to the consolidated financial statements.

5. Intangible assets

	Software £m
Cost at 1 April 2018	313
Additions	27
Reclassifications [1]	8
Cost at 31 March 2019	348
Accumulated amortisation at 1 April 2018	(206)
Amortisation charge for the year	(25)
Accumulated amortisation at 31 March 2019	(231)
Net book value at 31 March 2019	**117**
Net book value at 31 March 2018	107

1 Represents amounts transferred from tangible assets (see note 6).

6. Tangible assets

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2018	291	8,240	403	225	9,159
Additions	2	89	207	18	316
Disposals	-	(101)	-	-	(101)
Reclassifications [1]	38	66	(104)	(8)	(8)
Cost at 31 March 2019	331	8,294	506	235	9,366
Accumulated depreciation at 1 April 2018	(182)	(4,351)	-	(193)	(4,726)
Depreciation charge for the year	(20)	(141)	-	(11)	(172)
Disposals	-	79	-	-	79
Reclassifications [1]	(11)	11	-	-	-
Impairment	-	(9)	-	-	(9)
Accumulated depreciation at 31 March 2019	(213)	(4,411)	-	(204)	(4,828)
Net book value at 31 March 2019	**118**	**3,883**	**506**	**31**	**4,538**
Net book value at 31 March 2018	109	3,889	403	32	4,433

1 Represents amounts transferred between categories and also to intangible assets (see note 5).

The cost of tangible fixed assets at 31 March 2019 included £256m (2018: £239m) relating to interest capitalised. Interest was capitalised at the rate of 4.2% (2018: 4.8%)

The net book value of land and buildings comprised:

	2019 £m	2018 £m
Freehold	**68**	53
Short leasehold (under 50 years)	**50**	56
	118	109

Included within creditors (amounts falling due within one year) and creditors (amounts falling due after more than one year) are contributions to the cost of tangible fixed assets amounting to £33 (2018: £nil) and £99m (2018: £32m) respectively.

7. Investments

	Shares in subsidiary undertakings £m
Cost and net book value at 31 March 2018 and 31 March 2019	17

The names of the subsidiary undertakings and joint ventures are included in note 32 to the consolidated financial statements.

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

8. Stocks and other current assets

	2019 £m	2018 £m
Raw materials and consumables	**14**	17
Other current assets - emission allowances	**-**	4
	14	21

There is a provision for obsolescence of £3m against inventories as at 31 March 2019 (2018: £3m).

9. Debtors

	2019 £m	2018 £m
Amounts falling due within one year:		
Trade debtors	**132**	106
Amounts owed by fellow subsidiary undertakings	**1,237**	669
Other debtors	**24**	11
Accrued income	**114**	144
Prepayments	**32**	26
	1,539	956
Amounts falling due after one year:		
Amounts owed by immediate parent undertaking	**3,427**	3,427
Other debtors	**76**	94
	3,503	3,521
Total debtors	**5,042**	4,477

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

10. Derivative financial instruments

The fair values of derivative financial instruments are:

	2019			2018		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	**33**	**(48)**	**(15)**	43	(65)	(22)
Amounts falling due after more than one year	**639**	**(116)**	**523**	591	(157)	434
	672	**(164)**	**508**	634	(222)	412

For each class of derivative the notional contract amounts[1] are as follows:

	2019 £m	2018 £m
Interest rate swaps	**(2,186)**	(2,473)
Cross-currency interest rate swaps	**(575)**	(751)
Foreign exchange forward contracts	**(1)**	(3)
Inflation linked swaps	**(200)**	(696)
	(2,962)	(3,923)

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

For details on fair value techniques and assumptions, refer to note 29 to the consolidated financial statements.

11. Creditors (amounts falling due within one year)

	2019 £m	2018 £m
Derivative financial instruments (note 10)	**48**	65
Borrowings (note 13)	**845**	1,017
Trade creditors	**102**	106
Amounts owed to fellow subsidiary undertakings	**79**	272
Corporation tax	**34**	26
Other taxation and social security	**46**	56
Other creditors	**56**	154
Deferred income	**36**	29
	1,246	1,725

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

	2019 £m	2018 £m
Derivative financial instruments (note 10)	**116**	157
Borrowings (note 13)	**4,120**	4,135
Other creditors	**-**	32
Accruals and deferred income	**115**	39
	4,351	4,363

Deferred income mainly comprises contributions to capital projects.

13. Borrowings

The following table analyses the Company's total borrowings:

	2019 £m	2018 £m
Amounts falling due within one year:		
Bank loans and overdrafts	**474**	417
Bonds	**241**	259
Borrowings from fellow subsidiary undertakings	**129**	340
Other loans	**1**	1
	845	1,017
Amounts falling due after more than one year:		
Bank loans	**524**	508
Bonds	**2,835**	2,958
Borrowings from fellow subsidiary undertakings	**585**	500
Other loans	**176**	169
	4,120	4,135
Total borrowings	**4,965**	5,152

Total borrowings are repayable as follows:		
Less than 1 year	**845**	1,017
In 1 - 2 years	**7**	212
In 2 - 3 years	**922**	8
In 3 - 4 years	**760**	814
In 4 - 5 years	**-**	740
More than 5 years by instalments	**52**	51
More than 5 years, other than by instalments	**2,379**	2,310
	4,965	5,152

The notional amount outstanding of the Company's debt portfolio at 31 March 2019 was £4,801m (2018: £4,997m).

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

14. Pensions

Substantially all the Company's employees are members of either the defined benefit National Grid UK (Section B) pension scheme or the National Grid YouPlan defined contribution trust. The relevant information for both these schemes is included in note 22 to the consolidated financial statements.

The disclosures required by FRS 102 are the same as those required by IAS 19 (revised) and are provided in note 22 to the consolidated financial statements.

Amounts recognised in the balance sheet of the Company are as follows:

	2019 £m	2018 £m
Present value of funded obligations	**(5,324)**	(5,321)
Fair value of plan assets	**5,766**	5,733
	442	412
Present value of unfunded obligations	**-**	-
Net pension asset	**442**	412

	2019 £m	2018 £m
Changes in the present value of defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligations	**(5,321)**	(5,806)
Current service cost	**(51)**	(26)
Interest cost	**(134)**	(136)
Actuarial losses	**(153)**	-
Remeasurement of the defined benefit obligation	**-**	336
Expense payments	**3**	3
Net transfers	**106**	90
Benefits paid	**226**	218
Closing defined benefit obligations	**(5,324)**	(5,321)
Changes in the fair value of scheme assets		
Opening fair value of scheme assets	**5,733**	5,851
Interest income on plan assets	**145**	137
Return on plan assets greater than discount rate	**162**	(6)
Administration costs	**(3)**	(3)
Employer contributions	**61**	62
Net transfers	**(106)**	(90)
Benefits paid	**(226)**	(218)
Closing fair value of scheme assets	**5,766**	5,733

15. Provisions

	Decommissioning £m	Environmental £m	Restructuring £m	Deferred taxation £m	Other £m	Total £m
At 31 March 2018 (as previously reported)	104	23	5	454	65	651
Impact of transition to IFRS 9	-	-	-	(5)	-	(5)
At 31 March 2018 (as previously reported)	104	23	5	449	65	646
Charged to profit and loss	-	-	17	-	3	20
Transferred to reserves	-	-	-	8	-	8
Released	(2)	(2)	-	-	(15)	(19)
Utilised	(13)	(1)	(10)	-	(20)	(44)
Unwinding of discount	1	1	-	-	-	2
At 31 March 2019	**90**	**21**	**12**	**457**	**33**	**613**

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas-holders expected to be incurred until 2026. Unused amounts reversed in 2018 of £11 million represents the release of the remaining provision for the demolition of LNG storage facilities, such that no further obligation existed at March 2018. Unused amounts reversed in 2019 of £2 million represent the impact of a change in the spend profile.

Following the sale of the Gas Distribution business in 2016, the company sold 78 surplus land sites to a number of fellow National Grid Group undertakings and a legal agreement was entered into with these National Grid Gas Group companies to demolish the non-operational gas holders on these sites, creating a constructive obligation for the Company.

The undiscounted provision based on 1% real discount rate was £93 million (2018: £110 million based on 1% real discount rate).

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to operational sites owned by the Company. Cash flows are expected to be incurred between 2019 and 2075, with £8 million expected to be incurred in the next 10 years.

A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, the accuracy of 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.

Restructuring provision

During the year, a cost efficiency and restructuring programme was undertaken in the gas transmission business, as detailed in note 5 of the consolidated financial statements. This resulted in the recognition of a £17 million charge in the year and a closing provision of £12 million. We expect the majority of the provision to be utilised within one year.

Deferred taxation (as restated)
Deferred taxation comprises:

	2019 £m	2018 (restated) [1] £m
Accelerated capital allowances	**390**	372
Other timing differences	**67**	64
	457	436

[1] 2018/19 comparatives restated to reflect IFRS 9 transition adjustment.

Other provisions

Other provisions at 31 March 2019 include £20 million (2018: £40 million) in respect of provision recognised following the sale of the Gas Distribution (GD) business. We expect the majority of this provision to be utilised within one year. Unused amounts reversed of £19 million principally represents amounts released from the crop and quarry provision (£9 million) and amounts released in respect of emission allowances (£6 million). Amounts utilised of £28 million principally relates to the utilisation of provisions recognised following the sale of GD business (£20 million).

16. Share capital

	Number of shares 2019 millions	Number of shares 2018 millions	**2019 £m**	2018 £m
At 31 March - ordinary shares of $1^{2}/_{15}$p each at Allotted, called-up and fully paid	**3,944**	3,944	**45**	45

17. Other equity reserves

	Capital Redemption £m	Own credit £m	Cash flow hedge £m	Cost of hedging £m	Total £m
At 31 March 2018 (as previously reported)	1,332	-	(10)	-	1,322
Transfer on transition to IFRS 9	-	7	5	2	14
At 31 March 2018 (as restated)	1,332	7	(5)	2	1,336
Transferred to reserves	-	7	2	-	9
Tax	-	(1)	-	-	(1)
At 31 March 2019	**1,332**	**13**	**(3)**	**2**	**1,344**

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

18. Commitments and contingencies

(a) Future capital expenditure

	2019 £m	2018 £m
Contracted for but not provided	**193**	299

(b) Operating lease commitments

	2019 £m	2018 £m
Amounts due:		
Not later than one year	**5**	6
Later than one year and not later than five years	**10**	14
Later than five years	**3**	5
	18	25

(c) Other commitments and contingencies

The value of other commitments and guarantees at 31 March 2019 amounted to £122 million (2018: £89 million), including energy purchase commitments amounting to £22 million (2018: £8 million). 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.

Security arrangements in favour of NGUKPS Trustees are disclosed separately in note 22 of the consolidated Group statement.

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

The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its subsidiaries to third parties. At 31 March 2019, the sterling equivalent amounted to £724 million (2018: £1,084 million).

(e) Litigation and claims

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

19. Related parties

The following material transactions are with a former subsidiary of the Company which is not wholly owned by National Grid plc and are in the normal course of business. Other related party transactions are not disclosed in accordance with the exemptions available under FRS 102.

	2019 £m	2018 £m
Goods and services supplied	**192**	223
Services received	**49**	36
Amounts receivable at 31 March	**71**	50
Amounts payable at 31 March	**183**	381

Amounts payable or receivable are ordinarily settled one month in arrears. No amounts have been provided at 31 March 2019 (2018: £nil) and no expense has been recognised during the year (2018: £nil) in respect of bad or doubtful debts from the above related party transactions.

20. Transition to IFRS 9

The Company has adopted IFRS 9 prospectively, with effect from 1 April 2018. The impact of the transition on the opening balance sheet are set out in the following table:

	31 March 2018 as previously reported £m	IFRS 9 Transition adjustment £m	1 April 2018 as restated £m
Fixed assets			
Intangible assets	107	-	107
Tangible assets	4,433	-	4,433
Investments	17	-[1]	17
	4,557	-	4,557
Current assets			
Cash and cash equivalents	274	-	274
Stocks and other current assets	21	-	21
Debtors (amounts falling due within one year)	956	-[2]	956
Debtors (amounts falling due after more than one year)	3,521	-[2]	3,521
Derivative financial instruments (amounts falling due within one year)	43	-	43
Derivative financial instruments (amounts falling due after more than one year)	591	-	591
Investments	884	-	884
Post employment benefits pension asset	412	-	412
Current assets	6,702	-	6,702
			-
Borrowings	(1,017)	-	(1,017)
Derivative financial instruments	(65)	-	(65)
Other creditors	(643)	-	(643)
Creditors (amounts falling due within one year)	(1,725)	-	(1,725)
Net current assets	4,977	-	4,977
Total assets less current liabilities	9,534	-	9,534
Borrowings	(4,135)	(32)[3]	(4,167)
Derivative financial instruments	(157)	-	(157)
Other creditors	(71)	-	(71)
Creditors (amounts falling due after more than one year)	(4,363)	(32)	(4,395)
Provisions for liabilities	(652)	5[4]	(647)
Net assets	4,519	(27)	4,492
Capital and reserves			
Share capital	45	-	45
Share premium account	204	-	204
Other equity reserve	1,322	14 [6]	1,336
Profit and loss account	2,948	(41)[5]	2,907
Total shareholders' equity	4,519	**(27)**	4,492

20. Transition to IFRS 9 (continued)

IFRS 9:   Financial instruments

IFRS 9 has changed the accounting for the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. Details of the impact of applying IFRS 9 for the year ended 31 March 2019 are set out below.

Adjustments arising as a result of the transition to IFRS 9:

1. The available-for-sale category for financial assets has been replaced with investments held at fair value through profit and loss (FVTPL). Changes to the classification and measurement of financial assets have not altered the carrying value of any financial assets held by the Group. There is no net impact to Group retained earnings from the reclassification on transition.

   As described in note 16, all recognised financial assets that are within the scope of IFRS 9 are initially recorded at fair value and subsequently measured at amortised cost or fair value based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Therefore on 1 April 2018, the Group reclassified its investments in money market funds from available-for-sale to FVTPL because their contractual cash flows are not solely payments of principal and interest.

   Aside from derivative financial instruments, which remain classified as FVTPL, the Company did not previously have any financial assets or liabilities classified at FVTPL.

2. The change from the incurred loss impairment model of IAS 39 to the expected loss model in IFRS 9 has not had a material impact on the Company's credit loss provision.
3. The Group elected to reclassify an existing liability with a carrying value of £570 million from amortised cost to fair value through profit and loss to reduce a measurement mismatch. At transition, the resultant impacts include an increase in the carrying value of the liability of £32 million, a reduction in retained earnings of £41 million and the establishment of an own credit reserve (within other equity reserves) of £7 million.
4. Deferred tax is recognised on the adjustments recorded on the transition to IFRS 9. Reserve impacts are stated net of related deferred tax.
5. The Group has adopted the hedge accounting requirements of IFRS 9 which more closely align with the National Grid plc's risk management policies. On transition, it was concluded that all IAS 39 hedge relationships are qualifying IFRS 9 relationships with the treatment of the cost of hedging being the main change. The effect was a reclassification in reserves of a £2 million gain from the cash flow hedge reserve, into a new cost of hedging reserve (within Other equity reserves). In this reserve, qualifying unrealised gains and losses excluded from hedging relationships are deferred and released systematically into profit or loss to match the timing of hedged items.
6. Retained earnings includes the impact from the changes to adjustments 1, 3 and 4.

Glossary and definitions

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

EU
European Union

FRS
UK Financial Reporting Standard

GAAP
Generally accepted accounting principles

GHG
Greenhouse Gas

GW
Gigawatt, 10^9 watts

GWh
Gigawatt hours

HSE
Health and Safety Executive

IAS
International Accounting Standard

IASB
International Accounting Standards Board

IFRIC
International Financial Reporting Standards Interpretations Committee

IFRS
International Financial Reporting Standard

KPI
Key Performance Indicator

LNG
Liquefied natural gas

Lost time injury
A work-related injury which causes a person to be away from work for at least one normal shift after the shift on which the injury occurs, because the person is unfit to perform his or her duties

National Grid
National Grid plc, the ultimate parent Company of National Grid Gas plc and its controlling party

Ofgem
The Office of Gas and Electricity Markets

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

regulated controllable operating costs
Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods

regulatory asset value (RAV)
The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for the effects of inflation

RIIO
The revised regulatory framework issued by Ofgem which was implemented in the eight year price controls which started on 1 April 2013

RoE
A performance metric measuring returns from the investment of shareholders' funds. It is a financial ratio of a measure of earnings divided by an equity base.
UK regulated return on equity is a measure of how a business is performing operationally against the the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.

RPI
UK Retail Prices Index

STEM
Science, Technology, Engineering & Mathematics

TW
Terawatt, 10^{12} watts

TWh
Terawatt hours

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